

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 September 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 November 11, 2019, the Registrant had 52,132,517 shares of Common Stock, par value \$0.0001 per share, outstanding.

INNERWORKINGS, INC.

TABLE OF CONTENTS

| | Page |
|--------------------------------------|---|
| PART I. FINANCIAL INFORMATION | |
| Item 1. | Condensed Consolidated Financial Statements 4 |
| | Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2019 and 2018 (Unaudited) 4 |
| | Condensed Consolidated Balance Sheets as of September 30, 2019 (Unaudited) and December 31, 2018 5 |
| | Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2019 and 2018 (Unaudited) 6 |
| | Condensed Consolidated Statements of Cash Flows for the nine months ended September 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 28 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk 40 |
| Item 4. | Controls and Procedures 40 |
| PART II. OTHER INFORMATION | |
| Item 1. | Legal Proceedings 42 |
| Item 1A. | Risk Factors 42 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds 43 |
| Item 6. | Exhibits 44 |
| SIGNATURES 45 | |

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| <i>(in thousands, except per share data)</i> | | | | |
| Revenue | \$ 286,525 | \$ 270,850 | \$ 837,816 | \$ 827,356 |
| Cost of goods sold | 218,356 | 206,808 | 639,385 | 632,376 |
| Gross profit | 68,169 | 64,042 | 198,431 | 194,980 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 59,938 | 56,142 | 174,404 | 176,312 |
| Depreciation and amortization | 3,090 | 3,265 | 8,939 | 10,438 |
| Goodwill impairment | — | 27,887 | — | 27,887 |
| Intangible and other asset impairments | — | 16,818 | — | 16,818 |
| Restructuring charges | 3,055 | 3,142 | 10,687 | 3,142 |
| Income (loss) from operations | 2,086 | (43,212) | 4,401 | (39,617) |
| Other income (expense): | | | | |
| Interest income | 37 | 19 | 239 | 135 |
| Interest expense | (4,376) | (1,769) | (9,608) | (4,854) |
| Other expense | (1,736) | (301) | (2,196) | (1,734) |
| Total other expense | (6,075) | (2,051) | (11,565) | (6,453) |
| Loss before income taxes | (3,989) | (45,263) | (7,164) | (46,070) |
| Income tax expense (benefit) | (1,815) | (326) | (1,359) | 851 |
| Net loss | \$ (2,174) | \$ (44,937) | \$ (5,805) | \$ (46,921) |
| Basic and diluted net loss per share | \$ (0.04) | \$ (0.87) | \$ (0.11) | \$ (0.90) |
| Comprehensive loss | \$ (3,910) | \$ (46,646) | \$ (6,541) | \$ (50,872) |

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

InnerWorkings, Inc. and subsidiaries
Condensed Consolidated Balance Sheets

(in thousands, except per share data)

| | September 30, 2019 | December 31, 2018 |
|---|--------------------|-------------------|
| | (unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 38,488 | \$ 26,770 |
| Accounts receivable, net of allowance for doubtful accounts of \$4,247 and \$4,880, respectively | 190,992 | 193,253 |
| Unbilled revenue | 65,584 | 46,474 |
| Other receivables | 39,317 | 23,727 |
| Inventories | 64,136 | 56,001 |
| Prepaid expenses | 13,973 | 16,982 |
| Other current assets | 13,271 | 10,379 |
| Total current assets | 425,761 | 373,586 |
| Property and equipment, net | 36,714 | 82,933 |
| Intangibles and other assets: | | |
| Goodwill | 152,191 | 152,158 |
| Intangible assets, net | 8,230 | 9,828 |
| Right of use assets, net | 51,726 | — |
| Deferred income taxes | 1,112 | 1,195 |
| Other non-current assets | 4,333 | 2,976 |
| Total intangibles and other assets | 217,592 | 166,157 |
| Total assets | \$ 680,067 | \$ 622,676 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 169,173 | \$ 158,449 |
| Accrued expenses | 44,096 | 35,474 |
| Deferred revenue | 18,526 | 17,614 |
| Revolving credit facility - current | 4,585 | 142,736 |
| Term loan - current | 6,250 | — |
| Other current liabilities | 32,325 | 26,231 |
| Total current liabilities | 274,955 | 380,504 |
| Lease liabilities | 47,094 | — |
| Revolving credit facility - non-current | 76,829 | — |
| Term loan - non-current | 89,991 | — |
| Deferred income taxes | 8,257 | 8,178 |
| Other non-current liabilities | 2,486 | 50,903 |
| Total liabilities | 499,612 | 439,585 |
| Commitments and contingencies (See Note 11) | | |
| Stockholders' equity: | | |
| Common stock, par value \$0.0001 per share, 200,000 shares authorized, 64,802, and 64,495 shares issued, and 52,114 and 51,807 shares outstanding, respectively | 6 | 6 |
| Additional paid-in capital | 243,706 | 239,960 |
| Treasury stock at cost, 12,688 and 12,688 shares, respectively | (81,471) | (81,471) |
| Accumulated other comprehensive loss | (25,045) | (24,309) |
| Retained earnings | 43,259 | 48,905 |
| Total stockholders' equity | 180,455 | 183,091 |
| Total liabilities and stockholders' equity | \$ 680,067 | \$ 622,676 |

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 July 1, 2019 | 64,629 | \$ 6 | 12,688 | \$ (81,471) | \$ 242,010 | \$ (23,309) | \$ 45,433 | \$ 182,669 |
| Net loss | | | | | | | (2,174) | (2,174) |
| Total other comprehensive income - foreign currency translation adjustments | | | | | | (1,736) | | (1,736) |
| Comprehensive loss | | | | | | | | (3,910) |
| Issuance of common stock upon exercise of stock awards, net of withheld shares | 173 | | | | (88) | | | (88) |
| Stock-based compensation expense | | | | | 1,784 | | | 1,784 |
| Balance as of September 30, 2019 | <u>64,802</u> | <u>\$ 6</u> | <u>12,688</u> | <u>\$ (81,471)</u> | <u>\$ 243,706</u> | <u>\$ (25,045)</u> | <u>\$ 43,259</u> | <u>\$ 180,455</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 | | | | | | | (5,805) | (5,805) |
| Total other comprehensive income - foreign currency translation adjustments | | | | | | (736) | | (736) |
| Comprehensive loss | | | | | | | | (6,541) |
| Issuance of common stock upon exercise of stock awards, net of withheld shares | 307 | | | | (179) | | | (179) |
| Stock-based compensation expense | | | | | 3,925 | | | 3,925 |
| Cumulative effect of change related to adoption of ASC 842 | | | | | | | 159 | 159 |
| Balance as of September 30, 2019 | <u>64,802</u> | <u>\$ 6</u> | <u>12,688</u> | <u>\$ (81,471)</u> | <u>\$ 243,706</u> | <u>\$ (25,045)</u> | <u>\$ 43,259</u> | <u>\$ 180,455</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 July 1, 2018 | 64,372 | \$ 6 | 12,688 | \$ (81,471) | \$ 237,634 | \$ (21,472) | \$ 123,094 | \$ 257,791 |
| Net loss | | | | | | | (44,937) | (44,937) |
| Total other comprehensive loss - foreign currency translation adjustments | | | | | | (1,708) | | (1,708) |
| Comprehensive loss | | | | | | | | (46,646) |
| Issuance of common stock upon exercise of stock awards, net of withheld shares | 62 | | | | (50) | | | (50) |
| Stock-based compensation expense | | | | | 801 | | | 801 |
| Balance as of September 30, 2018 | <u>64,434</u> | <u>\$ 6</u> | <u>12,688</u> | <u>\$ (81,471)</u> | <u>\$ 238,385</u> | <u>\$ (23,180)</u> | <u>\$ 78,156</u> | <u>\$ 211,896</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 | | | | | | | (46,921) | (46,921) |
| Total other comprehensive loss - foreign currency translation adjustments | | | | | | (3,951) | | (3,951) |
| Comprehensive loss | | | | | | | | (50,872) |
| Issuance of common stock upon exercise of stock awards, net of withheld shares | 359 | | | | (438) | | | (438) |
| Acquisition of treasury shares | | | 2,668 | (25,598) | | | | (25,598) |
| Stock-based compensation expense | | | | | 3,624 | | | 3,624 |
| 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 September 30, 2018 | <u>64,434</u> | <u>\$ 6</u> | <u>12,688</u> | <u>\$ (81,471)</u> | <u>\$ 238,385</u> | <u>\$ (23,180)</u> | <u>\$ 78,156</u> | <u>\$ 211,896</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)

| (in thousands) | Nine Months Ended September 30, | |
|--|---------------------------------|-------------|
| | 2019 | 2018 |
| Cash flows from operating activities | | |
| Net loss | \$ (5,805) | \$ (46,921) |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Depreciation and amortization | 8,939 | 10,438 |
| Stock-based compensation expense | 4,219 | 3,624 |
| Bad debt provision | 1,447 | 888 |
| Implementation cost amortization | 250 | 344 |
| Goodwill impairment | — | 27,887 |
| Intangible and long-lived asset impairment | — | 16,818 |
| Change in fair value of warrant | 950 | — |
| Change in fair value of embedded derivative | (97) | — |
| Unrealized foreign exchange loss | 986 | — |
| Other operating activities | 705 | (189) |
| Change in assets: | | |
| Accounts receivable and unbilled revenue | (21,245) | 5,810 |
| Inventories | (8,767) | (16,469) |
| Prepaid expenses and other assets | (29,141) | (7,903) |
| Change in liabilities: | | |
| Accounts payable | 12,403 | 20,350 |
| Accrued expenses and other liabilities | 25,378 | (4,572) |
| Net cash (used in) provided by operating activities | (9,778) | 10,105 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (10,012) | (7,835) |
| Payments for acquisition, net of cash acquired | (390) | — |
| Net cash used in investing activities | (10,402) | (7,835) |
| Cash flows from financing activities | | |
| Net borrowings (repayments) from old revolving credit facility | (142,583) | 23,230 |
| Net borrowings (repayments) from new revolving credit facility | 81,472 | — |
| Net short-term secured (repayments) borrowings | (833) | 55 |
| Proceeds from term loan | 100,000 | — |
| Payments on term loan | (1,250) | — |
| Repurchases of common stock | — | (25,689) |
| Proceeds from exercise of stock options | 63 | 416 |
| Payment of debt issuance costs | (5,488) | (545) |
| Other financing activities | (242) | (746) |
| Net cash provided by (used in) financing activities | 31,139 | (3,279) |
| Effect of exchange rate changes on cash and cash equivalents | 759 | (1,958) |
| Increase (decrease) in cash and cash equivalents | 11,718 | (2,967) |
| Cash and cash equivalents, beginning of period | 26,770 | 30,562 |
| Cash and cash equivalents, end of period | \$ 38,488 | \$ 27,595 |

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

1. Basis of Presentation

Basis of Presentation of Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements of InnerWorkings, Inc. and subsidiaries (the “Company”) included herein have been prepared to conform to the rules and regulations of the Securities and Exchange Commission (the “SEC”) and generally accepted accounting principles in the United States (“GAAP”) for interim financial information. Footnote disclosures that would substantially duplicate the disclosures included in the December 31, 2018 audited financial statements have been omitted from these interim unaudited financial statements pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation of the accompanying unaudited financial statements have been included, and all adjustments are of a normal and recurring nature. The operating results for the three and nine month periods ended September 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.

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 September 30, 2019, the Company had a balance of net monetary assets denominated in ARS of approximately 58.3 million ARS, and the exchange rate was approximately 57.5 ARS per U.S. dollar.

During the three and nine months ended September 30, 2019, the Company recorded a nominal amount and \$0.1 million, respectively, of favorable currency impacts within other expense. For the three and nine months ended September 30, 2019, the Company’s Argentinian operations generated revenue of \$0.5 million and \$2.2 million and gross margin of \$0.1 million and \$0.2 million, respectively.

During the three and nine months ended September 30, 2018, the Company recorded \$0.1 million of unfavorable currency impacts within other expense. For the three and nine months ended September 30, 2018, the Company’s Argentinian operations generated revenue of \$0.6 million and \$3.3 million and gross margin of \$0.1 million and \$0.4 million, respectively.

Fair Value Measurements

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 fair value of revolving credit facilities and long-term debt facilities are determined using current market yields.

Fair value accounting requires bifurcation of embedded derivative instruments such as interest rate reset features in debt instruments, and measurement of their fair value for accounting purposes. In determining the appropriate fair value for

embedded derivatives, the Company uses a 'with and without' valuation model. Additionally, fair value accounting requires liability-classified awards, such as warrant liabilities, to be measured at fair value for accounting purposes. The fair value of freestanding derivative instruments, such as warrant liabilities, are valued using the Black-Scholes-Merton option pricing model.

Once determined, derivative liabilities and warrant liabilities are adjusted to reflect fair value at each reporting period end, with any increase or decrease in the fair value being recorded within other expense as an adjustment to fair value of derivatives.

Deferred Financing Fees and Debt Discounts

Deferred financing fees represent third-party debt issuance costs associated with the related debt facility. Deferred financing fees and related derivative and warrant features associated with the Company's long-term debt agreement are treated as a discount on the long-term debt and amortized using the effective interest rate method. Derivative features associated with the Company's revolving credit agreement are treated as a discount on the revolving credit facility and amortized using the straight-line method. Deferred financing fees related to the Company's revolving credit facility are capitalized and reflected as deferred financing costs within other non-current assets and are amortized over the term of the revolving credit facility. Debt discounts on the Company's revolving credit facility and long-term debt are reflected as a direct deduction from the carrying amount of the long-term portion of the related debt liability.

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.

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 or 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 guidance introduces a new credit reserving methodology known as the Current Expected Credit Loss (CECL) methodology, which will alter the estimation process, inputs, and assumptions used in estimating credit losses. 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 CECL methodology requires measurement of expected credit losses for the estimated life of the financial instrument, not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. At the date of adoption, the change in reserves will be recorded in retained earnings as a cumulative-effect adjustment.

The Company is continuing its implementation efforts and has substantially completed scoping activities. The Company is in process of developing CECL models for each pool of financial assets based on risk characteristics of each pool. Model creation, model validation, and parallel runs will continue through the remainder of 2019. In addition, the Company continues to develop the business processes, policies, and controls that satisfy the requirements of the new guidance.

The actual impact at adoption will depend on the outstanding balances, characteristics of the Company's receivable portfolios, macroeconomic conditions, and forecasted information at the date of adoption; however, the Company does not expect ASU 2016-13 to have a significant impact to the consolidated financial statements and related disclosures.

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 such as rebates), and to the extent that variable consideration is not constrained, the Company includes the expected amount within the total transaction price and updates its assumptions over the duration of the contract. The constraint will generally not result in a reduction in the estimated transaction price.

The Company's performance obligations related to the procurement of marketing materials are typically satisfied upon shipment or delivery of its products to customers. 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 nine months ended September 30, 2019, the amount of amortization was \$0.04 million and \$0.25 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 the Company's costs to fulfill and contract liabilities as of September 30, 2019 and December 31, 2018 (in thousands):

| | September 30, 2019 | December 31, 2018 |
|----------------------|---------------------------|--------------------------|
| Costs to fulfill | \$ 1,272 | \$ 1,152 |
| Contract liabilities | 18,526 | 17,614 |
| Cash received | 7,622 | 11,387 |
| Revenue recognized | \$ 6,710 | \$ 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 nine months ended September 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 September 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 renewal options to extend the leases for additional periods at the Company's discretion. Generally, the lease term is the minimum of the noncancelable period of the lease, as the Company is not reasonably certain to exercise renewal options.

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

Operating lease assets and liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent the right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets. To determine the present value of lease payments not yet paid, the Company estimates

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

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):

| | September 30, 2019 |
|--------------------------------|---------------------------|
| Operating leases | |
| Right of use assets: | |
| Right of use assets | \$ 51,425 |
| Finance leases | |
| Right of use assets: | |
| Right of use assets, cost | \$ 579 |
| Less: Accumulated amortization | (278) |
| Right of use assets, net | \$ 301 |
| Total right of use assets, net | \$ 51,726 |
| Lease liabilities | |
| Current | |
| Operating | \$ 8,485 |
| Finance | 114 |
| Non-current | |
| Operating | \$ 46,865 |
| Finance | 229 |
| Total lease liabilities | \$ 55,693 |

The components of lease cost were as follows (in thousands):

| | September 30, 2019 |
|-------------------------------------|---------------------------|
| Operating lease cost | \$ 7,649 |
| Variable lease cost | 866 |
| Short-term lease cost | 1,530 |
| Finance lease cost: | |
| Amortization of right of use assets | 57 |
| Interest on lease liabilities | 16 |
| Total finance lease cost | \$ 73 |
| Less: Sublease income | (132) |
| Total lease cost | \$ 9,986 |

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

Average lease terms and discount rates were as follows:

| | September 30, 2019 |
|---|---------------------------|
| Weighted-average remaining lease term (years) | |
| Operating leases | 6.96 |
| Finance leases | 2.92 |
| Weighted-average discount rate | |
| Operating leases | 6.59% |
| Finance leases | 7.77% |

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

| | September 30, 2019 |
|---|---------------------------|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from finance leases | \$ 82 |
| Operating cash flows from operating leases | 5,828 |
| Total | \$ 5,910 |

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

| | Operating | Finance |
|------------------------------------|------------------|----------------|
| Remaining 2019 | \$ 2,638 | \$ 33 |
| 2020 | 11,089 | 133 |
| 2021 | 11,873 | 134 |
| 2022 | 10,292 | 71 |
| 2023 | 7,804 | 10 |
| Thereafter | 27,210 | — |
| Total lease payments | \$ 70,906 | \$ 381 |
| Less: Interest | (15,556) | (38) |
| Present value of lease liabilities | \$ 55,350 | \$ 343 |

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 September 30, 2019 (in thousands):

| | North America | EMEA | LATAM | Total |
|-----------------------------------|---------------|------|-------|------------|
| Goodwill as of December 31, 2018 | \$ 152,158 | \$ — | \$ — | \$ 152,158 |
| Foreign exchange impact | 33 | — | — | 33 |
| Goodwill as of September 30, 2019 | \$ 152,191 | \$ — | \$ — | \$ 152,191 |

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 fair value determination of the North America 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, *Restructuring Activities*). If assumptions surrounding either of these factors change, then a future impairment charge may occur.

The goodwill impairment charge recorded to the North America reporting unit, as outlined below, represents a partial impairment of the North America segment goodwill, which resulted in “at risk” goodwill under ASC 350, *Intangibles – Goodwill and Other*. The Company's policy is to include enhanced disclosures should the fair value of the North America segment exceed the carrying value by less than 30 percent at the date of the most recent step one test and the Company fails to meet projections used by management in determining the fair value of the reporting unit or market indicators exist which could lead management to believe the reporting unit may be impaired. The Company considered indicators for impairment and did not identify any that would have triggered additional impairment testing and analysis as of September 30, 2019.

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 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 September 30, 2019 and December 31, 2018 (in thousands):

| | September 30, 2019 | December 31, 2018 | Weighted Average Life |
|--------------------------------|--------------------|-------------------|--------------------------|
| Customer lists | \$ 73,101 | \$ 73,792 | 14.4 |
| Non-competition agreements | 942 | 950 | 4.1 |
| Trade names | 2,510 | 2,510 | 13.3 |
| Patents | 57 | 57 | 9.0 |
| Intangible assets | 76,610 | 77,309 | |
| Less: accumulated amortization | (68,380) | (67,481) | |
| Intangible assets, net | <u>\$ 8,230</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. 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 \$0.9 million for the three months ended September 30, 2019 and 2018, respectively, and \$1.6 million and \$3.2 million for the nine months ended September 30, 2019 and 2018, respectively. The Company's customer lists had accumulated amortization and impairment of \$65.3 million and \$64.5 million as of September 30, 2019 and December 31, 2018, respectively. The Company's non-competition agreements and patents were fully amortized or impaired as of September 30, 2019 and December 31, 2018.

As of September 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 | \$ 533 |
| 2020 | 2,021 |
| 2021 | 1,783 |
| 2022 | 1,407 |
| 2023 | 962 |
| 2024 | 745 |
| Thereafter | 779 |
| | <u>\$ 8,230</u> |

2018 Intangible and Long-Lived Asset Impairment

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

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

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 to \$10.0 million for consulting fees and lease and contract terminations. Where required by law, the Company will consult with each of the affected country's 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.

The following table summarizes the accrued restructuring activities for this plan for the nine months ended September 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 | 4,434 | 851 | 5,402 | 10,687 |
| Cash payments | (3,217) | (888) | (4,968) | (9,073) |
| Non-cash settlements/adjustments | 55 | (167) | — | (112) |
| Balance as of September 30, 2019 | <u>\$ 1,629</u> | <u>\$ 82</u> | <u>\$ 1,140</u> | <u>\$ 2,851</u> |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------|---|-----------------|--|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| North America | \$ 2,549 | \$ 1,666 | \$ 3,957 | \$ 1,666 |
| EMEA | 112 | 1,186 | 1,517 | 1,186 |
| LATAM | 102 | 290 | 176 | 290 |
| Other | 292 | — | 5,037 | — |
| Total | <u>\$ 3,055</u> | <u>\$ 3,142</u> | <u>\$ 10,687</u> | <u>\$ 3,142</u> |

From adoption through September 30, 2019, the Company recognized \$16.7 million in total restructuring charges pursuant to the 2018 Restructuring Plan.

2015 Restructuring Plan

On December 14, 2015, the Company approved a global realignment plan that allowed the Company to more efficiently meet client needs across its international platform. Through improved integration of global resources, the plan created back office and other efficiencies and allowed for the elimination of approximately 100 positions. In connection with these actions, the Company incurred total pre-tax cash restructuring charges of \$6.7 million, the majority of which were recognized during 2016. These cash charges included approximately \$5.6 million for employee severance and related benefits and \$1.1 million for lease and contract terminations and other associated costs. The charges were all incurred by the end of 2016 with the final payouts of the charges expected to occur in 2019.

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

The following table summarizes the accrued restructuring activities for this plan for the nine months ended September 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 September 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 45.5% and 0.7% for the three months ended September 30, 2019 and 2018, respectively. The Company's reported effective income tax rate was 19.0% and (1.8)% for nine months ended September 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 and prior year provision to return adjustments.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will expire unutilized. At the end of each reporting period, the Company reviews the realizability of its deferred tax assets. There were no material valuation adjustments for the three months ended September 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. Warrants issued in connection with the Company's long-term debt were issued at a nominal exercise price and are considered outstanding at the date of issuance. Diluted loss per share is calculated by dividing net loss by the weighted average shares outstanding assuming dilution. Dilutive common shares outstanding is computed using the Treasury Stock Method and reflects the additional shares that would be outstanding if dilutive stock options were exercised and restricted stock and restricted stock units were settled for common shares during the period. In addition, dilutive shares include any shares issuable related to performance share units ("PSUs") for which the performance conditions have been met as of the end of the period.

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

There were no dilutive effects for securities during the three and nine months ended September 30, 2019 and 2018 as a result of a net loss incurred in each period. The warrants related to the long-term debt are classified and recorded as a liability at fair value with subsequent changes in fair value recognized in earnings. Refer to Note 13, *Long-Term Debt*, for additional information. For diluted EPS, fair value adjustments related to the warrants are adjusted out of earnings; however, as a result of the net loss incurred during the period, the adjustment is considered antidilutive and the loss for the period is not adjusted for the three and nine months ended September 30, 2019.

The computations of basic and diluted loss per share for the three and nine months ended September 30, 2019 and 2018 are as follows (in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-------------|---------------------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net loss | \$ (2,174) | \$ (44,937) | \$ (5,805) | \$ (46,921) |
| Shares used in computing per share amounts: | | | | |
| Weighted average shares outstanding | 51,985 | 51,688 | 51,900 | 52,384 |
| Issuance of warrants | 1,335 | — | 1,335 | — |
| Weighted average shares outstanding - basic and diluted | 53,320 | 51,688 | 53,235 | 52,384 |
| Basic and diluted net loss per share | \$ (0.04) | \$ (0.87) | \$ (0.11) | \$ (0.90) |

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 September 30, 2019 and 2018 was \$0.3 million and \$0.4 million, respectively, and \$1.2 million and \$1.1 million during the nine months ended September 30, 2019 and 2018, respectively. Additionally, Arthur J. Gallagher & Company provides insurance brokerage and risk management services to the Company. As consideration for these services, Arthur J. Gallagher & Company billed the Company \$0.2 million for the three and nine months ended September 30, 2019. The amounts receivable from Arthur J. Gallagher & Co. were \$0.3 million and \$0.3 million as of September 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 September 30, 2019 and 2018 was \$4.8 million and \$2.9 million, respectively, and \$10.8 million and \$6.9 million during the nine months ended September 30, 2019 and 2018, respectively. The amounts receivable from Enova were \$4.6 million and \$2.0 million as of September 30, 2019 and December 31, 2018, respectively.

10. Fair Value Measurement

The Company estimates the fair value of the ABL Credit Facility and Term Loan Credit Facility, as defined in Note 12, *Revolving Credit Facilities*, and Note 13, *Long-Term Debt*, respectively, using current market yields. These current market yields are considered Level 2 inputs.

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

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

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

| | | |
|-------------------------------|----|-------|
| Stock price | \$ | 4.43 |
| Exercise price | \$ | 0.01 |
| Time until expiration (years) | | 4.79 |
| Expected volatility | | 53.0% |
| Risk-free interest rate | | 1.55% |
| Expected dividend yield | | —% |

The fair value of the Company's embedded derivative liabilities recorded in the Company's financial statements is determined using a probability-weighted discounted cash flow approach utilizing inputs outlined in Note 12, *Revolving Credit Facilities* and Note 13, *Long-Term Debt*.

The table below sets forth the total fair value of the revolving credit facility and related derivative and term loan and related derivative and warrant as of September 30, 2019 (in thousands):

| | September 30, 2019 | | |
|---|---|---|-------------------|
| | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| ABL Credit Facility | \$ 123,029 | \$ — | \$ 123,029 |
| ABL Credit Facility - derivative | — | 541 | 541 |
| Term Loan Credit Facility | 91,590 | — | 91,590 |
| Warrant | — | 5,254 | 5,254 |
| Term Loan Credit Facility - derivative | — | 442 | 442 |
| Less: Unamortized discount and deferred financing costs | (5,258) | (5,159) | (10,417) |
| Total | \$ 209,361 | \$ 1,078 | \$ 210,439 |

11. Commitments and Contingencies

Legal Contingencies

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

Credit Agreement

The Company entered into a Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of March 15, 2019, among the Company, the lenders party thereto and Bank of America, N.A., as Administrative Agent (the "Credit Agreement"). The Company refinanced its debt on July 16, 2019. At July 15, 2019, immediately preceding the refinancing, the Credit Agreement included a revolving commitment amount of \$175.0 million and \$160.0 million in the aggregate through September 25, 2019 and September 25, 2020, respectively (the "Credit Facility"). The Credit Agreement also provided the Company the right to increase the aggregate commitment amount by an additional \$50.0 million. Outstanding borrowings under the 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 on July 16, 2019, which is further discussed below.

ABL Credit Agreement

On July 16, 2019, the Company and certain of its direct and indirect subsidiaries entered into a loan and security agreement (the "ABL Credit Agreement") with Bank of America, N.A., as administrative agent, lender, issuing bank and collateral agent, and JPMorgan Chase Bank, N.A. and PNC Bank, National Association, as lenders (the "ABL Credit Facility"). The Company used the initial proceeds from the ABL Credit Facility (in combination with the initial proceeds from the Term Loan Credit Facility discussed in Note 13, *Long-Term Debt*) to repay in full its existing Credit Facility, along with fees and transaction expenses incurred in connection with the closing of the ABL Credit Facility and for working capital purposes.

Some, but not all, lenders from the previous the Credit Agreement continued as lenders in the ABL Credit Agreement. Unamortized deferred financing fees associated with non-continuing lenders of \$0.1 million were written off as a result of the refinancing.

The ABL Credit Facility consists of a \$105.0 million asset-based revolving line of credit, of which up to (i) \$15.0 million may be used for UK Revolver Loans (as defined in the ABL Credit Agreement), (ii) \$10.5 million may be used for Swingline Loans (as defined in the ABL Credit Agreement), and (iii) \$10.0 million may be used for letters of credit. The ABL Credit Agreement provides that the revolving line of credit may be increased by up to an additional \$20.0 million following satisfaction

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

of certain conditions. The ABL Credit Facility matures on July 16, 2024. Advances under the ABL Credit Facility bear interest at either: (a) LIBOR (as defined in the ABL Credit Agreement), plus an applicable margin ranging from 2.00% to 2.50% for US LIBOR Loans and UK LIBOR Loans (each as defined in the ABL Credit Agreement); (b) the US Base Rate (as defined in the ABL Credit Agreement), plus an applicable margin ranging from 1.00% to 1.50% for US Base Rate Loans (as defined in the ABL Credit Agreement); or (c) the UK Base Rate (as defined in the ABL Credit Agreement), plus an applicable margin ranging from 2.00% to 2.50% for UK Base Rate Loans (as defined in the ABL Credit Agreement).

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

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

Within the ABL Credit Agreement, there is a cash dominion requirement for the United States ("US") and United Kingdom ("UK"). In the United States, Bank of America, N.A. (the agent) shall only exercise cash dominion and apply all customer collections of the US borrowers to US obligations when a Trigger Period exists, as defined in the ABL Credit Agreement. In the United Kingdom, all customer collections of the UK borrowers will be applied on a daily basis to any outstanding UK obligations and any credit balance will be transferred back to an account of the UK borrowers. The customer collections of the UK borrowers are only applied against the UK obligations. As a result of the cash dominion, the amount outstanding under the ABL Credit Agreement for UK borrowers has been classified as a current obligation. The amount outstanding under the ABL Credit Agreement for US borrowers has been classified as a long-term obligation, as no Trigger Period has yet occurred nor is considered probable. The amounts outstanding under the ABL Credit Agreement as of September 30, 2019 for the UK borrowers and the US borrowers are \$4.6 million and \$76.9 million, respectively.

At the time of the Company's debt refinancing, there was \$0.3 million of unamortized debt issuance fees associated with lenders under both the prior Credit Agreement and the ABL Credit Agreement. Additionally, the Company incurred \$1.7 million of deferred financing fees related to the financing transaction described above. The aforementioned deferred financing fees are presented as an asset and amortized on a straight-line basis over the term of the ABL Credit Agreement. Amortization of deferred financing fees is recorded in interest expense and was approximately \$0.1 million.

The Company has determined that the interest rate reset features embedded in the ABL Credit Agreement constitute an embedded derivative (collectively, the "ABL Embedded Derivative") which has been bifurcated from the ABL Credit Facility and recorded as a derivative liability at fair value, with a corresponding discount recorded to the associated debt. The Company recorded immaterial interest expense for the amortization of the ABL Embedded Derivative discount through September 30, 2019.

The following schedule shows the change in fair value of the ABL Embedded Derivative at September 30, 2019 (in thousands):

| | | |
|---|----|------|
| December 31, 2018 | \$ | — |
| Issuance of associated debt (July 16, 2019) | | 599 |
| Change in fair value | | (58) |
| September 30, 2019 | \$ | 541 |

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

The change in fair value is recorded within other expense on the Company's Condensed Consolidated Statements of Comprehensive Loss. Refer to Note 10, *Fair Value Measurement*, for further discussion.

The Company's ABL Credit Facility at September 30, 2019 is summarized as follows (in thousands):

| | | |
|--|----|---------|
| ABL Credit Facility outstanding | \$ | 81,472 |
| Less: Current portion of ABL Credit Facility for UK Borrowings | | (4,585) |
| Long-term portion of ABL Credit Facility | | 76,887 |
| Less: ABL Embedded Derivative Discount ⁽¹⁾ | | (599) |
| ABL Embedded Derivative Liability ⁽²⁾ | | 541 |
| Total Revolving credit facility - non-current | \$ | 76,829 |

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

⁽²⁾ Value of embedded derivative as of September 30, 2019.

At September 30, 2019, the Company had \$1.3 million of letters of credit outstanding which have not been drawn upon.

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

13. Long-Term Debt

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

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

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

The Term Loan Credit Agreement contains a minimum fixed charge coverage ratio financial covenant, a maximum total leverage ratio financial covenant, a minimum liquidity financial covenant and a maximum capital expenditures covenant, each of which must be maintained for the periods described in the Term Loan Credit Agreement. In addition, the Term Loan Credit Agreement contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted in such agreements. The Term Loan Credit Agreement also contains customary events of default,

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

including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the Term Loan Credit Agreement to be in full force and effect, and a change of control of the Company's business. The principal outstanding as of September 30, 2019 is \$98.8 million.

The Company has determined the interest rate reset features embedded in the Term Loan Credit Agreement constitute an embedded derivative (collectively, the "Term Loan Embedded Derivative") which has been bifurcated from Term Loan Credit Facility and recorded as a derivative liability at fair value, with a corresponding discount recorded to the associated debt. The Company recorded immaterial interest expense for the amortization of the Term Loan Embedded Derivative discount through September 30, 2019.

The following schedule shows the change in fair value of the Term Loan Embedded Derivative at September 30, 2019 (in thousands):

| | | |
|---|----|------------|
| December 31, 2018 | \$ | — |
| Issuance of associated debt (July 16, 2019) | | 481 |
| Change in fair value | | (39) |
| September 30, 2019 | \$ | <u>442</u> |

The change in fair value is recorded within other expense on the Company's Condensed Consolidated Statements of Comprehensive Loss. Refer to Note 10, *Fair Value Measurement*, for further discussion.

In connection with the closing of the Term Loan Credit Agreement, the Company issued a Warrant (as defined below) to Macquarie US Trading LLC, an affiliate of TCW Asset Management Company LLC, to purchase fully paid and non-assessable shares of common stock of the Company. The Warrant is initially exercisable for an aggregate of 1,335,337 shares of the Company's common stock with a per share exercise price of \$0.01 (the "Initial Warrant"). The Initial Warrant is exercisable on or after (A) the date which is 10 days after the earlier of (x) the date that the Company delivers its financial statements for the fiscal quarter 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 the Term Loan Credit Agreement for the fiscal quarter 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" or "Contingent 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.

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

The Initial Warrant was recorded as a liability at fair value and will be treated as a discount on the associated debt. The following schedule shows the change in fair value of the Initial Warrant at September 30, 2019 (in thousands):

| | | |
|---|----|--------------|
| December 31, 2018 | \$ | — |
| Issuance of initial warrant (July 16, 2019) | | 4,304 |
| Change in fair value | | 950 |
| September 30, 2019 | \$ | <u>5,254</u> |

The change in fair value is recorded within other expense on the Company's Condensed Consolidated Statements of Comprehensive Loss. The fair value associated with the Contingent Warrant is considered de minimis at September 30, 2019.

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

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

The Company’s Term Loan Credit Facility at September 30, 2019 is summarized as follows (in thousands):

| | | |
|--|-----------|---------------|
| Term Loan Credit Facility outstanding | \$ | 98,750 |
| Less: Current portion of Term Loan Credit Facility | | (6,250) |
| Long-term portion of Term Loan Credit Facility | | 92,500 |
| Less: Original Issue Discount ⁽¹⁾ | | (8,205) |
| Term Loan Embedded Derivative Liability ⁽²⁾ | | 442 |
| Initial Warrant Liability ⁽²⁾ | | 5,254 |
| Total Term Loan - Non-current | \$ | 89,991 |

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

⁽²⁾ Value of warrant liability and embedded derivatives as of September 30, 2019.

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 and in Note 12, *Revolving Credit Facilities*, 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 alleviated.

14. Share Repurchase Program

On February 12, 2015, the Company announced that its Board of Directors approved a share repurchase program authorizing the repurchase of up to an aggregate of \$20.0 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 ended May 31, 2019. As of September 30, 2019, the program purchase period had lapsed and shares are no longer available for purchase under this plan.

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

15. Business Segments

Segment information is prepared on the same basis that our Chief Executive Officer, who is our chief operating decision maker ("CODM"), manages the segments, evaluates financial results, and makes key operating decisions. During the third quarter of 2018, the Company changed its reportable segments. The Company is now organized and managed by the CODM as three operating segments: North America, EMEA and LATAM. The North America segment includes operations in the United States and Canada; the EMEA segment includes operations in the United Kingdom, continental Europe, the Middle East, Africa, and Asia; and the LATAM segment includes operations in Mexico, Central America, and South America. Other consists of intersegment eliminations, shared service activities, and corporate expenses which are not allocated to the operating segments as management does not consider them in evaluating segment performance.

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

| | <u>North America</u> | <u>EMEA</u> | <u>LATAM</u> | <u>Other</u> | <u>Total</u> |
|--|--------------------------|------------------|------------------|--------------------|-------------------|
| <i>Three Months Ended September 30, 2019</i> | | | | | |
| Revenue from third parties | \$ 201,868 | \$ 64,352 | \$ 20,305 | \$ — | \$ 286,525 |
| Revenue from other segments | 1,952 | 3,264 | 14 | (5,230) | — |
| Total revenue | <u>\$ 203,820</u> | <u>\$ 67,616</u> | <u>\$ 20,319</u> | <u>\$ (5,230)</u> | <u>\$ 286,525</u> |
| Adjusted EBITDA ⁽¹⁾ | <u>\$ 18,363</u> | <u>\$ 3,907</u> | <u>\$ 571</u> | <u>\$ (11,233)</u> | <u>\$ 11,608</u> |

| | | | | | |
|--|-------------------|------------------|------------------|-------------------|-------------------|
| <i>Three Months Ended September 30, 2018</i> | | | | | |
| Revenue from third parties | \$ 181,363 | \$ 68,890 | \$ 20,597 | \$ — | \$ 270,850 |
| Revenue from other segments | 622 | 2,151 | 100 | (2,873) | — |
| Total revenue | <u>\$ 181,985</u> | <u>\$ 71,041</u> | <u>\$ 20,697</u> | <u>\$ (2,873)</u> | <u>\$ 270,850</u> |
| Adjusted EBITDA ⁽¹⁾ | <u>\$ 14,627</u> | <u>\$ 4,619</u> | <u>\$ 1,082</u> | <u>\$ (8,085)</u> | <u>\$ 12,243</u> |

| | <u>North America</u> | <u>EMEA</u> | <u>LATAM</u> | <u>Other</u> | <u>Total</u> |
|---|--------------------------|-------------------|------------------|--------------------|-------------------|
| <i>Nine Months Ended September 30, 2019</i> | | | | | |
| Revenue from third parties | \$ 590,452 | \$ 187,014 | \$ 60,350 | \$ — | \$ 837,816 |
| Revenue from other segments | 3,165 | 7,624 | 18 | (10,807) | — |
| Total revenue | <u>\$ 593,617</u> | <u>\$ 194,638</u> | <u>\$ 60,368</u> | <u>\$ (10,807)</u> | <u>\$ 837,816</u> |
| Adjusted EBITDA ⁽¹⁾ | <u>\$ 54,964</u> | <u>\$ 10,726</u> | <u>\$ 1,447</u> | <u>\$ (35,315)</u> | <u>\$ 31,822</u> |

| | | | | | |
|---|-------------------|-------------------|------------------|--------------------|-------------------|
| <i>Nine Months Ended September 30, 2018</i> | | | | | |
| Revenue from third parties | \$ 565,243 | \$ 198,229 | \$ 63,884 | \$ — | \$ 827,356 |
| Revenue from other segments | 2,993 | 7,679 | 178 | (10,850) | — |
| Total revenue | <u>\$ 568,236</u> | <u>\$ 205,908</u> | <u>\$ 64,062</u> | <u>\$ (10,850)</u> | <u>\$ 827,356</u> |
| Adjusted EBITDA ⁽¹⁾ | <u>\$ 50,215</u> | <u>\$ 6,929</u> | <u>\$ 2,913</u> | <u>\$ (32,278)</u> | <u>\$ 27,779</u> |

⁽¹⁾ Adjusted EBITDA, which represents income from operations with the addition of depreciation and amortization, stock-based compensation expense, restructuring charges, various one-time professional fees, executive search expenses, and other charges 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. The Company presents this measure as supplemental information to help investors better understand trends in its business results over time. The Company's management team uses Adjusted EBITDA to evaluate the performance of the business. Adjusted EBITDA is not equivalent to any measure of performance required to be reported under GAAP, nor should this data be considered an indicator of the Company's overall financial performance and liquidity. Moreover, the Adjusted EBITDA definition the Company uses may not be comparable to similarly titled measures reported by other companies.

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|--------------------|--|--------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Adjusted EBITDA | \$ 11,608 | \$ 12,243 | \$ 31,822 | \$ 27,779 |
| Depreciation and amortization | (3,090) | (3,265) | (8,939) | (10,438) |
| Stock-based compensation expense | (1,784) | (801) | (3,925) | (3,624) |
| Goodwill impairment | — | (27,887) | — | (27,887) |
| Intangible and long-lived asset impairment | — | (16,818) | — | (16,818) |
| Stock appreciation rights market-to-market | (248) | — | (294) | — |
| Restructuring charges | (3,055) | (3,142) | (10,687) | (3,142) |
| Senior leadership transition and other employee-related costs | — | (1,153) | — | (1,153) |
| Obsolete retail inventory | — | (950) | — | (950) |
| Professional fees related to control remediation | (378) | (1,358) | (918) | (1,895) |
| Executive search fees | — | — | (80) | (235) |
| Professional fees related to ASC 606 implementation | — | — | — | (1,092) |
| Sales and use tax audit | — | — | (1,235) | — |
| Other professional fees | (967) | (81) | (1,343) | (162) |
| Income (loss) from operations | 2,086 | (43,212) | 4,401 | (39,617) |
| Interest income | 37 | 19 | 239 | 135 |
| Interest expense | (4,376) | (1,769) | (9,608) | (4,854) |
| Other, net | (1,736) | (301) | (2,196) | (1,734) |
| Loss before income taxes | <u>\$ (3,989)</u> | <u>\$ (45,263)</u> | <u>\$ (7,164)</u> | <u>\$ (46,070)</u> |

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 September 30, 2019, we had more than 2,100 employees in approximately 30 countries. For the nine months ended September 30, 2019 we generated global revenue from third parties of \$590.5 million in the North America segment, \$187.0 million in the EMEA segment, and \$60.4 million in the LATAM segment.

On August 1, 2019, the Company acquired Madden Communications' ("Madden") marketing execution business. The transaction includes certain assets, contracts for customers in the beer, wine, and spirits sector, and logistics and creative solutions; however, the acquisition is considered immaterial for the Company's financial statements.

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 arrange shipment of the product. The product is shipped directly from our supplier or from our warehouse to a destination specified by our client. Upon shipment, we invoice our client for the product as well as for shipping and handling.

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

Cost of Goods Sold and Gross Profit

Our cost of goods sold consists primarily of the price at which we purchase products from our suppliers. We procure product for our own account and generally take full title and risk of loss upon shipment. Cost of goods sold also includes shipping and handling costs. Our gross profit is determined by the selling prices of the product and shipping charges less the cost of the product and shipping costs.

Operating Expenses and Income (Loss) 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. In addition, selling, general and administrative expenses include public company expenses, facilities fees, travel and entertainment expenses, corporate systems fees, and legal and accounting fees.

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

Comparison of three months ended September 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 September 30, | | | |
|----------------------------|----------------------------------|---------------|-------------------|---------------|
| | 2019 | % of Total | 2018 | % of Total |
| North America | \$ 201,868 | 70.4% | \$ 181,363 | 67.0% |
| EMEA | 64,352 | 22.5% | 68,890 | 25.4% |
| LATAM | 20,305 | 7.1% | 20,597 | 7.6% |
| Revenue from third parties | <u>\$ 286,525</u> | <u>100.0%</u> | <u>\$ 270,850</u> | <u>100.0%</u> |

North America

North America revenue increased by \$20.5 million, or 11.3%, in the three months ended September 30, 2019 over the corresponding period in 2018. The increase in revenue relates primarily to new business as well as growth from existing enterprise clients.

EMEA

EMEA revenue decreased by \$4.5 million, or 6.6%, in the three months ended September 30, 2019 over the corresponding period in 2018. The decrease was a result of growth that was more than offset by foreign currency impacts and declines or delays in marketing spend by certain clients.

LATAM

LATAM revenue decreased by \$0.3 million, or 1.4%, in the three months ended September 30, 2019 over the corresponding period in 2018.

Cost of goods sold

Cost of goods sold increased by \$11.5 million, or 5.6%, in the three months ended September 30, 2019 over the corresponding period in 2018. The increase is related to the increase in our revenue. Our cost of goods sold as a percentage of revenue was 76.2% and 76.4% during the three months ended September 30, 2019 and 2018, respectively.

Gross profit margin

Gross profit margin was 23.8% and 23.6% during the three months ended September 30, 2019 and 2018, respectively. The 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 increased by \$3.8 million, or 6.8%, in the three months ended September 30, 2019 over the corresponding period in 2018. The increase was driven by an increase in bonus expense and increases in salaries and benefits related to our acquisition of Madden Communications on August 1, 2019 (the "Madden acquisition") and temporary finance professional staff necessary to build out of the finance organization and support the Company's remediation and transformation efforts. As a percentage of gross profit, selling, general and administrative expenses also increased to 87.9% for the three months ended September 30, 2019 compared to 87.7% for the three months ended September 30, 2018.

Depreciation and amortization

Depreciation and amortization expense decreased by \$0.2 million, or 5.4%, in the three months ended September 30, 2019 compared to the corresponding period in 2018. The decrease is due to lower amortization resulting from impairment charges to intangible assets in 2018.

Goodwill impairment

During the quarter ended September 30, 2018, we recognized a \$27.9 million non-cash, goodwill impairment charge. Of the total charge, \$7.1 million related to the LATAM segment, and \$20.8 million related to the EMEA segment. No tax benefit was recognized on such charge, and this charge had no impact on our cash flows or compliance with debt covenants.

Intangible and long-lived asset impairment

During the quarter ended September 30, 2018, we recognized a \$13.8 million non-cash, intangible asset impairment charge related to certain customer lists. Of the total charge, \$0.6 million related to the LATAM segment, and \$13.2 million related to the EMEA segment. In the third quarter of 2018, we also recognized a \$3.0 million non-cash, long-lived asset impairment charge related to a legacy ERP system in EMEA.

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. For the three months ended September 30, 2019 and 2018, we recognized \$3.1 million and \$3.1 million, respectively, in restructuring charges.

Income (loss) from operations

Income (loss) from operations increased by \$45.3 million in the three months ended September 30, 2019 over the corresponding period in 2018. As a percentage of revenue, income (loss) from operations was 0.7% and (16.0)% during the three months ended September 30, 2019 and 2018, respectively. As a percentage of gross profit, income (loss) from operations was 3.1% and (67.5)% during the three months ended September 30, 2019 and 2018, respectively. The increase is primarily attributable to the impairment charges recognized during the quarter ended September 30, 2018, lower amortization resulting from the impairment and higher gross profit offset by an increase in selling, general and administrative expenses.

Other expense

Other expense increased by \$4.0 million in the three months ended September 30, 2019 over the corresponding period in 2018 primarily as a result of higher interest expense and foreign currency impacts.

Income tax expense

Income tax expense decreased by \$(1.5) million in the three months ended September 30, 2019 over the corresponding period in 2018. Our effective tax rate was 45.5% and 0.7% for the three months ended September 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 and prior year provision to return adjustments.

Net loss

Net loss decreased by \$42.8 million, or 95.2%, in the three months ended September 30, 2019 over the corresponding period in 2018. Net loss as a percentage of revenue was (0.8)% and (16.6)% during the three months ended September 30, 2019 and 2018, respectively. Net loss as a percentage of gross profit was (3.2)% and (70.2)% during the three months ended September 30, 2019 and 2018, respectively. The decrease in net loss is attributable to the impairment charges recognized during the quarter ended September 30, 2018, lower amortization resulting from the impairment and higher gross profit, offset by higher selling, general and administrative expenses.

Comparison of nine months ended September 30, 2019 and 2018

Revenue

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

| | Nine Months Ended September 30, | | | |
|----------------------------|--|-------------------|-------------------|-------------------|
| | 2019 | % of Total | 2018 | % of Total |
| North America | \$ 590,452 | 70.5% | \$ 565,243 | 68.3% |
| EMEA | 187,014 | 22.3% | 198,229 | 24.0% |
| LATAM | 60,350 | 7.2% | 63,884 | 7.7% |
| Revenue from third parties | <u>\$ 837,816</u> | <u>100.0%</u> | <u>\$ 827,356</u> | <u>100.0%</u> |

North America

North America revenue increased by \$25.2 million, or 4.5%, in the nine months ended September 30, 2019 over the corresponding period in 2018. The increase in revenue relates to new business as well as continued growth from existing enterprise clients.

EMEA

EMEA revenue decreased by \$11.2 million, or 5.7%, in the nine months ended September 30, 2019 over the corresponding period in 2018. The decrease was primarily related to foreign currency impacts and declines or delays in marketing spend by certain clients.

LATAM

LATAM revenue decreased by \$3.5 million, or 5.5%, in the nine months ended September 30, 2019 over the corresponding period in 2018. The decrease was a result of declines in marketing spend by certain clients.

Cost of goods sold

Cost of goods sold increased by \$7.0 million, or 1.1%, in the nine months ended September 30, 2019 over the corresponding period in 2018. Cost of goods sold as a percentage of revenue was 76.3% and 76.4% during the nine months ended September 30, 2019 and 2018, respectively.

Gross profit margin

Gross profit margin was 23.7% and 23.6% during the nine months ended September 30, 2019 and 2018, respectively. The increase was primarily driven by better customer mix in EMEA.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by \$1.9 million, or 1.1%, in the nine months ended September 30, 2019 over the corresponding period in 2018. The decrease was driven by the Company's restructuring and other cost reduction initiatives, partially offset by an increase in bonus expense and increases in salaries and benefits related to the Madden acquisition, higher legal fees and additional sales tax resulting from a sales tax audit. As a percentage of gross profit, selling, general and administrative expenses also decreased to 87.9% for the nine months ended September 30, 2019 compared to 90.4% for the nine months ended September 30, 2018.

Depreciation and amortization

Depreciation and amortization expense decreased by \$1.5 million, or 14.4%, in the nine months ended September 30, 2019 over the corresponding period in 2018. The decrease is due to lower amortization resulting from impairment charges to intangible assets in 2018.

Goodwill impairment

During the quarter ended September 30, 2018, we recognized a \$27.9 million non-cash, goodwill impairment charge. Of the total charge, \$7.1 million related to the LATAM segment, and \$20.8 million related to the EMEA segment. No tax benefit was recognized on such charge, and this charge had no impact on our cash flows or compliance with debt covenants.

Intangible and long-lived asset impairment

During the quarter ended September 30, 2018, we recognized a \$13.8 million non-cash, intangible asset impairment charge related to certain customer lists. Of the total charge, \$0.6 million related to the LATAM segment, and \$13.2 million related to the EMEA segment. In the third quarter of 2018, we also recognized a \$3.0 million non-cash, long-lived asset impairment charge related to a legacy ERP system in EMEA.

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. For the nine months ended September 30, 2019 and 2018, we recognized \$10.7 million and \$3.1 million, respectively, in restructuring charges.

Income (loss) from operations

Income (loss) from operations increased by \$44.0 million in the nine months ended September 30, 2019 over the corresponding period in 2018. As a percentage of revenue, income (loss) from operations was 0.5% and 4.8% during the nine months ended September 30, 2019 and 2018, respectively. As a percentage of gross profit, income (loss) from operations was 2.2% and 20.3% during the nine months ended September 30, 2019 and 2018, respectively. The increase is primarily attributable to impairment charges recognized during the nine months ended September 30, 2018, lower amortization resulting from the impairment and higher gross profit.

Other expense

Other expense increased by \$5.1 million in the nine months ended September 30, 2019 over the corresponding period in 2018. The increase in expense was primarily driven by an increase in interest expense.

Income tax expense

Income tax expense decreased by \$2.2 million in the nine months ended September 30, 2019 over the corresponding period in 2018. Our effective tax rate was 19.0% and (1.8)% for the nine months ended September 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 and prior year provision to return adjustments.

Net loss

Net loss decreased by \$41.1 million, or 87.6%, in the nine months ended September 30, 2019 over the corresponding period in 2018. Net loss as a percentage of revenue was (0.7)% and (5.7)% during the nine months ended September 30, 2019 and 2018, respectively. Net loss as a percentage of gross profit was (2.9)% and (24.1)% during the nine months ended September 30, 2019 and 2018, respectively. The decrease in net loss is primarily attributable to impairment charges recognized during the nine months ended September 30, 2018, lower amortization resulting from the impairment and higher gross profit offset by 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, various one-time professional fees, executive search expenses, and other charges 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 September 30, | | | |
|----------------------|----------------------------------|------------|-----------|------------|
| | 2019 | % of Total | 2018 | % of Total |
| North America | \$ 18,363 | 158.2 % | \$ 14,627 | 119.5 % |
| EMEA | 3,907 | 33.7 % | 4,619 | 37.7 % |
| LATAM | 571 | 4.9 % | 1,082 | 8.8 % |
| Other ⁽¹⁾ | (11,233) | (96.8)% | (8,085) | (66.0)% |
| Adjusted EBITDA | \$ 11,608 | 100.0 % | \$ 12,243 | 100.0 % |

| | Nine Months Ended September 30, | | | |
|----------------------|---------------------------------|------------|-----------|------------|
| | 2019 | % of Total | 2018 | % of Total |
| North America | \$ 54,964 | 172.7 % | \$ 50,215 | 180.8 % |
| EMEA | 10,726 | 33.7 % | 6,929 | 24.9 % |
| LATAM | 1,447 | 4.6 % | 2,913 | 10.5 % |
| Other ⁽¹⁾ | (35,315) | (111.0)% | (32,278) | (116.2)% |
| Adjusted EBITDA | \$ 31,822 | 100.0 % | \$ 27,779 | 100.0 % |

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

Comparison of three months ended September 30, 2019 and 2018. Adjusted EBITDA decreased by \$0.6 million, or 5.2%, in the three months ended September 30, 2019 over the corresponding period in 2018. North America Adjusted EBITDA increased by \$3.7 million, or 25.5%, in the three months ended September 30, 2019 over the corresponding period in 2018 due to an increase in bonus expense and increases in selling, general and administrative expenses resulting from the Madden acquisition and additional customer account executives to support new business partially offset by higher revenue and an increase in gross margin. EMEA Adjusted EBITDA decreased by \$0.7 million, or 15.4%, in the three months ended September 30, 2019 over the corresponding period in 2018 due to lower revenue offset by reduced operating expenses as a result of restructuring efforts. LATAM Adjusted EBITDA decreased by \$0.5 million, or 47.2%, in the three months ended September 30, 2019 over the corresponding period in 2018 due to lower revenue and resulting lower gross profit. Other Adjusted EBITDA decreased by \$3.1 million, or 38.9%, in the three months ended September 30, 2019 over the corresponding period in 2018 primarily due to increased expenses related to temporary finance professional staff necessary to build out of the finance organization and support the Company's remediation and transformation efforts.

Comparison of nine months ended September 30, 2019 and 2018. Adjusted EBITDA increased by \$4.0 million, or 14.6%, in the nine months ended September 30, 2019 over the corresponding period in 2018. North America Adjusted EBITDA increased by \$4.7 million, or 9.5%, in the nine months ended September 30, 2019 over the corresponding period in 2018 due to higher revenue, partially offset by an increase in bonus expense and an increase in selling, general and administrative expenses resulting from the Madden acquisition and additional customer account executives to support new business. EMEA Adjusted EBITDA increased by \$3.8 million, or 54.8%, in the nine months ended September 30, 2019 over the corresponding period in 2018 due to customer mix and reduced expenses related to restructuring efforts. LATAM Adjusted EBITDA decreased by \$1.5 million, or 50.3%, in the nine months ended September 30, 2019 over the corresponding period in 2018 due to lower revenue. Other Adjusted EBITDA decreased by \$3.0 million, or 9.4%, due to increased expenses related to temporary finance professional staff necessary to build out of the finance organization and support the Company's remediation and transformation efforts.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-------------|---------------------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net loss | \$ (2,174) | \$ (44,937) | \$ (5,805) | \$ (46,921) |
| Income tax (benefit) expense | (1,815) | (326) | (1,359) | 851 |
| Interest income | (37) | (19) | (239) | (135) |
| Interest expense | 4,376 | 1,769 | 9,608 | 4,854 |
| Other expense ⁽¹⁾ | 1,736 | 301 | 2,196 | 1,734 |
| Depreciation and amortization | 3,090 | 3,265 | 8,939 | 10,438 |
| Stock-based compensation expense | 1,784 | 801 | 3,925 | 3,624 |
| Stock appreciation rights marked to market | 248 | — | 294 | — |
| Goodwill impairment | — | 27,887 | — | 27,887 |
| Intangible and long-lived asset impairment | — | 16,818 | — | 16,818 |
| Restructuring charges | 3,055 | 3,142 | 10,687 | 3,142 |
| Professional fees related to ASC 606 implementation | — | — | — | 1,092 |
| Senior leadership transition and other employee-related costs | — | 1,153 | — | 1,153 |
| Obsolete retail inventory | — | 950 | — | 950 |
| Executive search fees | — | — | 80 | 235 |
| Professional fees related to control remediation | 378 | 1,358 | 918 | 1,895 |
| Sales and use tax audit | — | — | 1,235 | — |
| Other professional fees | 967 | 81 | 1,343 | 162 |
| Adjusted EBITDA | \$ 11,608 | \$ 12,243 | \$ 31,822 | \$ 27,779 |

⁽¹⁾ Comprised primarily of foreign exchange (gain)/loss, change in fair value for warrants and derivatives features on the Company's debt facilities, and intercompany royalty recharges.

Adjusted Diluted Earnings Per Share

Adjusted diluted earnings per share, which represents net loss, with the addition of goodwill, intangible and long-lived asset impairment charges, restructuring charges, senior leadership transition and other employee-related costs, obsolete inventory write-off, professional fees related to ASC 606 implementation, executive search fees, restatement-related professional fees, sales and use tax resulting from an audit and other 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 earnings per share for each of the periods presented was as follows (in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-------------|---------------------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net loss | \$ (2,174) | \$ (44,937) | \$ (5,805) | \$ (46,921) |
| Goodwill impairment | — | 27,887 | — | 27,887 |
| Intangible and long-lived asset impairment, net of tax | — | 14,037 | — | 14,037 |
| Restructuring charges, net of tax | 2,401 | 2,584 | 8,203 | 2,584 |
| Senior leadership transition and other employee-related costs, net of tax | — | 844 | — | 844 |
| Obsolete inventory, net of tax | — | 769 | — | 769 |
| Professional fees related to ASC 606 implementation, net of tax | — | — | — | 819 |
| Executive search fees, net of tax | — | — | 60 | 176 |
| Professional fees related to control remediation, net of tax | 281 | 984 | 683 | 1,387 |
| Sales and use tax audit, net of tax | — | — | 920 | — |
| Other professional fees, net of tax | 721 | 59 | 1,001 | 119 |
| Fair value of warrants and derivatives | 853 | — | 853 | — |
| Foreign exchange loss ⁽¹⁾ | 773 | — | 773 | — |
| Adjusted net income | \$ 2,855 | \$ 2,227 | \$ 6,688 | \$ 1,701 |
| GAAP Weighted-average shares outstanding – diluted | 53,320 | 51,688 | 53,235 | 52,384 |
| Effect of dilutive securities: | | | | |
| Employee stock options and restricted common shares | 4 | 304 | 280 | 633 |
| Adjusted Weighted-average shares outstanding – diluted | 53,324 | 51,992 | 53,515 | 53,017 |
| Adjusted diluted earnings per share | \$ 0.05 | \$ 0.04 | \$ 0.12 | \$ 0.03 |

⁽¹⁾ Foreign exchange losses that represent a one-time loss and are related to foreign exchange risk in intercompany loans that are denominated in non-USD currencies as a result of the debt refinancing. The Company intends to convert these loans to equity by the end of 2019.

Comparison of three months ended September 30, 2019 and 2018. Adjusted diluted earnings per share increased by \$0.01 in the three months ended September 30, 2019 over the corresponding period in 2018. The increase is primarily attributable to higher revenues, improved gross margin, and restructuring.

Comparison of nine months ended September 30, 2019 and 2018. Adjusted diluted earnings per share increased by \$0.09 in the nine months ended September 30, 2019 over the corresponding period in 2018. The increase is primarily due to lower operating costs and restructuring.

Liquidity and Capital Resources

At September 30, 2019, we had \$38.5 million of cash and cash equivalents.

Operating Activities. Cash used in 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 used in operating activities for the nine months ended September 30, 2019 was \$9.8 million and consisted of a net loss of \$5.8 million, offset by \$17.4 million of non-cash items less an increase in working capital of \$21.4 million. The working capital changes consisted of an increase in accounts receivable and unbilled revenue of \$21.2 million, an increase in prepaid expenses and other assets of \$29.1 million and an increase in inventory of \$8.8 million less an increase in accounts payable and accrued expenses and other liabilities of \$37.8 million. The change in other receivables is driven by an increase in product receivables for a consumer packaged goods client, which is a pass-through activity and is representative of the seasonal nature of the client's business.

Cash provided by operating activities for the nine months ended September 30, 2018 was \$10.1 million and consisted of a net loss of \$46.9 million, offset by \$59.8 million of non-cash items and by \$2.8 million used in working capital and other activities. The most significant impact on working capital and other activities consisted of an increase in accounts payable of \$20.4 million, an increase in inventories of \$16.5 million, and an increase in prepaid expenses and other assets of \$7.9 million, all of which were partially offset by a decrease in accounts receivable and unbilled revenue of \$5.8 million and a decrease in accrued expenses and other liabilities of \$4.6 million.

Investing Activities. Cash used in investing activities for the nine months ended September 30, 2019 and 2018 of \$10.4 million and \$7.8 million, respectively, was primarily attributable to capital expenditures and software development.

Financing Activities. Cash provided by financing activities for the nine months ended September 30, 2019 of \$31.1 million was primarily attributable to proceeds from the term loan of \$100.0 million, net borrowings under the new revolving credit facility of \$81.5 million, partially offset by net repayments under the old revolving credit facility of \$142.6 million, the payment of debt issuance costs of \$5.5 million and payments on the term loan of \$1.3 million.

Cash used in financing activities for the nine months ended September 30, 2018 of \$3.3 million was primarily attributable to repurchases of common stock of \$25.7 million, partially offset by net borrowings under the revolving credit facility of \$23.2 million.

Share Repurchase Program

The share repurchase program described in Note 14, *Share Repurchase Program*, expired on May 31, 2019. During the three and nine months ended September 30, 2019 and the three months ended September 30, 2018, the Company did not repurchase any shares of its common stock under this program. During the nine months ended September 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.

Revolving Credit Facilities and Long-Term Debt

On July 16, 2019, the Company refinanced its debt, which is further discussed in Note 12, *Revolving Credit Facilities* and in Note 13, *Long-Term Debt*. The new debt structure provides long-term capital with improved flexibility to support the Company's growth plans. The Company intends to use excess cash from operations to pay off debt and supporting working capital needs.

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

Credit Agreement. The Company is in compliance with all debt covenants in the ABL Credit Agreement and Term Loan Credit Agreement as of September 30, 2019.

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

Leases

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.

Warrants, Embedded Derivatives and Fair Value

In accordance with ASC 820, *Fair Value Measurements and Disclosures*, the Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis.

The Company accounts for warrants issued in conjunction with its long-term debt and certain embedded derivatives in its revolving credit facility and long-term debt in accordance with the guidance contained in ASC Topic 815, *Derivatives and Hedging*. Warrants that are not deemed to be indexed to the Company's own stock are classified as liabilities at their fair values at the time of issuance. Embedded derivatives that are not deemed to be clearly and closely related to the host debt contract are bifurcated and recorded separately as a discount on the related debt facility. These liabilities were subject to re-measurement at each balance sheet date, and any change in fair value is recognized in the Company's statement of operations. The fair values of the warrants and derivative liabilities are estimated using a Black-Scholes model and other valuation techniques. Further, the Company also discloses the fair value of its revolving credit facility and long-term debt facility using current market rates. Refer to Note 10, *Fair Value Measurement*.

Deferred Financing Fees and Debt Discounts

The Company accounts for debt issuance costs, warrants, and embedded derivative features as a discount on its long-term debt (the "original issue discount" or "OID"). Embedded derivative features related the Company's revolving credit facility are also treated as a discount on the long-term portion of the revolving credit facility. The OID on long-term debt is amortized using the effective interest rate method and is recognized in interest expense. The discount on the revolving credit facility is amortized using the straight line method and is recognized in interest expense. Deferred financing fees related to the Company's revolving credit facility are included in other assets and amortized using the straight line method over the term of the revolving credit facility.

As of September 30, 2019, except for the new critical accounting policies 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 term loan and revolving credit facility. Interest is payable at the adjusted LIBOR rate or the alternate base rate. Assuming our \$105.0 million revolving credit facility were fully drawn along with our \$98.8 million term loan, a 1.0% increase in the interest rate would increase our annual interest expense by \$2.04 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 September 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 nine months ended September 30, 2019, we derived approximately 31.0% of our revenue from international customers, and we expect 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. For the three months ended September 30, 2019, the Company experienced more exposure to foreign exchange gains and losses related to the remeasurement of intercompany loan balances. The Company intends to convert these balances to equity in an effort to minimize exposure in future periods. For the nine months ended September 30, 2019, the foreign exchange gains and losses recorded have been immaterial to our financial statements. At this time we do not intend to, 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 September 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 September 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 continues to work to strengthen our internal control over financial reporting. We are committed to ensuring that such controls are operating effectively.

We have taken significant steps to remediate our internal control deficiencies in revenue recognition and commissions expenses by redesigning and enhancing our controls, many of which are currently being tested for operating effectiveness in 2019. We are expecting to complete this remediation during 2019, pending results of the testing of our controls.

Specifically, to remediate deficiencies in revenue recognition controls, the Company has designed and implemented enhanced controls over contract review and approval of contract terms; implemented new policies over the operational processes supporting revenue recognition to ensure revenue was recorded at the appropriate transaction price in the proper period; added resources to train the process owners and to monitor compliance with the Company's policies; and enhanced the precision of its controls over the review of unbilled revenue.

To remediate deficiencies in the controls over the commissions process, the Company has designed and implemented controls to ensure that systems used for commissions are updated with accurate data to reflect approved compensation arrangements, improved the review process over commissions expense and the related balance sheet accounts, and evaluated the completeness and 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.

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 September 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, *Commitments and Contingencies*, 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.

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

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs⁽²⁾ |
|----------------------------------|---|-------------------------------------|---|---|
| July 1 - July 31, 2019 | — | \$ — | — | — |
| August 1 - August 31, 2019 | 783 | 4.33 | — | — |
| September 1 - September 30, 2019 | 20,989 | 4.02 | — | — |
| Total | 21,772 | \$ 4.03 | — | — |

⁽¹⁾ Represents shares delivered to us by employees to satisfy the mandatory tax withholding requirement upon vesting of restricted stock.

⁽²⁾ As noted within Note 14, *Share Repurchase Program*, the program purchase period lapsed on May 31, 2019, and shares are no longer available for purchase under the plan.

Item 6. Exhibits

| Exhibit No | Description of Exhibit |
|----------------------|---|
| 4.1 | Form of Warrant to Purchase Stock of InnerWorkings, Inc., dated as of July 16, 2019 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 16, 2019). |
| 10.1 | Loan and Security Agreement, dated as of July 16, 2019, by and among InnerWorkings, Inc. and certain direct and indirect subsidiaries of InnerWorkings, Inc., 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 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 16, 2019). |
| 10.2 | Loan and Security Agreement, dated as of July 16, 2019, by and among InnerWorkings, Inc., certain direct and indirect subsidiaries of InnerWorkings, Inc., TCW Asset Management Company LLC, as administrative agent and collateral agent, and the other lenders party thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 16, 2019). |
| 10.3 | Cooperation Agreement, dated August 9, 2019, by and among InnerWorkings, Inc. and Engaged Capital, LLC and certain of its affiliates (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 9, 2019). |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *101.INS | XBRL Instance Document |
| **101.SCH | XBRL Taxonomy Extension Schema Document |
| **101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| **101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| **101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| **101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| *104 | Cover Page Interactive Data File |

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

**Submitted electronically with the Report.

SIGNATURES

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

INNERWORKINGS, INC.

Date: November 12, 2019

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

Date: November 12, 2019

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

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: November 12, 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: November 12, 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 September 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
November 12, 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 September 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
November 12, 2019