

INNERWORKINGS INC

FORM 10-Q (Quarterly Report)

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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, 2016

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

Commission File Number 000-52170

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

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

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

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

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

Large accelerated filer:

Accelerated filer:

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

Smaller reporting company

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 October 31, 2016, the Registrant had 54,860,531 shares of Common Stock, par value \$0.0001 per share, outstanding, which includes 1,088,057 shares of unvested restricted stock awards that have voting rights and are held by members of the Board of Directors and certain of the Company's employees.

INNERWORKINGS, INC.

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Financial Statements (Unaudited) and Notes to Condensed Consolidated Financial Statements (Unaudited) 3
	Condensed Consolidated Statement of Comprehensive Income (Loss) for the three and nine months ended September 30, 2016 and 2015 (Unaudited) 3
	Condensed Consolidated Balance Sheet as of September 30, 2016 (Unaudited) and December 31, 2015 4
	Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2016 and 2015 (Unaudited) 5
	Notes to Condensed Consolidated Financial Statements (Unaudited) 6
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations 19
Item 3.	Quantitative and Qualitative Disclosures about Market Risk 30
Item 4.	Controls and Procedures 31
PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings 33
Item 1A.	Risk Factors 33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds 33
Item 6.	Exhibits 34
SIGNATURES 35	
EXHIBIT INDEX 36	

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ 279,993	\$ 264,720	\$ 820,286	\$ 759,043
Cost of goods sold	212,212	201,109	625,465	581,387
Gross profit	67,781	63,611	194,821	177,656
Operating expenses:				
Selling, general and administrative expenses	52,601	48,787	155,511	144,836
Depreciation and amortization	5,066	4,485	14,382	12,842
Change in fair value of contingent consideration	788	701	9,975	1,691
Restructuring and other charges	466	—	4,433	—
Income from operations	8,860	9,638	10,520	18,287
Other income (expense):				
Interest income	26	6	63	55
Interest expense	(1,191)	(1,132)	(3,252)	(3,382)
Other, net	(114)	(1,089)	16	(992)
Total other expense	(1,279)	(2,215)	(3,173)	(4,319)
Income before income taxes	7,581	7,423	7,347	13,968
Income tax expense	3,240	3,487	8,023	6,100
Net income (loss)	\$ 4,341	\$ 3,936	\$ (676)	\$ 7,868
Basic earnings (loss) per share	\$ 0.08	\$ 0.07	\$ (0.01)	\$ 0.15
Diluted earnings (loss) per share	\$ 0.08	\$ 0.07	\$ (0.01)	\$ 0.15
Comprehensive income (loss)	\$ 4,676	\$ 2,072	\$ (2,201)	\$ 1,658

See accompanying notes to the condensed consolidated financial statements.

InnerWorkings, Inc. and subsidiaries
Condensed Consolidated Balance Sheet
(In thousands)

	September 30, 2016	December 31, 2015
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,787	\$ 30,755
Accounts receivable, net of allowance for doubtful accounts of \$2,218 and \$1,231, respectively	190,438	188,819
Unbilled revenue	40,505	30,758
Inventories	45,377	33,327
Prepaid expenses	11,984	14,353
Other current assets	30,528	31,825
Total current assets	339,619	329,837
Property and equipment, net	32,279	32,681
Intangibles and other assets:		
Goodwill	204,978	206,257
Intangible assets, net	33,476	37,715
Deferred income taxes	1,123	586
Other non-current assets	1,426	1,391
Total intangibles and other assets	241,003	245,949
Total assets	\$ 612,901	\$ 608,467
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 129,980	\$ 170,244
Current portion of contingent consideration	19,320	11,387
Due to seller	1,683	402
Accrued expenses	21,037	17,866
Other current liabilities	35,515	31,363
Total current liabilities	207,535	231,262
Revolving credit facility	133,734	99,258
Deferred income taxes	11,594	10,526
Contingent consideration, net of current portion	—	10,775
Other non-current liabilities	2,235	2,510
Total liabilities	355,098	354,331
Commitments and contingencies (See Note 11)		
Stockholders' equity:		
Common stock, par value \$0.0001 per share, 200,000 and 200,000 shares authorized, 63,274 and 62,645 shares issued, and 53,770 and 53,098 shares outstanding, respectively	6	6
Additional paid-in capital	219,085	213,566
Treasury stock at cost, 9,504 and 9,547 shares, respectively	(51,724)	(52,207)
Accumulated other comprehensive loss	(15,518)	(13,993)
Retained earnings	105,954	106,764
Total stockholders' equity	257,803	254,136
Total liabilities and stockholders' equity	\$ 612,901	\$ 608,467

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net income (loss)	\$ (676)	\$ 7,868
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	14,382	12,842
Stock-based compensation expense	4,097	4,854
Deferred income taxes	677	768
Bad debt provision	1,433	1,214
Change in fair value of contingent consideration	9,975	1,691
Other operating activities	157	157
Change in assets:		
Accounts receivable and unbilled revenue	(12,798)	(17,558)
Inventories	(12,050)	(13,116)
Prepaid expenses and other assets	3,574	(13,436)
Change in liabilities:		
Accounts payable	(40,264)	4,471
Accrued expenses and other liabilities	7,861	2,989
Net cash used in operating activities	<u>(23,632)</u>	<u>(7,256)</u>
Cash flows from investing activities		
Purchases of property and equipment	(10,502)	(12,126)
Net cash used in investing activities	<u>(10,502)</u>	<u>(12,126)</u>
Cash flows from financing activities		
Net borrowings from revolving credit facilities	34,722	23,489
Net short-term secured borrowings	(820)	(551)
Repurchases of common stock	—	(4,897)
Payments of contingent consideration	(11,008)	(8,010)
Proceeds from exercise of stock options	2,002	650
Other financing activities	(680)	(426)
Net cash provided by financing activities	<u>24,216</u>	<u>10,255</u>
Effect of exchange rate changes on cash and cash equivalents	(50)	(813)
Decrease in cash and cash equivalents	<u>(9,968)</u>	<u>(9,940)</u>
Cash and cash equivalents, beginning of period	30,755	22,578
Cash and cash equivalents, end of period	<u>\$ 20,787</u>	<u>\$ 12,638</u>

See accompanying notes to the condensed consolidated financial statements.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

1. Summary of Significant Accounting Policies

Basis of Presentation of Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements of InnerWorkings, Inc. and subsidiaries (the “Company”) included herein have been prepared to conform to the rules and regulations of the Securities and Exchange Commission (“SEC”) and accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation of the accompanying unaudited financial statements have been included, and all adjustments are of a normal and recurring nature. The operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year ending December 31, 2016. These condensed interim consolidated 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, 2015 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 10, 2016.

Description of the Business

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

The Company is organized and managed as two business segments, North America and International, and is viewed as two operating segments by the chief operating decision maker for purposes of resource allocation and assessing performance. See Note 14 for further information about the Company’s reportable segments.

Preparation of Financial Statements and Use of Estimates

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

Foreign Currency Translation

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

Revenue Recognition

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

The Company recognizes revenue upon meeting all of the following revenue recognition criteria, which are typically met upon shipment or delivery of its products to customers: (i) persuasive evidence of an arrangement exists through customer contracts and orders, (ii) the customer takes title and assumes the risks and rewards of ownership, (iii) the sales price charged is fixed or determinable as evidenced by customer contracts and orders, and (iv) collectability is reasonably assured. Unbilled revenue relates to shipments that have been made to customers for which the related account receivable has not yet been billed.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-45, *Revenue Recognition – Principal Agent Considerations*, the Company generally reports revenue on a gross basis because the Company is the primary obligor in its arrangements to procure marketing materials and other products for its customers. Under these arrangements, the Company is responsible for the fulfillment, including the acceptability, of the marketing materials and other products. In addition, the Company (i) determines which suppliers are included in its network, (ii) has discretion to select from among the suppliers within its network, (iii) is obligated to pay its suppliers regardless of whether it is paid by its customers, and (iv) has reasonable latitude to establish exchange price. In some transactions, the Company also has general inventory risk and is involved in the determination of the nature or characteristics of the marketing materials and products. When the Company is not the primary obligor, revenues are reported net.

The Company recognizes revenue for creative and other services provided to its customers which may be delivered in conjunction with the procurement of marketing materials at the time when delivery and customer acceptance occur and all other revenue recognition criteria are met. The Company recognizes revenue for creative and other services provided on a stand-alone basis upon completion of the service. Service revenue has not been material to the Company's overall revenue to date.

Stock-Based Compensation

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

Stock-based compensation cost recognized during the period is based on the portion of the share-based payment awards that are ultimately expected to vest. Accordingly, stock-based compensation cost recognized has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company recorded \$1.7 million and \$1.2 million in stock-based compensation expense for the three months ended September 30, 2016 and 2015, respectively, and \$4.1 million and \$4.9 million in stock-based compensation expense for the nine months ended September 30, 2016 and 2015, respectively. During 2015, \$0.4 million of stock-based compensation expense was recognized related to the modification of a former executive's award agreements in connection with his transition agreement.

Recent Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, ("ASU 2016-09") which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual and interim periods beginning after December 15, 2016. This guidance can be applied either prospectively, retrospectively or using a modified retrospective transition method. Early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements and expects to adopt this standard in the first quarter of 2017.

In March 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ("ASU 2016-08") and in April 2016, the FASB issued Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* ("ASU 2016-10"), both of which provide supplemental adoption guidance and clarification to ASC 2014-09. ASU 2016-08 and ASU 2016-10 must be adopted concurrently with the adoption of ASU 2014-09. The Company is currently evaluating the impact of adopting these standards on its consolidated financial statements, including possible transition elections and expects to adopt these standards in 2018.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, ("ASU 2016-02") which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosure of key information about leasing arrangements. ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability for most leases in the balance sheet as well as other qualitative and quantitative disclosures. The update is to be applied using a modified retrospective method and is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. In August 2015, the FASB issued Accounting Standards Update 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU 2015-14") which defers the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of adopting these standards on its consolidated financial statements and expects to adopt these standards in 2018.

In July 2015, the FASB issued Accounting Standards Update 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). ASU 2015-11 applies to inventory that is measured using first-in, first-out (FIFO) or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, last-out (LIFO). The standard is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The Company does not expect ASU 2015-11 to have a material impact on its consolidated financial statements and expects to adopt this standard in the fourth quarter of 2016.

In August 2014, the FASB issued Accounting Standards Update 2014-15, *Presentation of Financial Statements – Going Concern* ("ASU 2014-15"). ASU 2014-15 requires management to evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern and to provide disclosures in certain circumstances. The standard is effective for annual periods ending after December 15, 2016 and interim periods beginning on or after December 15, 2016. The Company does not expect ASU 2014-15 to have a material impact on its consolidated financial statements and expects to adopt this standard in the fourth quarter of 2016.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which amends ASC 230, Statement of Cash Flows. This ASU provides guidance on the statement of cash flows presentation of certain transactions where diversity in practice exists. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

2. Contingent Consideration

In connection with certain of the Company's acquisitions, contingent consideration is payable in cash or common stock upon the achievement of certain performance measures over future periods. The Company recorded the acquisition date fair value of the contingent consideration liability as additional purchase price. As discussed in Note 10, the process for determining the fair value of the contingent consideration liability consists of reviewing financial forecasts and assessing the likelihood of reaching the required performance measures based on factors specific to each acquisition as well as the Company's historical experience with similar arrangements. Subsequent to the acquisition date, the Company estimates the fair value of the contingent consideration liability each reporting period, and any adjustments made to the fair value are recorded in the Company's results of operations. If an acquisition reaches the required performance measures within the reporting period, the fair value of the contingent consideration liability is increased to 100%, the maximum potential payment, and reclassified to Due to seller.

The Company has recorded \$19.3 million in contingent consideration at September 30, 2016 related to these arrangements. Any adjustments made to the fair value of the contingent consideration liability subsequent to the acquisition date will be recorded in the Company's results of operations. During the three months ended September 30, 2016 and 2015, the Company recorded expense of \$0.8 million and \$0.7 million, respectively, to increase its contingent liability related to these arrangements. During

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

the nine months ended September 30, 2016 and 2015, the Company recorded expense of \$10.0 million and \$1.7 million, respectively, to increase its contingent liability related to these arrangements.

For the three and nine months ended September 30, 2016, the Company's fair value adjustment to the contingent consideration liability includes an adjustment of \$1.3 million and \$9.4 million, respectively, of expense to increase the liability relating to the Eyelevel acquisition due to strong financial performance in recent periods and an improvement in forecasted results. This improved performance was primarily driven by significant expansion within Eyelevel's existing customer base during 2016. As a result of this growth and the increase in forecast, the probability of Eyelevel achieving the target threshold for the final earnout measurement period increased from less than probable to highly probable as of June 30, 2016, and further increased in probability as of September 30, 2016. These probability changes were the primary drivers of the increases in the fair value of the contingent consideration liability in these periods. The large year-to-date increase in fair value resulting from these probability changes also takes in to account the acquisition agreement's earnout payment structure for the final measurement period, which begins funding at \$12.0 million based on cumulative EBITDA of \$30.0 million but pays nothing below that threshold and up to a maximum payout of \$24 million if cumulative EBITDA of \$40.0 million is achieved. This increase to the contingent consideration liability for Eyelevel was partially offset by decreases in the fair value of other earnout agreements of \$0.5 million and \$0.6 million for the three and nine months ended September 30, 2016, respectively.

As of September 30, 2016, the potential maximum contingent payments, excluding the amounts recorded in Due to seller which are currently payable, would be due as follows if all performance measures are achieved (in thousands):

	Maximum Potential Payment	Fair Value of Liability
2016	\$ —	\$ —
2017	69,490	19,320
	<u>\$ 69,490</u>	<u>\$ 19,320</u>

If the performance measures required by the applicable purchase agreements are not achieved, the Company may pay less than the maximum amounts presented in the table above, depending on the terms of the agreement. While the maximum potential payments shown in the table are \$69.5 million, the Company estimates that the fair value of the payments that will be made is \$19.3 million based on expected performance and the result in payouts.

3. Goodwill

The following is a summary of the goodwill balance for each reportable segment as of September 30, 2016 (in thousands):

	North America	International	Total
Net goodwill as of December 31, 2015	\$ 170,735	\$ 35,522	\$ 206,257
Foreign exchange impact	38	(1,317)	(1,279)
Net goodwill as of September 30, 2016	<u>\$ 170,773</u>	<u>\$ 34,205</u>	<u>\$ 204,978</u>

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. In accordance with ASC 350, *Intangibles – Goodwill and Other* ("ASC 350"), goodwill is not amortized, but instead is tested for impairment annually, or more frequently if circumstances indicate a possible impairment may exist. Absent any interim indicators of impairment, 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 Company's fair value estimates for purposes of performing the analysis are considered Level 3 fair value measurements. The fair value estimates were based on assumptions that management believes to be reasonable, but that are inherently uncertain, including estimates of future revenues and operating margins and assumptions about the overall economic climate and the competitive environment for the business.

The Company reviews for potential impairment indicators each reporting period and does not believe that goodwill is impaired as of September 30, 2016.

4. Other Intangible Assets

The following is a summary of the Company's other intangible assets as of September 30, 2016 and December 31, 2015 (in thousands):

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

	September 30, 2016	December 31, 2015	Weighted Average Life
Customer lists	\$ 73,635	\$ 73,759	13.6
Noncompete agreements	955	988	4.1
Trade names	3,141	3,228	12.6
Patents	57	57	9.0
	77,788	78,032	
Less accumulated amortization	(44,312)	(40,317)	
Intangible assets, net	<u>\$ 33,476</u>	<u>\$ 37,715</u>	

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

Amortization expense related to these intangible assets was \$1.4 million and \$1.5 million for the three months ended September 30, 2016 and 2015, respectively, and \$4.2 million and \$4.4 million for the nine months ended September 30, 2016 and 2015, respectively.

The estimated amortization expense for the remainder of 2016 and each of the next five years and thereafter is as follows (in thousands):

Remainder of 2016	\$ 1,342
2017	5,086
2018	4,611
2019	4,316
2020	4,193
Thereafter	13,928
	<u>\$ 33,476</u>

5. Restructuring Activities and Other Charges

2016 : On December 14, 2015, the Company approved a global realignment plan that is expected to allow the Company to more efficiently meet client needs across its international platform. Through improved integration of global resources, the plan will create back office and other efficiencies and allow for the elimination of approximately 100 positions. In connection with these actions, the Company expects to incur total pre-tax cash restructuring charges of \$6.4 million to \$6.7 million, the majority of which will be recognized during 2016. These cash charges will include approximately \$5.4 million to \$5.7 million for employee severance and related benefits and \$1.0 million for lease and contract termination and other associated costs. The remainder of these charges will be incurred by the end of 2016 with payouts of the charges also in 2017. As required by law, the Company is consulting with each of the affected countries' local Works Councils throughout implementation of this plan.

As of September 30, 2016, the Company has recognized \$5.5 million in restructuring charges related to this plan, of which \$0.3 million, \$4.2 million and \$1.0 million related to the North America, International and Other segments, respectively. This plan is expected to be completed by the end of 2016.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

The following table summarizes the accrued restructuring activities for this plan for the nine months ended September 30, 2016 (in thousands):

	Employee Severance and Related Benefits	Lease and Contract Termination Costs	Total
Balance at December 31, 2015	\$ 284	\$ 75	\$ 359
Charges	3,571	862	4,433
Cash payments	(2,991)	(863)	(3,854)
Balance at September 30, 2016	<u>\$ 864</u>	<u>\$ 74</u>	<u>\$ 938</u>

2015 : No restructuring activities occurred during the nine months ended September 30, 2015 .

6. Income Taxes

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items. The Company's reported effective income tax rate was 42.7% and 47.0% for the three months ended September 30, 2016 and 2015 , respectively, and 109.2% and 43.7% for the nine months ended September 30, 2016 and 2015 , 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, and foreign taxes that are different than the U.S. federal statutory rate. In addition, the effective tax rate can be impacted each period by discrete factors and events.

The effective tax rates were affected by the fair value changes to contingent consideration in each period. Portions of the total amount recognized from fair value changes to contingent consideration relate to non-taxable acquisitions for which deferred taxes are not recognized, consistent with the treatment of goodwill and intangible assets for those acquisitions under U.S. GAAP. In the three months ended September 30, 2016 and 2015 , \$0.8 million and \$0.7 million , respectively, was recognized as expense from fair value changes to contingent consideration, and in the nine months ended September 30, 2016 and 2015 , \$10.0 million and \$1.7 million , respectively, was recognized as expense from fair value changes to contingent consideration, which did not result in recognition of a deferred tax asset, therefore, increasing the effective tax rate for these periods. Additionally, the global realignment plan resulted in restructuring and other charges in jurisdictions which have valuation allowances against tax loss carryforwards, so a tax benefit has not been recognized in the financial statements.

7. Earnings Per Share

Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is calculated by dividing net income by the weighted average shares outstanding plus share equivalents that would arise from the exercise of stock options, vesting of restricted common shares, and contingently issuable shares in connection with the Company's acquisitions. During the three months ended September 30, 2016 and 2015 , an aggregate of 2.5 million and 4.0 million options and restricted common shares, respectively, and during the nine months ended September 30, 2016 and 2015 , an aggregate of 4.0 million and 4.1 million options and restricted common shares, respectively, were excluded from the calculation as these options and restricted common shares were anti-dilutive. The computations of basic and diluted earnings per common share for three and nine months ended September 30, 2016 and 2015 are as follows (in thousands, except per share amounts):

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
Net income (loss)	\$ 4,341	\$ 3,936	\$ (676)	\$ 7,868
Denominator:				
Weighted-average shares outstanding – basic	53,818	52,973	53,536	52,759
Effect of dilutive securities:				
Employee and director stock options and restricted common shares	817	376	—	698
Contingently issuable shares	137	—	—	—
Weighted-average shares outstanding – diluted	54,772	53,349	53,536	53,457
Basic earnings (loss) per share	\$ 0.08	\$ 0.07	\$ (0.01)	\$ 0.15
Diluted earnings (loss) per share	\$ 0.08	\$ 0.07	\$ (0.01)	\$ 0.15

8. Accumulated Other Comprehensive Loss

The table below presents changes in the components of accumulated other comprehensive loss for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,	
	2016	2015
	Foreign currency translation adjustments	Foreign currency translation adjustments
Balance, beginning of period	\$ (15,853)	\$ (9,745)
Other comprehensive loss before reclassifications	335	(1,865)
Net current-period other comprehensive loss	335	(1,865)
Balance, end of period	\$ (15,518)	\$ (11,610)
	Nine Months Ended September 30,	
	2016	2015
	Foreign currency translation adjustments	Foreign currency translation adjustments
Balance, beginning of period	\$ (13,993)	\$ (5,401)
Other comprehensive loss before reclassifications	(1,525)	(6,209)
Net current-period other comprehensive loss	(1,525)	(6,209)
Balance, end of period	\$ (15,518)	\$ (11,610)

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, 2016 and 2015 was \$0.4 million and \$0.5 million, respectively, and \$1.3 million and \$1.4 million during the nine months ended September 30, 2016 and 2015, respectively. Additionally, Arthur J. Gallagher & Co. provides insurance brokerage and risk management services to the Company. As consideration of these services, Arthur J. Gallagher & Co. billed the Company \$0.0 million and \$0.3 million for the three months ended September 30, 2016 and 2015,

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

respectively, and \$0.2 million and \$0.5 million during the nine months ended September 30, 2016 and 2015, respectively. The net amount receivable from Arthur J. Gallagher & Co. at September 30, 2016 was \$0.3 million.

10. Fair Value Measurement

ASC 820 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 Company's potential contingent consideration payments relating to acquisitions occurring subsequent to January 1, 2009 are its only Level 3 liabilities as of September 30, 2016 and December 31, 2015. The fair value of the liabilities determined by this analysis is primarily driven by the probability of reaching the performance measures required by the applicable purchase agreements and the associated discount rates. Probabilities are estimated by reviewing financial forecasts and assessing the likelihood of reaching the required performance measures based on factors specific to each acquisition as well as the Company's historical experience with similar arrangements. If an acquisition reaches the required performance measure, the estimated probability would be increased to 100% and reclassified to Due to seller, and if the measure is not reached, the probability would be reduced to reflect the amount earned, if any, depending on the terms of the agreement. Discount rates are estimated by using the local government bond yields plus the Company's credit spread. A one percentage point increase in the discount rate across all contingent consideration liabilities would result in a decrease to the fair value of approximately \$0.1 million.

The following table sets forth the Company's financial assets and financial liabilities measured at fair value on a recurring basis and the basis of measurement at September 30, 2016 and December 31, 2015 (in thousands):

<i>At September 30, 2016</i>	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds ⁽¹⁾	\$ —	\$ —	\$ —	\$ —
Liabilities:				
Contingent consideration	\$ (19,320)	\$ —	\$ —	\$ (19,320)

<i>At December 31, 2015</i>	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds ⁽¹⁾	\$ 667	\$ 667	\$ —	\$ —
Liabilities:				
Contingent consideration	\$ (22,162)	\$ —	\$ —	\$ (22,162)

(1) Included in cash and cash equivalents on the balance sheet.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

The following table provides a reconciliation of the beginning and ending balances for the liabilities measured at fair value using significant unobservable inputs (Level 3) (in thousands):

	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3)	
	Contingent Consideration	
Balance as of December 31, 2015	\$	(22,162)
Contingent consideration payments paid in cash		11,008
Change in fair value ⁽¹⁾		(9,975)
Reclassification to Due to seller		1,281
Contingent consideration payments paid in stock		350
Foreign exchange impact ⁽²⁾		178
Balance as of September 30, 2016	\$	(19,320)

(1) Adjustments to original contingent consideration obligations recorded were the result of using revised financial forecasts and updated fair value measurements. These changes are recognized within operating expenses on the condensed consolidated statement of comprehensive income (loss).

(2) Changes in the contingent consideration liability which are caused by foreign exchange rate fluctuations are recognized in other comprehensive loss.

11. Commitments and 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) 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 \$0.8 million). The Company disputes these allegations and intends to vigorously defend these matters. In addition, the Company's criminal complaint in France, described above, seeks to redress harm caused by this former employee in light of his participation in the fraudulent transactions described above. The labor claim has been stayed in deference to the Company's related criminal complaint.

In February 2014, shortly following the Company's announcement of its intention to restate certain historical financial statements, an individual filed a putative securities class action complaint in the United States District Court for the Northern District of Illinois entitled *Van Noppen v. InnerWorkings et al.* The complaint, as amended in July 2014, alleges that the Company and certain executive officers violated federal securities laws by making materially false or misleading statements or omissions, and by engaging in a scheme to defraud purchasers of securities, relating to the Company's financial results and prospects. The

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

purported misstatements and scheme relate to the Company's inside sales initiative and the Productions Graphics business based in France. The complaint seeks unspecified damages, interest, attorneys' fees and other costs. The Company and individual defendants dispute the claims. On September 29, 2014, the Company and individual defendants filed a motion to dismiss the complaint for failure to state a claim. On September 30, 2015, the Court granted in part and denied in part the motion to dismiss, resulting in the dismissal with prejudice of all claims relating to the inside sales initiative. On March 18, 2016, the parties reached an agreement in principle to settle the litigation. The settlement provides for payment to the class of \$6.0 million, including plaintiff's attorneys' fees, in exchange for a full and final release, and includes a denial of liability or any wrongdoing by the Company and the individual defendants. The settlement payment will be fully paid by the Company's insurance carrier. On November 2, 2016, the Court issued an order approving the settlement and dismissing the action with prejudice.

On December 12, 2014, the Company received a derivative demand letter on behalf of Tom Turberg, a purported stockholder, demanding that the Company's Board of Directors investigate and take action on behalf of the Company against the executive officers named in the *Van Noppen* action as well as certain past and current members of the Audit Committee of the Board of Directors. The demand letter's allegations relate to (i) the Company's restatement of financial statements for the fourth quarter of 2011 through the third quarter of 2013, (ii) the Company's use of gross revenue accounting, (iii) incentive compensation paid to executive officers in 2011 and 2012, (iv) allegations in the *Van Noppen* action, and (v) typographical errors in the 2013 Form 10-K. The Company's Board of Directors formed a Committee of independent directors to review the matters raised in the letter. The Committee, with assistance from the Committee's independent legal adviser, reviewed, investigated, and evaluated the matters raised in the letter. Following the completion of its review, the Committee concluded that pursuit of the derivative claims was not in the best interests of the Company's stockholders and recommended to the Board of Directors that it reject Turberg's demand to pursue such claims. On November 2, 2016, the Board of Directors considered and accepted this recommendation.

In March 2016, Capgemini America, Inc. ("Capgemini") filed a complaint against the Company in the United States District Court for the Northern District of Illinois, alleging breach of contract and unjust enrichment in connection with the Company's termination of Capgemini's services under an agreement requiring Capgemini to provide certain business process outsourcing services to the Company. The complaint seeks damages of \$2.4 million, interest, costs, and attorney's fees. The Company disputes the claims and intends to vigorously defend the matter. In April 2016, the Company filed an answer, affirmative defenses and counterclaims against Capgemini. The Company's counterclaims allege fraud in the inducement, Illinois Consumer Fraud Act liability, and breach of contract, and seek compensatory and punitive damages, costs, and attorney's fees in an amount to be determined. In June 2016, the parties entered into a confidential settlement agreement in which the parties mutually released each other from all claims and the lawsuit was dismissed with prejudice. The settlement did not have a material impact on the Company's financial position or results of operations.

12. Revolving Credit Facilities

The Company entered into a Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of September 25, 2014, among the Company, the lenders party thereto and Bank of America, N.A., as Administrative Agent (the "Credit Agreement"). The Credit Agreement includes a revolving commitment amount of \$175 million in the aggregate with a maturity date of September 25, 2019, and provides the Company the right to increase the aggregate commitment amount by an additional \$50 million. Outstanding borrowings under the revolving credit facility are guaranteed by the Company's material domestic subsidiaries, as defined in the Credit Agreement. The Company's obligations under the Credit Agreement and such domestic subsidiaries' guaranty obligations are secured by substantially all of their respective assets. The ranges of applicable rates charged for interest on outstanding loans and letters of credit are 125 - 250 basis point spread for letter of credit fees and loans based on the Eurodollar rate and 25 - 150 basis point spread for loans based on the base rate.

The terms of the Credit Agreement include various covenants, including covenants that require the Company to maintain a maximum leverage ratio and a minimum interest coverage ratio. The Credit Agreement requires the Company to maintain a leverage ratio of no more than 3.00 to 1.0 for the trailing twelve months ended September 30, 2016 and 3.00 to 1.0 for each period thereafter. The Company is also required to maintain an interest coverage ratio of no less than 5.00 to 1.0. The Company is in compliance with all debt covenants as of September 30, 2016.

At September 30, 2016, the Company had \$24.0 million of unused availability under the Credit Agreement and \$0.7 million of letters of credit which have not been drawn upon.

The book value of the debt under this Credit Agreement is considered to approximate its fair value as of September 30, 2016 as the debt is considered short-term in nature and the interest rates are in line with current market rates.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

On February 22, 2016, the Company entered into a Revolving Credit Facility (the “Facility”) with Bank of America N.A. to support ongoing working capital needs of the Company. The Facility includes a revolving commitment amount of \$5.0 million whereby maturity dates vary based on each individual drawdown. Outstanding borrowings under the Facility are guaranteed by the Company’s assets. 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, 2016, the Company had \$4.8 million of unused availability under the Facility.

13. Share Repurchase Program

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

During the three and nine months ended September 30, 2016, the Company did not repurchase any shares of its common stock. During the three months ended September 30, 2015, the Company did not repurchase any shares of its common stock. During the nine months ended September 30, 2015, the Company repurchased 763,787 shares of its common stock for \$4.9 million in the aggregate at an average cost of \$6.41 per share. Shares repurchased under this program are recorded at acquisition cost, including related expenses.

14. Business Segments

Segment information is prepared on the same basis that our Chief Executive Officer, who is our chief operating decision maker (“CODM”), manages the segments, evaluates financial results, and makes key operating decisions. In fiscal year 2015, segments were organized and managed by the CODM as three business segments: North America, including the United States and Canada; EMEA, including operations in the United Kingdom, continental Europe, the Middle East, Africa and Asia; and LATAM, including operations in Mexico, South America and Central America. Effective in the first fiscal quarter of 2016, the Company implemented changes to the organizational structure of the Latin America and EMEA segments which included combining the two segments under single management and managing those businesses as one segment. In conjunction with this change, the CODM now manages the results of the Company as two business segments: North America and International. The North America segment includes operations in the United States and Canada; the International segment includes all other operations across Europe, Asia, Mexico, Central America and South America; Other consists of intersegment eliminations, shared service activities and unallocated corporate expenses. All transactions between segments are presented at their gross amounts and eliminated through Other. Prior period amounts have been restated to reflect this change.

Management evaluates the performance of its operating segments based on revenues and Adjusted EBITDA, which is a non-GAAP financial measure. The accounting policies of each of the operating segments are the same as those described in the summary of significant accounting policies in Note 1. Adjusted EBITDA represents income from operations excluding depreciation and amortization, stock-based compensation expense, income/expense related to changes in the fair value of contingent consideration liabilities and restructuring and other charges. Management does not evaluate the performance of its operating segments using asset measures.

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

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

	North America	International	Other	Total
<i>Three Months Ended September 30, 2016:</i>				
Revenue from third parties	\$ 185,199	\$ 94,794	\$ —	\$ 279,993
Revenue from other segments	3,401	9,065	(12,466)	—
Total revenue	188,600	103,859	(12,466)	279,993
Adjusted EBITDA ⁽¹⁾	16,411	7,444	(6,935)	16,920

<i>Three Months Ended September 30, 2015:</i>				
Revenue from third parties	\$ 179,990	\$ 84,730	\$ —	\$ 264,720
Revenue from other segments	—	2,874	(2,874)	—
Total revenue	179,990	87,604	(2,874)	264,720
Adjusted EBITDA ⁽¹⁾	17,050	5,710	(6,710)	16,050

	North America	International	Other	Total
<i>Nine Months Ended September 30, 2016:</i>				
Revenue from third parties	\$ 550,561	\$ 269,725	\$ —	\$ 820,286
Revenue from other segments	5,048	16,573	(21,621)	—
Total revenue	555,609	286,298	(21,621)	820,286
Adjusted EBITDA ⁽¹⁾	48,209	17,482	(22,284)	43,407

<i>Nine Months Ended September 30, 2015:</i>				
Revenue from third parties	\$ 519,727	\$ 239,316	\$ —	\$ 759,043
Revenue from other segments	—	8,328	(8,328)	—
Total revenue	519,727	247,644	(8,328)	759,043
Adjusted EBITDA ⁽¹⁾	46,746	11,661	(20,733)	37,674

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Adjusted EBITDA	\$ 16,920	\$ 16,050	\$ 43,407	\$ 37,674
Depreciation and amortization	(5,066)	(4,485)	(14,382)	(12,842)
Stock-based compensation expense	(1,740)	(1,226)	(4,097)	(4,854)
Change in fair value of contingent consideration	(788)	(701)	(9,975)	(1,691)
Restructuring and other charges	(466)	—	(4,433)	—
Income from operations	8,860	9,638	10,520	18,287
Total other expense	(1,279)	(2,215)	(3,173)	(4,319)
Income before income taxes	\$ 7,581	\$ 7,423	\$ 7,347	\$ 13,968

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2016

The table below presents total assets for the Company's reportable segments and Other as of September 30, 2016 and December 31, 2015 (in thousands):

	<u>September 30, 2016</u>		<u>December 31, 2015</u>
	(unaudited)		
North America	\$ 387,634	\$	390,739
International	204,106		195,060
Other	21,161		22,668
Total assets	<u>\$ 612,901</u>	<u>\$</u>	<u>608,467</u>

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

Overview

We are a leading global marketing execution firm for some of the world's most marketing intensive companies, including Fortune 1000 brands, across a wide range of industries. As a comprehensive outsourced global solution, we leverage proprietary technology, an extensive supplier network, substantial procurement data, buying power and deep domain expertise to design, procure and execute branded marketing and promotional materials, signage and displays, retail experiences, events and promotions, creative services and product packaging across every major market worldwide. The items we source are generally procured through the marketing supply chain, and we refer to these items collectively as marketing materials. Our solution is designed to deliver substantial savings, shorter lead times, greater brand consistency, and more control and transparency across the marketing supply chain while delivering high-quality products and services for 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 have one of the largest independent repositories of supplier capabilities and pricing data for suppliers of marketing materials around the world. We leverage our supplier capabilities and pricing data to match our orders with suppliers that are optimally suited to meet the client's needs at a highly competitive price.

Through our network of more than 9,000 global suppliers, we offer a full range of fulfillment and logistics services that allow us to procure marketing materials of virtually any kind. The breadth of our product offerings and services and the depth of our supplier network enable us to fulfill the marketing materials procurement needs of our clients. 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 were formed in 2001, commenced operations in 2002 and converted from a limited liability company to a Delaware corporation in January 2006. We have increased our annual revenue from \$5.0 million in 2002 to \$1,029.4 million in 2015, representing a compound annual growth rate of 50.6%.

Our corporate headquarters are located in Chicago, Illinois. As of September 30, 2016, we operated in 67 global office locations in more than 39 countries. Effective in the first fiscal quarter of 2016, we organize our operations into two operating segments based on geographic regions: North America and International. The North America segment includes operations in the United States and Canada; the International segment includes operations in Mexico, South America, Central America, Europe, the Middle East, Africa and Asia.

Revenue

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. Our clients fall into two categories, enterprise and transactional. We enter into contracts with our enterprise clients to provide some, or substantially all, of their marketing materials, typically on a recurring basis. We provide marketing materials to our transactional clients on an order-by-order basis. During the three and nine months ended September 30, 2016, enterprise clients accounted for 84% and 85% of our revenue, respectively, while transactional clients accounted for 16% and 15% of our revenue, respectively.

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, in the case of some of our enterprise clients, is fixed by contract or, in the case of transactional clients, is dependent on prices negotiated on a job-by-job basis. Once either type of client accepts our pricing terms, the selling price is established and we procure the product for our own account in order to re-sell it to the client. We take full title and risk of loss for the product upon shipment. The finished product is typically shipped directly from our supplier to a destination specified by our client. Upon shipment, our supplier invoices us for the products and we invoice our client.

Our revenue from enterprise clients tends to generate lower gross profit as a percentage of revenue, which we refer to as gross profit margins, than our revenue from transactional clients because the gross profit margins established in our contracts

with large enterprise clients are generally lower than the gross profit margins typically realized in our transactional business. Although our enterprise revenue generates lower gross profit margins, our enterprise business tends to be as profitable as our transactional business on an operating profit basis because the commission expense associated with enterprise clients is generally lower.

Cost of Goods Sold and Gross Profit

Our cost of goods sold consists primarily of the price at which we purchase products from our suppliers. Our selling price, including our gross profit, in the case of some of our enterprise clients, is based on a fixed gross margin established by contract or, in the case of transactional clients, is determined at the discretion of the account executive or production manager given predetermined parameters. Our gross profit margins on our enterprise clients are typically lower than our gross profit margins on our transactional clients. As a result, our cost of goods sold as a percentage of revenue for our enterprise clients is typically higher than those for our transactional clients. Our gross profit for the three months ended September 30, 2016 and 2015 was \$67.8 million and \$ 63.6 million , or 24.2% and 24.0% of revenue, respectively.

Operating Expenses

Our selling, general and administrative expenses consist of commissions paid to our account executives, compensation costs for our management team and production managers, as well as compensation costs for our finance and support employees, public company expenses, corporate systems, legal and accounting, facilities and travel and entertainment expenses. Selling, general and administrative expenses as a percentage of revenue were 18.8% and 18.4% for the three months ended September 30, 2016 and 2015 , respectively.

We accrue for commissions when we recognize the related revenue. Some of our account executives receive a monthly draw to provide them with a more consistent income stream. The cash paid to our account executives in advance of commissions earned is reflected as a prepaid expense on our balance sheet. As our account executives earn commissions, a portion of their commission payment is withheld and offset against their prepaid commission balance, if any. Our prepaid commission balance, net of accrued earned commissions not yet paid, increased to \$1.1 million as of September 30, 2016 from \$0.9 million as of December 31, 2015 .

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 generally agree to provide us with products of the same quality. In addition, the quotes we execute with our clients typically 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.

Comparison of three months ended September 30, 2016 and 2015

Revenue

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

	Three Months Ended September 30,			
	2016	% of Total	2015	% of Total
	(dollars in thousands)			
North America	\$ 185,199	66.1%	\$ 179,990	68.0%
International	94,794	33.9%	84,730	32.0%
Revenues from third parties	\$ 279,993	100.0%	\$ 264,720	100.0%

North America

North America revenue increased by \$5.2 million , or 2.9% , from \$180.0 million during the three months ended September 30, 2015 to \$185.2 million during the three months ended September 30, 2016 . This increase in revenue is driven primarily by organic growth from new enterprise accounts added during the last 12 to 18 months.

International

International revenue increased by \$10.1 million , or 11.9% , from \$84.7 million during the three months ended September 30, 2015 to \$94.8 million during the three months ended September 30, 2016 . This increase is primarily driven by organic growth from new and existing customers, partially offset by the strengthening of the U.S. Dollar.

Cost of goods sold

Our cost of goods sold increased by \$11.1 million , or 5.5% , from \$201.1 million during the three months ended September 30, 2015 to \$212.2 million during the three months ended September 30, 2016 . The increase is a result of increased revenue during the three months ended September 30, 2016 as described above. Our cost of goods sold as a percentage of revenue was 75.8% and 76.0% during the three months ended September 30, 2016 and 2015 , respectively.

Gross profit margin

Our gross profit margin was 24.2% and 24.0% during the three months ended September 30, 2016 and 2015 , respectively. This increase is due to a shift in revenue mix to higher margin categories during the three months ended September 30, 2016 .

Selling, general and administrative expenses

Selling, general and administrative expenses increased by \$3.8 million , or 7.8% , from \$48.8 million during the three months ended September 30, 2015 to \$52.6 million during the three months ended September 30, 2016 . This increase is primarily driven by the increase in revenue described above. As a percentage of revenue, selling, general and administrative expenses remained relatively consistent at 18.8% for the three months ended September 30, 2016 and 18.4% for the three months ended September 30, 2015 .

Depreciation and amortization

Depreciation and amortization expense increased by \$0.6 million , or 12.9% , from \$4.5 million during the three months ended September 30, 2015 to \$5.1 million during the three months ended September 30, 2016 . This increase is driven by additional depreciation expense from the timing of capital expenditures, including internal-use software.

Change in fair value of contingent consideration

Expense from the change in fair value of contingent consideration increased by \$0.1 million from \$0.7 million during the three months ended September 30, 2015 to \$0.8 million during the three months ended September 30, 2016 .

Restructuring and other charges

During the three months ended September 30, 2016, we recorded restructuring and other charges of \$0.5 million. During the fourth quarter of 2015, we approved a global realignment plan that is expected to allow us to more efficiently meet client needs across our international platform. Through improved integration of global resources, the plan will create back office and other efficiencies and allow for the elimination of approximately 100 positions. As required by law, we are consulting with each of the affected countries' local Works Councils throughout implementation of this plan.

As of September 30, 2016, the Company has recognized \$5.5 million in restructuring charges related to this plan, of which \$0.3 million, \$4.2 million and \$1.0 million related to the North America, International and Other segments, respectively. This plan is expected to be completed during 2016.

No restructuring activities occurred during the three months ended September 30, 2015.

Income from operations

Income from operations decreased by \$0.7 million, or 8.1%, from \$9.6 million during the three months ended September 30, 2015 to \$8.9 million during the three months ended September 30, 2016. As a percentage of revenue, income from operations was 3.2% and 3.6% during the three months ended September 30, 2016 and 2015, respectively. This decrease is primarily attributable to the restructuring charges and changes in fair values of contingent consideration as discussed above, partially offset by higher gross profit margin.

Other expense

Other expense decreased by \$0.9 million from \$2.2 million during the three months ended September 30, 2015 to \$1.3 million during the three months ended September 30, 2016. This decrease is primarily driven by losses on foreign currency transactions in the International segment in the prior year due to exchange rate fluctuations across multiple currencies.

Income tax expense

Income tax expense decreased by \$0.3 million from \$3.5 million during the three months ended September 30, 2015 to \$3.2 million during the three months ended September 30, 2016. Our effective tax rate was 42.7% and 47.0% for the three months ended September 30, 2016 and 2015, 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, and foreign taxes that are different than the U.S. federal statutory rate. In addition, the effective tax rate can be impacted each period by discrete factors and events.

The effective tax rates were affected by the fair value changes to contingent consideration in each period. Portions of the total amount recognized from fair value changes to contingent consideration relate to non-taxable acquisitions for which deferred taxes are not recognized, consistent with the treatment of goodwill and intangible assets for those acquisitions under U.S. GAAP. In the three months ended September 30, 2016 and 2015, \$0.8 million and \$0.7 million was recognized as expense from fair value changes to contingent consideration, respectively, which did not result in recognition of a deferred tax asset, therefore, increasing the effective tax rate for these periods. Additionally, the global realignment plan resulted in restructuring and other charges in jurisdictions which have valuation allowances against tax loss carryforwards, so a tax benefit has not been recognized in the financial statements. Excluding the impact of these transactions in each period, the effective tax rate was 34.6% and 42.9% in the three months ended September 30, 2016 and 2015, respectively. The decrease in the effective tax rate in 2016 is primarily due to forecasted changes in pre-tax income mix by jurisdiction and the effect of valuation allowances on the tax losses of certain entities.

Net income

Net income increased by \$0.4 million, or 10.2%, from \$3.9 million during the three months ended September 30, 2015 to \$4.3 million during the three months ended September 30, 2016. Net income as a percentage of revenue was 1.6% and 1.5% during the three months ended September 30, 2016 and 2015, respectively.

Diluted earnings per share

	Three Months Ended September 30,			
	2016		2015	
<i>(in thousands, except per share data)</i>				
Net income	\$	4,341	\$	3,936
Denominator for dilutive earnings per share		54,772		53,349
Diluted earnings per share	\$	0.08	\$	0.07

Diluted earnings per share increased by \$0.01 from \$0.07 during the three months ended September 30, 2015 to \$0.08 during the three months ended September 30, 2016 .

Comparison of nine months ended September 30, 2016 and 2015

Revenue

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

	Nine Months Ended September 30,			
	2016	% of Total	2015	% of Total
	(dollars in thousands)			
North America	\$ 550,561	67.1%	\$ 519,727	68.5%
International	269,725	32.9%	239,316	31.5%
Revenues from third parties	\$ 820,286	100.0%	\$ 759,043	100.0%

North America

North America revenue increased by \$30.8 million , or 5.9% , from \$519.7 million during the nine months ended September 30, 2015 to \$550.6 million during the nine months ended September 30, 2016 . This increase in revenue is driven primarily by organic growth from new enterprise accounts added during the last 12 to 18 months.

International

International revenue increased by \$30.4 million , or 12.7% , from \$239.3 million during the nine months ended September 30, 2015 to \$269.7 million during the nine months ended September 30, 2016 . This increase is primarily driven by organic growth from new and existing customers, offset by the strengthening of the U.S. Dollar.

Cost of goods sold

Our cost of goods sold increased by \$44.1 million , or 7.6% , from \$581.4 million during the nine months ended September 30, 2015 to \$625.5 million during the nine months ended September 30, 2016 . The increase is a result of increased revenue during the nine months ended September 30, 2016 as described above. Our cost of goods sold as a percentage of revenue was 76.2% and 76.6% during the nine months ended September 30, 2016 and 2015 , respectively.

Gross profit margin

Our gross profit margin was 23.8% and 23.4% during the nine months ended September 30, 2016 and 2015 , respectively. This increase is due to a shift in revenue mix to higher margin categories during the nine months ended September 30, 2016 .

Selling, general and administrative expenses

Selling, general and administrative expenses increased by \$10.7 million , or 7.4% , from \$144.8 million during the nine months ended September 30, 2015 to \$155.5 million during the nine months ended September 30, 2016 . Our selling, general and administrative expenses as a percentage of revenue remained relatively consistent at 19.1% for the nine months ended September 30, 2015 to 19.0% for the nine months ended September 30, 2016 .

Depreciation and amortization

Depreciation and amortization expense increased by \$1.6 million , or 12.0% , from \$12.8 million during the nine months ended September 30, 2015 to \$14.4 million during the nine months ended September 30, 2016 . This increase is driven by additional depreciation expense from the timing of capital expenditures, including internal-use software.

Change in fair value of contingent consideration

Expense from the change in fair value of contingent consideration increased by \$8.3 million from \$1.7 million during the nine months ended September 30, 2015 to \$10.0 million during the nine months ended September 30, 2016 . The expense for the nine months ended September 30, 2016 includes an adjustment of \$9.4 million of expense to increase the liability relating to the Eyelevel acquisition due to strong financial performance in recent periods and an increase in forecasted results.

Restructuring and other charges

During the nine months ended September 30, 2016 , we recorded restructuring and other charges of \$4.4 million . During the fourth quarter of 2015 , we approved a global realignment plan that is expected to allow us to more efficiently meet client needs across our international platform. Through improved integration of global resources, the plan will create back office and other efficiencies and allow for the elimination of approximately 100 positions. As required by law, we are consulting with each of the affected countries' local Works Councils throughout implementation of this plan.

As of September 30, 2016 , the Company has recognized \$5.5 million in restructuring charges related to this plan, of which \$0.3 million , \$4.2 million and \$1.0 million related to the North America, International and Other segments, respectively. This plan is expected to be completed during 2016.

No restructuring activities occurred during the nine months ended September 30, 2015 .

Income from operations

Income from operations decreased by \$7.8 million , or 42.5% , from \$18.3 million during the nine months ended September 30, 2015 to \$10.5 million during the nine months ended September 30, 2016 . As a percentage of revenue, income from operations was 1.3% and 2.4% during the nine months ended September 30, 2016 and 2015 , respectively. This decrease is primarily attributable to the restructuring charges and changes in fair values of contingent consideration discussed above, partially offset by higher gross profit margin and lower selling, general and administrative expenses as a percentage of revenue.

Other expense

Other expense decreased by \$1.1 million from \$4.3 million during the nine months ended September 30, 2015 to \$3.2 million during the nine months ended September 30, 2016 . This decrease is primarily driven by losses on foreign currency transactions in the International segment in the prior year due to exchange rate fluctuations across multiple currencies.

Income tax expense

Income tax expense increased by \$1.9 million from \$6.1 million during the nine months ended September 30, 2015 to \$8.0 million during the nine months ended September 30, 2016 . Our effective tax rate was 109.2% and 43.7% for the nine months ended September 30, 2016 and 2015 , 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, and foreign taxes that are different than the U.S. federal statutory rate. In addition, the effective tax rate can be impacted each period by discrete factors and events.

The effective tax rates were affected by the fair value changes to contingent consideration in each period. Portions of the total amount recognized from fair value changes to contingent consideration relate to non-taxable acquisitions for which deferred taxes are not recognized, consistent with the treatment of goodwill and intangible assets for those acquisitions under U.S. GAAP. In the nine months ended September 30, 2016 and 2015 , \$10.0 million and \$ 1.7 million was recognized as expense from fair value changes to contingent consideration, respectively, which did not result in recognition of a deferred tax asset, therefore, increasing the effective tax rate for these periods. Additionally, the global realignment plan resulted in restructuring and other charges in jurisdictions which have valuation allowances against tax loss carryforwards, so a tax benefit has not been recognized

in the financial statements. Excluding the impact of these transactions in each period, the effective tax rate was 34.9% and 39.0% in the nine months ended September 30, 2016 and 2015, respectively. The increase in the effective tax rate in 2016 is primarily due to forecasted changes in pre-tax income mix by jurisdiction and the effect of valuation allowances on the tax losses of certain entities.

Net income (loss)

Net income decreased by \$8.6 million, or 108.6%, from \$7.9 million during the nine months ended September 30, 2015 to a loss of \$0.7 million during the nine months ended September 30, 2016. Net income as a percentage of revenue was (0.1)% and 1.0% during the nine months ended September 30, 2016 and 2015, respectively. This decrease is primarily due to restructuring charges and changes in fair values of contingent consideration discussed above, increased other expense and a higher income tax expense discussed above, partially offset by higher gross profit margin.

Diluted earnings per share

	Nine Months Ended September 30,	
	2016	2015
<i>(in thousands, except per share data)</i>		
Net income (loss)	\$ (676)	\$ 7,868
Denominator for dilutive earnings per share	53,536	53,457
Diluted earnings (loss) per share	\$ (0.01)	\$ 0.15

Diluted earnings per share decreased by \$0.16 from earnings per shares of \$0.15 during the nine months ended September 30, 2015 to loss per share of \$0.01 during the nine months ended September 30, 2016. This decrease is primarily due to the decrease in net income discussed above.

Adjusted EBITDA

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

	Three Months Ended September 30,			
	2016	% of Total	2015	% of Total
(dollars in thousands)				
North America	\$ 16,411	97.0 %	\$ 17,050	106.2 %
International	7,444	44.0	5,710	35.6
Other ⁽¹⁾	(6,935)	(41.0)	(6,710)	(41.8)
Adjusted EBITDA	\$ 16,920	100.0 %	\$ 16,050	100.0 %

	Nine Months Ended September 30,			
	2016	% of Total	2015	% of Total
	(dollars in thousands)			
North America	\$ 48,209	111.1 %	\$ 46,746	124.0 %
International	17,482	40.3	11,661	31.0
Other ⁽¹⁾	(22,284)	(51.2)	(20,733)	(55.0)
Adjusted EBITDA	<u>\$ 43,407</u>	<u>100.0 %</u>	<u>\$ 37,674</u>	<u>100.0 %</u>

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

Comparison of three months ended September 30, 2016 and 2015. Adjusted EBITDA increased by \$0.8 million, or 5.4%, from \$16.1 million during the three months ended September 30, 2015 to \$16.9 million during the three months ended September 30, 2016. North America Adjusted EBITDA decreased by \$0.7 million, or 3.7%, from \$17.1 million during the three months ended September 30, 2015 to \$16.4 million during the three months ended September 30, 2016 due to increased selling, general and administrative expenses described above, offset by increased revenue and gross profit from organic growth of new enterprise customers. International Adjusted EBITDA increased by \$1.7 million, or 30.4%, from \$5.7 million during the three months ended September 30, 2015 to \$7.4 million during the three months ended September 30, 2016 primarily due to organic growth of new enterprise customers, improved operating leverage and higher gross profit margin discussed above. Other Adjusted EBITDA decreased by \$0.2 million, or 3.4%, from \$(6.7) million during the three months ended September 30, 2015 to \$(6.9) million during the three months ended September 30, 2016.

Comparison of nine months ended September 30, 2016 and 2015. Adjusted EBITDA increased by \$5.7 million, or 15.2%, from \$37.7 million during the nine months ended September 30, 2015 to \$43.4 million during the nine months ended September 30, 2016. North America Adjusted EBITDA increased by \$1.5 million, or 3.1%, from \$46.7 million during the nine months ended September 30, 2015 to \$48.2 million during the nine months ended September 30, 2016 due to increased revenue and gross profit from organic growth of new enterprise customers. International Adjusted EBITDA increased by \$5.8 million, or 49.9%, from \$11.7 million during the nine months ended September 30, 2015 to \$17.5 million during the nine months ended September 30, 2016 primarily due to organic growth of new enterprise customers, improved operating leverage and higher gross margin discussed above. Other Adjusted EBITDA decreased by \$1.6 million, or 7.5%, from \$(20.7) million during the nine months ended September 30, 2015 to \$(22.3) million during the nine months ended September 30, 2016.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$ 4,341	\$ 3,936	\$ (676)	\$ 7,868
Income tax expense	3,240	3,487	8,023	6,100
Total other expense	1,279	2,215	3,173	4,319
Depreciation and amortization	5,066	4,485	14,382	12,842
Stock-based compensation expense	1,740	1,226	4,097	4,854
Change in fair value of contingent consideration	788	701	9,975	1,691
Restructuring and other charges	466	—	4,433	—
Non-GAAP Adjusted EBITDA	<u>\$ 16,920</u>	<u>\$ 16,050</u>	<u>\$ 43,407</u>	<u>\$ 37,674</u>

Adjusted Diluted Earnings Per Share

Adjusted diluted earnings per share, which represents net income (loss), with the addition of the change in the fair value of contingent consideration liabilities, impairment charges and other amounts itemized in the reconciliation table below, 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 years presented was as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$ 4,341	\$ 3,936	\$ (676)	\$ 7,868
Change in fair value of contingent consideration	788	700	9,975	1,680
Restructuring and other charges, net of tax	382	—	3,964	—
Realignment-related income tax charges	263	—	898	—
Adjusted net income	\$ 5,774	\$ 4,636	\$ 14,161	\$ 9,548
Weighted-average shares outstanding, diluted	54,772	53,349	54,359	53,457
Non-GAAP Diluted Earnings Per Share	\$ 0.11	\$ 0.09	\$ 0.26	\$ 0.18

Liquidity and Capital Resources

At September 30, 2016, we had \$20.8 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 the effect of changes in working capital and other activities. Cash used in operating activities for the nine months ended September 30, 2016 was \$23.6 million and consisted of a net loss of \$0.7 million and \$30.7 million of non-cash items, offset by \$53.7 million used by working capital and other activities. The most significant impact on working capital and other activities consisted of an increase in accounts receivable and unbilled revenue of \$ 12.8 million, an increase in inventory of \$ 12.0 million and a decrease in accounts payable of \$40.3 million, offset by and a decrease in prepaid expenses and other assets of \$3.6 million and an increase in accrued expenses and other liabilities of \$7.9 million.

Cash used in operating activities for the nine months ended September 30, 2015 was \$7.3 million and consisted of net income of \$7.9 million and \$21.5 million of non-cash items, offset by \$36.7 million used by working capital and other activities. The most significant impact on working capital and other activities consisted of an increase in inventory of \$13.1 million, an increase in accounts receivable and unbilled revenue of \$17.6 million and an increase in accrued expenses and other liabilities of \$3.0 million, offset by an increase in accounts payable of \$4.5 million.

Investing Activities. Cash used in investing activities for the nine months ended September 30, 2016 of \$ 10.5 million was entirely attributable to capital expenditures.

Cash used in investing activities for the nine months ended September 30, 2015 of \$12.1 million was entirely attributable to capital expenditures.

Financing Activities. Cash provided by financing activities for the nine months ended September 30, 2016 of \$ 24.2 million was primarily attributable to net borrowings under the revolving credit facility of \$ 34.7 million, offset by payments of contingent consideration of \$ 11.0 million and net short-term secured repayments of \$0.8 million.

Cash provided by financing activities for the nine months ended September 30, 2015 of \$10.3 million was primarily attributable to net borrowings under the revolving credit facility of \$23.5 million, offset by repurchases of common stock of \$4.9 million and payments of contingent consideration of \$8.0 million.

Share Repurchase Program

On February 12, 2015, the Company announced that its Board of Directors approved a share repurchase program authorizing the repurchase of up to an aggregate of \$20 million of its common stock through open market and privately negotiated transactions over a two-year period. On November 2, 2016, the Board of Directors approved a two-year extension to the share repurchase program. The Company now expects the program to run through February 12, 2019. The timing and amount of any

share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. Repurchases will be made in compliance with SEC rules and other legal requirements.

During the three and nine months ended September 30, 2016, the Company did not repurchase any shares of its common stock. During the three months ended September 30, 2015, the Company did not repurchase any shares of its common stock. During the nine months ended September 30, 2015, the Company repurchased 763,787 shares of its common stock for \$4.9 million in the aggregate at an average cost of \$6.41 per share. Shares repurchased under this program are recorded at acquisition cost, including related expenses.

Revolving Credit Facilities

We entered into a Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of September 25, 2014, among us, the lenders party thereto and Bank of America, N.A., as Administrative Agent (the "Credit Agreement"). The Credit Agreement includes a revolving commitment amount of \$175 million in the aggregate with a maturity date of September 25, 2019, and provides us the right to increase the aggregate commitment amount by an additional \$50 million. Outstanding borrowings under the revolving credit facility are guaranteed by our material domestic subsidiaries. Our obligations under the Credit Agreement and such domestic subsidiaries' guaranty obligations are secured by substantially all of their respective assets. The ranges of applicable rates charged for interest on outstanding loans and letters of credit are 125-250 basis point spread for letter of credit fees and loans based on the Eurodollar rate and 25-150 basis point spread for loans based on the base rate.

The terms of the Credit Agreement include various covenants, including requirements to maintain a maximum leverage ratio and a minimum interest coverage ratio. The Credit Agreement requires us to maintain a leverage ratio of no more than 3.00 to 1.0. We are also required to maintain an interest coverage ratio of no less than 5.00 to 1.0. We were in compliance with all debt covenants as of September 30, 2016.

At September 30, 2016, we had \$24.0 million of unused availability under the Credit Agreement and \$0.7 million of letters of credit which have not been drawn upon.

On February 22, 2016, we entered into a Revolving Credit Facility (the "Facility") with Bank of America N.A. to support our ongoing working capital needs. The Facility includes a revolving commitment amount of \$5 million whereby maturity dates vary based on each individual drawdown. Outstanding borrowings under the Facility are guaranteed by our assets. The applicable interest rate is 110% of the People's Bank of China's base rate. The terms of the Facility include limitations on use of funds for working capital purposes as well as customary representations and warranties made us. At September 30, 2016, the Company had \$4.8 million of unused availability under the Facility.

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

We earn a significant amount of our operating income outside the United States, which is deemed to be permanently reinvested in foreign jurisdictions. We do not currently foresee a need to repatriate funds; however, should we require more capital in the United States than is generated by our operations locally or through debt or equity issuances, we could elect to repatriate funds held in foreign jurisdictions. If foreign earnings were to be remitted to the United States, foreign tax credits would be available to reduce any U.S. tax due upon repatriation. Included in our cash and cash equivalents are amounts held by foreign subsidiaries. We had \$18.1 million and \$15.1 million of foreign cash and cash equivalents as of September 30, 2016 and December 31, 2015, respectively, which are generally denominated in the local currency where the funds are held.

Off-Balance Sheet Arrangements

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

Contractual Obligations

With the exception of the contingent consideration in connection with our historical business acquisitions discussed in Note 2 in the Notes to Consolidated Financial Statements, there have been no material changes outside the normal course of

business in the contractual obligations disclosed in Item 7 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 , under the caption “Contractual Obligations.”

Critical Accounting Policies and Estimates

As of September 30, 2016 , 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, 2015 .

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, 2015 .

Additional Information

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Commodity Risk

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

Interest Rate Risk

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

Our interest income is sensitive to changes in the general level of U.S. interest rates, in particular because all of our investments are in cash equivalents and marketable securities. The average duration of our investments as of September 30, 2016 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, Brazilian real, Peruvian Nuevo Sol, Mexican peso, Colombian peso and Chilean peso, which exposes us to foreign currency risk. For the nine months ended September 30, 2016, we derived approximately 32.9% of our revenue from international customers, and we expect the percentage of revenue derived from outside the United States to increase in future periods as we continue to expand globally. Revenue and related expenses generated from our international operations are denominated in the functional currencies of the corresponding country. The functional currency of our subsidiaries that either operate or support these markets is generally the same as the corresponding local currency. The results of operations of, and certain of our intercompany balances associated with, our international operations are exposed to foreign exchange rate fluctuations. Changes in exchange rates could negatively affect our revenue and other operating results as expressed in U.S. dollars. We may record significant gains or losses on the remeasurement of intercompany balances. Foreign exchange gains and losses recorded to date have been immaterial to our financial statements. At this time we do not, but in the future we may enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities would have on our results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our chief executive officer and chief financial officer, we evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016 (the "Evaluation Date"). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that due to the material weakness in our internal control over financial reporting described below, our disclosure controls and procedures were not effective as of the Evaluation Date such that the information relating to the Company, including its consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Notwithstanding the ineffectiveness of our disclosure controls and procedures as of the Evaluation Date and the material weaknesses in our internal control over financial reporting that existed as of that date as described below, management believes that (i) this Form 10-Q 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 they were made, not misleading with respect to the periods covered by this Quarterly Report and (ii) the unaudited consolidated financial statements, and other financial information, included in this Quarterly Report fairly present in all material respects in accordance with generally accepted accounting principles ("GAAP") our financial condition, results of operations and cash flows as of, and for, the dates and periods presented.

Material Weakness and Related Remediation Efforts

As previously disclosed, during the financial statement close for the period ended June 30, 2016, management identified the following material weakness:

Material Weakness

We identified a material weakness in our internal control over financial reporting relating to the recognition of non-executive bonus compensation expense. Specifically, the Company did not have a control within the financial statement close process that is designed to detect the incorrect accounting related to the accrual of non-executive bonus compensation expense.

Remediation Efforts

Our management has worked, and continues to work, to strengthen our internal control over financial reporting. We are committed to ensuring that such controls are operating effectively. The Company is now accruing non-executive bonus expense during the course of the relevant service year when the amount is estimable and probable, which results in the Company using the same method of accounting for non-executive bonuses as it applies to executive bonuses.

In addition, the Company has initiated a plan to remediate the material weakness noted above by adopting controls within the financial statement close process as follows: (1) implement a process to ensure accounting policies and procedures related to non-executive bonuses are reviewed on a regular basis and updated for any changes in the related bonus plans; (2) analyze and modify checklists and forms to aid in application of the Company's principal accounting policies and procedures related to non-executive bonuses; and (3) implement additional review procedures over the calculation of the non-executive bonus expense to ensure proper application of the accounting policies and procedures and accuracy of the recorded amounts.

We will continue to seek to actively identify, develop and implement additional measures designed to materially improve and strengthen our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

We continue to implement a new global enterprise resource planning system which includes the implementation of shared service centers in some regions. This multi-year initiative will be conducted in phases and will include modifications to the design and operation of internal controls over financial reporting. We are testing internal controls over financial reporting for design effectiveness prior to implementation of each phase, and we have monitoring controls in place over the implementation of these changes.

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, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the risk factors described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 .

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

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

Issuer Purchases of Equity Securities

On February 12, 2015, we announced that our Board of Directors approved a share repurchase program providing us authorization to repurchase up to an aggregate of \$20.0 million of our common stock through open market and privately negotiated transactions over a two-year period. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. Repurchases will be made in compliance with SEC rules and other legal requirements. During the three months ended September 30, 2016 , we did not repurchase any shares of our common stock under our share repurchase program.

The following table provides information relating to our purchase of shares of our common stock in the third quarter of 2016 (in thousands, except per share amounts).

Period	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⁾
7/1/16-7/31/16	897	\$ 8.51	—	1,775
8/1/16-8/31/16	7,582	8.62	—	1,703
9/1/16-9/30/16	15,306	8.84	—	1,603
Total	23,785	\$ 8.84	—	

(1) Includes 23,785 shares delivered to us by employees to satisfy the mandatory tax withholding requirement upon vesting of restricted stock.

(2) The share repurchase plan authorized by our Board of Directors allows repurchases of up to \$20 million of our common stock, of which 1.6 million shares remain available under the plan. The maximum number of shares that may yet be repurchased under the plan is estimated using the closing share price on the last day of each period presented.

Item 6. Exhibits

Exhibit No	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

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

SIGNATURES

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

INNERWORKINGS, INC.

Date: November 8, 2016

By: /s/ Eric D. Belcher
Eric D. Belcher
Chief Executive Officer

Date: November 8, 2016

By: /s/ Jeffrey P. Pritchett
Jeffrey P. Pritchett
Chief Financial Officer

Three Months Ended March 31, 2015

EXHIBIT INDEX

Number	Description
10.1	InnerWorkings, Inc. 2006 Stock Incentive Plan, as amended and restated effective June 6, 2016 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed on June 6, 2016).
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.
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CERTIFICATION OF CHIEF EXECUTIVE OFFICER
INNERWORKINGS, INC.
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eric D. Belcher, 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 8, 2016

/s/ Eric D. Belcher

Eric D. Belcher

Chief Executive Officer

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

I, Jeffrey P. Pritchett, 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 8, 2016

/s/ Jeffrey P. Pritchett

Jeffrey P. Pritchett

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, Eric D. Belcher, 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, 2016 (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/ Eric D. Belcher

Eric D. Belcher
Chief Executive Officer
November 8, 2016

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, Jeffrey P. Pritchett, 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, 2016 (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/ Jeffrey P. Pritchett

Jeffrey P. Pritchett
Chief Financial Officer
November 8, 2016