

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, 2019

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

Commission File Number 000-52170

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

Delaware
(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

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

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

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

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

Large accelerated filer:

Accelerated filer:

Non-accelerated filer:

Smaller reporting company:

Emerging growth company:

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

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

As of August 8, 2019, the Registrant had 51,941,478 shares of Common Stock, par value \$0.0001 per share, outstanding.

INNERWORKINGS, INC.

TABLE OF CONTENTS

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Financial Statements (Unaudited) 4
	Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and six months ended June 30, 2019 and 2018 (Unaudited) 4
	Condensed Consolidated Balance Sheets as of June 30, 2019 (Unaudited) and December 31, 2018 5
	Condensed Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2019 and 2018 (Unaudited) 6
	Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2019 and 2018 (Unaudited) 8
	Notes to Condensed Consolidated Financial Statements (Unaudited) 9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 25
Item 3.	Quantitative and Qualitative Disclosures about Market Risk 36
Item 4.	Controls and Procedures 37
PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings 38
Item 1A.	Risk Factors 38
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds 39
Item 6.	Exhibits 40
SIGNATURES	41

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

InnerWorkings, Inc. and subsidiaries
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(in thousands, except per share data)				
Revenue	\$ 284,053	\$ 281,967	\$ 551,291	\$ 556,506
Cost of goods sold	214,986	217,096	421,029	425,568
Gross profit	69,067	64,871	130,262	130,938
Operating expenses:				
Selling, general and administrative expenses	58,661	59,002	114,466	120,169
Depreciation and amortization	3,233	3,514	5,849	7,173
Restructuring charges	3,698	—	7,632	—
Income from operations	3,475	2,355	2,315	3,596
Other income (expense):				
Interest income	104	54	202	115
Interest expense	(2,486)	(1,517)	(5,232)	(3,085)
Other income (expense), net	279	(588)	(460)	(1,433)
Total other expense	(2,103)	(2,051)	(5,490)	(4,403)
Income (loss) before income taxes	1,372	304	(3,175)	(807)
Income tax expense	2,541	603	456	1,176
Net loss	\$ (1,169)	\$ (299)	\$ (3,631)	\$ (1,983)
Basic loss per share	\$ (0.02)	\$ (0.01)	\$ (0.07)	\$ (0.04)
Diluted loss per share	\$ (0.02)	\$ (0.01)	\$ (0.07)	\$ (0.04)
Comprehensive loss	\$ (916)	\$ (5,906)	\$ (2,631)	\$ (4,226)

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

InnerWorkings, Inc. and subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except per share data)	June 30, 2019	December 31, 2018
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 33,999	\$ 26,770
Accounts receivable, net of allowance for doubtful accounts of \$3,697 and \$4,880, respectively	188,687	193,253
Unbilled revenue	60,911	46,474
Inventories	51,553	56,001
Prepaid expenses	15,132	16,982
Other current assets	28,707	34,106
Total current assets	<u>378,989</u>	<u>373,586</u>
Property and equipment, net	36,466	82,933
Intangibles and other assets:		
Goodwill	152,203	152,158
Intangible assets, net	8,774	9,828
Right of use assets, net	50,460	—
Deferred income taxes	1,091	1,195
Other non-current assets	3,613	2,976
Total intangibles and other assets	<u>216,141</u>	<u>166,157</u>
Total assets	<u>\$ 631,596</u>	<u>\$ 622,676</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 140,492	\$ 158,449
Accrued expenses	37,446	35,474
Deferred revenue	21,532	17,614
Revolving credit facility - current	157,675	142,736
Other current liabilities	34,877	26,231
Total current liabilities	<u>392,022</u>	<u>380,504</u>
Lease liabilities	46,615	—
Deferred income taxes	8,295	8,178
Other non-current liabilities	1,995	50,903
Total liabilities	<u>448,927</u>	<u>439,585</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.0001 per share, 200,000 and 200,000 shares authorized, 64,629, and 64,495 shares issued, and 51,941 and 51,807 shares outstanding, respectively	6	6
Additional paid-in capital	242,010	239,960
Treasury stock at cost, 12,688 and 12,688 shares, respectively	(81,471)	(81,471)
Accumulated other comprehensive loss	(23,309)	(24,309)
Retained earnings	45,433	48,905
Total stockholders' equity	<u>182,669</u>	<u>183,091</u>
Total liabilities and stockholders' equity	<u>\$ 631,596</u>	<u>\$ 622,676</u>

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

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

(in thousands)	Common Stock		Treasury Stock		Additional Paid-in-Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance as of April 1, 2019	64,534	\$ 6	12,688	\$ (81,471)	\$ 240,734	\$ (23,562)	\$ 46,602	\$ 182,309
Net loss							(1,169)	(1,169)
Total other comprehensive income - foreign currency translation adjustments						253		253
Comprehensive loss								(916)
Issuance of common stock upon exercise of stock awards, net of withheld shares	95				(126)			(126)
Stock-based compensation expense					1,402			1,402
Cumulative effect of change related to adoption of ASC 842								—
Balance as of June 30, 2019	<u>64,629</u>	<u>\$ 6</u>	<u>12,688</u>	<u>\$ (81,471)</u>	<u>\$ 242,010</u>	<u>\$ (23,309)</u>	<u>\$ 45,433</u>	<u>\$ 182,669</u>

(in thousands)	Common Stock		Treasury Stock		Additional Paid-in-Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2018	64,495	\$ 6	12,688	\$ (81,471)	\$ 239,960	\$ (24,309)	\$ 48,905	\$ 183,091
Net loss							(3,631)	(3,631)
Total other comprehensive income - foreign currency translation adjustments						1,000		1,000
Comprehensive loss								(2,631)
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>12,688</u>	<u>\$ (81,471)</u>	<u>\$ 242,010</u>	<u>\$ (23,309)</u>	<u>\$ 45,433</u>	<u>\$ 182,669</u>

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

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

(in thousands)	Common Stock		Treasury Stock		Additional Paid-in-Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance as of April 1, 2018	64,103	\$ 6	10,952	\$ (64,544)	\$ 236,664	\$ (15,865)	\$ 123,393	\$ 279,654
Net loss							(299)	(299)
Total other comprehensive loss - foreign currency translation adjustments						(5,607)		(5,607)
Comprehensive loss								(5,906)
Issuance of common stock upon exercise of stock awards, net of withheld shares	269				(436)			(436)
Acquisition of treasury shares			1,736	(16,927)				(16,927)
Stock-based compensation expense					1,406			1,406
Cumulative effect of change related to adoption of ASC 606								—
Cumulative effect of change related to adoption of ASU 2016-16								—
Balance as of June 30, 2018	<u>64,372</u>	<u>\$ 6</u>	<u>12,688</u>	<u>\$ (81,471)</u>	<u>\$ 237,634</u>	<u>\$ (21,472)</u>	<u>\$ 123,094</u>	<u>\$ 257,791</u>

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

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

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

	Six Months Ended June 30,	
	2019	2018
(in thousands)		
Cash flows from operating activities		
Net loss	\$ (3,631)	\$ (1,983)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	5,849	7,173
Stock-based compensation expense	2,141	2,823
Bad debt provision	689	630
Implementation cost amortization	213	263
Other operating activities	224	(154)
Change in assets:		
Accounts receivable and unbilled revenue	(10,225)	21,643
Inventories	4,488	(87)
Prepaid expenses and other assets	(4,318)	9,424
Change in liabilities:		
Accounts payable	(17,670)	(18,735)
Accrued expenses and other liabilities	23,529	1,643
Net cash (used in) provided by operating activities	1,289	22,640
Cash flows from investing activities		
Purchases of property and equipment	(6,881)	(5,490)
Net cash used in investing activities	(6,881)	(5,490)
Cash flows from financing activities		
Net borrowings from revolving credit facility	14,908	8,629
Net short-term secured repayments	(833)	(578)
Repurchases of common stock	—	(25,689)
Proceeds from exercise of stock options	63	284
Payment of debt issuance costs	(935)	—
Other financing activities	(156)	(695)
Net cash provided by (used in) financing activities	13,047	(18,049)
Effect of exchange rate changes on cash and cash equivalents	(226)	(1,397)
Increase (Decrease) in cash and cash equivalents	7,229	(2,296)
Cash and cash equivalents, beginning of period	26,770	30,562
Cash and cash equivalents, end of period	<u>\$ 33,999</u>	<u>\$ 28,266</u>

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

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

1. Summary of Significant Accounting Policies

Basis of Presentation of Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements of InnerWorkings, Inc. and subsidiaries (the “Company”) included herein have been prepared to conform to the rules and regulations of the Securities and Exchange Commission (“SEC”) and accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation of the accompanying unaudited financial statements have been included, and all adjustments are of a normal and recurring nature. The operating results for the three and six month periods ended June 30, 2019 are not necessarily indicative of the results to be expected for the full year ending December 31, 2019. These condensed consolidated interim financial statements and notes should be read in conjunction with the Company’s Consolidated Financial Statements and Notes thereto as of and for the year ended December 31, 2018 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 19, 2019.

Description of the Business

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

During the third quarter of 2018, the Company changed its reportable segments. The Company is now organized and managed by the chief operating decision maker for purposes of resource allocation and assessing performance as three operating segments: North America, EMEA and LATAM. The Company reflected the segment change as if it had occurred in all periods presented. See Note 14 for further information about the Company’s reportable segments.

Preparation of Financial Statements and Use of Estimates

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

Foreign Currency Translation

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

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

Argentinian Highly Inflationary Accounting

In the second quarter of 2018, the Argentinian economy was classified as highly inflationary under GAAP due to multiple years of increasing inflation, the devaluation of the Argentine peso ("ARS") and increasing borrowing rates. Effective July 1, 2018, the Company's Argentinian subsidiary is being accounted for under highly inflationary accounting rules, which principally means all transactions are recorded in U.S. dollars. The Company uses the official ARS exchange rate to translate the results of its Argentinian operations into U.S. dollars. As of June 30, 2019, the Company had a balance of net monetary assets denominated in ARS of approximately 75.4 million ARS, and the exchange rate was approximately 42.6 ARS per U.S. dollar.

During the three and six months ended June 30, 2019, the Company recorded \$0.2 million and \$0.1 million, respectively, of favorable currency impacts within Other income (expense). For the three and six months ended June 30, 2019, the Company's Argentinian operations generated revenue of \$1.1 million and \$1.7 million and gross margin of \$0.1 million and \$0.2 million, respectively.

Revenue Recognition

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

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

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

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

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

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

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

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

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

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

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

In the first quarter of 2019, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which amends ASC 220, *Income Statement - Reporting Comprehensive Income*. This ASU allows a reclassification from accumulated OCI to retained earnings for stranded tax effects resulting from tax reform. This update is effective for fiscal years beginning after December 15, 2018, including interim periods therein, and early adoption is permitted. An election was not made to reclassify the income tax effects of the Tax Cuts and Jobs Act ("Tax Reform Act") from accumulated other comprehensive income to retained earnings. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

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

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

2. Revenue Recognition

Nature of Goods and Services

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

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

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

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

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

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

Some service revenue may be recognized over time, but the difference 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. For the three and six months ended June 30, 2019, the amount of amortization was \$0.1 million and \$0.2 million, respectively, and there was no impairment loss in relation to the capitalized costs in either period presented.

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.

The following is a summary of Company's costs to fulfill and contract liabilities as of June 30, 2019 and December 31, 2018 (in thousands):

	June 30, 2019	December 31, 2018
Costs to fulfill	1,258	1,152
Contract liabilities	21,532	17,614
Cash received	5,082	11,387
Revenue recognized	1,100	11,850

Costs to Obtain a Customer Contract

The Company incurs certain incremental costs to obtain a contract that the Company expects to recover. The Company applies a practical expedient and recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. No incremental costs to obtain a contract incurred by the Company during the six months ended June 30, 2019 and 2018 were required to be capitalized. These costs would primarily relate to commissions paid to our account executives and are included in selling, general and administrative expenses.

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, 2019. The Company does not have material future performance obligations that extend beyond one year. Accordingly, the Company has applied the optional exemption for contracts that have an original expected duration of one year or less. The nature of the remaining performance obligations as well as the nature of the variability and how it will be resolved is described above.

3. Leases

The Company leases office space, warehouses, automobiles, and equipment. The Company determines whether a contract is or contains a lease at the inception of the contract. A contract will be deemed to be or contain a lease if the contract conveys the right to control and direct the use of identified office space, warehouse or equipment for a period of time in exchange for consideration. The Company generally must also have the right to obtain substantially all the economic benefits from the use of the office space, warehouse and equipment. The leases are recorded as right-of-use ("ROU") assets and lease liabilities for leases with terms greater than 12 months. The Company's leases generally have terms of 1-10 years, with certain leases including

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

renewal options to extend the leases for additional periods at the Company's discretion. Generally, the lease term is the minimum of the noncancelable period of the lease, as the Company is not reasonably certain to exercise renewal options. Sublease income is not significant.

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

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

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

	June 30, 2019
Right of use assets:	
Operating leases:	
Right of use assets	\$ 50,451
Finance leases:	
Right of use assets:	
Right of use asset, cost	\$ 19
Accumulated amortization	(10)
Right of use asset, net	\$ 9
Total right of use assets, net	50,460
Lease liabilities:	
Current	
Operating	\$ 6,928
Finance	82
Non-current	
Operating	\$ 46,419
Finance	196
Total lease liabilities	\$ 53,625

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

The components of lease cost were as follows:

<i>(in thousands)</i>	June 30, 2019
Operating lease cost	\$ 4,693
Variable lease cost	578
Short-term lease cost	1,143
Finance lease cost:	—
Amortization of right-of-use assets	1
Interest on lease liabilities	17
Total financing lease cost	\$ 18
Sublease income	35
Total lease cost	<u>\$ 6,397</u>

Average lease terms and discount rates were as follows:

	June 30, 2019
Weighted-average remaining lease term (years)	
Operating leases	7.38
Financing leases	3.18
Weighted-average discount rate	
Operating leases	6.57%
Financing leases	12.49%

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

	June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	\$ 53
Operating cash flows from operating leases	3,624
Total	<u>\$ 3,677</u>

The aggregate future lease payments for operating and finance leases as of June 30, 2019 are as follows (in thousands):

	Operating	Finance
Remaining 2019	\$ 4,463	\$ 53
2020	9,783	106
2021	10,494	106
2022	9,279	51
2023	7,856	11
Thereafter	27,491	—
Total lease payments	\$ 69,366	\$ 327
Less: Interest	16,019	49
Present value of lease liabilities	<u>\$ 53,347</u>	<u>\$ 278</u>

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

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

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

4. Goodwill

The following is a summary of the goodwill balance for each reportable segment as of June 30, 2019 (in thousands):

	North America	EMEA	LATAM	Total
Goodwill as of December 31, 2018	\$ 152,158	\$ —	\$ —	\$ 152,158
Foreign exchange impact	45	—	—	45
Goodwill as of June 30, 2019	\$ 152,203	\$ —	\$ —	\$ 152,203

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

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

The Company most recently recognized an impairment of a portion of its goodwill in the North America reportable segment as of December 31, 2018, as outlined below. The Company further considered indicators for impairment at June 30, 2019 given the significant level of goodwill remaining in the reportable segment as well as the recent impairment test. The fair value determination of the reporting unit primarily relies on management judgments around timing of generating 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). If assumptions surrounding either of these factors change, then a future impairment charge may occur.

2018 Goodwill Impairment Charges

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

As of December 31, 2018, the Company performed an interim impairment assessment due to a triggering event caused by a sustained decrease in the Company's stock price. The Company determined an enterprise value for its North America reporting unit that considered both the discounted cash flow and guideline public company methods. The Company further

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

compared the enterprise value of the reporting unit to its carrying value. The enterprise value for the North America reporting unit was less than its carrying value and resulted in a \$18.4 million non-cash goodwill impairment charge. No tax benefit was recognized on such charge, and this charge had no impact on the Company's cash flows or compliance with debt covenants.

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

5. Other Intangibles and Long-Lived Assets

The following is a summary of the Company's intangible assets as of June 30, 2019 and December 31, 2018 (in thousands):

	June 30, 2019	December 31, 2018	Weighted Average Life
Customer lists	\$ 73,708	\$ 73,792	14.4
Non-competition agreements	950	950	4.1
Trade names	2,510	2,510	13.3
Patents	57	57	9.0
	<u>77,225</u>	<u>77,309</u>	
Less accumulated amortization and impairment	(68,451)	(67,481)	
Intangible assets, net	<u>\$ 8,774</u>	<u>\$ 9,828</u>	

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

Amortization expense related to these intangible assets was \$0.6 million and \$1.1 million for the three months ended June 30, 2019 and 2018, respectively, and \$1.1 million and \$2.3 million for the six months ended June 30, 2019 and 2018, respectively. The Company's customer lists had accumulated amortization and impairment of \$65.4 million and \$64.5 million as of June 30, 2019 and December 31, 2018, respectively. The Company's trade names, non-competition agreements and patents were fully amortized or impaired as of June 30, 2019 and December 31, 2018, respectively.

As of June 30, 2019, estimated amortization expense for the remainder of 2019 and each of the next five years and thereafter is as follows (in thousands):

Remainder of 2019	\$ 1,064
2020	2,021
2021	1,783
2022	1,408
2023	962
2024	745
Thereafter	791
	<u>\$ 8,774</u>

2018 Intangible and Long-Lived Asset Impairment

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

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

6. Restructuring Activities

2018 Restructuring Plan

On August 10, 2018, the Company approved a plan to reduce the Company's cost structure while driving value for its clients and stockholders. The plan was adopted as a result of the Company's determination that its selling, general and administrative costs were disproportionately high in relation to its revenue and gross profit. From adoption through completion of the plan, the Company expects to incur pre-tax cash restructuring charges of \$20.0 million to \$25.0 million and pre-tax non-cash restructuring charges of \$0.4 million. Cash charges are expected to include \$12.0 million to \$15.0 million for employee severance and related benefits and \$8.0 million and \$10.0 million for consulting fees and lease and contract terminations. Where required by law, the Company will consult with each of the affected countries' local Works Councils prior to implementing the plan. The plan was expected to be completed by the end of 2019. On February 21, 2019, the Board of Directors approved a two-year extension to the restructuring plan through the end of 2021.

For the three and six months ended June 30, 2019, the Company recognized \$3.7 million and \$7.6 million, respectively, in restructuring charges.

The following table summarizes the accrued restructuring activities for this plan for the six months ended June 30, 2019 (in thousands):

	Employee Severance and Related Benefits	Lease and Contract Termination Costs	Other	Total
Balance at December 31, 2018	\$ 357	\$ 286	\$ 706	\$ 1,349
Charges	2,174	759	4,699	7,632
Cash payments	(1,282)	(763)	(4,815)	(6,860)
Non-cash settlements/adjustments	(194)	(168)	—	(362)
Balance as of June 30, 2019	<u>\$ 1,055</u>	<u>\$ 114</u>	<u>\$ 590</u>	<u>\$ 1,759</u>

During the six months ended June 30, 2019, the Company recorded the following restructuring costs within loss from operations and loss before income taxes (in thousands):

	North America	EMEA	LATAM	Other	Total
Restructuring charges	\$ 1,408	\$ 1,405	\$ 74	\$ 4,745	\$ 7,632

From adoption through June 30, 2019, the Company recognized \$13.7 million in total restructuring charges pursuant to the 2018 Restructuring Plan.

2015 Restructuring Plan

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

On December 14, 2015, the Company approved a global realignment plan that allowed the Company to more efficiently meet client needs across its international platform. Through improved integration of global resources, the plan created back office and other efficiencies and allowed for the elimination of approximately 100 positions. In connection with these actions, the Company incurred pre-tax cash restructuring charges of \$6.7 million, the majority of which were recognized during 2017. These cash charges included approximately \$5.6 million for employee severance and related benefits and \$1.1 million for lease and contract terminations and other associated costs. The charges were all incurred by the end of 2017 with the final payouts of the charges expected to occur in 2019. As required by law, the Company consulted with each of the affected countries' local Works Councils throughout the plan.

The following table summarizes the accrued restructuring activities for this plan for the six months ended June 30, 2019 (in thousands), all of which relate to EMEA:

	Employee Severance and Related Benefits	Lease and Contract Termination Costs	Other	Total
Balance as of December 31, 2018	\$ 486	\$ —	\$ —	\$ 486
Cash payments	(364)	—	—	(364)
Balance as of June 30, 2019	<u>\$ 122</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 122</u>

7. Income Taxes

On December 22, 2017, the Tax Reform Act was enacted into law. The Tax Reform Act significantly revises the U.S. corporate income tax laws by, amongst other things, reducing the corporate income tax rate from 35.0% to 21.0%. In addition to the tax rate reduction, the legislation establishes new provisions that affect our 2019 results, including but not limited to: the creation of a new minimum tax called the base erosion anti-abuse tax ("BEAT"); a new provision that taxes U.S. allocated expenses (e.g., interest and general administrative expenses) and currently taxes certain income greater than 10% return on assets from foreign operations called Global Intangible Low-Tax Income ("GILTI"); a new limitation on deductible interest expense; and limitations on the deductibility of certain employee compensation and benefits.

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items. The Company's reported effective income tax rate was 185.2% and 198.4% for the three months ended June 30, 2019 and 2018, respectively. The Company's reported effective income tax rate was (14.4)% and (145.7)% for six months ended June 30, 2019 and 2018, respectively. The Company's effective income tax rate differs from the U.S. federal statutory rate each year due to certain operations that are subject to tax incentives, state and local taxes, valuation allowances, impacts of the Tax Reform Act, and foreign tax rates that are different than the U.S. federal statutory tax rate. In addition, the effective tax rate can be impacted each period by discrete factors and events such as a write-off of a deferred tax asset for stock-based compensation due to the expiration of unexercised stock options.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will expire unutilized. At the end of each reporting period, the Company reviews the realizability of its deferred tax assets. There were no material valuation adjustments for the three months ended June 30, 2019 and 2018. Additionally, the Company continues to incur losses in jurisdictions which have valuation allowances against tax loss carryforwards, so a tax benefit has not been recognized in the financial statements for these losses.

8. Loss Per Share

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

There were no dilutive effects during the three and six months ended June 30, 2019 and 2018 as a result of a net loss incurred in each period. The number of antidilutive securities excluded from the computation of diluted earnings per share

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

amounts was not material. The computations of basic and diluted loss per share for the three and six months ended June 30, 2019 and 2018 are as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Numerator:				
Net loss	\$ (1,169)	\$ (299)	\$ (3,631)	\$ (1,983)
Denominator:				
Weighted-average shares outstanding – basic	51,883	51,770	51,857	52,738
Effect of dilutive securities:				
Employee stock options and restricted common shares	—	—	—	—
Weighted-average shares outstanding – diluted	51,883	51,770	51,857	52,738
Basic loss per share				
	\$ (0.02)	\$ (0.01)	\$ (0.07)	\$ (0.04)
Diluted loss per share				
	\$ (0.02)	\$ (0.01)	\$ (0.07)	\$ (0.04)

9. Related Party Transactions

The Company provides print procurement services to Arthur J. Gallagher & Co. J. Patrick Gallagher, Jr., a member of the Company's Board of Directors, is the Chairman, President, and Chief Executive Officer of Arthur J. Gallagher & Co. and has a direct ownership interest in Arthur J. Gallagher & Co. The total amount billed for such print procurement services during the three months ended June 30, 2019 and 2018 was \$0.5 million and \$0.5 million, respectively, and \$0.9 million and \$0.7 million during the six months ended June 30, 2019 and 2018, respectively. The amounts receivable from Arthur J. Gallagher & Co. were \$0.4 million and \$0.3 million as of June 30, 2019 and December 31, 2018, respectively.

In the fourth quarter of 2017, the Company began providing marketing execution services to Enova International, Inc. ("Enova"). David Fisher, a member of the Company's Board of Directors, is the Chairman and Chief Executive Officer of Enova and has a direct ownership interest in Enova. The total amount billed for such services during the three months ended June 30, 2019 and 2018 was \$3.4 million and \$2.2 million, respectively, and \$6.1 million and \$4.0 million during the six months ended June 30, 2019 and 2018, respectively. The amounts receivable from Enova were \$2.7 million and \$2.0 million as of June 30, 2019 and December 31, 2018, respectively.

10. Fair Value Measurement

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

The fair value hierarchy consists of the following three levels:

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

The book value of the debt under the Credit Agreement (as defined herein) is considered to approximate its fair value as of June 30, 2019 as the interest rates are considered in line with current market rates.

11. Commitments and Contingencies

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

Legal Contingencies

In October 2013, the Company removed the former owner of Productions Graphics from his role as President of Productions Graphics, the Company's French subsidiary. He had been in that role since the Company's 2011 acquisition of Productions Graphics, a European business then principally owned by him. In December 2013, the former owner of Productions Graphics initiated a wrongful termination claim in the Commercial Court of Paris seeking approximately €0.7 million (approximately \$1.0 million) in fees and damages. In anticipation of this claim, in November 2013, he also obtained a judicial asset attachment order in the amount of €0.7 million (approximately \$1.0 million) as payment security; the attachment order was confirmed in January 2014, and the Company filed an appeal of the order. In March 2015, the appellate court ruled in the Company's favor in the attachment proceedings, releasing all attachments. The Company disputes the allegations of the former owner of Productions Graphics and intends to vigorously defend these matters. In February 2014, based on a review the Company initiated into certain transactions associated with the former owner of Productions Graphics, the Company concluded that he had engaged in fraud by inflating the results of the Productions Graphics business in order to induce the Company to pay him €7.1 million in contingent consideration pursuant to the acquisition agreement. In light of those findings, in February 2014, the Company filed a criminal complaint in France seeking to redress the harm caused by his conduct and this proceeding is currently pending. In addition, in September 2015, the Company initiated a civil claim in the Paris Commercial Court against the former owner of Productions Graphics, seeking civil damages to redress these same harms. In addition to these pending matters, there may be other potential disputes between the Company and the former owner of Productions Graphics relating to the acquisition agreement. The Company had paid €5.8 million (approximately \$8.0 million) in fixed consideration and €7.1 million (approximately \$9.4 million) in contingent consideration to the former owner of Productions Graphics; the remaining maximum contingent consideration under the acquisition agreement was €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.

12. Revolving Credit Facilities and Going Concern

The Company entered into a Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of March 15, 2019, among the Company, the lenders party thereto and Bank of America, N.A., as Administrative Agent (the "Credit Agreement") refinanced its debt, which is further discussed in Note 15. At June 30, 2019 the Credit Agreement included a revolving commitment amount of \$175 million and \$160 million in the aggregate through September 25, 2019 and September 25, 2020, respectively. The Credit Agreement also provided the Company the right to increase the aggregate commitment amount by an additional \$50 million. Outstanding borrowings under the revolving credit facility were guaranteed by the Company's material domestic subsidiaries, as defined in the Credit Agreement. The Company's obligations under the Credit Agreement and such domestic subsidiaries' guaranty obligations were secured by substantially all of their respective assets. The ranges of applicable rates charged for interest on outstanding loans and letters of credit were 50-225 basis point spread for loans based on the base rate and 150-325 basis point spread for letter of credit fees and loans based on the Eurodollar rate.

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

The terms of the Credit Agreement included various covenants, including covenants that require the Company to maintain a maximum leverage ratio and a minimum interest coverage ratio. The most recent amendment to the Credit Agreement modified the maximum leverage ratio from 3.50 to 1.00 to 4.50 to 1.00 for the trailing twelve months ended December 31, 2018, and from 3.00 to 1.00 to 4.75 to 1.00 for the trailing twelve months ended March 31, 2019. The maximum leverage ratio is 3.00 to 1.00 for the trailing twelve months ended June 30, 2019 and each period thereafter. The most recent amendment to the Credit Agreement also modified the minimum interest coverage ratio from 5.00 to 1.00 to 4.00 to 1.00 for the trailing twelve months ended December 31, 2018 and from 5.00 to 1.00 to 3.50 to 1.00 for the trailing twelve months ended March 31, 2019.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

The minimum interest coverage ratio is 5.00 to 1.00 for the trailing twelve months ended June 30, 2019 and each period thereafter. The Company was in violation of the debt covenants under the credit agreement as of June 30, 2019; however, the Company successfully completed refinancing of its debt, which is further discussed in Note 15, prior to the financial statement issuance date.

The revised covenants only affected the fourth quarter of 2018 and the first quarter of 2019. Therefore, the covenant for the second quarter of 2019 remains unchanged and the Company concluded that it has exceeded the maximum leverage ratio and the minimum interest coverage ratio, allowing the lenders to demand repayment of the outstanding debt. Accordingly, the outstanding balance under the Credit Agreement is presented as a current liability as of June 30, 2019 based on the guidance in ASC 470, *Debt*.

Additionally, under ASC 205, *Presentation of Financial Statements*, the Company is required to consider and has evaluated whether there is substantial doubt that it has the ability to meet its obligations within one year from the financial statement issuance date. This assessment also includes the Company's consideration of any management plans to alleviate such doubts. As of December 31, 2018, the inability of the Company to meet its covenant obligations beyond the covenant waiver periods cast substantial doubt on the Company's ability to meet its obligations within one year from the financial statement issuance date. However, following the successful refinancing of its debt described in Note 15, management completed an updated evaluation of the Company's ability to continue as a going concern and has concluded the factors that raised substantial doubts about the Company's ability to continue as a going concern have been successfully remediated as of the financial statement issuance date.

At June 30, 2019, the Company had \$1.5 million of letters of credit which have not been drawn upon. The amount outstanding under the Company's revolving credit facility was \$157.7 million and \$142.7 million as of June 30, 2019 and December 31, 2018, respectively. The Company had unamortized deferred financing fees associated with the Credit Agreement of \$1.4 million and \$0.7 million as of June 30, 2019 and December 31, 2018, respectively.

On February 22, 2016, the Company entered into a Revolving Credit Facility (the "Facility") with Bank of America N.A. to support ongoing working capital needs of the Company's operations in China. The Facility includes a revolving commitment amount of \$5.0 million whereby maturity dates vary based on each individual drawdown. Outstanding borrowings under the Facility are guaranteed by the Company's assets. Borrowings and repayments are made in renminbi, the official Chinese currency. The applicable interest rate is 110% of the People's Bank of China's base rate. The terms of the Facility include limitations on use of funds for working capital purposes as well as customary representations and warranties made by the Company. At June 30, 2019, the Company had \$4.5 million of unused availability under the Facility.

13. Share Repurchase Program

On February 12, 2015, the Company announced that its Board of Directors approved a share repurchase program authorizing the repurchase of up to an aggregate of \$20 million of its common stock through open market and privately negotiated transactions over a two-year period. On November 2, 2016, the Board of Directors approved a two-year extension to the share repurchase program through February 28, 2019. On May 4, 2017, the Board of Directors authorized an increase in its authorized share repurchase program of up to an additional \$30.0 million of the Company's common stock through open market and privately negotiated transactions over a two-year period ending May 31, 2019. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. Repurchases will be made in compliance with SEC rules and other legal requirements. As of June 30, 2019 the program purchase period had lapsed and shares are no longer available for purchase under this plan.

During the three and six months ended June 30, 2019, respectively, the Company did not repurchase any shares of its common stock under this program. During the three and six months ended June 30, 2018 the Company repurchased 1,735,983 and 2,667,732 shares of its common stock for \$16.9 million and \$25.6 million in the aggregate at an average cost of \$9.75 and \$9.60, respectively. Shares repurchased under this program are recorded at acquisition cost, including related expenses.

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. During the third quarter of 2018, the Company changed its reportable segments. The Company is now organized and managed by the CODM as three operating segments: North America, EMEA and LATAM. The North America segment includes operations in the United States

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

and Canada; the EMEA segment includes operations in the United Kingdom, continental Europe, the Middle East, Africa, and Asia; and the LATAM segment includes operations in Mexico, Central America, and South America. Other consists of intersegment eliminations, shared service activities, and unallocated corporate expenses. All transactions between segments are presented at their gross amounts and eliminated through Other. We have reflected the segment change as if it had occurred in all periods presented.

Management evaluates the performance of its operating segments based on revenues and Adjusted EBITDA, which is a non-GAAP financial measure. The accounting policies of each of the operating segments are the same as those described in the summary of significant accounting policies in Note 1. Adjusted EBITDA represents income from operations excluding depreciation and amortization, stock-based compensation expense, goodwill, intangible and long-lived asset impairment charges, restructuring charges, senior leadership transition and other employee-related expenses, business development realignment, obsolete retail inventory writeoff, professional fees related to ASC 606 implementation, executive search expenses, restatement of prior period financial statements, and other expenses related to investment in operational and financial process improvements. Management does not evaluate the performance of its operating segments using asset measures.

The table below presents financial information for the Company's reportable segments and Other for the three and six months ended June 30, 2019 and 2018 (in thousands):

	North America	EMEA	LATAM	Other ⁽²⁾	Total
<i>Three Months Ended June 30, 2019:</i>					
Revenue from third parties	\$ 200,283	\$ 62,483	\$ 21,287	\$ —	\$ 284,053
Revenue from other segments	650	2,713	2	(3,365)	—
Total revenue	200,933	65,196	21,289	(3,365)	284,053
Adjusted EBITDA ⁽¹⁾	21,151	4,292	611	(12,414)	13,640

<i>Three Months Ended June 30, 2018:</i>					
Revenue from third parties	\$ 194,735	\$ 65,039	\$ 22,193	\$ —	\$ 281,967
Revenue from other segments	951	2,696	(48)	(3,599)	—
Total revenue	195,686	67,735	22,145	(3,599)	281,967
Adjusted EBITDA ⁽¹⁾	18,372	805	1,244	(12,235)	8,186

	North America	EMEA	LATAM	Other ⁽²⁾	Total
<i>Six Months Ended June 30, 2019:</i>					
Revenue from third parties	\$ 388,584	\$ 122,662	\$ 40,045	\$ —	\$ 551,291
Revenue from other segments	1,213	4,360	4	(5,577)	—
Total revenue	389,797	127,022	40,049	(5,577)	551,291
Adjusted EBITDA ⁽¹⁾	36,602	6,819	876	(24,083)	20,214

<i>Six Months Ended June 30, 2018</i>					
Revenue from third parties	\$ 384,012	\$ 129,207	\$ 43,287	\$ —	\$ 556,506
Revenue from other segments	2,371	5,346	78	(7,795)	—
Total revenue	386,383	134,553	43,365	(7,795)	556,506
Adjusted EBITDA ⁽¹⁾	35,588	2,310	1,830	(24,193)	15,535

- (1) Adjusted EBITDA, which represents income from operations with the addition of depreciation and amortization, stock-based compensation expense, restructuring charges, professional fees related to ASC 606 implementation, executive search costs and restatement-related professional fees is considered a non-GAAP financial measure under SEC regulations. Income from operations is the most directly comparable financial measure calculated in accordance with GAAP. The Company presents this measure as supplemental information to help investors better understand trends in its business results over time. The Company's management team uses Adjusted EBITDA to evaluate the performance of the business. Adjusted EBITDA is not equivalent to any measure of performance required to be

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

reported under GAAP, nor should this data be considered an indicator of the Company's overall financial performance and liquidity. Moreover, the Adjusted EBITDA definition the Company uses may not be comparable to similarly titled measures reported by other companies.

- (2) "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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Adjusted EBITDA	13,640	8,186	20,214	15,535
Depreciation and amortization	(3,233)	(3,514)	(5,849)	(7,173)
Stock-based compensation expense	(1,402)	(1,406)	(2,141)	(2,823)
Stock appreciation rights market-to-market	(46)	—	(46)	—
Restructuring charges	(3,698)	—	(7,632)	—
Control remediation-related fees	(175)	(537)	(540)	(537)
Executive search fees	—	(234)	(80)	(234)
Professional fees related to ASC 606 implementation	—	(60)	—	(1,092)
Sales and use tax audit	(1,235)	—	(1,235)	—
Other professional fees	(376)	(80)	(376)	(80)
Income (Loss) from operations	3,475	2,355	2,315	3,596
Interest income	104	54	202	115
Interest expense	(2,486)	(1,517)	(5,232)	(3,085)
Other, net	279	(588)	(460)	(1,433)
Income (Loss) before income taxes	<u>\$ 1,372</u>	<u>\$ 304</u>	<u>\$ (3,175)</u>	<u>\$ (807)</u>

15. Subsequent Event

Debt Refinancing

On July 16, 2019, the Company and certain of its direct and indirect subsidiaries entered into a credit 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 with a maturity date of July 16, 2024.

Further, on July 16, 2019, the Company and certain of its direct and indirect subsidiaries entered into a credit 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 with a maturity date of July 16, 2024.

In connection with 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 ending March 31, 2020 to the administrative agent and (y) May 15, 2020 (the "First Quarter Reporting Period End Date") through (B) July 16, 2024.

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 Term Loan Credit Agreement for the fiscal quarter

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2019

ending March 31, 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" and together with the Initial Warrant, the "Warrant").

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.

The Company used the initial proceeds from the ABL Credit Facility and the Term Loan Credit Facility to repay in full all amounts outstanding under the Credit Agreement, to pay fees and transaction expenses in connection with the closing of the ABL Credit Facility and the Term Loan Credit Facility and for working capital purposes.

Refer to the Company's Form 8-K filed on July 16, 2019 for more information surrounding the debt refinancing agreements.

Remediation of Going Concern

The Company's independent registered public accounting firm's report on the Company's December 31, 2018 consolidated financial statements contains an emphasis of a matter regarding substantial doubt about the Company's ability to continue as a going concern. Following the successful refinancing of its debt described above, management completed an updated evaluation of the Company's ability to continue as a going concern and has concluded the factors that raised substantial doubts about the Company's ability to continue as a going concern that existed as of December 31, 2018 have successfully been remediated. The new debt structure provides long-term capital with improved flexibility to support the Company's growth plans.

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

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

Overview

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

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

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

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

As of June 30, 2019, we had approximately 2,000 employees in more than 30 countries. For the six months ended June 30, 2019 we generated global revenue from third parties of \$388.6 million in the North America segment, \$122.7 million in the EMEA segment, and \$40.0 million in the LATAM segment.

Our objective is to continue to increase our sales in the United States and internationally by adding new clients and increasing our sales to existing clients through additional marketing execution services or geographic markets. In addition, we believe the opportunity exists to expand our business through acquisition and entry into new geographic markets.

Revenue

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

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

Cost of Goods Sold and Gross Profit

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

Operating Expenses and Income from Operations

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

We accrue for commissions when we recognize the related revenue. Some of our account executives receive a monthly draw to provide them with a more consistent income stream. The cash paid to our account executives in advance of commissions earned is reflected as a prepaid expense on our balance sheet. As our account executives earn commissions, a portion of their commission payment is withheld and offset against their prepaid commission balance, if any.

Comparison of three months ended June 30, 2019 and 2018

Revenue

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

	Three Months Ended June 30,			
	2019	% of Total	2018	% of Total
North America	\$ 200,283	70.5%	\$ 194,735	69.0%
EMEA	62,483	22.0	65,039	23.1
LATAM	21,287	7.5	22,193	7.9
Revenue from third parties	<u>\$ 284,053</u>	<u>100.0%</u>	<u>\$ 281,967</u>	<u>100.0%</u>

North America

North America revenue increased by \$5.6 million, or 2.9%, from \$194.7 million during the three months ended June 30, 2018 to \$200.3 million during the three months ended June 30, 2019. This increase in revenue relates primarily to growth from new and existing enterprise clients.

EMEA

EMEA revenue decreased by \$2.5 million, or 3.8%, from \$65.0 million during the three months ended June 30, 2018 to \$62.5 million during the three months ended June 30, 2019. The decrease was a result of growth that was more than offset by foreign currency impact and declines in marketing spend by certain clients.

LATAM

LATAM revenue decreased by \$0.9 million, or 4.1%, from \$22.2 million during the three months ended June 30, 2018 to \$21.3 million during the three months ended June 30, 2019. The decrease was a result of growth that was more than offset by foreign currency impact and declines in marketing spend by certain clients.

Cost of goods sold

Our cost of goods sold decreased by \$2.1 million, or 1.0%, from \$217.1 million during the three months ended June 30, 2018 to \$215.0 million during the three months ended June 30, 2019. Our cost of goods sold as a percentage of revenue was 75.7% and 77.0% during the three months ended June 30, 2019 and 2018, respectively.

Gross profit margin

Our gross profit margin was 24.3% and 23.0% during the three months ended June 30, 2019 and 2018, respectively. This increase was primarily driven by operating efficiencies in North America and improved customer mix in EMEA.

Selling, general, and administrative expenses

Selling, general, and administrative expenses decreased by \$0.3 million, or 0.5%, from \$59.0 million during the three months ended June 30, 2018 to \$58.7 million during the three months ended June 30, 2019. This decrease was driven by the Company's restructuring efforts, partially offset by higher legal fees and additional sales tax resulting from sales tax audit of prior periods. As a percentage of gross profit, selling, general, and administrative expenses also decreased to 84.9% for the three months ended June 30, 2019 compared to 90.9% for the three months ended June 30, 2018.

Depreciation and amortization

Depreciation and amortization expense decreased by \$0.3 million, or 8.6%, from \$3.5 million during the three months ended June 30, 2018 to \$3.2 million during the three months ended June 30, 2019. This decrease is due to lower amortization resulting from impairment charges to intangible assets in 2018.

Restructuring charges

On August 10, 2018, the Company approved a plan to reduce the Company's cost structure while driving value for its clients and stockholders. Consequently, no restructuring charges were recognized in the three months ended June 30, 2018. For the three months ended June 30, 2019, we recognized \$3.7 million in restructuring charges.

Income from operations

Income from operations increased by \$1.1 million from \$2.4 million during the three months ended June 30, 2018 to \$3.5 million during the three months ended June 30, 2019. As a percentage of revenue, income from operations was 1.2% and 0.9% during the three months ended June 30, 2019 and 2018, respectively. As a percentage of gross profit, income from operations was 5.1% and 3.7% during the three months ended June 30, 2019 and 2018, respectively. This increase is primarily attributable to higher gross profit and lower selling, general and administrative expenses, offset by restructuring charges.

Other expense

Other expense did not materially change from the three months ended June 30, 2018 to three months ended June 30, 2019.

Income tax expense

Income tax expense increased by \$1.9 million from \$0.6 million during the three months ended June 30, 2018 to \$2.5 million during the three months ended June 30, 2019. Our effective tax rate was 185.2% and 198.4% for the three months ended June 30, 2019 and 2018, respectively. Our effective income tax rate differs from the U.S. federal statutory rate each year due to certain operations that are subject to tax incentives, state and local taxes, valuation allowances, impacts of the Tax Reform Act, and foreign tax rates that are different than the U.S. federal statutory tax rate. In addition, the effective tax rate can be impacted each period by discrete factors and events such as a write-off of a deferred tax asset for stock-based compensation due to the expiration of unexercised stock options.

Net loss

Net loss increased by \$0.9 million, or 300.0%, from net loss of \$0.3 million during the three months ended June 30, 2018 to a \$1.2 million net loss during the three months ended June 30, 2019. Net loss as a percentage of revenue was (0.4)% and (0.1)% during the three months ended June 30, 2019 and 2018, respectively. Net loss as a percentage of gross profit was (1.7)% and (0.5)% during the three months ended June 30, 2019 and 2018, respectively. The increase in net loss is attributable to the increase in income taxes, offset by higher income from operations.

Comparison of six months ended June 30, 2019 and 2018

Revenue

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

	Six Months Ended June 30,			
	2019	% of Total	2018	% of Total
North America	\$ 388,584	70.5%	\$ 384,012	69.0%
EMEA	122,662	22.2	129,207	23.2
LATAM	40,045	7.3	43,287	7.8
Revenue from third parties	<u>\$ 551,291</u>	<u>100.0%</u>	<u>\$ 556,506</u>	<u>100.0%</u>

North America

North America revenue increased by \$4.6 million, or 1.2%, from \$384.0 million during the six months ended June 30, 2018 to \$388.6 million during the six months ended June 30, 2019. This increase in revenue relates primarily to continued growth from new and existing enterprise clients.

EMEA

EMEA revenue decreased by \$6.5 million, or 5.0%, from \$129.2 million during the six months ended June 30, 2018 to \$122.7 million during the six months ended June 30, 2019. The decrease was a result of growth that was more than offset by foreign currency impacts and declines in marketing spend by certain clients.

LATAM

LATAM revenue decreased by \$3.3 million, or 7.6%, from \$43.3 million during the six months ended June 30, 2018 to \$40.0 million during the six months ended June 30, 2019. The decrease was a result of growth that was more than offset by foreign currency impacts and declines in marketing spend by certain clients.

Cost of goods sold

Our cost of goods sold decreased by \$4.6 million, or 1.1%, from \$425.6 million during the six months ended June 30, 2018 to \$421.0 million during the six months ended June 30, 2019. Our cost of goods sold as a percentage of revenue was 76.4% and 76.5% during the six months ended June 30, 2019 and 2018, respectively.

Gross profit margin

Our gross profit margin was 23.6% and 23.5% during the six months ended June 30, 2019 and 2018, respectively. This increase was primarily driven by operating efficiencies in North America and better customer mix in EMEA.

Selling, general, and administrative expenses

Selling, general, and administrative expenses decreased by \$5.7 million, or 4.7%, from \$120.2 million during the six months ended June 30, 2018 to \$114.5 million during the six months ended June 30, 2019. This decrease was driven by the Company's restructuring efforts, partially offset by higher legal fees and additional sales tax resulting from a sales tax audit of prior periods. As a percentage of gross profit, selling, general, and administrative expenses also decreased to 87.9% for the six months ended June 30, 2019 compared to 91.8% for the six months ended June 30, 2018.

Depreciation and amortization

Depreciation and amortization expense decreased by \$1.4 million, or 19.4%, from \$7.2 million during the six months ended June 30, 2018 to \$5.8 million during the six months ended June 30, 2019. The decrease is due to lower amortization resulting from impairment charges to intangible assets in 2018.

Restructuring charges

On August 10, 2018, the Company approved a plan to reduce the Company's cost structure while driving value for its clients and stockholders. Consequently, no restructuring charges were recognized in the six months ended June 30, 2018. For the six months ended June 30, 2019, we recognized \$7.6 million in restructuring charges.

Income from operations

Income from operations decreased by \$1.3 million from \$3.6 million during the six months ended June 30, 2018 to \$2.3 million during the six months ended June 30, 2019. As a percentage of revenue, income from operations was 0.4% and 0.6% during the six months ended June 30, 2019 and 2018, respectively. As a percentage of gross profit, income from operations was 1.8% and 2.8% during the six months ended June 30, 2019 and 2018, respectively. This increase is primarily attributable to lower selling, general and administrative expenses, offset by restructuring charges.

Other expense

Other expense increased by \$1.1 million from \$4.4 million for the six months ended June 30, 2018 to \$5.5 million during the six months ended June 30, 2019. This increase in expense was primarily driven by an increase in interest expense, offset by foreign exchange gains.

Income tax expense

Income tax expense decreased by \$0.7 million from \$1.2 million during the six months ended June 30, 2018 to \$0.5 million during the six months ended June 30, 2019. Our effective tax rate was (14.4)% and (145.7)% for the six months ended June 30, 2019 and 2018, respectively. Our effective income tax rate differs from the U.S. federal statutory rate each year due to certain operations that are subject to tax incentives, state and local taxes, valuation allowances, impacts of the Tax Reform Act, and foreign tax rates that are different than the U.S. federal statutory tax rate. In addition, the effective tax rate can be impacted each period by discrete factors and events such as a write-off of a deferred tax asset for stock-based compensation due to the expiration of unexercised stock options.

Net loss

Net loss increased by \$1.6 million, or 80.0%, from \$2.0 million during the six months ended June 30, 2018 to \$3.6 million during the six months ended June 30, 2019. Net loss as a percentage of revenue was (0.7)% and (0.4)% during the six months ended June 30, 2019 and 2018, respectively. Net loss as a percentage of gross profit was (2.8)% and (1.5)% during the six months ended June 30, 2019 and 2018, respectively. The increase in net loss is primarily attributable to lower selling, general and administrative expenses, offset by restructuring charges and higher interest expense.

Adjusted EBITDA

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

	Three Months Ended June 30,			
	2019	% of Total	2018	% of Total
North America	\$ 21,151	155.0 %	\$ 18,372	224.5 %
EMEA	4,292	31.5	805	9.8
LATAM	611	4.5	1,244	15.2
Other ⁽¹⁾	(12,414)	(91.0)	(12,235)	(149.5)
Adjusted EBITDA	<u>\$ 13,640</u>	<u>100.0 %</u>	<u>\$ 8,186</u>	<u>100.0 %</u>

	Six Months Ended June 30,			
	2019	% of Total	2018	% of Total
North America	\$ 36,602	181.1 %	\$ 35,588	229.0 %
EMEA	6,819	33.7	2,310	14.9
LATAM	876	4.3	1,830	11.8
Other ⁽¹⁾	(24,083)	(119.1)	(24,193)	(155.7)
Adjusted EBITDA	<u>\$ 20,214</u>	<u>100.0 %</u>	<u>\$ 15,535</u>	<u>100.0 %</u>

(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, 2019 and 2018. Adjusted EBITDA increased by \$5.4 million, or 66.0%, from \$8.2 million during the three months ended June 30, 2018 to \$13.6 million during the three months ended June 30, 2019. North America Adjusted EBITDA increased by \$2.8 million, or 15.2%, from \$18.4 million during the three months ended June 30, 2018 to \$21.2 million during the three months ended June 30, 2019 mainly from higher revenue and higher Gross margin. EMEA Adjusted EBITDA increased by \$3.5 million, or 437.5%, from \$0.8 million during the three months ended June 30, 2018 to \$4.3 million during the three months ended June 30, 2019 due to customer mix and reduced operating expenses as a result of restructuring efforts. LATAM Adjusted EBITDA decreased by \$0.6 million, or 50.0%, from \$1.2 million during the three months ended June 30, 2018 to \$0.6 million during the three months ended June 30, 2019 due to lower revenues and resulting lower Gross profit. Other Adjusted EBITDA decreased by \$0.2 million, or 1.6%, from a loss of \$12.2 million during the three months ended June 30, 2018 to a loss of \$12.4 million during the three months ended June 30, 2019 primarily due to reduced employee compensation and incentive expenses.

Comparison of six months ended June 30, 2019 and 2018. Adjusted EBITDA increased by \$4.7 million, or 30.3%, from \$15.5 million during the six months ended June 30, 2018 to \$20.2 million during the six months ended June 30, 2019. North America Adjusted EBITDA increased by \$1.0 million, or 2.8%, from \$35.6 million during the six months ended June 30, 2018 to \$36.6 million during the six months ended June 30, 2019 as a result of lower operating expenses. EMEA Adjusted EBITDA increased by \$4.5 million, or 195.7%, from \$2.3 million during the six months ended June 30, 2018 to \$6.8 million during the six months ended June 30, 2019 due to customer mix and reduced expenses related to restructuring efforts. LATAM Adjusted EBITDA decreased by \$0.9 million, or 50.0%, from \$1.8 million during the six months ended June 30, 2018 to \$0.9 million during the six months ended June 30, 2019 due to lower revenues. Other Adjusted EBITDA remained virtually unchanged period over period.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net loss	\$ (1,169)	\$ (299)	\$ (3,631)	\$ (1,983)
Income tax expense	2,541	603	456	1,176
Interest income	(104)	(54)	(202)	(115)
Interest expense	2,486	1,517	5,232	3,085
Other income (expense), net	(279)	588	460	1,433
Depreciation and amortization	3,233	3,514	5,849	7,173
Stock-based compensation expense	1,402	1,406	2,141	2,823
Stock appreciation rights marked to market	46	—	46	—
Restructuring charges	3,698	—	7,632	—
Professional fees related to ASC 606 implementation	—	60	—	1,092
Executive search fees	—	234	80	234
Control remediation-related fees	175	537	540	537
Sales and use tax audit	1,235	—	1,235	—
Other professional fees	376	80	376	80
Adjusted EBITDA	<u>\$ 13,640</u>	<u>\$ 8,186</u>	<u>\$ 20,214</u>	<u>\$ 15,535</u>

Adjusted Diluted Earnings (Loss) Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net loss	\$ (1,169)	\$ (299)	\$ (3,631)	\$ (1,983)
Restructuring charges, net of tax	2,772	—	5,802	—
Control remediation-related fees	130	403	402	403
Executive search fees, net of tax	—	176	60	176
Professional fees related to ASC 606 implementation, net of tax	—	45	—	819
Sales and use tax audit, net of tax	920	—	920	—
Other professional fees, net of tax	280	60	280	60
Adjusted net income (loss)	2,933	385	3,833	(525)
Weighted-average shares outstanding, diluted	52,038	52,528	51,961	52,738
Non-GAAP diluted earnings (loss) per share	\$ 0.06	\$ 0.01	\$ 0.07	\$ (0.01)

Comparison of three months ended June 30, 2019 and 2018. Adjusted diluted earnings (loss) per share increased by \$0.05 from \$0.01 during the three months ended June 30, 2018 to \$0.06 during the three months ended June 30, 2019. This increase is primarily attributable to higher revenues, improved gross margin and restructuring.

Comparison of six months ended June 30, 2019 and 2018. Adjusted diluted earnings (loss) per share increased by \$0.08 from \$(0.01) during the six months ended June 30, 2018 to \$0.07 during the six months ended June 30, 2019. This increase is primarily due to lower operating costs and restructuring.

Liquidity and Capital Resources

At June 30, 2019, we had \$34.0 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, 2019 was \$1.3 million and consisted of a net loss of \$3.6 million, offset by \$9.1 million of non-cash items less an increase in working capital of \$4.2 million. The most significant impact on working capital and other activities consisted of an increase in accounts receivable and unbilled revenue of \$10.2 million less an increase in accounts payable and accrued expenses and other liabilities of \$5.9 million.

Cash provided by operating activities for the six months ended June 30, 2018 was \$22.6 million and consisted of a net loss of \$2.0 million, offset by \$10.7 million of non-cash items and by \$13.9 million provided by working capital and other activities. The most significant impact on working capital and other activities consisted of a decrease in accounts receivable and unbilled revenue of \$21.6 million and a decrease in prepaid expenses and other assets of \$9.4 million, all of which was partially offset by a decrease in accounts payable of \$18.7 million.

Investing Activities. Cash used in investing activities for the six months ended June 30, 2019 and 2018 of \$6.9 million and \$5.5 million respectively, was entirely attributable to capital expenditures, primarily software development.

Financing Activities. 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 offset by the payment of debt issuance costs of \$0.9 million and repayment of secured borrowing arrangements of \$0.8 million.

Cash used in financing activities for the six months ended June 30, 2018 of \$18.0 million was primarily attributable to repurchases of common stock of \$25.7 million less net borrowings under the revolving credit facility of \$8.6 million.

Share Repurchase Program

The share repurchase program described in Note 13 expired on May 31, 2019. During the three and six months ended June 30, 2019, the Company did not repurchase any shares of its common stock under this program. During the six months ended June 30, 2018, the Company repurchased 2.7 million shares of its common stock for \$25.6 million in the aggregate at an average cost of \$9.60 per share under this program. During the three months ended June 30, 2018, the Company repurchased 1.7 million shares of its common stock for \$16.9 million in the aggregate at an average cost of \$9.75 per share under this program.

Revolving Credit Facilities

The Company entered into a Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of March 15, 2019, among the Company, the lenders party thereto and Bank of America, N.A., as Administrative Agent (the "Credit Agreement") refinanced its debt, which is further discussed in Note 16. At June 30, 2019 the Credit Agreement included a revolving commitment amount of \$175 million and \$160 million in the aggregate through September 25, 2019 and September 25, 2020, respectively. The Credit Agreement also provided the Company the right to increase the aggregate commitment amount by an additional \$50 million. Outstanding borrowings under the revolving credit facility were guaranteed by the Company's material domestic subsidiaries, as defined in the Credit Agreement. The Company's obligations under the Credit Agreement and such domestic subsidiaries' guaranty obligations were secured by substantially all of their respective assets. The ranges of applicable rates charged for interest on outstanding loans and letters of credit were 50-225 basis point spread for loans based on the base rate and 150-325 basis point spread for letter of credit fees and loans based on the Eurodollar rate.

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

The terms of the Credit Agreement included various covenants, including covenants that require the Company to maintain a maximum leverage ratio and a minimum interest coverage ratio. The most recent amendment to the Credit Agreement modified the maximum leverage ratio from 3.50 to 1.00 to 4.50 to 1.00 for the trailing twelve months ended December 31, 2018, and from 3.00 to 1.00 to 4.75 to 1.00 for the trailing twelve months ended March 31, 2019. The maximum leverage ratio is 3.00 to 1.00 for the trailing twelve months ended June 30, 2019 and each period thereafter. The most recent amendment to the Credit Agreement also modified the minimum interest coverage ratio from 5.00 to 1.00 to 4.00 to 1.00 for the trailing twelve months ended December 31, 2018 and from 5.00 to 1.00 to 3.50 to 1.00 for the trailing twelve months ended March 31, 2019. The minimum interest coverage ratio is 5.00 to 1.00 for the trailing twelve months ended June 30, 2019 and each period thereafter. The Company was in violation of the debt covenants under the credit agreement as of June 30, 2019; however, the Company successfully completed refinancing of its debt, which is further discussed in Note 15, prior to the financial statement issuance date.

The revised covenants only affected the fourth quarter of 2018 and the first quarter of 2019. Therefore, the covenant for the second quarter of 2019 remains unchanged and the Company concluded that it has exceeded the maximum leverage ratio and the minimum interest coverage ratio, allowing the lenders to demand repayment of the outstanding debt. Accordingly, the outstanding balance under the Credit Agreement is presented as a current liability as of June 30, 2019 based on the guidance in ASC 470, *Debt*.

Additionally, under ASC 205, *Presentation of Financial Statements*, the Company is required to consider and has evaluated whether there is substantial doubt that it has the ability to meet its obligations within one year from the financial statement issuance date. This assessment also includes the Company's consideration of any management plans to alleviate such doubts. As of December 31, 2018, the inability of the Company to meet its covenant obligations beyond the covenant waiver periods cast substantial doubt on the Company's ability to meet its obligations within one year from the financial statement issuance date. However, following the successful refinancing of its debt described in Note 16, management completed an updated evaluation of the Company's ability to continue as a going concern and has concluded the factors that raised substantial doubts about the Company's ability to continue as a going concern have been successfully remediated as of the financial statement issuance date.

At June 30, 2019, the Company had \$1.5 million of letters of credit which have not been drawn upon. The amount outstanding under the Company's revolving credit facility was \$157.7 million and \$142.7 million as of June 30, 2019 and December 31, 2018, respectively. The Company had unamortized deferred financing fees associated with the Credit Agreement of \$1.4 million and \$0.7 million as of June 30, 2019 and December 31, 2018, respectively.

On February 22, 2016, the Company entered into a Revolving Credit Facility (the "Facility") with Bank of America N.A. to support ongoing working capital needs of the Company's operations in China. The Facility includes a revolving commitment amount of \$5.0 million whereby maturity dates vary based on each individual drawdown. Outstanding borrowings under the Facility are guaranteed by the Company's assets. Borrowings and repayments are made in renminbi, the official Chinese currency. The applicable interest rate is 110% of the People's Bank of China's base rate. The terms of the Facility include limitations on use of funds for working capital purposes as well as customary representations and warranties made by the Company. At June 30, 2019, the Company had \$4.5 million of unused availability under the Facility.

Off-Balance Sheet Arrangements

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

Contractual Obligations

There have been no material changes outside the normal course of business in the contractual obligations disclosed in Item 7 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, under the caption "Contractual Obligations."

Critical Accounting Policies and Estimates

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

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

As of June 30, 2019, except for the new critical accounting policy for Leases described above, there were no material changes to our critical accounting policies and estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains words such as "may," "will," "believe," "expect," "anticipate," "intend," "plan," "project," "estimate" and "objective" or the negative thereof or similar terminology concerning the Company's future financial performance, business strategy, plans, goals and objectives. These expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information concerning our possible or assumed future performance or results of operations and are not guarantees. While these statements are based on assumptions and judgments that management has made in light of industry experience as well as perceptions of historical trends, current conditions, expected future developments and other factors believed to be appropriate under the circumstances, they are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different. Some of the factors that would cause future results to differ from the recent results or those projected in forward-looking statements include, but are not limited to, the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2018.

Additional Information

We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, other reports and information filed with the SEC and amendments to those reports available, free of charge, through our Internet website (<http://www.inwk.com>) as soon as reasonably practical after we electronically file or furnish such materials to the SEC. In addition, the SEC maintains an Internet website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Commodity Risk

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

Interest Rate Risk

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

Our interest income is sensitive to changes in the general level of U.S. interest rates, in particular because all of our investments are in cash equivalents and marketable securities. The average duration of our investments as of June 30, 2019 was less than one year. Due to the short-term nature of our investments, we believe that there is no material risk exposure.

Foreign Currency Risk

We transact business in various foreign currencies other than the U.S. dollar, principally the euro, British pound sterling, Czech koruna, Peruvian nuevo sol, Colombian peso, Brazilian real, Mexican peso and Chilean peso, which exposes us to foreign currency risk. For the six months ended June 30, 2019, we derived approximately 29.5% of our revenue from international customers, and we expect the percentage of revenue derived from outside the United States to increase in future periods as we continue to expand globally. Revenue and related expenses generated from our international operations are denominated in the functional currencies of the corresponding country. The functional currency of our subsidiaries that either operate or support these markets is generally the same as the corresponding local currency. The results of operations of, and certain of our intercompany balances associated with, our international operations are exposed to foreign exchange rate fluctuations. Changes in exchange rates could negatively affect our revenue and other operating results as expressed in U.S. dollars. We may record significant gains or losses on the remeasurement of intercompany balances. Foreign exchange gains and losses recorded to date have been immaterial to our financial statements. At this time we do not, but in the future we may enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities would have on our results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our chief executive officer and chief financial officer, we evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2019. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures, our chief executive officer and chief financial officer concluded that, due to material weaknesses in internal control over financial reporting described below, our disclosure controls and procedures were not effective as of June 30, 2019.

Material Weaknesses and Related Remediation Efforts

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

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

Material Weaknesses

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

Remediation Efforts

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

We have continued executing a plan to remediate the material weaknesses noted above. Specifically, to remediate deficiencies in revenue recognition controls, the Company is developing and implementing controls to: (i) compile and process shipping data and delivery terms in customer contracts and improve related operational processes; (ii) improve review processes and related documentation supporting customer orders and pricing; (iii) improve process for estimating future credit memos; and (iv) implement an improved system, process, and related controls to categorize and track customer contracts based on delivery terms. As of the filing date, we have made progress toward remediating the material weaknesses by:

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

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

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

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

We will continue to actively identify, develop, and implement additional measures to materially improve and strengthen our internal control over financial reporting. The material weaknesses discussed above cannot be considered remediated until the controls have operated for a sufficient period of time and management has concluded, through testing, that such controls are operating effectively. We expect to complete this remediation during 2019.

Changes in Internal Control Over Financial Reporting

Except as described above, there have been no other changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information concerning our legal proceedings, see Note 11 to the Condensed Consolidated Financial Statements in this Form 10-Q.

Item 1A. Risk Factors

There have been no material changes in the risk factors described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

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

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

Issuer Purchases of Equity Securities

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

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

The Company did not make any repurchases of its common stock during the three and six months ended June 30, 2019.

Item 6. Exhibits

Exhibit No	Description of Exhibit
10.1	Form of 2019 Performance Share Unit Award Agreement under the InnerWorkings, Inc. 2006 Stock Incentive Plan, as amended.*
10.2	Form of 2019 Restricted Stock Unit Award Agreement under the InnerWorkings, Inc. 2006 Stock Incentive Plan, as amended.*
10.3	Form of 2019 Stock Appreciation Right Agreement under the InnerWorkings, Inc. 2006 Stock Incentive Plan, as amended.*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan or arrangement of the Company.

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

SIGNATURES

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

INNERWORKINGS, INC.

Date: August 9, 2019

By: /s/ Richard S. Stoddart

Richard S. Stoddart
Chief Executive Officer

Date: August 9, 2019

By: /s/ Donald W. Pearson

Donald W. Pearson
Chief Financial Officer

PERFORMANCE SHARE UNIT AWARD AGREEMENT

THIS PERFORMANCE SHARE UNIT AWARD AGREEMENT (this “**Agreement**”) is made and entered into effective [Grant Date:Mon/DD/YYYY] (the “**Grant Date**”) by and between InnerWorkings, Inc., a Delaware corporation (the “**Company**”) and [Participant Name:First Name Last Name] (the “**Participant**”).

RECITALS

WHEREAS, the Company has adopted the InnerWorkings, Inc. 2006 Stock Incentive Plan, as amended (the “**Plan**”) (capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Plan); and

WHEREAS, pursuant to the Plan, the Compensation Committee of the Board of Directors of the Company (the “**Committee**”) desires to grant the Participant an Award of Performance Share Units (as defined below), subject to certain restrictions as set forth in this Agreement, effective as of the Grant Date.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Company and the Participant agree as follows:

AGREEMENT

1. **Grant of Performance Share Units.** Subject to the terms and conditions of the Plan and the additional terms and conditions set forth in this Agreement, the Company hereby grants to the Participant an Award of Performance Share Units that is contingent upon the satisfaction of the performance measures set forth in Section 3 below (the “**Performance Share Units**”), consisting of the target number of Performance Share Units specified in Section 4(a) hereof. Each Performance Share Unit is a notional amount that represents one (1) unvested Share and constitutes the right, subject to the terms and conditions of the Plan and this Agreement, to distribution of a Share following the vesting of such Performance Share Unit and satisfaction of the other requirements contained herein.

2. **Performance Period.** The Performance Period for this Award shall be the eleven (11) quarter period beginning on April 1, 2019 and ending on December 31, 2021.

3. **Performance Measures.** Vesting of the Award shall be based fifty percent (50%) on the cumulative adjusted earnings per share (“**Cumulative Adjusted EPS**”) achieved for the Performance Period and fifty percent (50%) on the cumulative return on invested capital (“**Cumulative Return on Invested Capital**”) achieved for the Performance Period. Cumulative Adjusted EPS and Cumulative Return on Invested Capital will be determined in accordance with the formulas and calculation methods approved by the Committee, subject to the Committee’s certification following the end of the Performance Period.

4. **Performance Goals: Number of Performance Share Units.**

(a) The Participant has been credited with [target number] Performance Share Units, representing one-hundred percent (100%) of the target number of Performance Share Units that may be earned pursuant to this agreement (such number, the “**Target PSUs**”). The number of Performance Share Units actually earned, if any, will be based on the Company’s performance (see the table below), and may range from fifty percent (50%) of the Target PSUs for the achievement of the performance measures set forth in Section 3 above at the “threshold” level of performance to two hundred percent (200%) of the Target PSUs for achievement of the performance measures at the “maximum” level of performance.

Performance At:	Cumulative Adjusted EPS (50% of Award)		Cumulative Return on Invested Capital (50% of Award)	
	Performance Goal	Number of Performance Share Units Earned	Performance Goal	Number of Performance Share Units Earned
Maximum (200%)		2.0x Target PSUs x 50%		2.0x Target PSUs x 50%
Target (100%)		Target PSUs x 50%		Target PSUs x 50%
Threshold (50%)		0.5x Target PSUs x 50%		0.5x Target PSUs x 50%

(b) In the event that the Company’s actual performance does not meet the threshold level of performance for a performance goal, no Performance Share Units shall be earned for such performance goal.

(c) If the Company's actual performance is between the threshold and target levels or between the target and maximum levels specified above for a performance goal, linear interpolation shall be used to determine the number of Performance Share Units earned for such performance goal.

(d) If the Company's actual performance exceeds the maximum level of performance for a performance goal, the Performance Share Units earned shall equal the Performance Share Units specified above for the "maximum" level of performance with respect to such performance goal.

(e) Notwithstanding the foregoing, except as otherwise provided in Sections 6 and 7, in the event that the Participant experiences a termination of Service for any reason prior to the end of the Performance Period (including, but not limited to, a voluntary termination of Service), the Participant shall forfeit all Performance Share Units hereunder as of the date of such termination of Service without additional consideration, and the Participant shall have no further rights with respect thereto.

5. **Timing and Form of Payout.** Following the end of the Performance Period, the Participant shall be entitled to receive a number of Shares equal to the number of Performance Share Units earned under Section 4 hereof, subject to all applicable taxes and withholdings. Delivery of such Shares will be made within the first two-and-one-half (2-½) months following the end of the later of the calendar year or the tax year of the Company in which the Performance Period ends, but in no event later than the end of the calendar year following the calendar year in which the Performance Period ends.

6. **Termination of Service without Cause; Termination of Service Due to Death or Disability.** Notwithstanding anything herein to the contrary, unless the Participant's written employment or other written agreement with the Company or an Affiliate provides more favorable treatment, if the Participant experiences an involuntary termination of Service prior to the end of the Performance Period for any reason other than Cause or by reason of the Participant's death or Disability, the Participant shall be entitled to receive a number of Shares the Participant would have been entitled to receive under Section 4, based on actual performance (but capped at one hundred percent (100%) of target), as if he or she had remained employed until the last day of the Performance Period, multiplied by a fraction, the numerator of which shall be the number of full calendar months during the period from April 1, 2019 through the date of the termination of Service, and the denominator of which shall be thirty-three (33), the total number of months in the Performance Period. Delivery of such Shares shall be made in accordance with Section 5 above.

7. **Treatment Upon a Change in Control.**

(a) Notwithstanding anything herein to the contrary, unless the Participant's written employment or other written agreement with the Company or an Affiliate provides more favorable treatment, upon the occurrence of a Qualifying Termination (as defined below), the Participant will be entitled to immediate vesting of the Performance Share Units at the greater of (i) actual performance achieved as of the last day of the quarter coincident with or next following the date of the Qualifying Termination or (ii) the target level of performance. For purposes of this Agreement, and notwithstanding anything in the Plan to the contrary, a "Qualifying Termination" means a termination of Service by the Company without Cause within ninety (90) days prior to or twenty-four (24) months following the consummation of a Change in Control.

(b) In addition, unless the Participant's written employment or other written agreement with the Company or an Affiliate provides more favorable treatment, any Performance Share Units that are not assumed by a successor company or exchanged for a replacement award on no less favorable economic terms will be treated in accordance with Section 3.4(c) of the Plan.

8. **Rights as a Stockholder.** The Participant will not have any rights of a stockholder with respect to the Performance Share Units until the Company has issued or transferred Shares to the Participant in settlement of earned Performance Share Units in accordance with Sections 4 and 5. The Participant will not be entitled to receive dividends or dividend equivalents on the Performance Share Units.

9. **Restrictive Covenants.**

(a) **Covenants Not to Compete or Solicit.** During the Participant's Service and for a period of eighteen (18) months following the termination thereof for any reason, the Participant shall not, anywhere in the Geographic Area (as defined below), other than on behalf of the Company or a Subsidiary of the Company or with the prior written consent of the Company, directly or indirectly:

(i) perform "services" (as defined below) for (in any capacity, including, without limitation, as an employee, agent, consultant, advisor, independent contractor, proprietor, partner, officer, director or otherwise), have any ownership interest in (except for passive ownership of five percent (5%) or less of any entity whose securities have been registered under the Securities Act of 1933, as amended, or Section 12 of the Exchange Act), or participate in the financing, operation, management or control of, any firm, partnership, corporation, entity or business that engages or participates in a "competing business purpose" (as defined below);

(ii) induce or attempt to induce any customer, potential customer, supplier, licensee, licensor or business relation of the Company or a Subsidiary of the Company to cease doing business with the Company or such Subsidiary, or in any way interfere with the relationship between any customer, potential customer, supplier, licensee, licensor or business relation of the Company or a Subsidiary of the Company or solicit the business of any customer or potential customer of the Company or a Subsidiary of the Company, whether or not the Participant had personal contact with such entity; and

(iii) solicit, encourage, hire or take any other action that is intended to induce or encourage, or has the effect of inducing or encouraging, any employee or independent contractor of the Company or any Subsidiary of the Company to terminate his or her employment or relationship with the Company or any Subsidiary of the Company, other than in the discharge of his or her duties as an officer of the Company, if applicable.

For purposes of this Agreement, (A) "**Geographic Area**" shall mean the Participant's country of employment and any other countries in which the Participant conducts business on behalf of the Company or a Subsidiary of the Company, (B) "**services**" shall mean services of the type conducted, authorized, offered, or provided by the Participant on behalf of the Company during the two (2) years prior to the termination of the Participant's Service, and (C) "**competing business purpose**" shall mean the sale or provision of any marketing or printed materials, items, or other products or services that are competitive with in any manner the products or services sold or offered by the Company or a Subsidiary thereof while this Agreement is in effect.

(b) Confidentiality. The Participant shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its Affiliates, and their respective businesses, employees, suppliers or customers, which shall have been obtained by the Participant during the Participant's Service and which shall not be or become public knowledge ("**Confidential Information**"). During the Participant's Service and after the termination thereof, the Participant shall not, without the prior written consent of the Company or as otherwise may be required by law or legal process (provided, that the Participant shall give the Company reasonable notice of such process, and the ability to contest it) or as may be necessary, in the Participant's reasonable discretion, to discharge his or her duties to the Company, communicate or divulge any Confidential Information to anyone other than the Company and those designated by it. Notwithstanding the above, this Agreement shall not prevent the Participant from revealing evidence of criminal wrongdoing to law enforcement or prohibit the Participant from divulging Confidential Information by order of court or agency of competent jurisdiction, or from making other disclosures that are protected under the provisions of law or regulation. Nothing in this Agreement prohibits the Participant from reporting possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, Congress, and any Inspector General, or making other disclosures that are protected under the whistleblower provisions of applicable law or regulation. The Participant does not need the prior authorization of the Company to make any such reports or disclosures, and the Participant is not required to notify the Company that the Participant has made such reports or disclosure.

The Participant acknowledges and agrees that the Company has provided the Participant with written notice below that the Defend Trade Secrets Act, 18 U.S.C. § 1833(b), provides an immunity for the disclosure of a trade secret to report suspected violations of law and/or in an anti-retaliation lawsuit, as follows:

(1) IMMUNITY. - An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that -

(A) is made -

(i) in confidence to a Federal, State or local government official, either directly or indirectly, or to an attorney; and

(ii) solely for the purpose of reporting or investigating a suspected violation of law; or

(B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(2) USE OF TRADE SECRET INFORMATION IN ANTI-RETALIATION LAWSUIT. - An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual-

(A) files any document containing the trade secret under seal; and

(B) does not disclose the trade secret, except pursuant to court order.

(c) **Enforcement.** The covenants contained in this Section 9 shall be construed as a series of separate covenants, one for each county, city, state, or any similar subdivision in any Geographic Area. Except for geographic coverage, each such separate covenant shall be deemed identical in terms to the covenant contained in the preceding sections. If, in any judicial proceeding, a court refuses to enforce any of such separate covenants (or any part thereof), then such unenforceable covenant (or such part) shall be eliminated from this Agreement to the extent necessary to permit the remaining separate covenants (or portions thereof) to be enforced. In the event that the provisions of this Section 9 are deemed to exceed the time, geographic or scope limitations permitted by applicable law, then such provisions shall be reformed to the maximum time, geographic or scope limitations, as the case may be, permitted by applicable law. If the Participant breaches any of the restrictions set forth in this Section 9 and the Company commences a legal proceeding in connection therewith, the time period applicable to each such restriction shall be tolled and extended for a period of time equal to the period of time during which the Participant is determined by a court of competent jurisdiction to be in non-compliance or breach (not to exceed the duration set forth in the applicable restriction) commencing on the date of such determination.

10. **Remedies for Breach.**

(a) The Participant acknowledges and agrees that the agreements and covenants set forth in Section 9 are reasonable and necessary for the protection of the Company's business interests, that irreparable injury will result to the Company if the Participant breaches any of the terms of said covenants, and that in the event of the Participant's actual or threatened breach of any such covenants, the Company will have no adequate remedy at law. The Participant accordingly agrees that, in the event of any actual or threatened breach by the Participant of any of said covenants, the Company will be entitled to seek immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Nothing in this Section 10 will be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of any damages that it is able to prove.

(b) In addition, and not in limitation of the foregoing, in the event of the Participant's breach of any of the covenants set forth in Section 9, (i) the Performance Share Units (whether vested or unvested) shall immediately be forfeited, (ii) the Company shall be entitled to recover any Shares acquired upon the vesting of the Performance Share Units, and (iii) if the Participant has previously sold any of the Shares derived from the Performance Share Units, the Company shall also have the right to recover from the Participant the economic value thereof.

(c) Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement, and to exercise all other rights existing in its favor. The Participant agrees and acknowledges that money damages will not be an adequate remedy for any breach of the provisions of this Agreement and that the Company will be entitled to specific performance and injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

11. **Tax Withholding.** The Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the amount necessary to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising under the Plan or this Agreement. The Company may satisfy the withholding requirement for supplemental wages, in whole or in part, by withholding Shares having a Fair Market Value (determined on the date the Participant recognizes taxable income) necessary to satisfy the withholding tax required to be collected on the transaction. The Participant may elect, subject to the approval of the Committee, to deliver the necessary funds to satisfy the withholding obligation to the Company, in which case there will be no reduction in the Shares otherwise distributable to the Participant.

12. **Plan.** The Participant hereby acknowledges receipt of a copy of the Plan. Notwithstanding any other provision of this Agreement, the Performance Share Units are granted pursuant to the Plan, as in effect on the date of this Agreement, and are subject to the terms and conditions of the Plan, as the same may be amended from time to time; provided, however, that except as otherwise provided by the Plan, no amendment to either the Plan or this Agreement will deprive the Participant, without the Participant's consent, of any Performance Share Units or of the Participant's rights under this Agreement. The interpretation and construction by the Committee of the Plan, this Agreement, the Performance Share Units, and such rules and regulations as may be adopted by the Committee for the purpose of administering the Plan, will be final and binding upon the Participant. In the event that the terms of this Agreement conflict with the terms of the Plan, the Plan shall control.

13. **Section 409A.** This Agreement is intended to be exempt from or, in the alternative, to comply with Section 409A of the Code ("**Section 409A**") and shall be construed and interpreted in a manner that is consistent with the requirements for avoiding additional taxes or penalties under Section 409A. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Participant on account of non-compliance with Section 409A. Notwithstanding any other provision in this Agreement to the contrary, if the Participant is a "specified employee" (as such term is defined for purposes of Section 409A) at the time of his or termination of employment, no amount that is subject to Section 409A and that becomes payable by reason of such termination of employment shall be paid to the Participant before the earlier of (a) the expiration of the six (6) month period measured from the date of the Participant's termination of employment and (b) the date of the Participant's death.

14. **No Employment Rights.** No provision of this Agreement or of the Performance Share Units will give the Participant any right to continue in the employ of the Company or any of its Affiliates, create any inference as to the length of employment of the Participant, affect the right of the Company or its Affiliates to terminate the employment of the Participant, with or without Cause, or give the Participant any right to participate in any employee welfare or benefit plan or other program of the Company or any of its Affiliates.

15. **Changes in Company's Capital or Organizational Structure.** The existence of the Performance Share Units shall not affect in any way the right or authority of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of preferred Shares ahead of or affecting the Shares or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other act or proceeding, whether of a similar character or otherwise.

16. **Delays.** In accordance with the terms of the Plan, the Company shall have the right to suspend or delay any time period prescribed in this Agreement or in the Plan for any action if the Committee shall determine that the action may constitute a violation of any law or result in any liability under any law to the Company, an Affiliate or a stockholder in the Company until such time as the action required or permitted will not constitute a violation of law or result in liability to the Company, an Affiliate or a stockholder of the Company.

17. **Governing Law: Construction.** This Agreement and the Performance Share Units will be governed by, and construed and enforced in accordance with, the laws of the State of Illinois without regard to conflicts of law principles. The jurisdiction and venue for any disputes arising under, or any action brought to enforce (or otherwise relating to), this Agreement will be exclusively in the courts in the State of Illinois, Cook County, including the Federal Courts located therein (should Federal jurisdiction exist). Notwithstanding anything in this Agreement to the contrary, either party can seek injunctive relief in any court of competent jurisdiction. Common nouns and pronouns shall be deemed to refer to the masculine, feminine, neuter, singular and plural, as the context requires.

18. **Entire Agreement.** This Agreement, together with the Plan and any other agreements incorporated herein by reference, constitutes the entire obligation of the parties with respect to the subject matter of this Agreement and supersedes any prior written or oral expressions of intent or understanding with respect to such subject matter (provided, that except as set forth in Sections 6 and 7 of this Agreement (if and to the extent applicable), this Agreement shall not supersede any written employment agreement or other written agreement between the Company and the Participant, including, but not limited to, any written restrictive covenant agreements). Notwithstanding the foregoing, Section 9(a) hereof hereby supersedes any non-competition and/or non-solicitation provision set forth in any previous Award Agreement under the Plan between the Company and the Participant. The Participant represents that, in executing this Agreement, he does not rely and has not relied upon any representation or statement not set forth herein made by the Company with regard to the subject matter, bases or effect of this Agreement or otherwise.

19. **Amendment.** This Agreement may be amended as provided in the Plan.

20. **Waiver: Cumulative Rights.** The failure or delay of either party to require performance by the other party of any provision of this Agreement will not affect its right to require performance of such provision unless and until such performance has been waived in writing. Each right under this Agreement is cumulative and may be exercised in part or in whole from time to time.

21. **Counterparts.** This Agreement may be signed in two counterparts, each of which will be an original, but both of which will constitute one and the same instrument.

22. **Notices.** Any notices required or permitted under this Agreement must be in writing and may be delivered personally or by mail, postage prepaid, addressed to (a) the Company at InnerWorkings, Inc., 600 West Chicago Avenue, Suite 850, Chicago, IL 60654, Attention: Corporate Secretary and (b) the Participant at the Participant's address as shown on the Company's payroll records, or to such other address as the Participant, by notice to the Company, may designate in writing from time to time.

23. **Headings.** The headings in this Agreement are for reference purposes only and will not affect the meaning or interpretation of this Agreement.

24. **Severability.** If any provision of this Agreement is for any reason held to be invalid or unenforceable, such invalidity or unenforceability will not affect any other provision of this Agreement, and this Agreement will be construed as if such invalid or unenforceable provision were omitted.

25. **No Strict Construction.** The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction will be applied against any party.

26. **Successors and Assigns.** This Agreement will inure to the benefit of and be binding upon each successor and assign of the Company. All obligations imposed upon the Participant or a representative, and all rights granted to the Company under this Agreement, will be binding upon the Participant's or the representative's heirs, legal representatives and successors.

27. **Tax Consequences.** The Participant agrees to determine and be responsible for all tax consequences to the Participant with respect to the Performance Share Units.

28. **No Guarantee of Future Awards.** This Agreement does not guarantee the Participant the right to or expectation of future Awards under the Plan or any future incentive plan adopted by the Company.

29. **Incentive Compensation Recoupment**. Notwithstanding anything in the Plan or in this Agreement to the contrary, this Award shall be subject to any compensation recovery and/or recoupment policy adopted by the Company to comply with applicable law, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or to comport with good corporate governance practices, as such policies may be adopted and/or amended from time to time.

[signature page follows]

IN WITNESS WHEREOF, the Company and the Participant have executed this Agreement as of the date first written above.

INNERWORKINGS, INC.:

By: _____
Name: Oren Azar
Title: General Counsel

PARTICIPANT:

INWK Prospectus Sept 2018
2006 Stock Incentive Plan as Amended Sept 6 2018

RESTRICTED STOCK UNIT AWARD AGREEMENT

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (the “**Agreement**”), is made and entered into effective [Grant Date:Month DD, YYYY] (the “**Grant Date**”), by and between InnerWorkings, Inc., a Delaware corporation (the “**Company**”), and [Participant Name:First Name Last Name] (the “**Participant**”).

RECITALS

WHEREAS, the Company has adopted the InnerWorkings, Inc. 2006 Stock Incentive Plan, as amended (the “**Plan**”);

WHEREAS, pursuant to the Plan, the Company desires to grant to the Participant the Restricted Stock Units set forth in Section 2(a) below, subject to certain restrictions set forth in this Agreement, effective as of the Grant Date; and

WHEREAS, the Board of Directors or Compensation Committee of the Board of Directors of the Company (the “**Committee**”) has duly made all determinations necessary or appropriate to the grants hereunder.

NOW, THEREFORE, in consideration of the premises and the mutual covenants set forth in this Agreement and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

AGREEMENT

1. **Definitions.** Any capitalized term used in this Agreement that is not defined in this Agreement will have the same meaning given to it in the Plan.

2. **Grant of Restricted Stock Units; Vesting.**

(a) Subject to the terms and conditions of the Plan, and the additional terms and conditions set forth in this Agreement, the Company hereby grants to the Participant, as a matter of separate agreement and not in lieu of salary or any other compensation for services, an Award of [Granted:Shares Granted] Restricted Stock Units. Each Restricted Stock Unit is a notional amount that represents the right to receive one Share, subject to the terms and conditions of the Plan and this Agreement, if and when the Restricted Stock Unit vests.

(b) Provided that the Participant remains continuously in Service as of each applicable vesting date, one quarter (1/4) of the Restricted Stock Units will vest on each of the first four (4) anniversaries of the Grant Date. In the event that the Participant incurs a termination of Service for any reason, all unvested Restricted Stock Units shall immediately be cancelled and forfeited.

(c) Notwithstanding anything herein to the contrary, in the event of a Change in Control, the Restricted Stock Units will be subject to Section 3.4 of the Plan.

3. **Transferability.** The Restricted Stock Units granted hereunder may not be sold, assigned, transferred, exchanged, pledged, hypothecated or otherwise encumbered.

4. **Rights as a Stockholder.** Except as otherwise provided in this Section 4, unless and until a Restricted Stock Unit has vested and the Share underlying it has been distributed to the Participant, the Participant shall not have any rights as a stockholder with respect to any Shares covered by the Restricted Stock Units. Notwithstanding the foregoing, if the Company declares a cash dividend on its Shares after the Grant Date, then on the payment date of the dividend, the Participant will be credited with dividend equivalents equal to the amount of cash dividend per Share multiplied by the number of Restricted Stock Units credited to the Participant through the record date. The dollar amount referred to in the preceding sentence will be credited to an account (“**Account**”) established for the Participant for bookkeeping purposes only on the books of the Company. The balance in the Account will be subject to the same terms regarding vesting and forfeiture as the Participant’s Restricted Stock Units awarded under this Agreement, and will be paid in cash in a single sum at the time that the Shares associated with the Participant’s Restricted Stock Units are delivered (or forfeited at the time that the Participant’s Restricted Stock Units are forfeited).

5. **Delivery and Withholding.** Once a Restricted Stock Unit vests, the Participant will be entitled to receive a Share in its place. Delivery of the Share to the Participant will be made as soon as administratively practicable after the date on which the associated Restricted Stock Unit vests in accordance with Section 2(b). Shares will be credited to an account established for the benefit of the Participant with the Company’s administrative agent, and the Participant will have full legal and beneficial ownership of the Shares at that time. The distribution of the Shares to the Participant upon vesting of the Restricted Stock Units will be subject to withholding by the Company of amounts sufficient to cover withholding obligations applicable to such payment and transfer. In the event that any required tax withholding upon the vesting and settlement of the Restricted Stock Units exceeds the Participant’s regular compensation available to satisfy such withholding, the Participant agrees to remit to the Company, as a condition of settlement of the Restricted Stock Units, such additional amounts as are necessary to satisfy such required withholding. Any withholding obligation may be settled either in cash or with Shares, including by withholding Shares that are otherwise deliverable hereunder upon vesting of Restricted Stock Units.

6. Restrictive Covenants.

(a) Covenants Not to Compete or Solicit. During the Participant's Service and for a period of eighteen (18) months following the termination thereof for any reason, the Participant shall not, anywhere in the Geographic Area (as defined below), other than on behalf of the Company or a Subsidiary of the Company or with the prior written consent of the Company, directly or indirectly:

(i) perform "services" (as defined below) for (in any capacity, including, without limitation, as an employee, agent, consultant, advisor, independent contractor, proprietor, partner, officer, director or otherwise), have any ownership interest in (except for passive ownership of five percent (5%) or less of any entity whose securities have been registered under the Securities Act of 1933, as amended, or Section 12 of the Exchange Act), or participate in the financing, operation, management or control of, any firm, partnership, corporation, entity or business that engages or participates in a "competing business purpose" (as defined below);

(ii) induce or attempt to induce any customer, potential customer, supplier, licensee, licensor or business relation of the Company or a Subsidiary of the Company to cease doing business with the Company or such Subsidiary, or in any way interfere with the relationship between any customer, potential customer, supplier, licensee, licensor or business relation of the Company or a Subsidiary of the Company or solicit the business of any customer or potential customer of the Company or a Subsidiary of the Company, whether or not the Participant had personal contact with such entity; and

(iii) solicit, encourage, hire or take any other action that is intended to induce or encourage, or has the effect of inducing or encouraging, any employee or independent contractor of the Company or any Subsidiary of the Company to terminate his or her employment or relationship with the Company or any Subsidiary of the Company, other than in the discharge of his or her duties as an officer of the Company, if applicable.

For purposes of this Agreement, (A) "**Geographic Area**" shall mean the Participant's country of employment and any other countries in which the Participant conducts business on behalf of the Company or a Subsidiary of the Company, (B) "**services**" shall mean services of the type conducted, authorized, offered, or provided by the Participant on behalf of the Company during the two (2) years prior to the termination of the Participant's Service, and (C) "**competing business purpose**" shall mean the sale or provision of any marketing or printed materials, items, or other products or services that are competitive with in any manner the products or services sold or offered by the Company or a Subsidiary thereof while this Agreement is in effect.

(b) Confidentiality. The Participant shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its Affiliates, and their respective businesses, employees, suppliers or customers, which shall have been obtained by the Participant during the Participant's Service and which shall not be or become public knowledge ("**Confidential Information**"). During the Participant's Service and after the termination thereof, the Participant shall not, without the prior written consent of the Company or as otherwise may be required by law or legal process (provided, that the Participant shall give the Company reasonable notice of such process, and the ability to contest it) or as may be necessary, in the Participant's reasonable discretion, to discharge his or her duties to the Company, communicate or divulge any Confidential Information to anyone other than the Company and those designated by it. Notwithstanding the above, this Agreement shall not prevent the Participant from revealing evidence of criminal wrongdoing to law enforcement or prohibit the Participant from divulging Confidential Information by order of court or agency of competent jurisdiction, or from making other disclosures that are protected under the provisions of law or regulation. Nothing in this Agreement prohibits the Participant from reporting possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, Congress, and any Inspector General, or making other disclosures that are protected under the whistleblower provisions of applicable law or regulation. The Participant does not need the prior authorization of the Company to make any such reports or disclosures, and the Participant is not required to notify the Company that the Participant has made such reports or disclosure.

The Participant acknowledges and agrees that the Company has provided the Participant with written notice below that the Defend Trade Secrets Act, 18 U.S.C. § 1833(b), provides an immunity for the disclosure of a trade secret to report suspected violations of law and/or in an anti-retaliation lawsuit, as follows:

(1) IMMUNITY. - An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that -

(A) is made -

(i) in confidence to a Federal, State or local government official, either directly or indirectly, or to an attorney; and

(ii) solely for the purpose of reporting or investigating a suspected violation of law; or

(B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(2) **USE OF TRADE SECRET INFORMATION IN ANTI-RETALIATION LAWSUIT.** - An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual-

(A) files any document containing the trade secret under seal; and

(B) does not disclose the trade secret, except pursuant to court order.

(c) **Enforcement.** The covenants contained in this Section 6 shall be construed as a series of separate covenants, one for each county, city, state, or any similar subdivision in any Geographic Area. Except for geographic coverage, each such separate covenant shall be deemed identical in terms to the covenant contained in the preceding sections. If, in any judicial proceeding, a court refuses to enforce any of such separate covenants (or any part thereof), then such unenforceable covenant (or such part) shall be eliminated from this Agreement to the extent necessary to permit the remaining separate covenants (or portions thereof) to be enforced. In the event that the provisions of this Section 6 are deemed to exceed the time, geographic or scope limitations permitted by applicable law, then such provisions shall be reformed to the maximum time, geographic or scope limitations, as the case may be, permitted by applicable law. If the Participant breaches any of the restrictions set forth in this Section 6 and the Company commences a legal proceeding in connection therewith, the time period applicable to each such restriction shall be tolled and extended for a period of time equal to the period of time during which the Participant is determined by a court of competent jurisdiction to be in non-compliance or breach (not to exceed the duration set forth in the applicable restriction) commencing on the date of such determination.

7. Remedies for Breach.

(a) The Participant acknowledges and agrees that the agreements and covenants set forth in Section 6 are reasonable and necessary for the protection of the Company's business interests, that irreparable injury will result to the Company if the Participant breaches any of the terms of said covenants, and that in the event of the Participant's actual or threatened breach of any such covenants, the Company will have no adequate remedy at law. The Participant accordingly agrees that, in the event of any actual or threatened breach by the Participant of any of said covenants, the Company will be entitled to seek immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Nothing in this Section 7 will be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of any damages that it is able to prove.

(b) In addition, and not in limitation of the foregoing, in the event of the Participant's breach of any of the covenants set forth in Section 6, (i) the Restricted Stock Units (whether vested or unvested) shall immediately be forfeited, (ii) the Company shall be entitled to recover any Shares acquired upon the vesting of the Restricted Stock Units, and (iii) if the Participant has previously sold any of the Shares derived from the vesting of the Restricted Stock Units, the Company shall also have the right to recover from the Participant the economic value thereof.

(c) Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement, and to exercise all other rights existing in its favor. The Participant agrees and acknowledges that money damages will not be an adequate remedy for any breach of the provisions of this Agreement and that the Company will be entitled to specific performance and injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

8. **Plan.** The Participant hereby acknowledges receipt of a copy of the Plan. Notwithstanding any other provision of this Agreement, this Award is granted pursuant to the Plan, as in effect on the date of the Agreement, and is subject to the terms and conditions of the Plan, as the same may be amended from time to time; provided, however, that except as otherwise provided by the Plan, no amendment to either the Plan or this Agreement will deprive the Participant, without the Participant's consent, of the Award or of the Participant's rights under this Agreement. The interpretation and construction by the Committee of the Plan, this Agreement, the Restricted Stock Units, and such rules and regulations as may be adopted by the Committee for the purpose of administering the Plan, will be final and binding upon the Participant. In the event that the terms of this Agreement conflict with the terms of the Plan, the Plan shall control.

9. **No Employment Rights.** No provision of this Agreement or of the Restricted Stock Units will give the Participant any right to continue in the employ of the Company or any of its Affiliates, create any inference as to the length of employment of the Participant, affect the right of the Company or its Affiliates to terminate the employment of the Participant, with or without Cause, or give the Participant any right to participate in any employee welfare or benefit plan or other program of the Company or any of its Affiliates.

10. **Changes in Company's Capital or Organizational Structure.** The existence of the Restricted Stock Units shall not affect in any way the right or authority of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of preferred Shares ahead of or affecting the Shares or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other act or proceeding, whether of a similar character or otherwise.

11. **Delays.** In accordance with the terms of the Plan, the Company shall have the right to suspend or delay any time period prescribed in this Agreement or in the Plan for any action if the Committee shall determine that the action may constitute a violation of any law or result in any liability under any law to the Company, an Affiliate or a shareholder in the Company until such time as the action required or permitted will not constitute a violation of law or result in liability to the Company, an Affiliate or a shareholder of the Company.

12. **Governing Law; Construction.** This Agreement and the Restricted Stock Units will be governed by, and construed and enforced in accordance with, the laws of the State of Illinois without regard to conflicts of law principles. The jurisdiction and venue for any disputes arising under, or any action brought to enforce (or otherwise relating to), this Agreement will be exclusively in the courts in the State of Illinois, Cook County, including the Federal Courts located therein (should Federal jurisdiction exist). Notwithstanding anything in this Agreement to the contrary, either party can seek injunctive relief in any court of competent jurisdiction. Common nouns and pronouns shall be deemed to refer to the masculine, feminine, neuter, singular and plural, as the context requires.

13. **Entire Agreement.** This Agreement, together with the Plan and any other agreements incorporated herein by reference, constitutes the entire obligation of the parties with respect to the subject matter of this Agreement and supersedes any prior written or oral expressions of intent or understanding with respect to such subject matter (provided, that this Agreement shall not supersede any written employment agreement or other written agreement between the Company and the Participant, including, but not limited to, any written restrictive covenant agreements). Notwithstanding the foregoing, Section 6(a) hereof hereby supersedes any non-competition and/or non-solicitation provision set forth in any previous Award Agreement under the Plan between the Company and the Participant. The Participant represents that, in executing this Agreement, he does not rely and has not relied upon any representation or statement not set forth herein made by the Company with regard to the subject matter, bases or effect of this Agreement or otherwise.

14. **Amendment.** This Agreement may be amended as provided in the Plan.

15. **Waiver; Cumulative Rights.** The failure or delay of either party to require performance by the other party of any provision of this Agreement will not affect its right to require performance of such provision unless and until such performance has been waived in writing. Each right under this Agreement is cumulative and may be exercised in part or in whole from time to time.

16. **Counterparts.** This Agreement may be signed in two counterparts, each of which will be an original, but both of which will constitute one and the same instrument.

17. **Notices.** Any notices required or permitted under this Agreement must be in writing and may be delivered personally or by mail, postage prepaid, addressed to (a) the Company at InnerWorkings, Inc., 600 West Chicago Avenue, Suite 850, Chicago, IL 60654, Attention: Corporate Secretary and (b) the Participant at the Participant's address as shown on the Company's payroll records, or to such other address as the Participant, by notice to the Company, may designate in writing from time to time.

18. **Headings.** The headings in this Agreement are for reference purposes only and will not affect the meaning or interpretation of this Agreement.

19. **Severability.** If any provision of this Agreement is for any reason held to be invalid or unenforceable, such invalidity or unenforceability will not affect any other provision of this Agreement, and this Agreement will be construed as if such invalid or unenforceable provision were omitted.

20. **No Strict Construction.** The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction will be applied against any party.

21. **Successors and Assigns.** This Agreement will inure to the benefit of and be binding upon each successor and assign of the Company. All obligations imposed upon the Participant or a representative, and all rights granted to the Company under this Agreement, will be binding upon the Participant's or the representative's heirs, legal representatives and successors.

22. **Tax Consequences.** The Participant agrees to determine and be responsible for all tax consequences to the Participant with respect to the Restricted Stock Units.

23. **No Guarantee of Future Awards.** This Agreement does not guarantee the Participant the right to or expectation of future Awards under the Plan or any future incentive plan adopted by the Company.

24. **Incentive Compensation Recoupment.** Notwithstanding anything in the Plan or in this Agreement to the contrary, this Award shall be subject to any compensation recovery and/or recoupment policy adopted by the Company to comply with applicable law, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or to comport with good corporate governance practices, as such policies may be adopted and/or amended from time to time.

[signature page follows]

IN WITNESS WHEREOF, the Company and the Participant have executed this Agreement as of the date first written above.

INNERWORKINGS, INC.:

PARTICIPANT:

By: _____
Name: Oren Azar
Title: General Counsel

2006 Stock Incentive Plan as Amended Sept 6 2018
INWK Prospectus Sept 2018

STOCK APPRECIATION RIGHT AGREEMENT

THIS STOCK APPRECIATION RIGHT AGREEMENT (this "**Agreement**") is made and entered into effective [Grant Date:Month DD, YYYY] (the "**Date of Grant**") by and between InnerWorkings, Inc., a Delaware corporation (the "**Company**"), and [Participant Name:First Name Last Name] (the "**Participant**").

RECITALS

WHEREAS, the Participant has been designated by the Compensation Committee of the Board of Directors of the Company (the "**Committee**") to participate in the InnerWorkings, Inc. 2006 Stock Incentive Plan, as amended (the "**Plan**") (capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Plan).

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and for other good and valuable consideration, the Company and the Participant agree as follows:

AGREEMENT

1. Grant. The Company hereby grants to the Participant [Granted:SARs Granted] Stock Appreciation Rights (the "**SARs**") with respect to an equal number of Shares, at a Grant Price per SAR set forth below. Each SAR entitles the Participant to receive, upon exercise thereof, a cash payment in the amount determined pursuant to Section 6 below. The SARs are granted as of the Date of Grant and are subject to all of the terms and conditions set forth herein and to all of the terms and the conditions of the Plan, which is incorporated by reference herein. In the event of a conflict between the Plan and this Agreement, the terms of the Plan shall govern.

2. Grant Price. The grant price per Share subject to the SARs shall be [Price:SAR Award Price], which is not less than the Fair Market Value of a Share on the Date of Grant (the "**Grant Price**").

3. Term of SARs. The SARs may, subject to the vesting and termination provisions of Sections 4 and 5 below, be exercised only during the period commencing on the Date of Grant and continuing until the close of business on the tenth anniversary of the Date of Grant (the "**SAR Term**"). At the end of the SAR Term, the SARs shall terminate, unless sooner terminated pursuant to Section 5 below.

4. Vesting. The SARs shall be exercisable only to the extent that the SARs have vested.

(a) The SARs shall vest and become exercisable pursuant to the following schedule (provided the Participant has remained continuously in Service as of each applicable vesting date):

- (i) one-quarter (1/4) of the SARs shall vest and become exercisable on the first anniversary of the Date of Grant;
- (ii) an additional one-quarter (1/4) of the SARs shall vest and become exercisable on the second anniversary of the Date of Grant;
- (iii) an additional one-quarter (1/4) of the SARs shall vest and become exercisable on the third anniversary of the Date of Grant; and
- (iv) the final one-quarter (1/4) of the SARs shall vest and become exercisable on the fourth anniversary of the Date of Grant.

(b) Notwithstanding anything herein to the contrary, in the event of a Change in Control, the SARs will be subject to Section 3.4 of the Plan.

5. Termination of Employment. In the event the Participant experiences a termination of Service, the SARs shall terminate in accordance with the following:

(a) In the event the Participant's Service is terminated by the Company for any reason other than Cause, Disability, or death, or by the Participant for "Good Reason" (if and to the extent such term is defined in a written employment or other written agreement between the Participant and the Company), SARs that are exercisable pursuant to Section 4 of this Agreement at the time of such termination of Service shall remain exercisable until the earlier of (i) the expiration of the SAR Term or (ii) one year from the date of such termination of Service. SARs that are not exercisable at the time of such termination of Service shall expire at the close of business on the date of such termination of Service.

(b) In the event the Participant terminates Service on account of the Disability or death of the Participant, SARs that are exercisable pursuant to Section 4 of this Agreement at the time of such termination of Service shall remain exercisable until the expiration of the SAR Term. SARs that are not exercisable at the time of such termination of Service shall expire at the close of business on the date of such termination of Service.

(c) In the event the Participant's Service is terminated for Cause, all outstanding SARs granted to such Participant, whether or not then vested and exercisable, shall expire as of the commencement of business on the date of such termination of Service.

(d) In the event the Participant terminates Service for any reason other than those described in subsections (a), (b) and (c) of this Section 5, SARs that are exercisable pursuant to Section 4 of this Agreement at the time of such termination of Service shall remain exercisable until the earlier of (i) the expiration of the SAR Term or (ii) thirty (30) days from the date of such termination of Service. SARs that are not exercisable at the time of such termination of Service shall expire at the close of business on the date of such termination of Service.

6. Exercise of SARs.

(a) In order to exercise the SARs, the Participant shall submit to the Secretary of the Company an instrument in writing, in a form (which may be electronic) approved by the Company, specifying the number of Shares in respect of which the SARs are being exercised. The Participant may exercise the SARs for less than the full number of Shares with respect to which the SARs are vested at any point in time; provided, however, that no partial exercise of the SARs may be with respect to any fractional Shares. Such exercise shall be effective upon receipt by the Company of such notice of exercise (the "**Exercise Date**").

(b) The amount delivered to the Participant upon exercise of the SARs will be equal to the product of (i) the excess, if any, of the Fair Market Value of a Share on the Exercise Date over the Grant Price, multiplied by (ii) a number of Shares represented by the number of SARs being exercised; provided, that the amount delivered to the Participant shall be subject to withholding as described in Section 7. Any amount due to the Participant upon exercise of the SARs will be paid in cash. Subject to the terms of the Plan and this Agreement, any such payment shall be made as soon as practicable after the Exercise Date. The Participant shall not be entitled to any earnings on the value of the amount payable for the period between the Exercise Date and the receipt of such payment.

7. Tax Withholding. The Company will have the power and the right to deduct or withhold, or require the Participant to remit to the Company, the amount necessary to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising under the Plan or this Agreement with respect to the SARs.

8. No Rights as a Stockholder. The Participant shall have no rights of a stockholder with respect to the SARs.

9. Non-Transferable. The SARs may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except by will or the laws of descent and distribution. The SARs may be exercised during the lifetime of the Participant only by the Participant or by his or her guardian or legal representative; provided, that in the event of the Participant's death, the administrator or executor of the Participant's estate (or such other person to whom the SARs are transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution) may exercise any vested but unexercised portion of the SARs in accordance with Section 6(b). The Committee may, in its discretion, require any such transferee, guardian or legal representative to supply it with evidence the Committee deems necessary to establish the authority of the transferee, guardian or legal representative to exercise the SARs on behalf of the Participant.

11. Securities Law Requirements.

(a) The SARs will not be exercisable in whole or in part, if exercise may, in the opinion of counsel for the Company, violate the Securities Act of 1933, as amended (or other federal or state statutes having similar requirements), as it may be in effect at that time, or cause the Company to violate the terms of the Plan.

(b) The SARs are subject to the further requirement that, if at any time the Committee determines in its discretion that the registration, listing or qualification of the Shares subject to the SARs under any federal securities law, securities exchange requirements or under any other applicable law, or the consent or approval of any governmental regulatory body, is necessary as a condition of, or in connection with, the granting of the SARs, the SARs may not be exercised in whole or in part, unless the necessary registration, listing, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Committee.

(c) With respect to individuals subject to Section 16 of the Exchange Act, transactions with respect to the SARs are intended to comply with all applicable conditions of Rule 16b-3, or its successors under the Exchange Act. To the extent that any provision of the SARs or action by the Committee fails to so comply, the Committee may determine, to the extent permitted by law, that the provision or action will be null and void.

12. No Obligation to Exercise. Neither the Participant nor any permissible transferee is or will be obligated by the grant of the SARs to exercise them.

13. Restrictive Covenants.

(a) **Covenants Not to Compete or Solicit.** During the Participant's Service and for a period of eighteen (18) months following the termination thereof for any reason, the Participant shall not, anywhere in the Geographic Area (as defined below), other than on behalf of the Company or a Subsidiary of the Company or with the prior written consent of the Company, directly or indirectly:

(i) perform "services" (as defined below) for (in any capacity, including, without limitation, as an employee, agent, consultant, advisor, independent contractor, proprietor, partner, officer, director or otherwise), have any ownership interest in (except for passive ownership of five percent (5%) or less of any entity whose securities have been registered under the Securities Act of 1933, as amended, or Section 12 of the Exchange Act), or participate in the financing, operation, management or control of, any firm, partnership, corporation, entity or business that engages or participates in a "competing business purpose" (as defined below);

(ii) induce or attempt to induce any customer, potential customer, supplier, licensee, licensor or business relation of the Company or a Subsidiary of the Company to cease doing business with the Company or such Subsidiary, or in any way interfere with the relationship between any customer, potential customer, supplier, licensee, licensor or business relation of the Company or a Subsidiary of the Company or solicit the business of any customer or potential customer of the Company or a Subsidiary of the Company, whether or not the Participant had personal contact with such entity; and

(iii) solicit, encourage, hire or take any other action that is intended to induce or encourage, or has the effect of inducing or encouraging, any employee or independent contractor of the Company or any Subsidiary of the Company to terminate his or her employment or relationship with the Company or any Subsidiary of the Company, other than in the discharge of his or her duties as an officer of the Company, if applicable.

For purposes of this Agreement, (A) "Geographic Area" shall mean the Participant's country of employment and any other countries in which the Participant conducts business on behalf of the Company or a Subsidiary of the Company, (B) "services" shall mean services of the type conducted, authorized, offered, or provided by the Participant on behalf of the Company during the two (2) years prior to the termination of the Participant's Service, and (C) "competing business purpose" shall mean the sale or provision of any marketing or printed materials, items, or other products or services that are competitive with in any manner the products or services sold or offered by the Company or a Subsidiary thereof while this Agreement is in effect.

(b) **Confidentiality.** The Participant shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its Affiliates, and their respective businesses, employees, suppliers or customers, which shall have been obtained by the Participant during the Participant's Service and which shall not be or become public knowledge ("Confidential Information"). During the Participant's Service and after the termination thereof, the Participant shall not, without the prior written consent of the Company or as otherwise may be required by law or legal process (provided, that the Participant shall give the Company reasonable notice of such process, and the ability to contest it) or as may be necessary, in the Participant's reasonable discretion, to discharge his or her duties to the Company, communicate or divulge any Confidential Information to anyone other than the Company and those designated by it. Notwithstanding the above, this Agreement shall not prevent the Participant from revealing evidence of criminal wrongdoing to law enforcement or prohibit the Participant from divulging Confidential Information by order of court or agency of competent jurisdiction, or from making other disclosures that are protected under the provisions of law or regulation. Nothing in this Agreement prohibits the Participant from reporting possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, Congress, and any Inspector General, or making other disclosures that are protected under the whistleblower provisions of applicable law or regulation. The Participant does not need the prior authorization of the Company to make any such reports or disclosures, and the Participant is not required to notify the Company that the Participant has made such reports or disclosure.

The Participant acknowledges and agrees that the Company has provided the Participant with written notice below that the Defend Trade Secrets Act, 18 U.S.C. § 1833(b), provides an immunity for the disclosure of a trade secret to report suspected violations of law and/or in an anti-retaliation lawsuit, as follows:

(1) IMMUNITY. - An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that -

(A) is made -

(i) in confidence to a Federal, State or local government official, either directly or indirectly, or to an attorney; and

(ii) solely for the purpose of reporting or investigating a suspected violation of law; or

(B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(2) USE OF TRADE SECRET INFORMATION IN ANTI-RETALIATION LAWSUIT. - An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual-

(A) files any document containing the trade secret under seal; and

(B) does not disclose the trade secret, except pursuant to court order.

(c) **Enforcement.** The covenants contained in this Section 12 shall be construed as a series of separate covenants, one for each county, city, state or any similar subdivision in any Geographic Area. Except for geographic coverage, each such separate covenant shall be deemed identical in terms to the covenant contained in the preceding sections. If, in any judicial proceeding, a court refuses to enforce any of such separate covenants (or any part thereof), then such unenforceable covenant (or such part) shall be eliminated from this Agreement to the extent necessary to permit the remaining separate covenants (or portions thereof) to be enforced. In the event that the provisions of this Section 12 are deemed to exceed the time, geographic or scope limitations permitted by applicable law, then such provisions shall be reformed to the maximum time, geographic or scope limitations, as the case may be, permitted by applicable law. If the Participant breaches any of the restrictions set forth in this Section 12 and the Company commences a legal proceeding in connection therewith, the time period applicable to each such restriction shall be tolled and extended for a period of time equal to the period of time during which the Participant is determined by a court of competent jurisdiction to be in non-compliance or breach (not to exceed the duration set forth in the applicable restriction) commencing on the date of such determination.

14. Remedies for Breach.

(a) The Participant acknowledges and agrees that the agreements and covenants set forth in Section 12 are reasonable and necessary for the protection of the Company's business interests, that irreparable injury will result to the Company if the Participant breaches any of the terms of said covenants, and that in the event of the Participant's actual or threatened breach of any such covenants, the Company will have no adequate remedy at law. The Participant accordingly agrees that, in the event of any actual or threatened breach by the Participant of any of said covenants, the Company will be entitled to seek immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Nothing in this Section 13 will be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of any damages that it is able to prove.

(b) In addition, and not in limitation of the foregoing, in the event of the Participant's breach of any of the covenants set forth in Section 12, (i) the SARs (whether vested or unvested) shall immediately be forfeited, and (ii) the Company shall be entitled to recover the amount received upon the exercise of the SARs.

(c) Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement, and to exercise all other rights existing in its favor. The Participant agrees and acknowledges that money damages will not be an adequate remedy for any breach of the provisions of this Agreement and that the Company will be entitled to specific performance and injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

15. Plan. The Participant hereby acknowledges receipt of a copy of the Plan. Notwithstanding any other provision of this Agreement, the SARs are granted pursuant to the Plan, as in effect on the date of the Agreement, and are subject to the terms and conditions of the Plan, as the same may be amended from time to time; provided, however, that except as otherwise provided by the Plan, no amendment to either the Plan or this Agreement will deprive the Participant, without the Participant's consent, of the SARs or of the Participant's rights under this Agreement. The interpretation and construction by the Committee of the Plan, this Agreement, the SARs, and such rules and regulations as may be adopted by the Committee for the purpose of administering the Plan, will be final and binding upon the Participant. In the event that the terms of this Agreement conflict with the terms of the Plan, the Plan shall control.

16. No Employment Rights. No provision of this Agreement or of the SARs will give the Participant any right to continue in the employ of the Company or any of its Affiliates, create any inference as to the length of employment of the Participant, affect the right of the Company or its Affiliates to terminate the employment of the Participant, with or without Cause, or give the Participant any right to participate in any employee welfare or benefit plan or other program of the Company or any of its Affiliates.

17. Changes in Company's Capital or Organizational Structure. The existence of the SARs shall not affect in any way the right or authority of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of preferred Shares ahead of or affecting the Shares or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other act or proceeding, whether of a similar character or otherwise.

18. References. References herein to rights and obligations of the Participant shall apply, where appropriate, to the Participant's legal representative or guardian without regard to whether specific reference to such legal representative or guardian is contained in a particular provision of this Agreement or the Plan.

19. Governing Law; Construction. This Agreement and the SARs will be governed by, and construed and enforced in accordance with, the laws of the State of Illinois without regard to conflicts of law principles. The jurisdiction and venue for any disputes arising under, or any action brought to enforce (or otherwise relating to), this Agreement will be exclusively in the courts in the State of Illinois, Cook County, including the Federal Courts located therein (should Federal jurisdiction exist). Notwithstanding anything in this Agreement to the contrary, either party can seek injunctive relief in any court of competent jurisdiction. Common nouns and pronouns shall be deemed to refer to the masculine, feminine, neuter, singular and plural, as the context requires.

20. Entire Agreement. This Agreement, together with the Plan and any other agreements incorporated by reference, constitutes the entire obligation of the parties with respect to the subject matter of this Agreement and supersedes any prior written or oral expressions of intent or understanding with respect to such subject matter (provided, that this Agreement shall not supersede any written employment agreement or other written agreement between the Company and the Participant, including, but not limited to, any written restrictive covenant agreements). Notwithstanding the foregoing, Section 12(a) hereof hereby supersedes any non-competition and/or non-solicitation provision set forth in any previous Award Agreement under the Plan between the Company and the Participant. The Participant represents that, in executing this Agreement, he does not rely and has not relied upon any representation or statement not set forth herein made by the Company with regard to the subject matter, bases or effect of this Agreement or otherwise.

21. Amendment. This Agreement may be amended as provided in the Plan.

22. Waiver; Cumulative Rights. The failure or delay of either party to require performance by the other party of any provision of this Agreement will not affect its right to require performance of such provision unless and until such performance has been waived in writing. Each right under this Agreement is cumulative and may be exercised in part or in whole from time to time.

23. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

24. Notices. Any notices required or permitted under this Agreement must be in writing and may be delivered personally or by mail, postage prepaid, addressed to (a) the Company at InnerWorkings, Inc., 600 West Chicago Avenue, Suite 850, Chicago, IL 60654, Attention: Corporate Secretary and (b) the Participant at the Participant's address as shown on the Company's payroll records, or to such other address as the Participant, by notice to the Company, may designate in writing from time to time.

25. Headings. The headings in this Agreement are for reference purposes only and will not affect the meaning or interpretation of this Agreement.

26. Severability. If any provision of this Agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this Agreement or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law.

27. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction will be applied against any party.

28. Successors and Assigns. This Agreement will inure to the benefit of and be binding upon each successor and assign of the Company. All obligations imposed upon the Participant or a representative, and all rights granted to the Company under this Agreement, will be binding upon the Participant's or the representative's heirs, legal representatives and successors.

29. Tax Consequences. The Participant shall be responsible for all taxes required to be paid under applicable tax laws with respect to the SARs.

30. No Guarantee of Future Awards. This Agreement does not guarantee the Participant the right to or expectation of future Awards under the Plan or any future incentive plan adopted by the Company.

31. Incentive Compensation Recoupment. Notwithstanding anything in the Plan or in this Agreement to the contrary, the SARs shall be subject to any compensation recovery and/or recoupment policy adopted by the Company to comply with applicable law, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or to comport with good corporate governance practices, as such policies may be adopted and/or amended from time to time.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year set forth above.

INNERWORKINGS, INC.:

By: _____
Name: Oren Azar
Title: General Counsel

PARTICIPANT:

2006 Stock Incentive Plan as Amended Sept 6 2018
INWK Prospectus Sept 2018

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 9, 2019

/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 9, 2019

/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, 2019 (the “Form 10-Q”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material aspects, the financial condition and results of operations of the Company.

/s/ Richard S. Stoddart

Richard S. Stoddart
Chief Executive Officer
August 9, 2019

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, 2019 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material aspects, the financial condition and results of operations of the Company.

/s/ Donald W. Pearson

Donald W. Pearson
Chief Financial Officer
August 9, 2019