

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

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2020

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

Commission File Number 000-52170

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

203 North LaSalle Street, Suite 1800
Chicago, Illinois 60601
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 |

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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" 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 August 4, 2020, the Registrant had 52,842,618 shares of Common Stock, par value \$0.0001 per share, outstanding.

INNERWORKINGS, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2020
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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|------------|---------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenue | \$ 203,311 | \$ 283,861 | \$ 464,671 | \$ 551,072 |
| Cost of goods sold | 154,890 | 215,463 | 352,808 | 420,664 |
| Gross profit | 48,421 | 68,398 | 111,863 | 130,408 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 45,117 | 57,404 | 96,756 | 113,235 |
| Depreciation and amortization | 3,310 | 3,233 | 6,437 | 5,849 |
| Goodwill impairment | — | — | 7,191 | — |
| Intangible and other asset impairments | 609 | — | 883 | — |
| Restructuring charges | 3,644 | 3,698 | 7,281 | 7,632 |
| (Loss) income from operations | (4,259) | 4,063 | (6,685) | 3,692 |
| Other income (expense): | | | | |
| Interest income | 53 | 104 | 109 | 202 |
| Interest expense | (3,201) | (2,486) | (7,587) | (5,232) |
| (Loss) gain from change in fair value of warrant | (120) | — | 5,085 | — |
| Foreign exchange gain (loss) | 862 | 237 | (1,929) | (239) |
| Other income | 221 | 42 | 1,117 | 78 |
| Total other expense | (2,185) | (2,103) | (3,205) | (5,191) |
| (Loss) income before income taxes | (6,444) | 1,960 | (9,890) | (1,499) |
| Income tax expense | 1,468 | 2,468 | 862 | 1,053 |
| Net loss | \$ (7,912) | \$ (508) | \$ (10,752) | \$ (2,552) |
| Basic loss per share | \$ (0.15) | \$ (0.01) | \$ (0.20) | \$ (0.05) |
| Diluted loss per share | \$ (0.15) | \$ (0.01) | \$ (0.30) | \$ (0.05) |
| Comprehensive loss | \$ (7,715) | \$ (246) | \$ (15,651) | \$ (1,578) |

The accompanying notes form an integral part of the condensed consolidated financial statements.

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

| | June 30, 2020 | December 31, 2019 |
|--|---------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 35,311 | \$ 42,711 |
| Accounts receivable, net of allowance for doubtful accounts of \$3,470 and \$3,830, respectively | 158,636 | 202,406 |
| Unbilled revenue | 23,900 | 48,396 |
| Other receivables | 9,858 | 28,194 |
| Inventories | 37,303 | 34,977 |
| Prepaid expenses | 13,021 | 10,680 |
| Other current assets | 6,981 | 7,301 |
| Total current assets | 285,010 | 374,665 |
| Property and equipment, net | 36,357 | 37,224 |
| Intangibles and other assets: | | |
| Goodwill | 144,967 | 152,210 |
| Intangible assets, net | 6,693 | 7,714 |
| Right of use assets, net | 46,805 | 51,159 |
| Deferred income taxes | 2,183 | 2,182 |
| Other non-current assets | 3,018 | 4,129 |
| Total intangibles and other assets | 203,666 | 217,394 |
| Total assets | \$ 525,033 | \$ 629,283 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 96,866 | \$ 142,136 |
| Accrued expenses | 43,350 | 50,975 |
| Deferred revenue | 10,572 | 9,568 |
| Revolving credit facility - current | 76 | 593 |
| Term loan - current | 10,000 | 7,500 |
| Other current liabilities | 25,969 | 35,665 |
| Total current liabilities | 186,833 | 246,437 |
| Lease liabilities | 42,487 | 46,075 |
| Revolving credit facility - non-current | 40,476 | 60,086 |
| Term loan - non-current | 79,800 | 89,242 |
| Deferred income taxes | 8,053 | 8,053 |
| Other long-term liabilities | 1,762 | 1,138 |
| Total liabilities | 359,411 | 451,031 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, par value \$0.0001 per share, 200,000 shares authorized, 64,902 and 64,820 shares issued, and 52,688 and 52,133 shares outstanding, respectively | 6 | 6 |
| Additional paid-in capital | 248,215 | 245,311 |
| Treasury stock at cost, 12,215 and 12,688 shares, respectively | (78,418) | (81,471) |
| Accumulated other comprehensive loss | (27,348) | (22,449) |
| Retained earnings | 23,167 | 36,855 |
| Total stockholders' equity | 165,622 | 178,252 |
| Total liabilities and stockholders' equity | \$ 525,033 | \$ 629,283 |

The accompanying notes form an integral part of the condensed consolidated financial statements.

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

| | Common Stock | | Additional Paid-in-Capital | Treasury Stock | | Accumulated Other Comprehensive Loss | Retained Earnings | Total |
|--|---------------|-------------|-------------------------------|----------------|--------------------|--|----------------------|-------------------|
| | Shares | Amount | | Shares | Amount | | | |
| Balance as of April 1, 2020 | 64,831 | \$ 6 | \$ 246,769 | 12,688 | \$ (81,471) | \$ (27,545) | \$ 34,132 | \$ 171,891 |
| Net loss | | | | | | | (7,912) | (7,912) |
| Total other comprehensive income - foreign currency translation adjustments | | | | | | 197 | | 197 |
| Issuance of common stock upon exercise of stock awards, net of withheld shares | 71 | | (108) | | | | | (108) |
| Stock-based compensation expense | | | 1,554 | | | | | 1,554 |
| Reissuance of treasury shares | | | | (473) | 3,053 | | (3,053) | — |
| Balance as of June 30, 2020 | <u>64,902</u> | <u>\$ 6</u> | <u>\$ 248,215</u> | <u>12,215</u> | <u>\$ (78,418)</u> | <u>\$ (27,348)</u> | <u>\$ 23,167</u> | <u>\$ 165,622</u> |

| | Common Stock | | Additional Paid-in-Capital | Treasury Stock | | Accumulated Other Comprehensive Loss | Retained Earnings | Total |
|--|---------------|-------------|-------------------------------|----------------|--------------------|--|----------------------|-------------------|
| | Shares | Amount | | Shares | Amount | | | |
| Balance as of December 31, 2019 | 64,820 | \$ 6 | \$ 245,311 | 12,688 | \$ (81,471) | \$ (22,449) | \$ 36,855 | \$ 178,252 |
| Net loss | | | | | | | (10,752) | (10,752) |
| Total other comprehensive loss - foreign currency translation adjustments | | | | | | (4,899) | | (4,899) |
| Issuance of common stock upon exercise of stock awards, net of withheld shares | 82 | | (130) | | | | | (130) |
| Stock-based compensation expense | | | 3,034 | | | | | 3,034 |
| Reissuance of treasury shares | | | | (473) | 3,053 | | (3,053) | — |
| Cumulative effect of change related to adoption of ASC 326 | | | | | | | 117 | 117 |
| Balance as of June 30, 2020 | <u>64,902</u> | <u>\$ 6</u> | <u>\$ 248,215</u> | <u>12,215</u> | <u>\$ (78,418)</u> | <u>\$ (27,348)</u> | <u>\$ 23,167</u> | <u>\$ 165,622</u> |

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

| | Common Stock | | Additional Paid-in-Capital | Treasury Stock | | Accumulated Other Comprehensive Loss | Retained Earnings | Total |
|--|---------------|-------------|-------------------------------|----------------|--------------------|--|----------------------|-------------------|
| | Shares | Amount | | Shares | Amount | | | |
| Balance as of April 1, 2019 | 64,534 | \$ 6 | \$ 240,734 | 12,688 | \$ (81,471) | \$ (23,599) | \$ 44,886 | \$ 180,556 |
| Net loss | | | | | | | (508) | (508) |
| Total other comprehensive income - foreign currency translation adjustments | | | | | | 262 | | 262 |
| Issuance of common stock upon exercise of stock awards, net of withheld shares | 95 | | (126) | | | | | (126) |
| Stock-based compensation expense | | | 1,402 | | | | | 1,402 |
| Balance as of June 30, 2019 | <u>64,629</u> | <u>\$ 6</u> | <u>\$ 242,010</u> | <u>12,688</u> | <u>\$ (81,471)</u> | <u>\$ (23,337)</u> | <u>\$ 44,378</u> | <u>\$ 181,586</u> |

| | Common Stock | | Additional Paid-in-Capital | Treasury Stock | | Accumulated Other Comprehensive Loss | Retained Earnings | Total |
|--|---------------|-------------|-------------------------------|----------------|--------------------|--|----------------------|-------------------|
| | Shares | Amount | | Shares | Amount | | | |
| Balance at December 31, 2018 | 64,495 | \$ 6 | \$ 239,960 | 12,688 | \$ (81,471) | \$ (24,311) | \$ 46,771 | \$ 180,955 |
| Net loss | | | | | | | (2,552) | (2,552) |
| Total other comprehensive income - foreign currency translation adjustments | | | | | | 974 | | 974 |
| Issuance of common stock upon exercise of stock awards, net of withheld shares | 134 | | (91) | | | | | (91) |
| Stock-based compensation expense | | | 2,141 | | | | | 2,141 |
| Cumulative effect of change related to adoption of ASC 842 | | | | | | | 159 | 159 |
| Balance as of June 30, 2019 | <u>64,629</u> | <u>\$ 6</u> | <u>\$ 242,010</u> | <u>12,688</u> | <u>\$ (81,471)</u> | <u>\$ (23,337)</u> | <u>\$ 44,378</u> | <u>\$ 181,586</u> |

The accompanying notes form an integral part of the condensed consolidated financial statements.

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

| | Six Months Ended June 30, | |
|--|---------------------------|------------|
| | 2020 | 2019 |
| Cash flows from operating activities | | |
| Net loss | \$ (10,752) | \$ (2,552) |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Depreciation and amortization | 6,437 | 5,849 |
| Stock-based compensation expense | 2,521 | 2,141 |
| Bad debt provision | 426 | 689 |
| Contract implementation cost amortization | 135 | 213 |
| Goodwill impairment | 7,191 | — |
| Long-lived asset impairment | 883 | — |
| Change in fair value of warrant | (5,085) | — |
| Change in fair value of embedded derivatives | (519) | — |
| Unrealized foreign exchange loss | 1,184 | — |
| Other operating activities, net | 1,085 | 224 |
| Change in assets and liabilities: | | |
| Accounts receivable and unbilled revenue | 61,059 | (10,099) |
| Inventories | (3,134) | 4,582 |
| Prepaid expenses and other assets | 17,147 | (4,163) |
| Accounts payable | (41,351) | (18,146) |
| Accrued expenses and other liabilities | (19,190) | 22,551 |
| Net cash provided by operating activities | 18,037 | 1,289 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (5,127) | (6,881) |
| Net cash used in investing activities | (5,127) | (6,881) |
| Cash flows from financing activities | | |
| Net borrowings from old revolving credit facility | — | 14,908 |
| Net repayments on new revolving credit facility | (19,830) | — |
| Net short-term secured borrowings | — | (833) |
| Payments on term loan | (2,500) | — |
| Proceeds from exercise of stock options | — | 63 |
| Payment of debt issuance costs | — | (935) |
| Other financing activities, net | (130) | (156) |
| Net cash (used in) provided by financing activities | (22,460) | 13,047 |
| Effect of exchange rate changes on cash and cash equivalents | 2,150 | (226) |
| (Decrease) increase in cash and cash equivalents | (7,400) | 7,229 |
| Cash and cash equivalents, beginning of period | 42,711 | 26,770 |
| Cash and cash equivalents, end of period | \$ 35,311 | \$ 33,999 |

The accompanying notes form an integral part of the condensed consolidated financial statements.

1. Basis of Presentation

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 (the “SEC”) and generally accepted accounting principles in the United States (“GAAP”) for interim financial information. Footnote disclosures that would substantially duplicate the disclosures included in the December 31, 2019 audited financial statements have been omitted from these interim unaudited financial statements pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation of the accompanying unaudited financial statements have been included, and all adjustments are of a normal and recurring nature. The operating results for the three and six month period ended June 30, 2020 are not necessarily indicative of the results to be expected for the full year ending December 31, 2020. These condensed consolidated interim financial statements and notes should be read in conjunction with the Company’s condensed consolidated financial statements and notes thereto as of and for the year ended December 31, 2019 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 17, 2020.

Liquidity and Management’s Plans

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 further described in Note 11, *Revolving Credit Facility*, and Note 12, *Long-Term Debt*, within the notes to the financial statements included within this Form 10-Q, the agreements governing the Company’s debt contain various restrictive covenants. Although we are in compliance with all of our debt covenants as of June 30, 2020, we have determined that it is probable we will violate certain financial covenants under our credit agreements within the next twelve months if covenant modifications are not obtained. If we were to violate one or more financial covenants, the lenders could declare us in default and could accelerate the amounts due under a portion or all of our outstanding debt.

We have discussed the terms for a modification with our lenders, and we believe we will receive such modification before any covenants are violated. Notwithstanding our belief that we will be successful in obtaining a modification of terms under our credit agreements, we also believe that the acquisition of the Company under the Agreement and Plan of Merger with HH Global Group Limited, described in Note 15, *Subsequent Events*, is probable of being completed and alleviates doubts about our ability to meet our obligations over the next twelve months.

Highly Inflationary Accounting

During 2018, the Argentinian economy was classified as highly inflationary under GAAP due to multiple years of increasing inflation, resulting in the remeasurement of our Argentinian operations into U.S. dollars. The application of highly inflationary accounting did not have a material impact on the Company’s condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019.

Accounts Receivable and Other Financial Assets

Accounts receivable are uncollateralized customer obligations due under normal trade terms. Payment terms with customers are generally 30 to 90 days from the invoice date. Accounts receivable are stated in the condensed consolidated financial statements at the amount billed to the customer, less an estimate for potential credit losses. Interest is not generally accrued on outstanding balances.

The Company records an allowance for credit losses at the time that accounts receivable are initially recorded based on consideration of the current economic environment, expectation of future economic conditions, the Company’s historical collection experience and a loss-rate approach whereby the allowance is calculated using an estimated historical loss rate formulated by the age of the financial asset and multiplying it by the asset’s amortized cost at the balance sheet date. The Company reassesses its allowance at each reporting period. Aged receivables are written off when it becomes evident, based on age or unique customer circumstance, that such amounts will not be collected, and all reasonable collection efforts have been exhausted.

The accounts receivable allowance expense is recorded within selling, general, and administrative expenses on the Company's Condensed Consolidated Statement of Comprehensive Loss.

Additionally, the Company records an allowance for credit losses on other forms of financial assets, including unbilled revenue, other receivables, and other non-current assets. These forms of financial assets require a reserve under ASC 326, *Financial Instruments - Credit Losses*, as the financial assets are measured at amortized cost and represent receivables that result from revenue transactions under the scope of ASC 606, *Revenue from Contracts with Customers*, and other off-balance-sheet credit exposures, such as third-party supplier loan commitments. The Company records an allowance at the time the financial assets are initially recorded based on consideration of qualitative factors specific to the financial asset, including, but not limited to, credit-worthiness of the customer or supplier, in addition to the economic and historical collection factors previously noted. The allowances for credit losses for unbilled revenue, other receivables, and other non-current assets are immaterial to the condensed consolidated financial statements as of June 30, 2020. The other financial asset allowance expenses are recorded within selling, general, and administrative expenses on the Company's Condensed Consolidated Statement of Comprehensive Loss.

The Company believes its allowances are appropriately stated considering the quality of its financial asset portfolio as of June 30, 2020. While credit losses have historically been within expectations and the provisions established, the Company cannot guarantee that its credit loss experience will continue to be consistent with historical experience.

Treasury Shares

Common shares repurchased by the Company are recorded at cost as treasury shares and result in a reduction of equity. When treasury shares are reissued, the Company determines the cost using the first-in, first-out cost method. The difference between the cost of the treasury shares and reissuance price is included in Additional paid-in capital or Retained earnings.

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 guidance introduces a new credit reserving methodology known as the Current Expected Credit Loss ("CECL") methodology, which will alter the estimation process, inputs, and assumptions used in estimating credit losses. For the financial assets that are under the scope of this standard, entities will be required to use a new forward-looking "expected loss" model that estimates the loss over the lifetime of the asset based on macroeconomic conditions that correlate with historical loss experience, delinquency trends and aging behavior of receivables, current conditions, and reasonable and supportable forecasts. This will result in earlier recognition of allowance for doubtful accounts and will replace the Company's "incurred loss" model that delayed the full amount of credit loss until the loss is probable of occurring. In addition, the standard requires entities to evaluate financial instruments by recording allowance for doubtful accounts by pooling of instruments based on similar risk characteristics, rather than a specific identification approach. 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 adopted ASU 2016-13 and related ASUs effective January 1, 2020 using a modified-retrospective transition method. The adoption and application of this standard did not have a material impact to the condensed consolidated financial statements. The Company will continue to actively monitor the impact of the COVID-19 pandemic on expected losses.

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 2020, with early adoption permitted for the removed disclosures and delayed adoption until fiscal year 2020 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 adopted this guidance in the first quarter of 2020 with no material impact on its condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, as part of its simplification initiative to reduce the cost and complexity in accounting for income taxes. ASU 2019-12 removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 also amends other aspects of the guidance to help simplify and promote consistent application of GAAP. The guidance is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of adoption of this ASU on its condensed consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions to ease the financial reporting burdens related to the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. The optional amendments are effective as of March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the impacts the adoption of this guidance will have on its condensed 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.

Revenue is measured based on consideration specified in a contract with a customer. Contracts may include variable consideration (for example, customer incentives such as 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, at which time the Company recognizes revenue. 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, including stand-alone creative and other services, may be recognized over time but the difference between recognizing that revenue over time versus at a point in time when the service is completed and accepted by the customer is not material to the Company's overall revenue to date.

Costs to Fulfill Customer Contracts and Contract Liabilities

The Company capitalizes certain setup costs related to new customers as fulfillment costs. Capitalized contract costs are amortized over the expected period of benefit using the straight-line method which is generally three years.

Contract liabilities are referred to as deferred revenue in the condensed consolidated financial statements. We record deferred revenue when cash payments are received in advance of satisfying our performance obligations, and we recognize revenue as these obligations are satisfied.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

The amount of amortization during the three months ended June 30, 2020 and 2019 was \$0.1 million and \$0.1 million, and \$0.1 million and \$0.2 million during the six months ended June 30, 2020 and 2019 respectively. There was an incremental \$0.6 million impairment loss during the six months ended June 30, 2020 in relation to contract implementation costs in the North America reportable segment. The impairment was calculated as the difference between the carrying amount of the asset and the recoverable amount.

The following table is a summary of the Company's costs to fulfill and contract liabilities (in thousands):

| | June 30, 2020 | December 31, 2019 |
|----------------------|---------------|-------------------|
| Costs to fulfill | \$ 567 | \$ 1,238 |
| Contract liabilities | 10,572 | 9,568 |
| Cash received | 9,845 | 36,662 |
| Revenue recognized | 8,841 | 44,708 |

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. These costs would primarily relate to commissions paid to our account executives and are included in selling, general and administrative expenses.

No incremental costs to obtain a contract incurred by the Company during the three and six months ended June 30, 2020 and 2019 were required to be capitalized.

Transaction Price Allocated to Remaining Performance Obligations

ASC 606 requires that the Company disclose the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as of June 30, 2020. 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.

3. Allowance for Expected Credit Losses

The following is a rollforward of the allowance for expected credit losses related to the Company's trade receivables as of June 30, 2020 (in thousands):

| | | |
|---|----|-------|
| Balance as of December 31, 2019 | \$ | 3,830 |
| Adjustment for adoption of ASU 2016-13 | | (431) |
| Balance as of January 1, 2020 | | 3,399 |
| Current provision for expected credit losses ⁽¹⁾ | | 71 |
| Recoveries and write-offs | | — |
| Balance as of June 30, 2020 | \$ | 3,470 |

⁽¹⁾The current provision for expected credit losses includes the effect of exchange rate changes on accounts receivable through June 30, 2020.

4. Goodwill

The following is a rollforward of goodwill for each reportable segment as of June 30, 2020 (in thousands):

| | North America | EMEA | LATAM | Total |
|---|---------------|-----------|----------|------------|
| Goodwill as of December 31, 2019 | | | | |
| Goodwill | \$ 170,642 | \$ 96,225 | \$ 7,109 | \$ 273,976 |
| Accumulated impairment | (18,432) | (96,225) | (7,109) | (121,766) |
| | 152,210 | — | — | 152,210 |
| Goodwill as of June 30, 2020 | | | | |
| Goodwill | 170,590 | 96,225 | 7,109 | 273,924 |
| Accumulated impairment | (25,623) | (96,225) | (7,109) | (128,957) |
| | \$ 144,967 | \$ — | \$ — | \$ 144,967 |

The Company most recently recognized a partial impairment of its goodwill in the North America reportable segment as of March 31, 2020, as outlined below. The Company further considered indicators for impairment at June 30, 2020 given the significant level of goodwill remaining in the reportable segment as well as the recent impairment test at March 31, 2020.

Further, based on the terms of the Agreement and Plan of Merger with HH Global Limited, see Note 15, *Subsequent Events*, the Company determined the enterprise value of the North America reporting unit to be consistent with the enterprise value as of the March 31, 2020 impairment test and compared the enterprise value of the reporting unit to its respective carrying value. As a result, as of June 30, 2020, the enterprise value for the North America reporting unit does not exceed the carrying value by more than 30% and is therefore considered at risk.

At June 30, 2020, the Company performed a qualitative assessment to determine whether it is more likely than not that the fair value of our North America reportable segment is less than the carrying value. We considered the current and expected future economic and market conditions surrounding COVID-19 and the Agreement and Plan of Merger with HH Global Group Limited. See Note 15, *Subsequent Events*. After performing this qualitative goodwill impairment assessment, the Company determined that it did not have an interim goodwill triggering event as June 30, 2020.

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 fair value determination of the North America reporting unit, the only reporting unit with goodwill remaining, primarily relies on management judgments around timing of generating revenue 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, *Restructuring Activities and Charges* to the Consolidated Financial Statements.

At June 30, 2020, the Company had \$145.0 million of goodwill on its consolidated balance sheet, all of which relates to the North America reportable segment. If assumptions surrounding any of these factors or assumptions change, then a future impairment charge may occur.

2020 Goodwill Impairment Charges

As of March 31, 2020, the Company performed an interim impairment assessment due to a triggering event caused by a sustained decrease in the Company's stock price and lower outlook due to the deterioration in economic conditions caused by COVID-19. The Company determined a fair value for its North America reporting unit that considered both the discounted cash flow and guideline public company methods. The Company further compared the fair value of the reporting unit to its carrying

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value. The fair value for the North America reporting unit was less than its carrying value and resulted in a non-cash goodwill impairment charge of \$7.2 million. 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.

5. Other Intangibles and Long-Lived Assets

The following is a summary of the Company's intangible assets as of June 30, 2020 and December 31, 2019 (in thousands):

| | June 30, 2020 | December 31, 2019 | Weighted Average Life in Years |
|---|-----------------|-------------------|-----------------------------------|
| Customer lists | \$ 73,442 | \$ 73,678 | 14.4 |
| Non-competition agreements | 943 | 959 | 4.1 |
| Trade names | 2,510 | 2,510 | 13.3 |
| Patents | 57 | 57 | 9.0 |
| | <u>76,952</u> | <u>77,204</u> | |
| Less accumulated amortization and impairment | | | |
| Customer lists | (67,096) | (66,382) | |
| Non-competition agreements | (943) | (959) | |
| Trade names | (2,168) | (2,098) | |
| Patents | (52) | (51) | |
| Total accumulated amortization and impairment | <u>(70,259)</u> | <u>(69,490)</u> | |
| Intangible assets, net | <u>\$ 6,693</u> | <u>\$ 7,714</u> | |

Amortization expense related to these intangible assets was \$0.6 million and \$0.6 million for the three months ended June 30, 2020 and 2019, and \$1.1 million and \$1.1 million during the six months ended June 30, 2020 and 2019 respectively.

As of June 30, 2020, estimated amortization expense for the remainder of 2020 and each of the next five years and thereafter is as follows (in thousands):

| | |
|-------------------|-----------------|
| Remainder of 2020 | \$ 1,007 |
| 2021 | 1,783 |
| 2022 | 1,407 |
| 2023 | 961 |
| 2024 | 744 |
| 2025 | 467 |
| Thereafter | 324 |
| | <u>\$ 6,693</u> |

6. Restructuring Activities and Charges

2018 Restructuring Plan

On August 10, 2018, the Company approved a plan (the "2018 Restructuring Plan") to reduce the Company's cost structure while driving value for its clients and stockholders. The 2018 Restructuring 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. At the time of adoption, the plan was expected to be completed by the end of 2019 and the Company expected 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. Where required by law, the Company consults with each of the affected country's local Works Councils prior to implementing the plan. On February 21, 2019, the Board of Directors approved a two-year extension to the restructuring plan through the end of 2021.

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On February 24, 2020, the Company approved an increase in the size of the 2018 Restructuring Plan. From adoption through completion of the plan, the Company expects to incur pre-tax cash restructuring charges of \$35.0 million to \$45.0 million and pre-tax non-cash restructuring charges of \$0.5 million. Cash charges are expected to include \$9.0 million to \$12.0 million for employee severance and related benefits, \$8.0 million to \$10.0 million for consulting fees and lease and contract terminations, and \$18.0 million to \$23.0 million for compensation realignment and other retention. The Company's increased 2018 restructuring plan will cover cost-reduction actions associated with the COVID-19 pandemic.

The following table summarizes the accrued restructuring activities for this plan for the six months ended June 30, 2020 (in thousands):

| | Employee Severance and Related Benefits | Lease and Contract Termination Costs | Compensation Realignment and Other Retention | Other | Total |
|---|--|---|---|---------------|-----------------|
| Balance as of December 31, 2019 | \$ 666 | \$ 23 | \$ 3,636 | \$ 258 | \$ 4,583 |
| Charges | 1,969 | 369 | 4,425 | 518 | 7,281 |
| Prepayments ⁽¹⁾ | — | — | 36 | — | 36 |
| Cash payments | (2,283) | (402) | (5,291) | (494) | (8,470) |
| Non-cash settlements/adjustments ⁽²⁾ | 58 | (22) | — | — | 36 |
| Balance as of June 30, 2020 | <u>\$ 410</u> | <u>\$ (32)</u> | <u>\$ 2,806</u> | <u>\$ 282</u> | <u>\$ 3,466</u> |

⁽¹⁾ For compensation realignment and other retention amounts, expense is recognized over a mandatory future service period, whereby payments occur at certain intervals throughout the mandatory future service period. This line item represents prepayment activity that has occurred through June 30, 2020.

⁽²⁾ Non-cash settlements and adjustments consist of (1) differences in total lease expense per ASC 842 and cash rental payments for leases that qualify to be recorded to restructuring and (2) foreign currency impacts.

The Company recorded the following restructuring costs by segment (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------|------------------------------------|-----------------|----------------------------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| North America | \$ 2,247 | \$ 1,216 | \$ 4,483 | \$ 1,408 |
| EMEA | 1,009 | 326 | 1,889 | 1,405 |
| LATAM | 143 | 39 | 307 | 74 |
| Other | 245 | 2,117 | 602 | 4,745 |
| Total | <u>\$ 3,644</u> | <u>\$ 3,698</u> | <u>\$ 7,281</u> | <u>\$ 7,632</u> |

From adoption through June 30, 2020, the Company recognized \$29.2 million in total restructuring charges pursuant to the 2018 Restructuring Plan.

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 total pre-tax cash restructuring charges of \$6.7 million, the majority of which were recognized during 2016. These cash charges included approximately \$5.6 million for employee severance and related benefits and \$1.1 million for lease and contract terminations and other associated costs. The charges were all incurred by the end of 2016 with the final payouts occurring during the three months ended March 31, 2020.

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The following table summarizes the accrued restructuring activities for this plan for the six months ended June 30, 2020 (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, 2019 | \$ 122 | \$ — | \$ — | \$ 122 |
| Charges | (36) | — | — | (36) |
| Cash payments | (86) | — | — | (86) |
| Balance as of June 30, 2020 | \$ — | \$ — | \$ — | \$ — |

7. Income Taxes

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 (22.8)% and 125.9% for the three months ended June 30, 2020 and 2019, respectively. The Company's reported effective income tax rate was (8.7)% and (70.2)% for the six months ended June 30, 2020 and 2019, 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 and prior year provision to return adjustments.

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 June 30, 2020 and 2019. 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. The Initial Warrant, as defined in Note 12, *Long-Term Debt*, was issued at a nominal exercise price and is considered outstanding at the date of issuance. Diluted loss 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 performance share units ("PSUs") for which the performance conditions have been met as of the end of the period.

There were no dilutive effects for securities during the three and six months ended June 30, 2019 as a result of a net loss incurred in the period. In connection with the closing of the term loan in the third quarter of 2019, the Company issued the Initial Warrant which is classified and recorded as a liability at fair value with subsequent changes in fair value recognized in earnings. Refer to Note 12, *Long-Term Debt*, for additional information. For diluted earnings per share, changes in fair value related to the Initial Warrant are adjusted out of earnings when the adjustment would not result in an increase to earnings and thus be considered antidilutive. For the three months ended June 30, 2020, the adjustment to exclude the change in fair value would increase earnings, and thus net loss for the period was not adjusted. For the six months ended June 30, 2020, the adjustment to exclude the change in fair value would decrease earnings, and thus net loss for the period was adjusted.

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The computation of basic and diluted loss per share is as follows (in thousands, except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-----------|---------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Numerator: | | | | |
| Net loss - basic | \$ (7,912) | \$ (508) | \$ (10,752) | \$ (2,552) |
| Adjustments: | | | | |
| Change in fair value of Initial Warrant liability | — | — | (5,085) | — |
| Net loss - diluted | \$ (7,912) | \$ (508) | \$ (15,837) | \$ (2,552) |
| Denominator: | | | | |
| Weighted average shares outstanding | 52,327 | 51,773 | 52,233 | 51,830 |
| Issuance of Initial Warrant | 1,335 | — | 1,335 | — |
| Weighted average shares outstanding - basic and diluted | 53,662 | 51,773 | 53,568 | 51,830 |
| Basic loss per share | \$ (0.15) | \$ (0.01) | \$ (0.20) | \$ (0.05) |
| Diluted loss per share | \$ (0.15) | \$ (0.01) | \$ (0.30) | \$ (0.05) |

9. Related Party Transactions

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 June 30, 2020 and 2019 was \$1.1 million and \$3.4 million, respectively, and \$4.8 million and \$6.1 million during the six months ended June 30, 2020 and 2019, respectively. The amounts receivable from Enova were nominal and \$4.6 million as of June 30, 2020 and December 31, 2019, respectively.

In the second quarter of 2020, the Company began providing product procurement to Byline Bancorp, Inc. ("Byline"). Lindsay Corby, a member of the Company's Board of Directors, is the Chief Financial Officer of Byline and has a direct ownership interest in Byline. The total amount billed for such services during the three months ended June 30, 2020 was \$0.1 million. There were no amounts receivable from Byline as of June 30, 2020.

10. Commitments and Contingencies

Self-insurance

The Company is self-insured for medical claims which is subject to stop-loss protection. An actuarial calculation of the estimated claims incurred but not reported is provided to the Company each period. The estimated claims incurred is currently updated semi-annually as it is immaterial in relation to the liability due to the limited population of claims since moving to the self-funded model on January 1, 2020. Further, the Company considered COVID-19's effect on insurance claims and recorded an immaterial additional liability based on actuarial estimates of the impact it will have on our claims. As of June 30, 2020, the medical claims liability was \$1.0 million, and the liability is recorded within other current liabilities on the Company's Condensed Consolidated Balance Sheet.

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. The Company disputes the allegations of the former owner of Productions Graphics and

intends to vigorously defend these matters. In February 2014, based on a review the Company initiated into certain transactions associated with the former owner of Productions Graphics, the Company concluded that he had engaged in fraud by inflating the results of the Productions Graphics business in order to induce the Company to pay him €7.1 million in contingent consideration pursuant to the acquisition agreement. In light of those findings, in February 2014, the Company filed a criminal complaint in France seeking to redress the harm caused by his conduct and this proceeding is currently pending. In addition, in September 2015, the Company initiated a civil claim in the Paris Commercial Court against the former owner of Productions Graphics, seeking civil damages to redress these same harms. In addition to these pending matters, there may be other potential disputes between the Company and the former owner of Productions Graphics relating to the acquisition agreement. The Company had paid €5.8 million (approximately \$8.0 million) in fixed consideration and €7.1 million (approximately \$9.4 million) in contingent consideration to the former owner of Productions Graphics; the remaining maximum contingent consideration under the acquisition agreement was €34.5 million (approximately \$37.6 million 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.

11. Revolving Credit Facility

ABL Credit Agreement

On July 16, 2019, the Company and certain of its direct and indirect subsidiaries entered into a loan and security agreement (the "ABL Credit Agreement") with Bank of America, N.A., as administrative agent, lender, issuing bank and collateral agent, and JPMorgan Chase Bank, N.A. and PNC Bank, National Association, as lenders (the "ABL Credit Facility").

The ABL Credit Facility consists of a \$105.0 million asset-based revolving line of credit, of which up to (i) \$15.0 million may be used for UK Revolver Loans (as defined in the ABL Credit Agreement), (ii) \$10.5 million may be used for Swingline Loans (as defined in the ABL Credit Agreement), and (iii) \$10.0 million may be used for letters of credit. The ABL Credit Agreement provides that the revolving line of credit may be increased by up to an additional \$20.0 million following satisfaction of certain conditions. The ABL Credit Facility matures on July 16, 2024. Advances under the ABL Credit Facility bear interest at either: (a) LIBOR (as defined in the ABL Credit Agreement), plus an applicable margin ranging from 2.00% to 2.50% for US LIBOR Loans and UK LIBOR Loans (each as defined in the ABL Credit Agreement); (b) the US Base Rate (as defined in the ABL Credit Agreement), plus an applicable margin ranging from 1.00% to 1.50% for US Base Rate Loans (as defined in the ABL Credit Agreement); or (c) the UK Base Rate (as defined in the ABL Credit Agreement), plus an applicable margin ranging from 2.00% to 2.50% for UK Base Rate Loans (as defined in the ABL Credit Agreement).

The Company's obligations under the ABL Credit Agreement are guaranteed by certain of its subsidiaries pursuant to a guaranty included in the ABL Credit Agreement. As security for the Company's and its subsidiaries' obligations under the ABL Credit Agreement, each of the Company and the subsidiaries party thereto have granted: (i) a first priority lien on the Company's and such subsidiaries' accounts receivable, chattel paper (to the extent evidencing accounts receivable), inventory, deposit accounts, general intangibles related to the foregoing and proceeds related thereto; and (ii) a second-priority lien on substantially all its other tangible and intangible personal property, including the capital stock of certain of the Company's direct and indirect subsidiaries. The priority of the liens is described in an intercreditor agreement between Bank of America, N.A. as ABL Agent and TCW Asset Management Company LLC as Term Agent (the "Intercreditor Agreement").

The ABL Credit Agreement contains a minimum fixed charge coverage ratio financial covenant that must be maintained when excess availability falls below a specified amount. In addition, the ABL Credit Agreement contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted in such agreements. The ABL Credit Agreement also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the ABL Credit Agreement to be in full force and effect, and a change of control of the Company's business. The usage and total commitment of these Loans shall not exceed the respective borrowing base set forth in the ABL Credit Agreement.

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Within the ABL Credit Agreement, there is a cash dominion requirement for the United States ("US") and United Kingdom ("UK"). In the United States, Bank of America, N.A. (the agent) shall only exercise cash dominion and apply all customer collections of the US borrowers to US obligations when a Trigger Period exists, as defined in the ABL Credit Agreement. In the United Kingdom, all customer collections of the UK borrowers will be applied on a daily basis to any outstanding UK obligations and any credit balance will be transferred back to an account of the UK borrowers. The customer collections of the UK borrowers are only applied against the UK obligations. As a result of the cash dominion, the amount outstanding under the ABL Credit Agreement for UK borrowers has been classified as a current obligation. The amount outstanding under the ABL Credit Agreement for US borrowers has been classified as a long-term obligation, as no Trigger Period has yet occurred nor is considered probable. The amounts outstanding under the ABL Credit Agreement as of June 30, 2020 for the UK borrowers and the US borrowers are \$0.1 million and \$40.7 million, respectively.

The Company's deferred financing fees of approximately \$2.0 million are presented as an asset and amortized on a straight-line basis over the term of the ABL Credit Agreement. Amortization of deferred financing fees is recorded in interest expense and was approximately \$0.1 million and \$0.2 million for the three and six months ended June 30, 2020, respectively.

The Company has determined that the interest rate reset features embedded in the ABL Credit Agreement constitute an embedded derivative (collectively, the "ABL Embedded Derivative") which has been bifurcated from the ABL Credit Facility and recorded as a derivative liability at fair value, with a corresponding discount recorded to the associated debt. The Company recorded a nominal amount and approximately \$0.1 million in interest expense for the amortization of the ABL Embedded Derivative discount for the three and six months ended June 30, 2020, respectively.

The following schedule shows the change in fair value of the ABL Embedded Derivative at June 30, 2020 (in thousands):

| | | |
|----------------------|----|------------|
| December 31, 2019 | \$ | 497 |
| Change in fair value | | (278) |
| June 30, 2020 | \$ | <u>219</u> |

The change in fair value is recorded within other expense on the Company's Condensed Consolidated Statement of Comprehensive Loss. Refer to Note 13, *Fair Value Measurement*, for further discussion.

The Company's ABL Credit Facility at June 30, 2020 is summarized as follows (in thousands):

| | | |
|--|----|---------------|
| ABL Credit Facility outstanding | \$ | 40,817 |
| Less: Current portion of ABL Credit Facility for UK Borrowings | | (76) |
| Long-term portion of ABL Credit Facility | | <u>40,741</u> |
| Less: ABL Embedded Derivative Discount ⁽¹⁾ | | (484) |
| ABL Embedded Derivative Liability ⁽²⁾ | | <u>219</u> |
| Total Revolving credit facility - non-current | \$ | <u>40,476</u> |

⁽¹⁾ Original value of embedded derivative at July 16, 2019, less amortization.

⁽²⁾ Value of embedded derivative as of June 30, 2020.

At June 30, 2020, the Company had \$1.7 million of letters of credit outstanding which have not been drawn upon.

On February 22, 2016, the Company entered into a Revolving Credit Facility (the "Facility") with Bank of America N.A. to support ongoing working capital needs of the Company's operations in China. The Facility includes a revolving commitment amount of \$5.0 million whereby maturity dates vary based on each individual drawdown. On July 16, 2019, the Company modified the Facility to decrease the total revolving commitment amount from \$5.0 million to \$1.0 million. All other terms of the Facility remained unchanged. Outstanding borrowings under the Facility are guaranteed by the Company's assets. Borrowings and repayments are made in renminbi, the official Chinese currency. The applicable interest rate is 110% of the People's Bank of China's base rate. The terms of the Facility include limitations on use of funds for working capital purposes as well as customary representations and warranties made by the Company. At June 30, 2020, the Company had \$0.5 million of unused availability under the Facility.

12. Long-Term Debt

On July 16, 2019, the Company and certain of its direct and indirect subsidiaries entered into a loan and security agreement (the “Term Loan Credit Agreement”) with TCW Asset Management Company LLC, as administrative agent and collateral agent, and the financial institutions party thereto as lenders (the “Term Loan Credit Facility”).

The Term Loan Credit Facility consists of a \$100.0 million term loan facility. The Term Loan Credit Facility matures on July 16, 2024. Principal on the Term Loan Credit Facility is due in quarterly installments, commencing on September 30, 2019, in an amount equal to \$1.3 million per quarter during the first year of the Term Loan Credit Facility and \$2.5 million each quarter thereafter. The loans under the Term Loan Credit Facility bear interest at either: (a) the LIBOR Rate (as defined in the Term Loan Credit Agreement), plus an applicable margin ranging from 6.25% to 10.75%; or (b) the Prime Rate (as defined in the Term Loan Credit Agreement), plus an applicable margin ranging from 5.25% to 9.75%.

The Company’s obligations under the Term Loan Credit Agreement are guaranteed by certain of its subsidiaries pursuant to a guaranty included in the Term Loan Credit Agreement. As security for the Company’s and its subsidiaries’ obligations under the Term Loan Credit Agreement, each of the Company and the subsidiaries party thereto have granted: (i) a first priority lien on substantially all its tangible and intangible personal property (other than the assets described in the following clause (ii)), including the capital stock of certain of the Company’s direct and indirect subsidiaries, and (ii) a second priority lien on its accounts receivable, chattel paper (to the extent evidencing accounts receivable), inventory, deposit accounts, general intangibles related to the foregoing and proceeds related thereto. The priority of the liens is described in the Intercreditor Agreement.

The Term Loan Credit Agreement contains a minimum fixed charge coverage ratio financial covenant, a maximum total leverage ratio financial covenant, a minimum liquidity financial covenant and a maximum capital expenditures covenant, each of which must be maintained for the periods described in the Term Loan Credit Agreement. In addition, the Term Loan Credit Agreement contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted in such agreements. The Term Loan Credit Agreement also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the Term Loan Credit Agreement to be in full force and effect, and a change of control of the Company’s business. The principal outstanding as of June 30, 2020 is \$95.0 million.

The Company has determined the interest rate reset features embedded in the Term Loan Credit Agreement constitute an embedded derivative (collectively, the “Term Loan Embedded Derivative”) which has been bifurcated from Term Loan Credit Facility and recorded as a derivative liability at fair value, with a corresponding discount recorded to the associated debt. The Company recorded a nominal amount and \$0.1 million in interest expense for the amortization of the Term Loan Embedded Derivative discount for the three and six months ended June 30, 2020, respectively.

The following schedule shows the change in fair value of the Term Loan Embedded Derivative at June 30, 2020 (in thousands):

| | | |
|----------------------|----|------------|
| December 31, 2019 | \$ | 407 |
| Change in fair value | | (241) |
| June 30, 2020 | \$ | <u>166</u> |

The change in fair value is recorded within other expense on the Company’s Condensed Consolidated Statement of Comprehensive Loss. Refer to Note 13, *Fair Value Measurement*, for further discussion.

In connection with the closing of the Term Loan Credit Agreement, the Company issued a Warrant (as defined below) to Macquarie US Trading LLC, an affiliate of TCW Asset Management Company LLC, to purchase fully paid and non-assessable shares of common stock of the Company. The Warrant is initially exercisable for an aggregate of 1,335,337 shares of the Company’s common stock with a per share exercise price of \$0.01 (the “Initial Warrant”). The Initial Warrant is exercisable on or after (A) the date which is 10 days after the earlier of (x) the date that the Company delivers its financial statements for the fiscal quarter ended March 31, 2020 to the administrative agent and (y) May 15, 2020 (the “First Quarter Reporting Period End Date”) through (B) July 16, 2024. The initial warrant has not been exercised.

In addition, if either (x) the Total Leverage Ratio (as defined in the Term Loan Credit Agreement) as of March 31, 2020 for the four (4) consecutive fiscal quarter period then ended is greater than 4.25 to 1.00 or (y) the Company fails to deliver financial statements to the administrative agent as required by the Term Loan Credit Agreement for the fiscal quarter ended March 31,

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2020, then from the First Quarter Reporting Period End Date through July 16, 2024, the Warrant shall also be exercisable for an additional 2.49% of the Company's common stock calculated on a fully-diluted basis (the "Additional Warrant" or "Contingent Warrant" and together with the Initial Warrant, the "Warrant"). The Company did not trigger any of the provisions defined in the Term Loan Credit Agreement that would cause the Additional Warrant to be exercisable at March 31, 2020 and, accordingly, the additional warrant expired by its terms.

The Warrant may be exercised on a cashless basis, and the number of shares for which the Warrant are exercisable, and the associated exercise price are subject to certain proportional adjustments as set forth in the Warrant. In addition, the holder of the Warrant is entitled to certain piggyback registration rights.

In the event that the Total Leverage Ratio is less than 4.00 to 1.00 at any time between April 1, 2020 and March 31, 2021 (the "Buyback Period") based on financial statements delivered to agent pursuant to the terms of the Term Loan Credit Agreement, and calculated on a pro forma basis factoring in the repurchase described in the Warrant, then on any day during the Buyback Period, the Company shall be permitted, upon 5 business days prior written notice given to Holder, to repurchase either (x) any portion of the Warrant not yet exercised and/or (y) any shares of common stock received from the Company pursuant to prior exercise of the Warrant, in each case at the Applicable Buyback Price (as defined in the Warrant) by paying cash to the Holder ("Buyback Option").

The Initial Warrant was recorded as a liability at fair value and will be treated as a discount on the associated debt. The following schedule shows the change in fair value of the Initial Warrant at June 30, 2020 (in thousands):

| | | |
|----------------------|----|---------|
| December 31, 2019 | \$ | 6,537 |
| Change in fair value | | (5,085) |
| June 30, 2020 | \$ | 1,452 |

The Additional Warrant was no longer outstanding as of March 31, 2020 and therefore has no associated fair value at June 30, 2020.

The Term Loan is presented net of the related original issue discount ("OID"), which was \$8.5 million on the issuance date of July 16, 2019. Accretion of OID is included in interest expense. The Company incurred \$3.7 million of deferred financing fees related to the Term Loan Credit Agreement that has been recorded as a debt discount. The combined debt discount from the Initial Warrant liability, the Term Loan Embedded Derivative liability, and the debt issuance fees is being amortized into interest expense over the term of the Term Loan Credit Facility using the effective interest method. The Company recorded interest expense for the amortization of the Initial Warrant liability and Term Loan Embedded Derivative liability debt discounts of \$0.3 million and \$0.5 million for the three and six months ended June 30, 2020, respectively, and recorded an additional \$0.2 million and \$0.4 million of interest expense for the amortization of the debt issuance fees for the three and six months ended June 30, 2020, respectively.

The Company's Term Loan Credit Facility at June 30, 2020 is summarized as follows (in thousands):

| | | |
|--|----|----------|
| Term Loan Credit Facility outstanding | \$ | 95,000 |
| Less: Current portion of Term Loan Credit Facility | | (10,000) |
| Long-term portion of Term Loan Credit Facility | | 85,000 |
| Less: Original Issue Discount ⁽¹⁾ | | (6,818) |
| Term Loan Embedded Derivative Liability ⁽²⁾ | | 166 |
| Initial Warrant Liability ⁽²⁾ | | 1,452 |
| Total Term Loan Credit Facility - Non-current | \$ | 79,800 |

⁽¹⁾ Original value of OID attributable to debt issuance costs, warrant liability and embedded derivatives at July 16, 2019, less amortization.

⁽²⁾ Value of warrant liability and embedded derivatives as of June 30, 2020.

13. Fair Value Measurement

The Company estimates the fair value of the ABL Credit Facility and Term Loan Credit Facility using current market yields. These current market yields are considered Level 2 inputs.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

The fair value of the Company's Initial Warrant liability recorded in the Company's financial statements is determined using the Black-Scholes-Merton option pricing model. The quoted price of the Company's common stock in an active market, volatility and expected life is a Level 3 measurement. Volatility is based on the actual market activity of the Company's stock. The expected life is based on the remaining contractual term of the Initial Warrant, and the risk-free interest rate is based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the Initial Warrant's expected life. The fair value of the Company's Initial Warrant liability may significantly fluctuate based on the unobservable inputs described above including the Company's share price, expected volatility and risk-free interest rate.

The table below sets forth the assumptions used within the Black-Scholes-Merton option pricing model to value the Company's Initial Warrant liability:

| | | |
|-------------------------------|----|-------|
| Stock price | \$ | 1.32 |
| Exercise price | \$ | 0.01 |
| Time until expiration (years) | | 4.04 |
| Expected volatility | | 79.0% |
| Risk-free interest rate | | 0.24% |
| Expected dividend yield | | —% |

The fair value of the Company's embedded derivative liabilities recorded in the Company's financial statements is determined using a probability-weighted discounted cash flow approach utilizing inputs outlined in Note 11, *Revolving Credit Facility* and Note 12, *Long-Term Debt*. To derive the fair value of the embedded derivatives, the Company estimates the fair value of the ABL Credit Facility and Term Loan Credit Facility with and without the embedded derivatives. The difference between the "with" and "without" fair values determines the fair value of the embedded derivative liabilities. Key inputs for the ABL Credit Facility and Term Loan Credit Facility valuation are the applicable margin, LIBOR and US Prime yield curves, default rates of comparable securities and the assumed cost of debt. The fair value of the Company's embedded derivative liabilities may significantly fluctuate based on unobservable inputs including assumed cost of debt.

The table below sets forth the total fair value of the ABL Credit Facility, ABL Embedded Derivative, Term Loan Credit Facility, Term Loan Embedded Derivative, and Initial Warrant as of June 30, 2020 (in thousands):

| | June 30, 2020 | | |
|-------------------------------|---|---|-------------------|
| | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| ABL Credit Facility | \$ 115,270 | \$ — | \$ 115,270 |
| ABL Embedded Derivative | — | 219 | 219 |
| Term Loan Credit Facility | 85,164 | — | 85,164 |
| Initial Warrant | — | 1,452 | 1,452 |
| Term Loan Embedded Derivative | — | 166 | 166 |
| Total | <u>\$ 200,434</u> | <u>\$ 1,837</u> | <u>\$ 202,271</u> |

14. 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. The Company is 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 corporate expenses which are not allocated to the operating segments as management does not consider them in evaluating segment performance.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

The table below presents financial information for the Company's reportable segments and Other for the three and six months ended June 30, 2020 and 2019 (in thousands):

| | <u>North America</u> | <u>EMEA</u> | <u>LATAM</u> | <u>Other</u> | <u>Total</u> |
|---|----------------------|-------------------|------------------|--------------------|-------------------|
| <i>Three Months Ended June 30, 2020</i> | | | | | |
| Revenue from third parties | \$ 140,995 | \$ 49,095 | \$ 13,221 | \$ — | \$ 203,311 |
| Revenue from other segments | 1,822 | 1,608 | 1 | (3,431) | — |
| Total revenue | <u>\$ 142,817</u> | <u>\$ 50,703</u> | <u>\$ 13,222</u> | <u>\$ (3,431)</u> | <u>\$ 203,311</u> |
| Adjusted EBITDA | <u>\$ 13,140</u> | <u>\$ 4,218</u> | <u>\$ (155)</u> | <u>\$ (11,072)</u> | <u>\$ 6,131</u> |
| <i>Three Months Ended June 30, 2019</i> | | | | | |
| Revenue from third parties | \$ 200,091 | \$ 62,483 | \$ 21,287 | \$ — | \$ 283,861 |
| Revenue from other segments | 650 | 2,713 | 2 | (3,365) | — |
| Total revenue | <u>\$ 200,741</u> | <u>\$ 65,196</u> | <u>\$ 21,289</u> | <u>\$ (3,365)</u> | <u>\$ 283,861</u> |
| Adjusted EBITDA | <u>\$ 20,315</u> | <u>\$ 4,480</u> | <u>\$ 611</u> | <u>\$ (12,414)</u> | <u>\$ 12,992</u> |
| | <u>North America</u> | <u>EMEA</u> | <u>LATAM</u> | <u>Other</u> | <u>Total</u> |
| <i>Six Months Ended June 30, 2020</i> | | | | | |
| Revenue from third parties | \$ 338,704 | \$ 97,305 | \$ 28,662 | \$ — | \$ 464,671 |
| Revenue from other segments | 3,047 | 4,169 | 2 | (7,218) | — |
| Total revenue | <u>\$ 341,751</u> | <u>\$ 101,474</u> | <u>\$ 28,664</u> | <u>\$ (7,218)</u> | <u>\$ 464,671</u> |
| Adjusted EBITDA | <u>\$ 36,780</u> | <u>\$ 5,580</u> | <u>\$ 274</u> | <u>\$ (23,596)</u> | <u>\$ 19,038</u> |
| <i>Six Months Ended June 30, 2019</i> | | | | | |
| Revenue from third parties | \$ 388,365 | \$ 122,662 | \$ 40,045 | \$ — | \$ 551,072 |
| Revenue from other segments | 1,213 | 4,360 | 4 | (5,577) | — |
| Total revenue | <u>\$ 389,578</u> | <u>\$ 127,022</u> | <u>\$ 40,049</u> | <u>\$ (5,577)</u> | <u>\$ 551,072</u> |
| Adjusted EBITDA | <u>\$ 36,332</u> | <u>\$ 7,256</u> | <u>\$ 876</u> | <u>\$ (24,083)</u> | <u>\$ 20,381</u> |

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

The table below reconciles Adjusted EBITDA to net loss before income taxes (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-----------------|---------------------------|-------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Adjusted EBITDA | \$ 6,131 | \$ 12,992 | \$ 19,038 | \$ 20,381 |
| Depreciation and amortization | (3,310) | (3,233) | (6,437) | (5,849) |
| Stock-based compensation - equity classified awards | (1,554) | (1,402) | (3,034) | (2,141) |
| Stock-based compensation - liability classified awards (SARs) | (127) | (46) | 513 | (46) |
| Goodwill impairment | — | — | (7,191) | — |
| Intangible and other asset impairments | (609) | — | (883) | — |
| Restructuring charges | (3,644) | (3,698) | (7,281) | (7,632) |
| Merger-related transaction costs | (790) | — | (790) | — |
| Professional fees related to control remediation | (356) | (550) | (620) | (916) |
| Executive search fees | — | — | — | (80) |
| Sales and use tax audit | — | — | — | (25) |
| (Loss) income from operations | (4,259) | 4,063 | (6,685) | 3,692 |
| Interest income | 53 | 104 | 109 | 202 |
| Interest expense | (3,201) | (2,486) | (7,587) | (5,232) |
| (Loss) gain from change in fair value of warrant | (120) | — | 5,085 | — |
| Foreign exchange gain (loss) | 862 | 237 | (1,929) | (239) |
| Other income | 221 | 42 | 1,117 | 78 |
| (Loss) income before income taxes | (6,444) | 1,960 | (9,890) | (1,499) |
| Income tax expense | 1,468 | 2,468 | 862 | 1,053 |
| Net loss | <u>\$ (7,912)</u> | <u>\$ (508)</u> | <u>\$ (10,752)</u> | <u>\$ (2,552)</u> |

The table below presents total assets for the Company's reportable segments and Other (in thousands):

| | June 30, 2020 | December 31, 2019 |
|---------------|-------------------|-------------------|
| North America | \$ 353,974 | \$ 424,775 |
| EMEA | 120,081 | 140,013 |
| LATAM | 32,288 | 46,822 |
| Other | 18,690 | 17,673 |
| Total assets | <u>\$ 525,033</u> | <u>\$ 629,283</u> |

15. Subsequent Events

Pending acquisition

On July 15, 2020, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with HH Global Group Limited, a Company registered in England and Wales (“Parent”), HH Global Finance Limited, a Company registered in England and Wales, and Project Idaho Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Parent (“Sub”). The Merger Agreement provides for, among other things, the merger of Sub with and into the Company, on the terms and subject to the conditions set forth in the Merger Agreement (the “Merger”), with the Company continuing as the surviving corporation in the Merger. As a result of the Merger, the Company would become a wholly owned subsidiary of Parent. Pursuant to the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each share of our common stock, par value \$0.0001 per share, issued and outstanding immediately prior to the Effective Time will be canceled and automatically converted into the right to receive \$3.00 in cash, without interest thereon, other than (i) shares that are held in the treasury of the Company or owned of record by any wholly owned subsidiary of the Company (other than those held on behalf of any third party), (ii) shares owned of record by Parent, Sub or any of their respective wholly owned subsidiaries (other than those held on behalf of any third party), and (iii) shares held by stockholders who have not voted in favor of or consented to the adoption of the Merger Agreement and who have properly demanded appraisal of such shares and complied with all the provisions of the Delaware General Corporation Law concerning the right of holders of shares to require appraisal.

Additional information about the Merger Agreement and the related transactions can be found in the Company’s Current Report on Form 8-K filed with the SEC on July 17, 2020.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” that are based on beliefs, assumptions, and expectations of future events, taking into account the information currently available to the Company. All statements other than statements of current or historical fact contained in this report are forward-looking statements. The words “believe,” “may,” “should,” “anticipate,” “estimate,” “expect,” “intend,” “will,” “seek,” “plan,” and similar statements are intended to identify forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual outcomes to differ materially from expectations of future outcomes the Company expresses or implies in any forward-looking statements. These risks and uncertainties include, but are not limited to: the satisfaction of the conditions precedent to the consummation of the proposed merger transaction involving HH Global Group Limited, including, without limitation, the receipt of stockholder and regulatory approvals; unanticipated difficulties or expenditures relating to the proposed merger; legal proceedings, judgments or settlements, including those that may be instituted against the Company, the Company’s board of directors, officers and others following the announcement of the proposed merger; disruptions of current plans and operations caused by the announcement and pendency of the proposed merger; potential difficulties in employee retention due to the announcement and pendency of the proposed merger; the response of customers, suppliers, business partners and regulators to the announcement of the proposed merger; risks related to diverting management’s attention from the Company’s ongoing business operations; and other risks, relevant factors, and uncertainties identified in the Company’s filings with the Securities and Exchange Commission (the “SEC”) (including the information set forth in the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019, its Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, and in subsequent filings), which filings are available at the SEC’s website at www.sec.gov. Given the risks and uncertainties surrounding forward-looking statements, you should not place undue reliance on these statements. The Company’s forward-looking statements speak only as of the date of this document. Other than as required by law, the Company undertakes no obligation to update or revise forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

We are a leading global marketing engineering 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 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.

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

As of June 30, 2020, we had approximately 2,000 employees in over 20 countries. For the six months ended June 30, 2020, we generated global revenue from third parties of \$338.7 million in the North America segment, \$97.3 million in the EMEA segment, and \$28.7 million in the LATAM segment.

Our objective is to continue to increase our sales globally by adding new clients and increasing our sales to existing clients through additional marketing services or expanding into new geographic markets. Operationally, we are integrating our product and service offerings, re-evaluating our geographic footprint, and creating synergies across various business units.

Impact of COVID-19

The emergence of a novel coronavirus (COVID-19) around the world, and particularly in the United States, Europe, China, and South America presents various risks to the Company. The global impact of the outbreak has been rapidly evolving and many countries have reacted by instituting quarantine measures, mandating business and school closure and restricting travel, all of which have had an adverse effect on the global economy. The Company cannot reasonably estimate with any degree of certainty the future impact COVID-19 may have on the Company’s results of operations, financial position, and liquidity, much of which will depend on when and to what extent current restrictions are lifted and economic conditions improve. In response to the global pandemic, the Company has created a COVID-19 executive task force that has implemented business continuity plans and has taken a variety of actions to ensure the ongoing availability of our services, while also undertaking appropriate health and safety

measures for its employees. The executive task force has authority to make timely, informed decisions relating to our business continuity planning and actions. As a result of these actions, the Company has not experienced any material disruptions to date in its operations or ability to service our clients. In addition, the Company has been able to respond quickly to our customers' changing business demands related to the COVID-19 pandemic.

Overall, the Company maintains sufficient liquidity to continue business operations during these uncertain economic conditions. As discussed in *Liquidity and Capital Resources* below, the Company had liquidity of approximately \$86.3 million as of June 30, 2020, comprised of cash on hand of \$35.3 million and an undrawn revolving credit facility of \$51.0 million.

The Company will continue to monitor the situation and may take further actions that affect our business operations and performance. These actions may result from requirements mandated by federal, state or local authorities or that we determine to be in the best interests of our employees, customers, and shareholders. The situation surrounding COVID-19 remains fluid, and the potential for a material impact on the Company increases the longer the pandemic impacts the level of economic activity in the United States and in other countries. For these reasons, the Company cannot reasonably estimate with any degree of certainty the future impact COVID-19 may have on the Company's results of operations, financial position, and liquidity. See Part II, Item 1A. *Risk Factors* for further information.

Critical Accounting Policies

Our unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that we believe to be reasonable. Actual results may differ from those estimates. We review these estimates on a periodic basis to ensure reasonableness. Although actual amounts may differ from such estimated amounts, we believe such differences are not likely to be material. For additional detail regarding our critical accounting policies including revenue recognition, goodwill, other intangible assets, and leases, see our discussion for the year ended December 31, 2019 included in the Company's 2019 Annual Report on Form 10-K. There have been no material changes to these policies as of June 30, 2020.

Current Expected Credit Loss (CECL)

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 Company adopted the standard and all related ASUs effective January 1, 2020 using a modified-retrospective transition method. The adoption and application of this standard did not have a material impact to the condensed consolidated financial statements. For further discussion, refer to Note 1, *Basis of Presentation*.

Key Performance Metrics

We regularly review a number of key metrics to evaluate our business, measure progress and make strategic decisions. The measures include Revenue, Gross Profit and Adjusted EBITDA. For additional discussion, see *Key Components of Statement of Operations* and *Non-GAAP Financial Measures* below.

Key Components of Statement of Operations

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 arrange shipment of the product. The product is shipped directly from our supplier or from our warehouse to a destination specified by our client. The client is invoiced upon shipment or receipt, depending on contract terms, for the product as well as shipping and handling.

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 of the price at which we purchase products from our suppliers, facility costs, and personnel costs for creative design services and warehousing. We procure product for our own account and generally take full title and risk of loss upon shipment.

Our gross profit is determined by the selling prices of the product and shipping charges less the cost of the product, direct personnel, warehousing, and shipping and handling costs.

Operating Expenses and Loss from Operations

Our selling, general and administrative expenses consist of compensation costs for our management team, client engagement personnel, production managers, corporate functions and operational support employees, as well as commissions paid to our account executives. In addition, selling, general and administrative expenses include public company expenses, facilities fees, travel and entertainment expenses, corporate systems fees, and legal and accounting fees.

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.

Non-GAAP Financial Measures

Adjusted EBITDA

Adjusted EBITDA, which represents loss from operations with the addition of depreciation and amortization, stock-based compensation expense, goodwill and long-lived asset impairment charges, restructuring charges, merger-related transaction costs, various one-time professional fees, executive search expenses, and other charges itemized in the reconciliation table noted within Note 14, *Business Segments*, is considered a non-GAAP financial measure under SEC regulations. Loss from operations is the most directly comparable financial measure calculated in accordance with GAAP. The Company presents 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.

Adjusted Diluted Earnings Per Share

Adjusted diluted earnings per share, which represents net loss, with the addition of exclusive items that are non-recurring to our operating business, 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 loss per share is the most directly comparable financial measure calculated in accordance with GAAP. The Company presents 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.

Comparison of Three Months Ended June 30, 2020 and 2019

Revenue

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

| | Three Months Ended June 30, | | | |
|----------------------------|-----------------------------|---------------|-------------------|---------------|
| | 2020 | % of Total | 2019 | % of Total |
| North America | \$ 140,995 | 69.4% | \$ 200,091 | 70.5% |
| EMEA | 49,095 | 24.1% | 62,483 | 22.0% |
| LATAM | 13,221 | 6.5% | 21,287 | 7.5% |
| Revenue from third parties | <u>\$ 203,311</u> | <u>100.0%</u> | <u>\$ 283,861</u> | <u>100.0%</u> |

North America. Revenue decreased by \$59.1 million, or 29.5%, in the three months ended June 30, 2020 over the corresponding period in 2019. The decrease in revenue is driven by the negative impact of COVID-19 resulting in a decline in spend from enterprise clients.

EMEA. Revenue decreased by \$13.4 million, or 21.4%, in the three months ended June 30, 2020 over the corresponding period in 2019. The decrease was a result of reduced spend with certain clients and declines in marketing spend as a result of COVID-19.

LATAM. Revenue decreased by \$8.1 million, or 37.9%, in the three months ended June 30, 2020 over the corresponding period in 2019. The decrease was a result of reduced spend with certain clients and declines in marketing spend as a result of COVID-19.

Cost of goods sold

Cost of goods sold decreased by \$60.6 million, or 28.1%, in the three months ended June 30, 2020 over the corresponding period in 2019. The decrease is consistent with the decline in our revenue resulting from the negative impacts of COVID-19 across all regions during the quarter. Our cost of goods sold as a percentage of revenue was 76.2% and 75.9% during the three months ended June 30, 2020 and 2019, respectively.

Gross profit margin

Gross profit margin was 23.8% and 24.1% during the three months ended June 30, 2020 and 2019, respectively. The decrease was primarily due to temporary operational inefficiencies during the period.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by \$12.3 million, or 21.4%, in the three months ended June 30, 2020 over the corresponding period in 2019. The decrease was driven by several factors, which included the realization of cost savings and restructuring initiatives. In response to COVID-19, certain cost savings initiatives were implemented during the quarter, such as employee furloughs and terminations, hiring restrictions, cancellation of merit increases, and restricted travel.

Depreciation and amortization

Depreciation and amortization expense increased by \$0.1 million, or 2.4%, in the three months ended June 30, 2020 compared to the corresponding period in 2019. The increase is due to additional software development capitalized during the quarter.

Intangible and other asset impairments

As of June 30, 2020, the Company recognized a \$0.6 million non-cash, contract asset impairment charge related to costs to fulfill a contract that were deemed to be non-recoverable in North America.

Restructuring charges

On August 10, 2018, the Company's Board of Directors approved a plan to reduce the Company's cost structure while driving value for its clients and stockholders. For the three months ended June 30, 2020 and 2019, we incurred \$3.6 million and \$3.7 million, respectively, in restructuring charges.

(Loss) income from operations

(Loss) income from operations decreased by \$8.3 million in the three months ended June 30, 2020 over the corresponding period in 2019. As a percentage of revenue, (loss) income from operations was (2.1)% and 1.4% during the three months ended June 30, 2020 and 2019, respectively. As a percentage of gross profit, (loss) income from operations was (8.8)% and 5.9% during the three months ended June 30, 2020 and 2019, respectively. The decrease is primarily attributable to lower gross profit during the period as a result of the decline in revenues related to COVID-19.

Other expense

Other expense increased by \$0.1 million in the three months ended June 30, 2020 over the corresponding period in 2019 primarily as a result of higher interest expense offset by foreign currency impacts.

Income tax expense

Income tax expense decreased by \$1.0 million in the three months ended June 30, 2020 over the corresponding period in 2019. Our effective tax rate was (22.8)% and 125.9% for the three months ended June 30, 2020 and 2019, 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 and prior year provision to return adjustments.

Net loss

Net loss increased by \$7.4 million, or 1,457.5%, in the three months ended June 30, 2020 over the corresponding period in 2019. Net loss as a percentage of revenue was (3.9)% and (0.2)% during the three months ended June 30, 2020 and 2019, respectively. Net loss as a percentage of gross profit was (16.3)% and (0.7)% during the three months ended June 30, 2020 and 2019, respectively. The increase in net loss is attributable to lower gross profit as a result of the decline in revenue related to COVID-19.

Comparison of Six Months Ended June 30, 2020 and 2019

Revenue

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

| | Six Months Ended June 30, | | | |
|----------------------------|----------------------------------|-------------------|-------------|-------------------|
| | 2020 | % of Total | 2019 | % of Total |
| North America | \$ 338,704 | 72.9% | \$ 388,365 | 70.4% |
| EMEA | 97,305 | 20.9% | 122,662 | 22.3% |
| LATAM | 28,662 | 6.2% | 40,045 | 7.3% |
| Revenue from third parties | \$ 464,671 | 100.0% | \$ 551,072 | 100.0% |

North America. Revenue decreased by \$49.7 million, or 12.8%, in the six months ended June 30, 2020 over the corresponding period in 2019. The decrease in revenue relates to delays and decline in market spend with various enterprise clients as a result of COVID-19.

EMEA. Revenue decreased by \$25.4 million, or 20.7%, in the six months ended June 30, 2020 over the corresponding period in 2019. The decrease was a result of reduced spend with certain clients and declines in marketing spend as a result of COVID-19 and foreign currency impacts.

LATAM. Revenue decreased by \$11.4 million, or 28.4%, in the six months ended June 30, 2020 over the corresponding period in 2019. The decrease was a result of reduced spend with certain clients and declines in marketing spend as a result of COVID-19.

Cost of goods sold

Cost of goods sold decreased by \$67.9 million, or 16.1%, in the six months ended June 30, 2020 over the corresponding period in 2019. The decrease is consistent with the decline in our revenue resulting from the negative impacts of COVID-19 across all regions during the period. Cost of goods sold as a percentage of revenue was 75.9% and 76.3% during the six months ended June 30, 2020 and 2019, respectively.

Gross profit margin

Gross profit margin was 24.1% and 23.7% during the six months ended June 30, 2020 and 2019, respectively. The increase was primarily driven by more favorable mix of services in North America.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by \$16.5 million, or 14.6%, in the six months ended June 30, 2020 over the corresponding period in 2019. The decrease was driven by several factors, which included the realization of cost savings and restructuring initiatives. In response to COVID-19, certain cost savings initiatives were implemented during the period, such as employee furloughs and terminations, hiring restrictions, cancellation of merit increases, and restricted travel.

Depreciation and amortization

Depreciation and amortization expense increased by \$0.6 million, or 10.1%, in the six months ended June 30, 2020 over the corresponding period in 2019. The increase is due to additional software development capitalized during the quarter.

Goodwill Impairment

During the first quarter of 2020, the Company performed an interim impairment assessment due to a triggering event caused by a sustained decrease in the Company's stock price and lower outlook due to the deterioration in economic conditions caused by COVID-19. Based on the assessment, the Company determined that the enterprise value for the North America reporting unit was less than its carrying value and resulted in a goodwill impairment charge of \$7.2 million. Refer to Note 4, *Goodwill* for further discussion.

Intangible and other asset impairments

As of June 30, 2020, the Company recognized a \$0.6 million non-cash, contract asset impairment charge related to costs to fulfill a contract that were deemed to be non-recoverable in North America. In addition, during the first quarter of 2020, the Company recognized \$0.3 million right-of-use asset impairment within EMEA and LATAM segments due to a triggering event caused by a sustained decrease in our Company's stock price and lower outlook due to the deterioration in economic conditions caused by COVID-19.

Restructuring charges

On August 10, 2018, the Company's Board of Directors approved a plan to reduce the Company's cost structure while driving value for its clients and stockholders. For the six months ended June 30, 2020 and 2019, we incurred \$7.3 million and \$7.6 million, respectively, in restructuring charges.

(Loss) income from operations

(Loss) income from operations decreased by \$10.4 million in the six months ended June 30, 2020 over the corresponding period in 2019. As a percentage of revenue, (loss) income from operations was (1.4)% and 0.7% during the six months ended June 30, 2020 and 2019, respectively. The decrease is primarily attributable to lower gross profit during the period due to the decline in revenue related to COVID-19, along with goodwill and intangible and other asset impairment charges, partially offset by cost reduction efforts across the regions.

Other expense

Other expense decreased by \$2.0 million in the six months ended June 30, 2020 over the corresponding period in 2019. The decrease in expense was primarily driven by the change in fair value of the warrant and derivative liabilities, partially offset by foreign exchange losses and an increase in interest expense.

Income tax expense

Income tax expense decreased by \$0.2 million in the six months ended June 30, 2020 over the corresponding period in 2019. Our effective tax rate was (8.7)% and (70.2)% for the six months ended June 30, 2020 and 2019, 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 and prior year provision to return adjustments.

Net loss

Net loss increased by \$8.2 million, or 321.3%, in the six months ended June 30, 2020 over the corresponding period in 2019. Net loss as a percentage of revenue was (2.3)% and (0.5)% during the six months ended June 30, 2020 and 2019, respectively. Net loss as a percentage of gross profit was (9.6)% and (2.0)% during the six months ended June 30, 2020 and 2019, respectively. The increase in net loss is primarily attributable to goodwill and intangible and other asset impairment charges and foreign exchanges losses, offset by the change in fair value of warrant and derivative liabilities, and decrease in operating expenses due to cost savings and restructuring initiatives during the period.

Adjusted EBITDA

Adjusted EBITDA by segment for each of the periods presented was as follows (dollars in thousands):

| | Three Months Ended June 30, | | | |
|----------------------|-----------------------------|------------|-----------|------------|
| | 2020 | % of Total | 2019 | % of Total |
| North America | \$ 13,140 | 214.3 % | \$ 20,315 | 156.4 % |
| EMEA | 4,218 | 68.8 % | 4,480 | 34.5 % |
| LATAM | (155) | (2.5)% | 611 | 4.7 % |
| Other ⁽¹⁾ | (11,072) | (180.6)% | (12,414) | (95.6)% |
| Adjusted EBITDA | \$ 6,131 | 100.0 % | \$ 12,992 | 100.0 % |

| | Six Months Ended June 30, | | | |
|----------------------|---------------------------|------------|-----------|------------|
| | 2020 | % of Total | 2019 | % of Total |
| North America | \$ 36,780 | 193.2 % | \$ 36,332 | 178.3 % |
| EMEA | 5,580 | 29.3 % | 7,256 | 35.6 % |
| LATAM | 274 | 1.4 % | 876 | 4.3 % |
| Other ⁽¹⁾ | (23,596) | (123.9)% | (24,083) | (118.2)% |
| Adjusted EBITDA | \$ 19,038 | 100.0 % | \$ 20,381 | 100.0 % |

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

Comparison of three months ended June 30, 2020 and 2019. Adjusted EBITDA decreased by \$6.9 million, or 52.8%, in the three months ended June 30, 2020 over the corresponding period in 2019.

North America. Adjusted EBITDA decreased by \$7.2 million, or 35.3%, in the three months ended June 30, 2020 over the corresponding period in 2019 due to lower revenue and gross profit, partially offset by decreases in selling, general and administrative expenses due to commissions expense as a result of restructuring initiatives, and other cost savings initiatives during the period as a result of COVID-19.

EMEA. Adjusted EBITDA decreased by \$0.3 million, or 5.8%, in the three months ended June 30, 2020 over the corresponding period in 2019 due to lower revenue, partially offset by decreases in selling, general and administrative expenses due to cost savings initiatives during the period as a result of COVID-19.

LATAM. Adjusted EBITDA decreased by \$0.8 million, or 125.4%, in the three months ended June 30, 2020 over the corresponding period in 2019 due to lower revenue, partially offset by cost savings initiatives during the period as a result of COVID-19.

Other. Adjusted EBITDA increased by \$1.3 million, or 10.8%, in the three months ended June 30, 2020 over the corresponding period in 2019 primarily due to cost savings initiatives as a result of COVID-19, along with lower professional fees during the period.

Comparison of six months ended June 30, 2020 and 2019. Adjusted EBITDA decreased by \$1.3 million, or 6.6%, in the six months ended June 30, 2020 over the corresponding period in 2019.

North America. Adjusted EBITDA increased by \$0.4 million, or 1.2%, in the six months ended June 30, 2020 over the corresponding period in 2019 due to lower revenue and gross profit, offset by decreases in selling, general and administrative expenses due to lower commissions expense as a result of restructuring initiatives, and other cost savings as a result of COVID-19.

EMEA. Adjusted EBITDA decreased by \$1.7 million, or 23.1%, in the six months ended June 30, 2020 over the corresponding period in 2019 due to lower revenue, offset by cost savings initiatives during the period as a result of COVID-19.

LATAM. Adjusted EBITDA decreased by \$0.6 million, or 68.7%, in the six months ended June 30, 2020 over the corresponding period in 2019 due to lower revenue, partially offset by cost savings initiatives during the period as a result of COVID-19.

Other. Adjusted EBITDA increased by \$0.5 million, or 2.0%, in the six months ended June 30, 2020 over the corresponding period in 2019 primarily due to cost savings initiatives during the period as a result of COVID-19.

Adjusted Diluted Earnings Per Share

Adjusted diluted earnings per share for each of the periods presented was as follows (in thousands, except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|------------------------------------|-----------------|----------------------------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net loss | \$ (7,912) | \$ (508) | \$ (10,752) | \$ (2,552) |
| Restructuring charges | 3,644 | 3,698 | 7,281 | 7,632 |
| Professional fees related to control remediation | 356 | 550 | 620 | 916 |
| Merger-related transaction costs | 790 | — | 790 | — |
| Change in fair value of warrant and derivatives | 36 | — | (5,604) | — |
| Goodwill impairment | — | — | 7,191 | — |
| Intangible and other asset impairments | 609 | — | 883 | — |
| Executive search fees | — | — | — | 80 |
| Sales and use tax audit | — | — | — | 25 |
| Income tax effects of adjustments | (1,115) | (961) | (2,071) | (1,994) |
| Adjusted net (loss) income | <u>\$ (3,592)</u> | <u>\$ 2,779</u> | <u>\$ (1,662)</u> | <u>\$ 4,107</u> |
| GAAP weighted-average shares outstanding – diluted | 53,662 | 51,773 | 53,568 | 51,830 |
| Effect of dilutive securities: | | | | |
| Employee stock options and restricted common shares | — | 156 | — | 104 |
| Adjusted weighted-average shares outstanding – diluted | <u>53,662</u> | <u>51,929</u> | <u>53,568</u> | <u>51,934</u> |
| Adjusted diluted (loss) earnings per share | <u>\$ (0.07)</u> | <u>\$ 0.05</u> | <u>\$ (0.03)</u> | <u>\$ 0.08</u> |

Comparison of three months ended June 30, 2020 and 2019. Adjusted diluted earnings per share decreased by \$0.12 in the three months ended June 30, 2020 over the corresponding period in 2019. The decrease is related to an increase in net loss, partially offset by new merger-related transaction costs and intangible and other asset impairment charges incurred during the period.

Comparison of six months ended June 30, 2020 and 2019. Adjusted diluted earnings per share decreased by \$0.11 in the six months ended June 30, 2020 over the corresponding period in 2019. The decrease was primarily attributable to an increase in net loss, along with change in fair value of warrant and embedded derivatives, partially offset by goodwill impairment and restructuring costs during the period.

Liquidity and Capital Resources

While uncertainty exists as to the full impact of the COVID-19 pandemic on our liquidity and capital resources, the Company believes it has maintained sufficient liquidity to satisfy our working capital and other funding requirements with internally generated cash flow and, as necessary, cash on hand and borrowings under our revolving credit facility.

Cash Flow Summary

The following table presents cash flows for the six months ended June 30, 2020 and 2019, respectively (in thousands):

| | Six Months Ended June 30, | |
|---|---------------------------|----------|
| | 2020 | 2019 |
| Net cash provided by operating activities | \$ 18,037 | \$ 1,289 |
| Net cash used in investing activities | (5,127) | (6,881) |
| Net cash (used in) provided by financing activities | (22,460) | 13,047 |

At June 30, 2020, we had \$35.3 million of cash and cash equivalents.

Operating Activities. Cash provided by operating activities primarily consists of net loss adjusted for certain non-cash items, including depreciation and amortization and share-based compensation and the effect of changes in working capital and other activities. Cash provided by operating activities for the six months ended June 30, 2020 was \$18.0 million and consisted of net loss of \$10.8 million, offset by \$14.3 million of non-cash items and \$14.5 million used to fund working capital. The working capital changes consisted of a decrease in accounts receivable and unbilled revenue of \$61.1 million, a decrease in prepaid expenses and other assets of \$17.1 million, an increase in inventory of \$3.1 million, a decrease in accounts payable and accrued expenses and other liabilities of \$60.5 million.

Cash provided by operating activities for the six months ended June 30, 2019 was \$1.3 million and consisted of a net loss of \$2.6 million, offset by \$9.1 million of non-cash items and by \$5.3 million used in working capital and other activities. The most significant impact on working capital and other activities consisted of a decrease in inventories of \$4.6 million, an increase in accounts receivable and unbilled revenue of \$10.1 million and an increase in prepaid expenses and other assets of \$4.2 million, partially offset by a decrease in accounts payable of \$18.1 million and an increase in accrued expenses and other liabilities of \$22.6 million.

Investing Activities. Cash used in investing activities for the six months ended June 30, 2020 and 2019 of \$5.1 million and \$6.9 million, respectively, was attributable to capital expenditures and software capitalization.

Financing Activities. Cash used in financing activities for the six months ended June 30, 2020 of \$22.5 million was primarily attributable to net repayments under the new revolving credit facility of \$19.8 million and payments on the term loan of \$2.5 million.

Cash provided by financing activities for the six months ended June 30, 2019 of \$13.0 million was primarily attributable to net borrowings under the revolving credit facility of \$14.9 million and \$0.9 million of payments for debt issuance costs, partially offset by \$0.8 million in net short-term secured borrowings.

Revolving Credit Facilities and Long-Term Debt

On July 16, 2019, the Company refinanced its debt, which is further discussed in Note 11, *Revolving Credit Facility* and in Note 12, *Long-Term Debt*. The debt structure provides long-term capital with improved flexibility to support the Company's growth plans. The Company intends to use excess cash from operations to pay off debt and support working capital needs.

The ABL Credit Agreement contains a minimum fixed charge coverage ratio financial covenant that must be maintained when excess availability falls below a specified amount. The Term Loan Credit Agreement includes a minimum fixed charge coverage ratio financial covenant, a maximum total leverage ratio financial covenant, a minimum liquidity financial covenant and a maximum capital expenditures covenant, each of which must be maintained for the periods described in the Term Loan Credit Agreement. The Company is in compliance with all debt covenants in the ABL Credit Agreement and Term Loan Credit Agreement as of June 30, 2020.

In addition, we will continue to utilize cash, in part, to invest in our innovative technology platform, fund our working capital needs, and expand our sales force. Although we can provide no assurances, we believe that our available cash and cash equivalents and the funds available under our new debt structure will be sufficient to meet our working capital and operating expenditure requirements for the next 12 months. Absent the pending acquisition discussed in Note 15, *Subsequent Events*, we may find it necessary to obtain additional equity or debt financing in the future.

We earn a portion 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 \$33.3 million and \$39.9 million foreign cash and cash equivalents as of June 30, 2020 and December 31, 2019, respectively, which are generally denominated in the local currency where the funds are held.

Treasury Shares

Treasury shares decreased \$3.1 million due to the reissuance of treasury stock as of June 30, 2020.

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, 2019, under the caption "Contractual Obligations."

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

There have been no material changes to the Company's market risks, which include commodity risk, interest rate risk and foreign currency risk subsequent to the filing of the 2019 Annual Report on Form 10-K.

Item 4. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2020. 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 as of June 30, 2020, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2020 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 10, *Commitments and Contingencies*, to the condensed consolidated financial statements included in Part I of this Form 10-Q.

Item 1A. Risk Factors

In addition to the risk factors described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, the risk factors below could cause the Company's actual results to vary materially from recent results or from anticipated future results. The risks described below are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results.

A significant or prolonged economic downturn or a decline in the demand for marketing materials, could adversely affect our revenue and results of operations.

Our results of operations are affected directly by the level of business activity of our clients, which in turn is affected by the level of economic activity and cyclicity in the industries and markets that they serve. Certain of our products are sold to industries, including the advertising, retail, consumer products, housing, financial and pharmaceutical industries, that experience significant fluctuations in demand based on general economic conditions, cyclicity and other factors beyond our control. On July 30, 2020, the Bureau of Economic Analysis estimated that real gross domestic product for the United States declined at an annual rate of 32.9% during the second quarter of 2020, and as of June 2020 the International Monetary Fund was projecting that the global economy would contract by 4.9% for 2020 as a whole. Economic uncertainty or an economic downturn could result in a reduction of the marketing budgets of our clients or a decrease in the volume of marketing materials that our clients order from us. Reduced demand from one of these industries or markets could negatively affect our revenue, operating income and profitability.

Our results could be negatively impacted by a global or regional epidemic or similar event.

For the fiscal year ended December 31, 2019, over 71% of our sales and over 85% of our Adjusted EBITDA were attributable to the United States. Internationally, we operate in approximately 50 countries, including substantial operations in the Czech Republic, the United Kingdom, Spain, China, Russia, Brazil and Mexico. As a result, an epidemic, pandemic or similar event affecting the United States or any location where we, our suppliers, or our clients operate, could result in serious harm to our business and operating results if it depresses demand for marketing materials or results in major disruptions or delays in our supply chain.

The spread of COVID-19 in the United States, our largest market, has led to state level restrictions on economic activity and a sharp rise in new unemployment claims, leading many observers to anticipate a substantial contraction of the U.S. economy for 2020 as a whole. The sharp contraction in the U.S. economy has created substantial uncertainty about the expectations for marketing spend in the near term. In the second quarter of 2020, as real U.S. GDP decreased sharply, the Company's revenues in its North American segment declined by 28.7% sequentially from the first quarter. The uncertainty regarding U.S. economic conditions and marketing spend has been exacerbated by a number of factors, including:

- the resurgence of new cases in many U.S. states since the partial lifting of restrictions on commercial activity and gatherings;
- concerns about a potential second wave of infections even after the spread of the COVID-19 virus is considered to have been brought under control; and
- concerns about the amount of time it may take to develop and broadly distribute an effective and trusted vaccine.

Some of the other markets in which we operate, including those in Latin America, continue to see high infection rates, increasing the risk that economic conditions could continue to deteriorate or additional restrictions on commercial activity may need to be implemented to bring the spread of COVID-19 under control.

Although it is not yet possible to quantify the impact on our sales for future fiscal periods, some clients have deferred or declined to place orders that had previously been anticipated for such periods, and our sales for the remainder of 2020 and beyond could be adversely impacted by reductions in marketing spend by our clients. While we have taken action to reduce our expenses in order to reflect the potential for reduced sales volumes, there can be no assurance that such actions will be sufficient to avoid an adverse impact on our operating income for the duration of the economic downturn.

Some of our enterprise clients operate retail stores or travel businesses that have been significantly affected by recent restrictions on travel and other activities deemed non-essential under state or local governmental orders. Such companies have experienced closures and reduced sales as a result of the COVID-19 pandemic, and some may be experiencing substantial financial strain as a result. Some of our clients have reduced spending that is considered non-essential, including marketing spend, and continued or further reductions in such spend may occur. We generally extend credit to our clients and, in some cases, hold inventories of branded marketing materials for sale to specific clients. Due to the challenging financial environment faced by these or other clients, we could experience increased difficulty in collecting accounts receivable on a timely basis, could experience an increase in inventory write-offs, or could see an increase in contract terminations by clients that anticipate reduced marketing spend.

For some of the products and services we sell, including branded merchandise, retail displays and luxury packaging, we have historically sourced many of our goods from manufacturers and other suppliers in China. Following the early 2020 outbreak of COVID-19, many of our suppliers in China temporarily halted manufacturing. In addition, the cost and availability of shipping from China has at times been adversely affected by the shutdown and uneven restart of Chinese manufacturing and transportation capacity. Some public health authorities have expressed concern about the possibility of a second wave of COVID-19 infections, in China or elsewhere. If a resurgence of COVID-19 infections leads to renewed restrictions affecting Chinese manufacturers or freight transportation providers, our supply chain for the product categories above could be significantly disrupted, and we may be unable to fulfill client orders on a timely basis or at prices consistent with our clients' expectations.

In addition, for some products and services we sell, including retail displays and warehouse and logistics services, our ability to complete orders and earn revenues depends in part on the physical performance of services by our personnel at a specific location, such as a client retail location or one of our warehouses. Due to temporary travel restrictions imposed by various countries in Europe and elsewhere, including the Czech Republic where our retail displays business is based, we may face delays in our ability to complete retail display installations for some clients.

Moreover, we have historically relied on in-person selling efforts by our sales executives to secure long-term client contracts. In the short-term, precautionary measures taken by many companies around the world to limit in-person workplace contact in order to reduce the potential for employee exposure to COVID-19 could extend the time required to secure new client contracts.

As of August 5, 2020, we had \$53.4 million of undrawn availability under our asset-backed loan facility. There can be no assurance that our current availability will be sufficient to provide adequate liquidity to support the needs of our business.

If our business is materially affected by the impacts of COVID-19, or by similar widespread outbreaks of contagious disease in the future, it could have a material adverse impact on our operating results or financial condition.

The proposed acquisition of the Company by Parent may disrupt our business.

The Merger Agreement generally requires us, subject to certain exceptions, from the date of the Merger Agreement through the Effective Time, to use commercially reasonable efforts to, and cause each of our subsidiaries to, use commercially reasonable efforts to conduct our operations in all material respects in the ordinary course of business consistent with past practice, and restricts us, without Parent's consent, from taking certain specified actions until the proposed Merger is completed. These restrictions may affect our ability to execute our business strategies, respond effectively to competitive pressures and industry developments, undertake significant capital projects, undertake significant financing transactions, modify our lease arrangements and otherwise pursue other actions that are not in the ordinary course of business, even if such actions would constitute appropriate changes to our business and help us attain our financial and other goals, and, as a result, these restrictions may impact our financial condition, results of operations and cash flows.

Employee retention, motivation and recruitment may be challenging before the completion of the proposed Merger, as employees and prospective employees may experience uncertainty about their future roles with the combined company. If, despite our retention and recruiting efforts, key employees depart or prospective key employees fail to accept employment with

the Company because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company, or if an insufficient number of employees is retained to maintain effective operations, our business, financial condition and results of operations could be adversely affected.

The proposed Merger could also cause disruptions to our business or business relationships, which could have an adverse impact on our business, financial condition and results of operations. Parties with which we have business relationships, including customers and suppliers, may experience uncertainty as to the future of such relationships and may delay or defer certain business decisions, seek alternative relationships with third parties or seek to alter their present business relationships with us. Parties with whom we otherwise may have sought to establish business relationships may seek alternative relationships with third parties. Customers, suppliers, vendors, lenders and other business partners may also seek to change existing agreements with us as a result of the proposed Merger. Any such delay or deferral of those decisions or changes in existing agreements or relationships could adversely impact our business, regardless of whether the proposed Merger is ultimately consummated. The pendency of the proposed Merger may adversely affect our relationship with our customers, vendors, suppliers, lenders or other business partners.

The pursuit of the proposed Merger and the preparation for the integration may place a significant burden on management and internal resources. The diversion of management's time, efforts, resources and attention away from day-to-day business concerns that could have been otherwise beneficial to us could adversely affect our business, financial condition and results of operations.

We could also be subject to litigation related to the proposed Merger, which could prevent or delay the consummation of the proposed Merger or result in significant costs and expenses. It is possible that the stockholders of either party may file lawsuits challenging the proposed Merger or the other transactions contemplated by the Merger Agreement, which may name us and/or our board of directors (the "Company Board") as defendants. We cannot assure you as to the outcome of such lawsuits, including the amount of costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation of these claims. If plaintiffs are successful in obtaining an injunction prohibiting the parties from completing the proposed Merger on the agreed-upon terms, such an injunction may delay the consummation of the proposed Merger in the expected timeframe, or may prevent the proposed Merger from being consummated altogether. Whether or not any plaintiff's claim is successful, this type of litigation may result in significant costs and divert management's attention and resources, which could adversely affect the operation of our business. In addition to potential litigation-related expenses, we have incurred and will continue to incur other significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed Merger, and many of these fees and costs are payable regardless of whether or not the proposed Merger is consummated.

Failure to consummate the proposed Merger within the expected timeframe or at all could negatively impact the market price of shares of our common stock, as well as our business, financial condition and results of operations.

We cannot be certain when or if the conditions for the proposed Merger will be satisfied or (if permissible under applicable law) waived in a timely manner or at all. The proposed Merger cannot be completed until the conditions to closing, many of which are not within our control, are satisfied or (if permissible under applicable law) waived, including (i) the affirmative vote in favor of the adoption of the Merger Agreement by the holders of a majority of the outstanding shares of common stock entitled to vote thereon, (ii) any applicable waiting periods (or extensions thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 having expired or been terminated and any applicable approval having been obtained or any applicable waiting period having expired or been terminated under the competition, antitrust, merger control or investment laws of certain other jurisdictions, (iii) the absence of any judgment issued or entered by a court or similar governmental entity of competent jurisdiction that is in effect and that enjoins or prohibits the consummation of the proposed Merger, (iv) there not having been a Company Material Adverse Effect (as such term is defined in the Merger Agreement) following the date of the Merger Agreement, (v) the accuracy of the Company's representations and warranties and its compliance with its covenants and agreements contained in the Merger Agreement (generally subject to qualifications as to materiality); (vi) the absence of a bankruptcy petition or similar proceeding being filed by or against the Company that has not been dismissed; and (vii) certain other customary closing conditions.

If the proposed Merger is not consummated, under certain circumstances, we may be required to pay Parent a termination fee of \$6,191,000 (the "Company Termination Fee"). If we are required to make this payment, doing so may adversely affect our business, financial condition and results of operations. Although the Company may, in certain circumstances, seek specific performance to cause Parent to consummate the merger or seek recourse against Parent under the Merger Agreement for a termination fee of \$15,000,000 or for certain damages, there can be no assurance that a remedy will be available to us in the

event of a breach of the Merger Agreement by Parent. In the event that the proposed Merger is not completed for any reason, the holders of shares of our common stock will not receive any payment for their shares in connection with the proposed Merger. Instead, we expect the Company will remain an independent public company and holders of shares of our common stock will continue to own such shares. If the proposed Merger or a similar transaction is not completed, the share price of our common stock would likely decline to the extent that the current market price of our common stock reflects an assumption that the proposed Merger will be completed.

Additionally, if the proposed Merger is not consummated in a timely manner or at all, any disruptions to or other adverse effects on our business resulting from the announcement and pendency of the proposed Merger, including any adverse changes in our relationships with our customers, financing sources, vendors, suppliers and employees, could occur, continue or accelerate in the event of a failed transaction, including due to:

- negative reactions from financial markets and a decline in the price of shares of our common stock;
- negative reactions from employees, customers, suppliers or other third parties;
- the diversion of management's focus from pursuing other opportunities that could have been beneficial to us;
- higher than anticipated costs of pursuing the proposed Merger; or
- changed perceptions about our competitive position, our management, our liquidity or other aspects of our business.

If the proposed Merger is not completed, there can be no assurance that these risks will not materialize and will not adversely affect the price of shares of our common stock or our business, financial condition or results of operations. Investors should not place undue reliance on the consummation of the proposed Merger. The historical share price of our common stock has experienced significant volatility. We cannot predict or give any assurances as to the market price of our common stock at any time before or after the completion of the proposed Merger.

We have incurred and will continue to incur substantial transaction fees and costs in connection with the proposed Merger.

We have incurred and expect to continue to incur significant costs, expenses and fees for professional services, such as legal, financial and accounting fees, and other transaction costs in connection with the proposed Merger. A material portion of these expenses are payable by us whether or not the proposed Merger is completed and may relate to activities that we would not have undertaken other than to complete the proposed Merger. If the proposed Merger is not completed, we will have received little or no benefit from such expenses. Further, although we have assumed that a certain amount of transaction expenses will be incurred, factors beyond our control could affect the total amount or the timing of these expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately. These costs could adversely affect our business, financial condition and results of operations.

The Merger Agreement contains provisions that could discourage a potential competing acquirer of the Company.

The Merger Agreement contains covenants by the Company not to enter into, engage in, knowingly encourage, continue or otherwise participate in any discussions or negotiations with any person with respect to any Competing Proposal (as such term is defined in the Merger Agreement) made by such person or any inquiry from such person that could reasonably be expected to lead to a Competing Proposal, and requiring the Company Board to recommend to the Company's stockholders that they approve the transactions contemplated by the Merger Agreement, in each case subject to certain exceptions. The Merger Agreement further contains an obligation on the Company to promptly notify Parent following the receipt of any inquiries, Competing Proposal or request for non-public information in connection with a Competing Proposal. At any time prior to obtaining the approval by the Company's stockholders of the Merger, the Company Board may change its recommendation in certain circumstances specified in the Merger Agreement in response to a *bona fide* Competing Proposal that the Company Board determines in good faith, after consultation with its financial advisor and outside legal counsel, constitutes a Superior Proposal or following an Intervening Event (as each such term is defined in the Merger Agreement), but only if certain conditions and obligations are satisfied with respect thereto, including compliance with Parent's matching rights with respect to any such events.

These provisions could discourage a potential third-party acquirer that might have an interest in acquiring all or a significant portion of the Company from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share cash or market value than the per share consideration payable upon consummation of the proposed Merger, or might otherwise result in a potential third-party acquirer proposing to pay a lower price to our stockholders than it might otherwise

have proposed to pay because of the added expense of the Company Termination Fee that may become payable in certain circumstances.

If the Merger Agreement is terminated and we decide to seek another business combination, we may not be able to negotiate or consummate a transaction with another party on terms comparable to, or better than, the terms of the Merger Agreement.

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.

The following table provides information relating to our purchase of shares of our common stock in the second quarter of 2020:

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|--------------------------|---|-------------------------------------|---|---|
| April 1 - April 30, 2020 | 12,875 | \$ 1.02 | — | — |
| May 1 - May 31, 2020 | — | — | — | — |
| June 1 - June 30, 2020 | 79,628 | 1.26 | — | — |
| Total | 92,503 | \$ 1.22 | — | — |

⁽¹⁾ Represents 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 |
|----------------------|--|
| 4.1 | InnerWorkings 2020 Omnibus Incentive Plan |
| 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.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| **101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| **101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| *104 | Cover Page Interactive Data File |

*The XBRL Instance Document and Cover Page Interactive Data File do not appear in the Interactive Data File because their XBRL tags are embedded within the Inline XBRL document.

**Submitted electronically with the Report.

SIGNATURES

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

INNERWORKINGS, INC.

Date: August 6, 2020

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

Date: August 6, 2020

By: /s/ Donald W. Pearson
Donald W. Pearson
Chief Financial Officer

InnerWorkings, Inc.
2020 Omnibus Incentive Plan

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InnerWorkings, Inc.
2020 Omnibus Incentive Plan

Article 1. Establishment, Purpose and Duration

1.1 Establishment. InnerWorkings, Inc., a Delaware corporation, establishes an incentive compensation plan to be known as InnerWorkings, Inc. 2020 Omnibus Incentive Plan, as set forth in this document. The Plan permits the grant of various forms of equity- and cash-based awards. The Plan shall become effective upon stockholder approval at the 2020 annual meeting of stockholders (the “Effective Date”) and shall remain in effect as provided in Section 1.4. The Plan and each Award granted hereunder are conditioned on and shall be of no force or effect until the Plan is approved by the stockholders of the Company.

1.2 Replacement of Prior Plan. The Plan is intended to replace and succeed the InnerWorkings, Inc. 2006 Stock Incentive Plan, as amended (the “Prior Plan”), and, from and after the Effective Date, no further awards shall be made under the Prior Plan. For the avoidance of doubt, the adoption of this Plan will have no effect on the terms and conditions of outstanding awards under the Prior Plan.

1.3 Purpose of the Plan. The purpose of the Plan is to foster and promote the long-term financial success of the Company by (a) motivating superior performance by means of performance-related incentives, (b) encouraging and providing for the acquisition of an ownership interest in the Company by Participants, and (c) enabling the Company to attract and retain qualified and competent persons as employees of the Company and to serve as members of the Board whose judgment, interest and performance are required for the successful operations of the Company.

1.4 Duration of the Plan. Unless sooner terminated as provided herein, the Plan shall terminate ten (10) years from the Effective Date. After the Plan is terminated, no Awards may be granted but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and the Plan’s terms and conditions.

Article 2. Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

2.1 “Affiliate” means any entity that, directly or indirectly, controls, is controlled by, or is under common control with, the Company, where control shall have the meaning given such term under Rule 405 of the Securities Act.

2.2 “Automatic Exercise Date” means, with respect to an Option or an SAR, the last business day of the applicable term of the Option pursuant to Section 6.3 or the SAR pursuant to Section 7.3.

2.3 “Award” means a grant under the Plan of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Share Units, Performance Units, Cash-Based Awards or Other Stock-Based Awards, in each case subject to the terms of the Plan.

2.4 “Award Agreement” means a written or electronic agreement entered into by the Company and a Participant, or a written or electronic statement issued by the Company to a Participant, which in either case contains (either expressly or by reference to this Plan or any subplan created hereunder) the terms and provisions applicable to an Award granted under the Plan, including any amendment or modification thereof. The Committee may provide for the use of electronic, Internet or other non-paper Award Agreements, and the use of electronic, Internet or other non-paper means for the acceptance thereof and actions thereunder by a Participant.

2.5 “Beneficial Owner” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act and the terms “Beneficial Ownership” and “Beneficially Own” shall have the corresponding meanings.

2.6 “Board” means the Board of Directors of the Company.

2.7 “Cash-Based Award” means an Award, denominated in cash, granted to a Participant as described in Article 12.

2.8 “Cause” shall mean, unless otherwise provided in an Award Agreement or in a Participant’s effective Employment Agreement, any of the following:

(a) willful neglect of or continued failure to substantially perform his or her duties with or obligations for the Company, any Affiliate or any Subsidiary in any material respect (other than any such failure resulting from his or her incapacity due to physical or mental illness);

(b) commission of a willful or grossly negligent act or the willful or grossly negligent omission to act that causes or is reasonably likely to cause material harm to the Company, any Affiliate or Subsidiary; or

(c) commission or conviction of, or plea of nolo contendere to, any felony or any crime materially injurious to the Company, any Affiliate or any Subsidiary.

For purposes of this definition, no act or omission on the part of the Participant shall be deemed “willful” if done, or omitted to be done, by the Participant in good faith and in the reasonable belief that such action or omission was in the best interest of the Company, its Affiliates or its Subsidiaries, and no failure of the Participant or the Company, its Affiliates or its Subsidiaries to achieve performance goals, in and of itself, shall be treated as a basis for the termination of a Participant’s employment by the Company or its Subsidiaries for “Cause.” A termination for Cause shall be deemed to include a determination by the Committee following a Participant’s termination of employment that circumstances existing prior to such termination would have entitled the Company, its Affiliates or its Subsidiary to have terminated such Participant’s employment for Cause.

2.9 “Change in Control” means, except as may otherwise be provided in an Award Agreement, the occurrence of any one of the following events:

(a) An effective change of control pursuant to which any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”) acquires, or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such Person, beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of stock of the Company representing more than thirty-five percent (35%) of the voting power of the Company’s then outstanding voting securities entitled to vote generally in the election of directors (“Outstanding Voting Securities”); provided, however, that a Change in Control shall not be deemed to occur by virtue of any acquisitions of Outstanding Voting Securities by: (i) the Company, any Affiliate or any Subsidiary, (ii) any employee benefit plan (or related trust) sponsored or maintained by the Company, any Affiliate or any Subsidiary, or (iii) any underwriter temporarily holding securities pursuant to an offering of such securities; or

(b) Any Person acquires beneficial ownership of more than fifty (50%) of either (1) then outstanding Shares (“Outstanding Shares of Common Stock”) or (2) then Outstanding Voting Securities, in both cases taking into account any previously owned Shares and Outstanding Voting Securities. The acquisition of Company stock by the Company in exchange for property, which reduces the number of outstanding shares and increases the percentage ownership by any Person to more than 50% of the Company’s then outstanding Shares will be treated as a Change in Control; or

(c) Individuals who constitute the Board immediately after the Effective Date (the “Incumbent Directors”) cease for any reason to constitute at least a majority of the Board during any 12-month period; provided, however, that any person becoming a Director subsequent thereto whose election or nomination for election was approved by a vote of a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for Director, without written objection to such nomination) shall be an Incumbent Director, provided that no individual initially elected or nominated as a Director of the Company as a result of an actual or threatened election contest with respect to Directors or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board (including without limitation any settlement thereof) shall be deemed to be an Incumbent Director; or

(d) Any Person acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person) assets from the Company that have a total gross fair market value of at least forty percent (40%) of the total gross fair market value of all the assets of the Company immediately prior to such acquisition. For purposes of this section, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, without regard to any liabilities associated with such assets. The event described in this paragraph (d) shall not be deemed to be a Change in Control if the assets are transferred to (i) any owner of Shares in exchange for or with respect to the Shares, (ii) an entity in which the Company owns, directly or indirectly, at least fifty percent (50%) of the entity’s total value or total voting power, (iii) any Person that owns, directly or indirectly, at least fifty percent (50%) of the Company stock, or (iv) an entity in which a Person described in (d)(iii) above owns at least fifty percent (50%) of the Outstanding Shares of Common Stock or Outstanding Voting Securities. For purposes of this section, and except as otherwise provided, a person’s status is determined immediately after the transfer of the assets.

In no event will a Change in Control be deemed to have occurred, with respect to the Participant, if an employee benefit plan maintained by the Company or an Affiliate or the Participant is part of a purchasing group that consummates the transaction that would otherwise result in a Change in Control. The employee benefit plan or the Participant will be deemed “part of a purchasing group” for purposes of the preceding sentence if the plan or the Participant is an equity participant in the purchasing company or group, except where participation is: (i) passive ownership of less than two percent (2%) of the stock of the purchasing company; or (ii) ownership of equity participation in the purchasing company or group that is otherwise not significant, as determined prior to the Change in Control by a majority of the continuing Nonemployee Directors.

Notwithstanding any of the foregoing, however, in any circumstance or transaction in which compensation resulting from or in respect of an Award would result in the imposition of an additional tax under Code Section 409A if the foregoing definition of “Change in Control” were to apply, but would not result in the imposition of any additional tax if the term “Change in Control” were defined herein to mean a “change in control event” within the meaning of Treasury Regulation Section 1.409A-3(i)(5), then “Change in Control” shall mean a “change in control event” within the meaning of Treasury Regulation Section 1.409A-3(i)(5), but only to the extent necessary to prevent such compensation from becoming subject to an additional tax under Code Section 409A.

2.10 “Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time. For purposes of the Plan, references to sections of the Code shall be deemed to include references to any applicable regulations thereunder and any successor or similar provision.

2.11 “Commission” means the Securities and Exchange Commission.

2.12 “Committee” means the Compensation Committee of the Board or a subcommittee thereof or any other committee designated by the Board to administer the Plan. The members of the Committee shall be appointed from time to time by and shall serve at the discretion of the Board. If the Committee does not exist or cannot function for any reason, the Board may take any action under the Plan that would otherwise be the responsibility of the Committee. Each member of the Committee shall be (i) an independent director within the meaning of the rules and regulations of

the Nasdaq (or such other national securities exchange which is the principal market on which the Shares are then traded) and (ii) a non-employee director within the meaning of Exchange Act Rule 16b-3.

2.13 “Company” means InnerWorkings, Inc. and any successor thereto as provided in Section 21.19.

2.14 “Director” means any individual who is a member of the Board.

2.15 “Disability” means, unless otherwise provided in a Participant’s Employment Agreement:

(a) for Awards that are not subject to Section 409A of the Code, as such term is defined in the long-term disability insurance plan or program of the Company, any Affiliate or any Subsidiary then covering the Participant; or

(b) in the absence of such a long-term disability insurance plan or program, as such term is defined for purposes of a disability award under the Social Security Act; or

(c) for Awards that are subject to Section 409A of the Code, as such term is defined under Section 409A(a)(2)(c) of the Code;

provided that with respect to Awards that are not subject to Section 409A, the Committee’s good faith judgment of Disability shall be final and shall be based on such competent medical evidence as shall be presented to it by the Participant or by any physician or group of physicians or other competent medical expert employed by the Participant or the Company to advise the Committee.

2.16 “Dividend Equivalent” has the meaning set forth in Section 17.2.

2.17 “Effective Date” has the meaning set forth in Section 1.1.

2.18 “Employee” means any individual performing services for the Company, an Affiliate or a Subsidiary and designated as an employee of the Company, an Affiliate or the Subsidiary on its payroll records. An Employee shall not include any individual during any period he or she is classified or treated by the Company, Affiliate or Subsidiary as an independent contractor, a consultant or an employee of an employment, consulting or temporary agency or any other entity other than the Company, Affiliate or Subsidiary, without regard to whether such individual is subsequently determined to have been, or is subsequently retroactively reclassified, as a common-law employee of the Company, Affiliate or Subsidiary during such period. An individual shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or among the Company, or any Affiliate or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three (3) months following the 91st day of such leave, any Incentive Stock Option held by a Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonqualified Stock Option. Neither service as a Director nor payment of a director’s fee by the Company shall be sufficient to constitute “employment” by the Company.

2.19 “Employment Agreement” means any employment, consulting, severance, change in control, or other written agreement between the Participant and the Company, any Affiliate or any Subsidiary.

2.20 “Exchange Act” means the Securities Exchange Act of 1934.

2.21 “Exercise Price” means the price at which a Share may be purchased by a Participant pursuant to an Option.

2.22 “Fair Market Value” means, as applied to a specific date and unless otherwise specified in an Award Agreement, the closing price of a Share as reported on the primary national securities exchange on which the shares are listed on such specified date, or if no sales of Shares shall have occurred on such exchange on the day preceding the applicable date of determination, the closing price of the Shares on such exchange on the next preceding date on which there were such sales. Notwithstanding the foregoing, if Shares are not traded on any established stock securities exchange, the Fair Market Value means the price of a Share as established by the Committee acting in good faith based on a reasonable valuation method that is consistent with the requirements of Code Section 409A and the regulations thereunder.

2.23 “Good Reason” shall, as to any Participant, have the meaning set forth in an effective Employment Agreement, or, in the absence of such an agreement, mean:

- (a) the material reduction of the Participant’s authorities, duties, or responsibilities with the Company;
- (b) a material reduction by the Company of the Participant’s annual compensation;
- (c) a material change in the geographic location at which the Participant must perform the Services; or
- (d) any action or inaction that constitutes a material breach by the Company of any Award Agreement.

If a Participant purports to terminate his employment for Good Reason, the Participant must give the Company written notice of his intent to terminate for Good Reason within sixty (60) calendar days of the occurrence of the event that allegedly constitutes Good Reason. The Company shall have a right to cure the event alleged to constitute Good Reason for a period of thirty (30) calendar days after notice from the Participant of his intention to terminate for Good Reason. In the event the Participant provides written notice of termination under the first sentence of this paragraph, the Company in its discretion may elect a termination date that is earlier than the conclusion of the sixty (60) calendar day notice period, but the termination shall still be deemed a voluntary termination by the Participant with Good Reason under this Section 2.23.

2.24 “Grant Date” means the date an Award to a Participant pursuant to the Plan is approved by the Committee (or such later date as specified in such approval by the Committee).

2.25 “Grant Price” means the per Share price established at the time of grant of a SAR pursuant to Article 7.

2.26 “Incentive Stock Option” or “ISO” means an Award granted pursuant to Article 6 that is designated as an Incentive Stock Option and that is intended to meet the requirements of Code Section 422 or any successor provision.

2.27 “Nonemployee Director” means a Director who is not an Employee.

2.28 “Nonqualified Stock Option” means an Award that is not intended to meet the requirements of Code Section 422, or that otherwise does not meet such requirements.

2.29 “Option” means an Award granted pursuant to Article 6, which Award may be an Incentive Stock Option or a Nonqualified Stock Option.

2.30 “Other Stock-Based Award” means an equity-based or equity-related Award not otherwise described by the terms of the Plan that is granted pursuant to Article 12.

2.31 “Participant” means any eligible individual as set forth in Article 5 to whom an Award is granted.

2.32 “Performance Goals” means the goals established by the Committee that must be satisfied in order for a Participant to receive an Award for a Performance Period or for an Award of Performance Share Units or Performance Units to be earned or vested or for an Award to be granted. Performance Goals may be based upon one or more of the following measures: GAAP or adjusted GAAP accounting measures, operational metrics, strategic goals and objectives, environmental, social and governance metrics, individual goals or any other measure or measures that the Committee, in its sole discretion, deems appropriate.

2.33 “Performance Period” means the period of time during which pre-established performance goals must be met in order to determine the degree of payout and/or vesting with respect to an Award.

2.34 “Performance Share Unit” means an Award granted pursuant to Article 10.

2.35 “Performance Unit” means an Award granted pursuant to Article 11.

2.36 “Period of Restriction” means the period when Restricted Stock or Restricted Stock Units are subject to a vesting requirement (based on the continued service, the achievement of Performance Goals or upon the occurrence of other events as determined by the Committee, in its discretion) as provided in Articles 8 and 9.

2.37 “Personal Leave” means a leave of absence as described in Section 5.4.

2.38 “Restricted Stock” means an Award granted pursuant to Article 8.

2.39 “Restricted Stock Unit” means an Award granted pursuant to Article 9.

2.40 “Share” means a share of common stock, par value \$0.0001 per share, of the Company.

2.41 “Stock Appreciation Right” or “SAR” means an Award granted pursuant to Article 7.

2.42 “Subsidiary” means any corporation or other entity, whether domestic or foreign, in which the Company has or obtains, directly or indirectly, ownership of more than 50% of the total combined voting power of all classes of stock.

2.43 “Substitute Award” means an Award granted upon the assumption of, or in substitution or exchange for, outstanding awards granted by a company or other entity acquired by the Company, Subsidiary or any Affiliate or with which the Company, Subsidiary or any Affiliate combines.

2.44 “Termination of Service” means the following:

- (a) for an Employee, the date on which the Employee is no longer an Employee;
- (b) for a Nonemployee Director, the date on which the Nonemployee Director is no longer a member of the Board; and

(c) for a Third-Party Service Provider, the date on which such individual no longer provides substantial services on a regular basis to the Company.

With respect to any payment of an Award subject to Code Section 409A, a Termination of Service shall mean a “separation from service” within the meaning of Code Section 409A.

2.45 “Third-Party Service Provider” means any consultant, agent, advisor or independent contractor who renders bona fide services to the Company or Subsidiary or any Affiliate that (a) are not in connection with the offer and sale of the Company’s securities in a capital raising transaction, (b) do not directly or indirectly promote or maintain a market for the Company’s securities, and (c) are provided by a natural person who has contracted directly with the Company, its Affiliates or its Subsidiaries to render such services

Article 3. Administration

3.1 General. The Committee shall be responsible for administering the Plan, subject to this Article 3 and the other provisions of the Plan. The Committee may employ attorneys, consultants, accountants, agents and other individuals, any of whom may be an Employee, and the Committee, the Company, and its officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such individuals. All expenses and liabilities incurred by the Committee in connection with the administration of the Plan shall be borne by the Company. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Participants, the Company, Subsidiaries, Affiliates, and all other parties. The Committee’s determinations under the Plan need not be uniform and may be made by the Committee selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated. Any action of the Committee shall be valid and effective even if the members of the Committee at the time of such action are later determined not to have satisfied all of the criteria for membership in clauses (i) and (ii) of Section 2.12.

3.2 Authority of the Committee. Subject to any express limitations set forth in the Plan, the Committee shall have full and exclusive discretionary power and authority to take such actions as it deems necessary and advisable with respect to the administration of the Plan including, but not limited to, the following:

(a) To determine from time to time which of the persons eligible under the Plan shall be granted Awards, when and how each Award shall be granted, what type or combination of types of Awards shall be granted, the provisions of each Award granted (which need not be identical), including the time or times when a person shall be permitted to receive Shares pursuant to an Award and the number of Shares subject to an Award or the value of an Award;

(b) To construe and interpret the Plan and Awards granted under it, and to establish, amend, and revoke rules and regulations for its administration;

(c) To correct any defect, omission or inconsistency in the Plan or in an Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective;

(d) To approve forms of Award Agreements for use under the Plan;

(e) To determine Fair Market Value of a Share;

(f) To amend any Award Agreement as permitted under the Plan;

(g) To adopt sub-plans and/or special provisions applicable to stock awards regulated by the laws of a jurisdiction other than and outside of the United States, to Cash-Based Awards, or to awards to Directors. Such sub-plans and/or special provisions shall be subject to and consistent with the terms of the Plan and in accordance with

Section 5.4, except to the extent the Committee determines that different terms and conditions are necessary or desirable to comply with the laws of a jurisdiction other than and outside of the United States;

- (h) To authorize any person to execute on behalf of the Company any instrument required to affect the grant of an Award;
- (i) To determine whether Awards shall be settled in Shares, cash or in any combination thereof;
- (j) To determine whether Awards shall provide for Dividend Equivalents;
- (k) To establish a program whereby Participants designated by the Committee may reduce compensation otherwise payable in cash in exchange for Awards under the Plan;
- (l) To authorize a program permitting eligible Participants to surrender outstanding Awards in exchange for newly granted Awards subject to any applicable stockholder approval requirements set forth in the Plan;
- (m) To impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by a Participant or other subsequent transfers by a Participant of any Shares, including, without limitation, restrictions under an insider trading policy and restrictions as to the use of a specified brokerage firm for such resales or other transfers;
- (n) To waive any restrictions, conditions or limitations imposed on an Award at the time the Award is granted or at any time thereafter;
- (o) To permit Participants to elect to defer payments of Awards; provided that any such deferrals shall comply with applicable requirements of the Code, including Code Section 409A; and
- (p) To extend the timing of the settlement or payment of an Award to the extent permitted under Code Section 409A and other applicable law and rules of the exchange that is the primary trading market of the Shares.

3.3 Delegation. To the extent permitted by law, the Committee may delegate to one or more of its members or to one or more officers of the Company or any Subsidiary or to one or more agents or advisors such administrative duties or powers as it may deem advisable, and the Committee or any individuals to whom it has delegated duties or powers as aforesaid may employ one or more individuals to render advice with respect to any responsibility the Committee or such individuals may have under the Plan. To the extent permitted by law, the Committee may delegate to one or more of its members or more officers of the Company the authority, subject to the terms and conditions as the Committee shall determine, to (a) designate employees to be recipients of Awards under the Plan and (b) determine the size of any Awards; provided that (x) the Committee shall not delegate such responsibilities for Awards granted to an employee who was an officer, Director, or ten percent (10%) beneficial owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, as determined by the Board in accordance with Section 16 of the Exchange Act; (y) the resolution providing for such authorization sets forth the total number of Shares such officer(s) may grant; and (z) the officer(s) shall report periodically to the Committee regarding the nature and scope of the Awards granted pursuant to the authority delegated.

Article 4. Shares Subject to The Plan and Minimum Vesting Standards

4.1 Number of Shares Authorized and Available for Awards. Subject to adjustment as provided under Section 4.3, the total number of Shares that may be the subject of Awards and issued under the Plan shall be 4,000,000. Such Shares may be authorized and unissued Shares or, to the extent permitted by applicable law, issued shares that have been reacquired by the Company. Any of the authorized Shares may be used for any type of Award under the Plan,

and any or all of the Shares may be allocated to Incentive Stock Options. Solely for the purpose of determining the number of Shares available for Awards under this Section 4.1, the number of shares available for issuance under the Plan shall be reduced by one (1.00) Share for every one (1.00) Share granted in respect of an Award, provided however that in the case of an Award that provides for a range of potential Share payouts the number of shares available for issuance under the Plan shall be reduced by the target number of Shares that may be paid under such an Award.

4.2 Share Usage. In determining the number of Shares available for grant under the Plan at any time, the following rules shall apply:

(a) Any Shares subject to an Award granted under the Plan or Prior Plan that on or after the Effective Date terminates by expiration, forfeiture, cancellation or otherwise without the issuance of the Shares (or with the forfeiture of Shares in connection with a Restricted Stock Award), is settled in cash in lieu of Shares, or is exchanged with the Committee's permission, prior to the issuance of Shares, for an Award not involving Shares shall become available again for grant under the Plan.

(b) Any Shares that are withheld by the Company or tendered by a Participant (by either actual delivery or attestation) on or after the Effective Date to satisfy tax withholding obligations associated with an Award (other than an Option or SAR) granted under the Plan or Prior Plan, shall become available again for grant under the Plan.

(c) Any Shares that are withheld by the Company or tendered by a Participant (by either actual delivery or attestation) on or after the Effective Date (i) to pay the Exercise Price of an Option granted under the Plan or Prior Plan or (ii) to satisfy tax withholding obligations associated with an Option or SAR granted under the Plan or Prior Plan, shall not become available again for grant under the Plan.

(d) Any Shares that were subject to a stock-settled SAR granted under the Plan or Prior Plan that were not issued upon the exercise of such SAR on or after the Effective Date shall not become available again for grant under the Plan.

(e) Any Shares that were purchased by the Company on the open market on or after the Effective Date with the proceeds from the exercise of an Option granted under the Plan or Prior Plan shall not become available for grant under the Plan.

(f) Shares subject to Substitute Awards shall not be counted against the share reserve specified in Section 4.1.

(g) Any Awards that, pursuant to their terms, may be settled only in cash shall not count against the Share reserve set forth in Section 4.1.

4.3 Adjustments. All Awards shall be subject to the following provisions:

(a) In the event of any equity restructuring (within the meaning of FASB ASC Topic 718) that causes the per share value of Shares to change, such as a stock dividend, stock split, reverse stock split, split up, spin-off, rights offering or recapitalization through an extraordinary dividend, the Committee, in order to prevent dilution or enlargement of Participants' rights under the Plan, shall substitute or adjust, as applicable, (i) the number and kind of Shares or other securities that may be issued under the Plan or under particular forms of Award Agreements, (ii) the number and kind of Shares or other securities subject to outstanding Awards, (iii) the Exercise Price or Grant Price applicable to outstanding Awards, and (iv) other value determinations applicable to outstanding Awards. In the event of any other change in corporate capitalization (including, but not limited to, a merger, consolidation, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code), or any partial or complete liquidation of the Company to the extent such events do not constitute equity restructurings or business

combinations within the meaning of FASB ASC Topic 718, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan. Unless otherwise determined by the Committee, the number of Shares subject to an Award shall always be a whole number.

(b) In addition to the adjustments permitted under paragraph (a) above, the Committee, in its sole discretion, may make such other adjustments or modifications in the terms of any Awards that it deems appropriate to reflect any of the events described in Section 4.3(a), including, but not limited to, (i) modifications of Performance Goals and changes in the length of Performance Periods, or (ii) the substitution of other property of equivalent value (including, without limitation, cash, other securities and securities of entities other than the Company that agree to such substitution) for the Shares available under the Plan or the Shares covered by outstanding Awards, including arranging for the assumption, or replacement with new awards, of Awards held by Participants and (iii) in connection with any sale of a Subsidiary, arranging for the assumption, or replacement with new awards, of Awards held by Participants employed by the affected Subsidiary by the Subsidiary or an entity that controls the Subsidiary following the sale of such Subsidiary.

(c) The determination of the Committee as to the foregoing adjustments set forth in this Section 4.3, if any, shall be made in accordance with Code Sections 409A or 424, to the extent applicable, and shall be conclusive and binding on Participants under the Plan.

4.4 Effect of Plans Operated by Acquired Companies. If a company acquired by the Company or any Subsidiary or any Affiliate or with which the Company or any Subsidiary or any Affiliate combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for grant under the Plan. Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Nonemployee Directors prior to such acquisition or combination.

4.5 Minimum Vesting Standards. Any Award (or portion thereof) granted under this Plan shall vest no earlier than one year from the Grant Date. Notwithstanding the immediately preceding sentence, (i) the Committee may permit and authorize acceleration of vesting of Awards to the extent permitted under the Plan, (ii) the Committee may grant Awards covering up to five percent (5%) of the total number of Shares authorized under this Plan without respect to the minimum vesting standards set forth in this Section 4.5, and (iii) with respect to Awards to Nonemployee Directors, the vesting of such Awards will be deemed to satisfy the one-year minimum vesting requirement to the extent that the Awards vest on the earlier of the one-year anniversary of the Grant Date and the next annual meeting of the Company's stockholders that is at least fifty (50) weeks after the immediately preceding year's annual meeting.

Article 5. Eligibility and Participation

5.1 Eligibility to Receive Awards. Individuals eligible to participate in the Plan shall be limited to Employees, Nonemployee Directors and Third-Party Service Providers of the Company and its Subsidiaries.

5.2 Participation in the Plan. Subject to the provisions of the Plan, the Committee may, from time to time, select from all individuals eligible to participate in the Plan, those individuals to whom Awards shall be granted and shall determine, in its sole discretion, the nature of any and all terms permissible by law and the amount of each Award.

5.3 Award Agreements. The Committee shall have the exclusive authority to determine the terms of an Award Agreement evidencing an Award granted under the Plan, subject to the provisions herein. The terms of an Award Agreement need not be uniform among all Participants or among similar types of Awards.

5.4 Participants on Personal Leave. Notwithstanding anything in the Plan to the contrary, the Committee, in its sole discretion, reserves the right to designate a Participant's leave of absence as "Personal Leave." No Options shall be granted to a Participant during Personal Leave. A Participant's unvested Options shall remain unvested during such Personal Leave and the time spent on such Personal Leave shall not count towards the vesting of such Options. A Participant's vested Options that may be exercised pursuant to this Section 5.3 hereof shall remain exercisable upon commencement of Personal Leave until the earlier of (i) a period of one year from the date of commencement of such Personal Leave; or (ii) the remaining exercise period of such Options. Notwithstanding the foregoing, if a Participant returns to the Company from a Personal Leave of less than one year and the Participant's Options have not lapsed, the Options shall remain exercisable for the remaining exercise period as provided at the time of grant and subject to the conditions contained herein. The Committee, in its sole discretion, may waive or alter the provisions of this Section 5.3 with respect to any Participant. The waiver or alteration of such provisions with respect to any Participant shall have no effect on any other Participant.

5.5 Participants Based Outside the United States. To conform with the provisions of local laws and regulations, or with local compensation practices and policies in foreign countries in which the Company or any of its Subsidiaries or Affiliates operate, the Committee may (i) modify the terms and conditions of Awards granted to Participants employed outside the United States ("Non-U.S. Awards"), (ii) establish subplans with such modifications as may be necessary or advisable under the circumstances and (iii) take any action which it deems advisable to obtain, comply with or otherwise reflect any necessary governmental regulatory procedures, exemptions or approvals with respect to the Plan. The Committee's decision to grant Non-U.S. Awards or to establish subplans is entirely voluntary, and at the complete discretion of the Committee. The Committee may amend, modify or terminate any subplans at any time, and such amendment, modification or termination may be made without prior notice to the Participants. The Company, its Subsidiaries and Affiliates and members of the Committee shall not incur any liability of any kind to any Participant as a result of any change, amendment or termination of any subplan at any time. The benefits and rights provided under any subplan or by any Non-U.S. Award (x) are wholly discretionary and, although provided by either the Company, a Subsidiary or Affiliate, do not constitute regular or periodic payments and (y) except as otherwise required under applicable laws, are not to be considered part of the Participant's salary or compensation under the Participant's employment with the Participant's local employer for purposes of calculating any severance, resignation, redundancy or other end of service payments, vacation, bonuses, long-term service awards, indemnification, pension or retirement benefits, or any other payments, benefits or rights of any kind. If a subplan is terminated, the Committee may direct the payment of Non-U.S. Awards (or direct the deferral of payments whose amount shall be determined) prior to the dates on which payments would otherwise have been made, and, in the Committee's discretion, such payments may be made in a lump sum or in installments.

Article 6. Stock Options

6.1 Grant of Options. Options may be granted to Participants covering such number of Shares, and upon such terms, and at any time and from time to time as shall be determined by the Committee. Each grant of an Option shall be evidenced by an Award Agreement, which shall specify whether the Option is in the form of a Nonqualified Stock Option or an Incentive Stock Option.

6.2 Exercise Price. The Exercise Price for each Option shall be determined by the Committee and shall be specified in the Award Agreement evidencing such Option; provided, however, the Exercise Price must be at least equal to 100% of the Fair Market Value of a Share as of the Option's Grant Date, except in the case of Substitute Awards (to the extent consistent with Code Section 409A and, in the case of Incentive Stock Options, Code Section 424), and subject to adjustment as provided for under Section 4.3.

6.3 Term of Option. The term of an Option granted to a Participant shall be determined by the Committee; provided, however, no Option shall be exercisable later than the tenth anniversary of its Grant Date.

6.4 Exercise of Option. An Option shall be exercisable at such times and be subject to such restrictions and vesting conditions as the Committee shall in each instance approve, which terms and restrictions need not be the same for each grant or for each Participant.

6.5 Automatic Exercise. Unless otherwise provided by the Committee in an Award Agreement or otherwise, or as otherwise directed by the Participant in writing to the Company, each vested and exercisable Option outstanding on the Automatic Exercise Date with an Exercise Price per Share that is less than the Fair Market Value per Share as of such date shall automatically, and without further action by the Participant or the Company, be exercised on the Automatic Exercise Date. In the sole discretion of the Committee, payment of the Exercise Price of any such Option shall be made pursuant to Section 6.6(d), and the Company or any Affiliate shall deduct or withhold an amount sufficient to satisfy all taxes associated with such exercise in accordance with Section 21.1(b). Unless otherwise determined by the Administrator, this Section 6.5 shall not apply to an Option if the Participant's employment or service has terminated on or before the Automatic Exercise Date. For the avoidance of doubt, no Option with an Exercise Price per Share that is equal to or greater the Fair Market Value per Share on the Automatic Exercise Date shall be exercised pursuant to this Section 6.5.

6.6 Payment of Exercise Price. An Option shall be exercised by the delivery of a notice of exercise to the Company or an agent designated by the Company in a form specified or accepted by the Committee, or by complying with any alternative procedures that may be authorized by the Committee, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares. Any Shares issued upon exercise of an Option are subject to Section 14.3. A condition of the issuance of the Shares as to which an Option shall be exercised shall be the payment of the Exercise Price and the payment of applicable withholding taxes. The Exercise Price of any exercised Option shall be payable to the Company in accordance with one of the following methods to the extent permitted under a Participant's applicable Award Agreement as determined by the Committee in its discretion on the date of grant:

- (a) In cash or its equivalent,
- (b) By tendering (either by actual delivery or by attestation) previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the Exercise Price,
- (c) By a cashless (broker-assisted) exercise,
- (d) By authorizing the Company to withhold Shares otherwise issuable upon the exercise of the Option having an aggregate Fair Market Value at the time of exercise equal to the Exercise Price,
- (e) By any combination of (a), (b), (c) or (d), or
- (f) By any other method approved or accepted by the Committee.

Unless otherwise determined by the Committee, all payments under all of the methods indicated above shall be paid in United States dollars or Shares, as applicable.

6.7 Exercise Period in the Event of a Termination of Service. Except as otherwise provided in a Participant's Award Agreement, if on the date of a Participant's Termination of Service the Participant holds any vested and unexercised Options, the exercise period of such vested Options shall end on the earliest of (i) the last day of the full term of the Options specified in the Participant's applicable Award Agreement or (ii) the date specified below:

(a) the last day of the 90-day period commencing on the date of a Participant's Termination of Service, in the case of a Participant whose Termination of Service is for reasons other than involuntary termination for Cause, Disability or death;

(b) the last day of the 12-month period commencing on the date of a Participant's Termination of Services, in the case of a Participant whose Termination of Service is by reason of the Participant's death or Disability; and

(c) the commencement of business on the day of a Participant's Termination of Service, in the case of a Participant whose Termination of Service is due to an involuntary termination for Cause.

If on the date of a Participant's Termination of Service the Participant holds any nonvested or unexercisable Options, such Options shall expire and be forfeited as of the date of such Termination of Service.

6.8 Special Rules Regarding ISOs. Notwithstanding any provision of the Plan to the contrary, an Option granted in the form of an ISO to a Participant shall be subject to the following rules:

(a) An Option shall constitute an Incentive Stock Option only if the Participant receiving the Option is an Employee and only if the Employee is employed by the Company, or a parent corporation or Subsidiary corporation within the meaning of Code Section 424, and only to the extent that (i) it is so designated in the applicable Award Agreement and (ii) the aggregate Fair Market Value (determined as of the Option's Grant Date) of the Shares with respect to which Incentive Stock Options held by the Participant first become exercisable in any calendar year (under the Plan and all other plans of the Company and its Affiliates) does not exceed \$100,000. To the extent an Option granted to a Participant exceeds this limit, the Option shall be treated as a Nonqualified Stock Option.

(b) No Participant may receive an Incentive Stock Option under the Plan if, immediately after the grant of such Award, the Participant would own (after application of the rules contained in Code Section 424(d)) Shares possessing more than 10% of the total combined voting power of all classes of stock of the Company or an Affiliate, unless (i) the exercise price for that Incentive Stock Option is at least 110% of the Fair Market Value of the Shares subject to that Incentive Stock Option on the Grant Date and (ii) that Option shall expire no later than five years after its Grant Date.

(c) For purposes of continued service by a Participant who has been granted an Incentive Stock Option, no approved leave of absence may exceed three (3) months unless reemployment upon expiration of such leave is provided by statute or contract. If reemployment is not so provided, then on the date six (6) months following the first day of such leave, any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonqualified Stock Option.

(d) If an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Code Section 422, such Option shall thereafter be treated as a Nonqualified Stock Option.

(e) Each Participant awarded an Incentive Stock Option shall notify the Company in writing immediately after the date he or she makes a disqualifying disposition of any Shares acquired pursuant to the exercise of such Incentive Stock Option. A disqualifying disposition is any disposition (including any sale) of such Shares before the later of (i) two years after the Grant Date of the Incentive Stock Option or (ii) one year after the date of exercise of the Incentive Stock Option.

Article 7. Stock Appreciation Rights

7.1 Grant of SARs. SARs may be granted to Participants in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee. Each grant of SARs shall be evidenced by an Award Agreement.

7.2 Grant Price. The Grant Price for each grant of an SAR shall be determined by the Committee and shall be specified in the Award Agreement evidencing the SAR; provided, however, the Grant Price must be at least equal to 100% of the Fair Market Value of a Share as of the Grant Date, except in the case of Substitute Awards (to the extent consistent with Code Section 409A), and subject to adjustment as provided for under Section 4.3.

7.3 Term of SAR. The term of an SAR granted to a Participant shall be determined by the Committee; provided, however, no SAR shall be exercisable later than the tenth anniversary of its Grant Date.

7.4 Exercise of SAR. An SAR shall be exercisable at such times and be subject to such restrictions and vesting conditions as the Committee shall in each instance approve, which terms and restrictions need not be the same for each grant or for each Participant.

7.5 Notice of Exercise. An SAR shall be exercised by the delivery of a notice of exercise to the Company or an agent designated by the Company in a form specified or accepted by the Committee, or by complying with any alternative procedures that may be authorized by the Committee, setting forth the number of Shares with respect to which the SAR is to be exercised.

7.6 Settlement of SARs. Upon the exercise of an SAR, pursuant to a notice of exercise properly completed and submitted to the Company in accordance with Section 7.5, a Participant shall be entitled to receive payment from the Company in an amount equal to the product of (a) and (b) below:

- (a) The excess of the Fair Market Value of a Share on the date of exercise over the Grant Price.
- (b) The number of Shares with respect to which the SAR is exercised.

Payment shall be made in cash, Shares or a combination thereof as provided for under the applicable Award Agreement.

7.7 Exercise Period in the Event of a Termination of Service. Except as otherwise provided in a Participant's Award Agreement, if on the date of a Participant's Termination of Service the Participant holds any vested and unexercised SARs, the exercise period of such vested SAR's shall end on the earliest of (i) the last day of the full term of the SARs specified in the Participant's applicable Award Agreement or (ii) the date specified below:

- (a) the last day of the 90-day period commencing on the date of a Participant's Termination of Service, in the case of a Participant whose Termination of Service is for reasons other than involuntary termination for Cause, Disability or death;
- (b) last day of the 12-month period commencing on the date of a Participant's Termination of Services, in the case of a Participant whose Termination of Service is by reason of the Participant's death or Disability; and
- (c) the commencement of business on the day of a Participant's Termination of Service, in the case of a Participant whose Termination of Service is due to an involuntary termination for Cause.

If on the date of a Participant's Termination of Service the Participant holds any nonvested or unexercisable SARs, such SARs shall expire and be forfeited as of the date of such Termination of Service.

7.8 Automatic Exercise. Unless otherwise provided by the Committee in an Award Agreement or otherwise, or as otherwise directed by the Participant in writing to the Company, each vested and exercisable SAR outstanding on the Automatic Exercise Date with a Grant Price per Share that is less than the Fair Market Value per Share as of such date shall automatically, and without further action by the Participant or the Company, be exercised on the Automatic Exercise Date. In the sole discretion of the Committee, the Company or any Affiliate shall deduct or withhold an amount sufficient to satisfy all taxes associated with such exercise in accordance with Section 21.1(b). Unless otherwise determined by the Administrator, this Section 7.8 shall not apply to a SAR if the Participant's employment or service has terminated on or before the Automatic Exercise Date. For the avoidance of doubt, no SAR with a Grant Price per Share that is equal to or greater the Fair Market Value per Share on the Automatic Exercise Date shall be exercised pursuant to this Section 7.8.

Article 8. Restricted Stock

8.1 Grant of Restricted Stock. Restricted Stock Awards may be granted to Participants in such number of Shares, and upon such terms, and at any time and from time to time as shall be determined by the Committee. Each grant of Restricted Stock shall be evidenced by an Award Agreement.

8.2 Nature of Restrictions. Each grant of Restricted Stock may be subject to a requirement that a Participant pay a stipulated purchase price for each Share of Restricted Stock, and shall be subject to a Period of Restriction that shall lapse upon the satisfaction of such vesting conditions as are determined by the Committee and set forth in an applicable Award Agreement. Such conditions or restrictions may include, without limitation, one or more of the following:

(a) that the Shares of Restricted Stock may not be transferred in any fashion prior to their applicable vesting date or

(b) that the Shares of Restricted Stock may vest only upon completion of a specified period of continuous employment or other service and/or to the degree that specific Performance Goals have been achieved.

8.3 Delivery of Shares. Unvested Shares subject to a Restricted Stock Award shall be evidenced by a book-entry in the name of the Participant with the Company's transfer agent or by one or more stock certificates issued in the name of the Participant. Any such stock certificate shall be deposited with the Company or its designee, together with an assignment separate from the certificate, in blank, signed by the Participant, and bear an appropriate legend referring to the restricted nature of the Restricted Stock evidenced thereby. Any book-entry shall be subject to comparable restrictions and corresponding stop transfer instructions. Upon the vesting of Shares of Restricted Stock, and the Company's determination that any necessary conditions precedent to the release of vested Shares (such as satisfaction of tax withholding obligations and compliance with applicable legal requirements) have been satisfied, such vested Shares shall be made available to the Participant in such manner as may be prescribed or permitted by the Committee.

8.4 Voting Rights. As set forth in a Participant's applicable Award Agreement, the Committee shall determine the extent to which a Participant holding Shares of Restricted Stock shall be granted the right to exercise full voting rights with respect to those Shares.

8.5 Section 83(b) Election. No election under Section 83(b) of the Code (to include in gross income in the year of transfer the amounts specified in Code Section 83(b)) or under a similar provision of the laws of a jurisdiction outside the United States may be made unless expressly permitted by the terms of the Award Agreement or by action of the Committee in writing prior to the making of such election. In any case in which a Participant is permitted to make such an election in connection with an Award, the Participant shall notify the Company of such election within ten (10) days of filing notice of the election with the Internal Revenue Service or other governmental authority, in

addition to any filing and notification required pursuant to regulations issued under Code Section 83(b) or other applicable provision.

Article 9. Restricted Stock Units

9.1 Grant of Restricted Stock Units. Restricted Stock Units may be granted to Participants in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee. A grant of Restricted Stock Units shall not represent the grant of Shares but shall represent a promise to deliver a corresponding number of Shares or the value of such number of Shares based upon the completion of service, performance conditions, or such other terms and conditions as specified in the applicable Award Agreement over the Period of Restriction. Each grant of Restricted Stock Units shall be evidenced by an Award Agreement.

9.2 Nature of Restrictions. Each grant of Restricted Stock Units may be subject to a requirement that a Participant pay a stipulated purchase price for each Share earned under such grant, and shall be subject to a Period of Restriction that shall lapse upon the satisfaction of such vesting conditions as are determined by the Committee and set forth in an applicable Award Agreement. Such conditions or restrictions may include, without limitation, one or more of the following:

(a) that the Restricted Stock Units may not be transferred in any fashion, or

(b) that the Restricted Stock Units may vest only upon completion of a specified period of continuous employment or other service and/or to the degree that specific Performance Goals have been achieved.

9.3 Voting Rights. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder or the Shares subject to any Restricted Stock Units granted hereunder prior to the issuance of the Shares.

9.4 Settlement and Payment of Restricted Stock Units. Unless otherwise elected by the Participant to the extent permitted under the Award Agreement, or otherwise provided for in the Award Agreement, Restricted Stock Units shall be settled as soon as administratively practicable following the date on which such Restricted Stock Units vest. Such settlement shall be made in Shares, cash or a combination thereof as provided for under the applicable Award Agreement.

Article 10. Performance Share Units

10.1 Grant of Performance Share Units. Performance Share Units may be granted to Participants in such number, and upon such terms and at any time and from time to time as shall be determined by the Committee. Each grant of Performance Share Units shall be evidenced by an Award Agreement.

10.2 Value of Performance Share Units. Each Performance Share Unit shall have a value equal to the Fair Market Value of a Share on the Grant Date. The Committee shall set Performance Goals that, depending on the extent to which they are met over the specified Performance Period and the satisfaction of applicable service-based vesting conditions, shall determine the number of Performance Share Units that shall vest, which may be greater than the target number of Performance Share Units granted, and be paid to a Participant.

10.3 Earning of Performance Share Units. After the applicable Performance Period has ended, the number of Performance Share Units earned by the Participant over the Performance Period shall be determined as a function of the extent to which the applicable corresponding Performance Goals have been achieved. This determination shall be made by the Committee.

10.4 Form and Timing of Payment of Performance Share Units. The Company shall pay at the close of the applicable Performance Period, or as soon as practicable thereafter, any earned Performance Share Units in the form of Shares, cash or a combination thereof as provided for under the applicable Award Agreement.

Article 11. Performance Units

11.1 Grant of Performance Units. Subject to the terms and provisions of the Plan, Performance Units may be granted to a Participant in such number, and upon such terms and at any time and from time to time as shall be determined by the Committee. Each grant of Performance Units shall be evidenced by an Award Agreement.

11.2 Value of Performance Units. Each Performance Unit shall have an initial notional value equal to a dollar amount determined by the Committee. The Committee shall set Performance Goals in its discretion that, depending on the extent to which they are met over the specified Performance Period and the satisfaction of applicable service-based vesting conditions, shall determine the number of Performance Units that shall vest, the settlement value of each Performance Unit (if variable), and the settlement amount to be paid to the Participant.

11.3 Earning of Performance Units. After the applicable Performance Period has ended, the number of Performance Units earned by the Participant over the Performance Period shall be determined as a function of the extent to which the applicable corresponding Performance Goals have been achieved. This determination shall be made by the Committee.

11.4 Form and Timing of Payment of Performance Units. The Company shall pay at the close of the applicable Performance Period, or as soon as practicable thereafter, any earned Performance Units in the form of cash, Shares or a combination thereof, as provided for under the applicable Award Agreement.

Article 12. Other Stock-Based Awards, Cash-Based Awards and Sale of Shares

12.1 Grant of Other Stock-Based Awards and Cash-Based Awards.

(a) The Committee may grant Other Stock-Based Awards not otherwise described by the terms of the Plan to a Participant in such amounts and subject to such terms and conditions, as the Committee shall determine. Such Awards may involve the transfer of actual Shares to Participants, or payment in cash or otherwise of amounts based on the value of Shares.

(b) The Committee may grant Cash-Based Awards not otherwise described by the terms of the Plan to a Participant in such amounts and upon such terms as the Committee shall determine.

(c) Each grant of Other Stock-Based Awards and Cash-Based Awards shall be evidenced by an Award Agreement and/or subject to a subplan or special provisions approved by the Committee.

12.2 Value of Other Stock-Based Awards and Cash-Based Awards.

(a) Each Other Stock-Based Award shall be expressed in terms of Shares or units based on Shares, as determined by the Committee.

(b) Each Cash-Based Award shall specify a payment amount or payment range as determined by the Committee. If the Committee exercises its discretion to establish Performance Goals, the value of Cash-Based Awards that shall be paid to the Participant will depend on the extent to which such Performance Goals are met and any service-based payment conditions are satisfied.

12.3 Payment of Other Stock-Based Awards and Cash-Based Awards. Payment, if any, with respect to Cash-Based Awards and Other Stock-Based Awards shall be made in accordance with the terms of the applicable Award Agreement in the form of cash, Shares or other forms of Awards under the Plan or a combination of cash, Shares and other forms of Awards. The determination of the form in which Awards subject to this Article 12 will be paid shall be made by the Committee, unless the Committee chooses to provide in an applicable Award Agreement that a Participant may elect, in accordance with such procedures and limitations as the Committee may specify, the form in which such an Award will be paid. To the extent any Award subject to this Article 12 is to be paid in other forms of Awards under the Plan, such Awards issued in payment shall be valued for purposes of such payment at their grant date fair value. If the Committee permits a Participant to elect to receive some or all of an amount that would otherwise be payable in cash under an Award subject to this Article 12 in Shares or other forms of Awards, the Committee may also provide in the applicable Award Agreement that the Fair Market Value of the Shares or the grant date fair value of the other forms of Awards may exceed the amount of cash that otherwise would have been payable.

Article 13. Forfeiture and Recoupment of Awards

13.1 Termination for Cause. If a Participant Termination of Service is due to Cause, then the Participant shall forfeit, as of the date immediately preceding such Termination of Service, the Participant's (i) outstanding and unexercised vested and nonvested Options and SARs, (ii) outstanding and nonvested Restricted Stock and (iii) outstanding and not yet settled vested and unvested RSUs, Performance Share Units, Performance Units, Cash-Based Awards and Other Stock-Based Awards granted to the Participant.

13.2 Recoupment Events.

(a) In addition to the forfeiture events specified in Section 13.1, the Committee may specify in an Award Agreement that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable treatment of an Award.

(b) Awards and any compensation directly attributable to Awards will be subject to forfeiture, recovery by the Company or other action pursuant to any compensation recovery policy adopted by the Board or the Committee at any time, including in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder, or as otherwise required by law and any Award Agreement may be unilaterally amended by the Committee to comply with any such compensation recovery policy.

Article 14. Transferability of Awards and Shares

14.1 Transferability of Awards. Unless otherwise agreed to in writing by the Committee, Awards shall not be transferable other than by will or the laws of descent and distribution or, subject to the consent of the Committee, pursuant to a domestic relations order entered into by a court of competent jurisdiction. In no event shall any transfer of an Award be for consideration or value. Notwithstanding the foregoing, ISOs may only be transferred by will or the laws of descent and during the lifetime of the Participant may only be exercised by the Participant in accordance with Code Section 422 and the applicable regulations thereunder. No Awards shall be subject, in whole or in part, to attachment, execution or levy of any kind; and any purported transfer in violation of this Section 14.1 shall be null and void. The Committee may establish such procedures as it deems appropriate for a Participant to designate a beneficiary to whom any amounts payable or Shares deliverable in the event of, or following, the Participant's death may be provided. Under no circumstances will a Participant be permitted to transfer an Option or SAR to a third-party financial institution without prior stockholder approval.

14.2 Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired by a Participant under the Plan as it may deem advisable, including, without limitation, minimum holding

period requirements, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed or traded or under any blue sky or state securities laws applicable to such Shares, provided no such restriction shall cause the Shares not to be “service recipient stock” within the meaning of Code Section 409A to the extent applicable for Options and SARs.

Article 15. Nonemployee Director Awards

15.1 Awards to Nonemployee Directors. The Committee shall approve all Awards to Nonemployee Directors. The terms and conditions of any grant of any Award to a Nonemployee Director shall be set forth in an Award Agreement.

15.2 Annual Award Limit. The maximum aggregate value of equity and cash based Awards granted to any Nonemployee Director during any calendar year, taken together with any cash fees paid to such Nonemployee Director during the calendar year with respect to such Director’s service as a Nonemployee Director, shall not exceed \$400,000 (“Annual Limit”). The value of an equity-based Award shall be based on the Award’s grant date fair value as determined under applicable accounting standards.

Article 16. Effect of a Change in Control

16.1 Default Provisions.

(a) Subject to Section 4.3, upon a Change in Control all then-outstanding Awards shall immediately vest and be settled in accordance with Sections 16.2(a) and (b) below, except as may otherwise be provided in a then-effective written agreement (including an Award Agreement) between a Participant and the Company. The immediately preceding sentence shall not apply to the extent that another award meeting the requirements of Section 16.3 (“Replacement Award”) is provided to the Participant pursuant to Section 4.3 to replace an Award (“Replaced Award”) subject to Sections 16.3(a) and (b).

(b) If a Participant incurs an involuntary Termination of Service, other than for Cause, or a voluntary Termination of Service for Good Reason within three (3) months prior to the occurrence of a Change in Control, the Participant shall be treated, solely for the purposes of this Plan (including, without limitation, this Article 16) as continuing in the employment or service of the Company or the applicable Subsidiary until the occurrence of such Change in Control, and to have been terminated immediately thereafter.

16.2 Treatment of Outstanding Awards Not Replaced

(a) Outstanding Awards Subject Solely to a Service Condition.

(i) Upon a Change in Control, a Participant’s then-outstanding Awards, other than Options and Stock Appreciation Rights, that are not vested and as to which vesting depends solely on the satisfaction of a service obligation by the Participant to the Company or any Affiliate shall become fully vested and shall be settled in cash, Shares or a combination thereof, as determined by the Committee, within thirty (30) days following such Change in Control (except to the extent that settlement of the Award must be made pursuant to its original schedule in order to comply with Code Section 409A).

(ii) Upon a Change in Control, a Participant’s then-outstanding Options and Stock Appreciation Rights that are not vested and as to which vesting depends solely on the satisfaction of a service obligation by the Participant to the Company or any Affiliate shall immediately become fully vested and exercisable over the exercise period set forth in the applicable Award Agreement. Notwithstanding the immediately preceding sentence, the Committee may elect to cancel such outstanding Options or Stock Appreciation Rights and pay the Participant an

amount of cash (less normal withholding taxes), within thirty (30) days following such Change in Control (except to the extent that settlement of the Award must be made pursuant to its original schedule in order to comply with Code Section 409A), equal to the excess of (i) the value, as determined by the Committee, of the consideration (including cash) received by the holder of a Share as a result of the Change in Control (or if the Company stockholders do not receive any consideration as a result of the Change in Control, the Fair Market Value of a Share on the day immediately prior to the Change in Control) over (ii) the exercise price of such Options or the grant price of such Stock Appreciation Rights, multiplied by the number of Shares subject to each such Award in accordance with Code Section 409A to the extent applicable. No payment shall be made to a Participant for any Option or Stock Appreciation Right if the exercise price or grant price for such Option or Stock Appreciation Right, respectively, exceeds the value, as determined by the Committee, of the consideration (including cash) received by the holder of a Share as a result of Change in Control.

(b) Outstanding Awards Subject to a Performance Condition.

(i) Upon a Change in Control, a Participant's then-outstanding Awards, other than Options and Stock Appreciation Rights, that are not vested and as to which vesting depends upon the satisfaction of one or more performance conditions shall immediately vest and all performance conditions shall be deemed satisfied as if target performance was achieved, and shall be settled in cash, Shares or a combination thereof, as determined by the Committee, within thirty (30) days following such Change in Control (except to the extent that settlement of the Award must be made pursuant to its original schedule in order to comply with Code Section 409A), notwithstanding that the applicable performance period, retention period or other restrictions and conditions have not been completed or satisfied.

(ii) Upon a Change in Control, a Participant's then-outstanding Options and Stock Appreciation Rights that are not vested and as to which vesting depends upon the satisfaction of one or more performance conditions shall immediately vest and all performance conditions shall be deemed satisfied as if target performance was achieved and shall be exercisable over the exercise period set forth in the applicable Award Agreement. Notwithstanding the immediately preceding sentence, the Committee may elect to cancel such outstanding Options or Stock Appreciation Rights and pay the Participant an amount of cash (less normal withholding taxes) within thirty (30) days following such Change in Control (except to the extent that settlement of the Award must be made pursuant to its original schedule in order to comply with Code Section 409A) in an amount equal to the excess of (i) the value, as determined by the Committee, of the consideration (including cash) received by the holder of a Share as a result of the Change in Control (or if the Company stockholders do not receive any consideration as a result of the Change in Control, the Fair Market Value of a Share on the day immediately prior to the Change in Control) over (ii) the exercise price of such Options or the grant price of such Stock Appreciation Rights, multiplied by the number of Shares subject to each such Award in accordance with Code Section 409A to the extent applicable. No payment shall be made to a Participant for any Option or Stock Appreciation Right if the exercise price or grant price for such Option or Stock Appreciation Right, respectively, exceeds the value, as determined by the Committee, of the consideration (including cash) received by the holder of a Share as a result of Change in Control.

16.3 Definition of Replacement Award.

(a) An Award shall meet the conditions of this Section 16.3(a) (and hence qualify as a Replacement Award) if: (i) it is of the same type as the Replaced Award (or, if it is of a different type as the Replaced Award (such as a deferred cash equivalent award), the Committee, as constituted immediately prior to the Change in Control, finds such type acceptable); (ii) it has a value at least equal to the value of the Replaced Award; (iii) it relates to publicly traded equity securities listed on a U.S. national securities exchange of the Company or its successor in the Change in Control or another entity that is affiliated with the Company or its successor following the Change in Control, except in the case of a Replacement Award granted in the form of a deferred cash equivalent award; (iv) its terms and conditions comply with Section 16.3(b); and (v) its other terms and conditions are not less favorable to the Grantee than the terms and conditions of the Replaced Award (including the provisions that would apply in the event of a subsequent Change in Control). Without limiting the generality of the foregoing, the Replacement Award may take the form of a continuation of the Replaced Award if the requirements of the preceding sentence are satisfied. The determination of whether the

conditions of this Section 16.3(a) are satisfied shall be made by the Committee, as constituted immediately before the Change in Control, in its sole discretion. Without limiting the generality of the foregoing, the Committee may determine the value of Awards and Replacement Awards that are stock options or stock appreciation rights by reference to either their intrinsic value or their fair value.

(b) If within twenty-four (24) months following a Change in Control, a Participant incurs an involuntary Termination of Service without Cause or a voluntary Termination of Service for Good Reason, then all Replacement Awards held by the Participant shall become fully vested and free of restrictions and, in the case of Replacement Awards in the form of (i) service-based stock option or service-based stock appreciation right shall be fully exercisable for the remainder of term of the stock option or stock appreciation right, as applicable, (ii) performance-based stock option or performance-based stock appreciation right shall be deemed to be satisfied at target performance and shall be fully exercisable for the remainder of term of the stock option or stock appreciation right, as applicable, (ii) performance-based Awards (other than stock options and stock appreciation rights) shall be deemed to be satisfied at target performance and paid upon or within thirty (30) days of such Termination of Service, (iii) service-based Awards (other than stock options or stock appreciation rights) shall be paid upon or within thirty (30) days of such Termination of Service. Notwithstanding the foregoing, with respect to any Award that is considered deferred compensation subject to Code Section 409A, settlement of such Award shall be made pursuant to its original schedule if necessary to comply with Code Section 409A.

Article 17. Dividends and Dividend Equivalents

17.1 Payment of Dividends on Restricted Stock. With respect to an Award of Restricted Stock, the Committee may grant or limit the right of a Participant to receive dividends declared on Shares that are subject to such Award to the extent the Award is not yet vested. The terms of any right to dividends shall be as set forth in the applicable Award Agreement, including the time and form of payment and whether such dividends shall be credited with interest or deemed to be reinvested in additional shares of Restricted Stock. If the Committee grants the right of a Participant to receive dividends declared on Shares subject to an unvested Award of Restricted Stock, then such dividends shall be subject to the same performance conditions and/or service conditions, as applicable, as the underlying Award.

17.2 Payment of Dividend Equivalents on Awards Other than Options, SARs and Restricted Stock. Except for Options, SARs and Restricted Stock, the Committee may grant Dividend Equivalents on the units or other Share equivalents subject to an Award based on the dividends actually declared and paid on outstanding Shares. The terms of any dividend equivalents shall be as set forth in the applicable Award Agreement, including the time and form of payment and whether such dividend equivalents shall be credited with interest or deemed to be reinvested in additional units or Share equivalents. Dividend Equivalents shall be subject to the same performance conditions and service conditions, as applicable, as the underlying Award.

Article 18. Beneficiary Designation

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his death before he receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and shall be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such beneficiary designation, benefits remaining unpaid or rights remaining unexercised at the Participant's death shall be paid to or exercised by the Participant's executor, administrator or legal representative.

Article 19. Rights of Participants

19.1 Employment. Nothing in the Plan or an Award Agreement shall (a) interfere with or limit in any way the right of the Company or any Subsidiary or any Affiliate to terminate any Participant's employment with the Company or any Subsidiary or any Affiliate at any time or for any reason not prohibited by law or (b) confer upon any Participant any right to continue his employment or service as a Director for any specified period of time. Neither an Award nor any benefits arising under the Plan shall constitute an employment contract with the Company or any Subsidiary or any Affiliate.

19.2 Participation. No individual shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to be selected to receive a future Award.

19.3 Rights as a Stockholder. Except as otherwise provided herein, a Participant shall have none of the rights of a stockholder with respect to Shares covered by any Award until the Participant becomes the record holder of such Shares.

Article 20. Amendment and Termination

20.1 Amendment and Termination of the Plan and Awards.

(a) Subject to subparagraphs (b) and (c) of this Section 20.1 and Section 20.4 of the Plan, the Board may at any time amend, suspend or terminate the Plan, and the Board or Committee may at any time amend, suspend or terminate any outstanding Award Agreement.

(b) Without the prior approval of the Company's stockholders and except as provided for in Section 4.3, no Option or SAR Award may be (i) amended to reduce the Exercise Price or the Grant Price thereof, as applicable; (ii) cancelled in exchange for the grant of any new Option or SAR with a lower Exercise Price or Grant Price, as applicable; or (iii) cancelled in exchange for cash, other property or the grant of any new Award at a time when the Exercise Price of the Option or the Grant Price of the SAR is greater than the current Fair Market Value of a Share.

(c) Notwithstanding the foregoing, no amendment of the Plan shall be made without stockholder approval if stockholder approval is required pursuant to rules promulgated by any stock exchange or quotation system on which Shares are listed or quoted or by applicable U.S. state corporate laws or regulations, or U.S. federal laws or regulations.

20.2 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events.

(a) The Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.3) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

(b) The Committee shall retain the discretion to decrease the amount payable pursuant to a Cash-Based Award below the amount that would otherwise be payable upon attainment of the applicable Performance Goal(s) over a Performance Period that does not exceed a term of one (1) year, either on a formula or discretionary basis or any combination, as the Committee or its authorized delegate determines is appropriate.

(c) Any subplan may provide that the Committee shall retain the discretion to decrease the amount payable pursuant to a Cash-Based Award granted under such subplan below the amount that would otherwise be payable upon attainment of the applicable Performance Goal(s) over a Performance Period that does not exceed a term of one

(1) year, either on a formula or discretionary basis or any combination, as the Committee or its authorized delegate determines is appropriate.

(d) The determination of the Committee as to any adjustments made pursuant to subparagraphs (a), (b) and (c) above shall be conclusive and binding on Participants under the Plan. By accepting an Award under the Plan, a Participant agrees to any adjustment to the Award made pursuant to this Section 20.2 without further consideration or action.

20.3 Amendment to Conform to Law. Notwithstanding any other provision of the Plan to the contrary, the Board may amend the Plan and the Board or the Committee may amend an Award Agreement, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of conforming the Plan or an Award Agreement to (i) any law relating to plans of this or similar nature, and to the administrative regulations and rulings promulgated thereunder, (ii) any applicable exchange requirements and (iii) any compensation recoupment policy adopted by the Company. By accepting an Award under the Plan, a Participant agrees to any amendment made pursuant to this Section 20.3 without further consideration or action.

20.4 Awards Previously Granted. Notwithstanding any other provision of the Plan to the contrary, other than Sections 4.3, 20.2 and 20.3, no termination or amendment of the Plan or an Award Agreement shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award.

20.5 Deferred Compensation. Unless otherwise indicated in the applicable Award Agreement, it is not intended that any Award under the Plan, in form and/or operation, shall constitute “deferred compensation” within the meaning of Code Section 409A and therefore, it is intended that each Award shall not be subject to the requirements applicable to deferred compensation under section 409A of the Code and the regulations thereunder. If a Participant is a “specified employee” as defined under Code Section 409A and the Participant’s Award is to be settled on account of the Participant’s separation from service (for reasons other than death) and such Award constitutes “deferred compensation” as defined under Code Section 409A, then any portion of the Participant’s Award that would otherwise be settled during the six-month period commencing on the Participant’s separation from service shall be settled as soon as practicable following the conclusion of the six-month period (or following the Participant’s death if it occurs during such six-month period). To the extent that any Award constitutes deferred compensation subject to Code Section 409A, such Award shall be interpreted and construed to comply with Code Section 409A including, without limitation, a termination of employment shall mean a “separation of service” within the meaning of Code Section 409A.

Article 21. General Provisions

21.1 Tax Withholding.

(a) **Tax Withholding Generally.** The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy applicable federal, state and local tax withholding requirements, domestic or foreign, with respect to any taxable event arising as a result of the grant, vesting, exercise or settlement of an Award to the Participant under the Plan.

(b) **Share Withholding.** Unless otherwise required by the Committee, the Company may withhold, or permit a Participant to elect to have withheld from a “Share Payment” the number of Shares having a Fair Market Value equal to the minimum statutory withholding requirements. Notwithstanding the immediately preceding sentence, the Company, in its discretion, may withhold Shares or permit a Participant to elect to have withheld from a Share Payment, the number of Shares having a Fair Market Value up to, but not in excess of, the maximum statutory withholding requirements. The term Share Payment shall mean the issuance or delivery of Shares upon the grant, vesting, exercise or settlement of an Award, as the case may be.

21.2 Right of Setoff. The Company or any Subsidiary or Affiliate may, to the extent permitted by applicable law, deduct from and set off against any amounts the Company or a Subsidiary or Affiliate may owe to the Participant from time to time (including amounts payable in connection with any Award), such amounts owed by the Participant to the Company or any Subsidiary or Affiliate; provided, however, that no such setoff shall be permitted if it would constitute a prohibited “acceleration” or “deferral” of a payment hereunder within the meaning of Code Section 409A. Participant shall remain liable for any part of Participant’s payment obligation not satisfied through such deduction and setoff. By accepting any Award granted hereunder, Participant agrees to any deduction or setoff under this Section 21.2.

21.3 Legend. The certificates for Shares may include any legend that the Committee deems appropriate to reflect any restrictions on transfer of such Shares.

21.4 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

21.5 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

21.6 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

21.7 Delivery of Shares. The Company shall have no obligation to issue or deliver Shares under the Plan prior to:

(a) Obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and

(b) Completion of any registration or other qualification of the Shares under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

21.8 Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company’s counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or deliver such Shares as to which such requisite authority shall not have been obtained.

21.9 Investment Representations. The Committee may require any individual receiving Shares pursuant to an Award under the Plan to represent and warrant in writing that the individual is acquiring the Shares for investment and without any present intention to sell or distribute such Shares.

21.10 Uncertificated Shares. To the extent that the Plan provides for issuance of certificates to reflect the transfer of Shares, the transfer of such Shares may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange.

21.11 Unfunded Plan. Participants shall have no right, title or interest whatsoever in or to any investments that the Company or any Subsidiaries may make to aid it in meeting its obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, legal representative or any other individual. To the extent that any individual acquires a right to receive payments from the Company or any Subsidiary

or any Affiliate under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company or the Subsidiary or the Affiliate, as the case may be. All payments to be made hereunder shall be paid from the general funds of the Company, or the Subsidiary or the Affiliate, as the case may be, and no special or separate fund shall be established, and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in the Plan.

21.12 No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, Awards or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

21.13 Non-Exclusivity of the Plan. The adoption of the Plan shall not be construed as creating any limitations on the power of the Board or Committee to adopt such other compensation arrangements as it may deem desirable for any Participant.

21.14 No Constraint on Corporate Action. Nothing in the Plan shall be construed to: (i) limit, impair, or otherwise affect the Company's or a Subsidiary's or a Affiliate's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell or transfer all or any part of its business or assets; or, (ii) limit the right or power of the Company or a Subsidiary or an Affiliate to take any action that such entity deems to be necessary or appropriate.

21.15 Governing Law. The Plan and each Award Agreement shall be governed by the laws of the State of Illinois excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. The jurisdiction and venue for any disputes arising under, or any action brought to enforce (or otherwise relating to), the Plan will be exclusively in the courts in the State of Illinois, County of Cook, including the Federal Courts located therein (should Federal jurisdiction exist).

21.16 Delivery and Execution of Electronic Documents. To the extent permitted by applicable law, the Company may (i) deliver by email or other electronic means (including posting on a website maintained by the Company or by a third party under contract with the Company) all documents relating to the Plan or any Award thereunder (including without limitation, prospectuses required by the Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements) and (ii) permit Participants to electronically execute applicable Plan documents (including, but not limited to, Award Agreements) in a manner prescribed to the Committee.

21.17 No Representations or Warranties Regarding Tax Effect. Notwithstanding any provision of the Plan to the contrary, neither the Company, any Subsidiary, any Affiliate nor any of their employees, the Board, the Committee, any stockholder or any of their agents represent nor warrant the tax treatment under any federal, state, local or foreign laws and regulations thereunder (individually and collectively referred to as the "Tax Laws") of any Award granted or any amounts paid to any Participant under the Plan including, but not limited to, when and to what extent such Awards or amounts may be subject to tax, penalties and interest under the Tax Laws.

21.18 Indemnification. Subject to requirements of the laws of the State of Delaware, each individual who is or shall have been a member of the Board, or a Committee appointed by the Board, or an officer of the Company or other person to whom authority was delegated in accordance with Article 3, shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes

to handle and defend it on his/her own behalf, unless such loss, cost, liability or expense is a result of his/her own willful misconduct or except as expressly provided by statute. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such individuals may be entitled under the Company's Articles of Incorporation or Bylaws, as a matter of law or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

21.19 Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

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

I, Richard S. Stoddart, certify that:

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

Date: August 6, 2020

/s/ Richard S. Stoddart

Richard S. Stoddart

Chief Executive Officer

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

I, 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: August 6, 2020

/s/ Donald W. Pearson

Donald W. Pearson

Chief Financial Officer

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

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

- (1) The Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2020 (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

August 6, 2020

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 June 30, 2020 (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

August 6, 2020