

INNERWORKINGS INC
Form 10-Q
August 07, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2017

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

Commission File Number 000-52170

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

Delaware 20-5997364
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) 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:

ý 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: ý 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: x
Non-accelerated filer: " (Do not check if a smaller reporting company) Smaller reporting company: "
Emerging growth company: "

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

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Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes: " No: ☒

As of August 2, 2017, the Registrant had 54,505,178 shares of Common Stock, par value \$0.0001 per share, outstanding, which includes 987,261 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.

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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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$279,530	\$269,220	\$546,920	\$540,292
Cost of goods sold	209,303	204,126	412,416	413,253
Gross profit	70,227	65,094	134,504	127,039
Operating expenses:				
Selling, general and administrative expenses	55,086	51,418	108,513	102,910
Depreciation and amortization	3,182	4,721	6,086	9,316
Change in fair value of contingent consideration	1,884	7,276	844	9,187
Restructuring and other charges	—	623	—	3,967
Income from operations	10,075	1,056	19,061	1,659
Other income (expense):				
Interest income	12	24	46	38
Interest expense	(1,038)	(985)	(2,041)	(2,062)
Other, net	(1,165)	291	(1,388)	130
Total other expense	(2,191)	(670)	(3,383)	(1,894)
Income (loss) before income taxes	7,884	386	15,678	(235)
Income tax expense	3,391	2,710	5,727	4,782
Net income (loss)	\$4,493	\$(2,324)	\$9,951	\$(5,017)
Basic earnings (loss) per share	\$0.08	\$(0.04)	\$0.19	\$(0.09)
Diluted earnings (loss) per share	\$0.08	\$(0.04)	\$0.18	\$(0.09)
				\$—
Comprehensive income (loss)	\$8,373	\$(3,714)	\$15,810	\$(6,877)

See accompanying notes to the condensed consolidated financial statements.

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

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,537	\$ 30,924
Accounts receivable, net of allowance for doubtful accounts of \$2,466 and \$2,622, respectively	208,382	182,874
Unbilled revenue	36,515	32,723
Inventories	28,192	31,638
Prepaid expenses	23,588	18,772
Other current assets	20,949	24,769
Total current assets	341,163	321,700
Property and equipment, net	36,030	32,656
Intangibles and other assets:		
Goodwill	205,399	202,700
Intangible assets, net	29,699	31,538
Deferred income taxes	1,281	1,031
Other non-current assets	1,267	1,374
Total intangibles and other assets	237,646	236,643
Total assets	\$ 614,839	\$ 590,999
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 125,593	\$ 121,289
Current portion of contingent consideration	—	19,283
Due to seller	17,842	—
Accrued expenses	27,567	30,067
Other current liabilities	37,748	35,049
Total current liabilities	208,750	205,688
Revolving credit facility	118,658	107,468
Deferred income taxes	9,852	11,291
Other non-current liabilities	1,988	1,926
Total liabilities	339,248	326,373
Commitments and contingencies (See Note 11)		
Stockholders' equity:		
Common stock, par value \$0.0001 per share, 200,000 and 200,000 shares authorized, 63,808 and 63,391 shares issued, and 53,500 and 54,088 shares outstanding, respectively	6	6
Additional paid-in capital	230,030	224,480
Treasury stock at cost, 10,308 and 9,303 shares, respectively	(59,224)	(49,458)
Accumulated other comprehensive loss	(14,940)	(20,799)
Retained earnings	119,719	110,397
Total stockholders' equity	275,591	264,626
Total liabilities and stockholders' equity	\$ 614,839	\$ 590,999

See accompanying notes to the condensed consolidated financial statements.

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

	Common Stock		Treasury Stock		Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2016	63,391	\$ 6	9,303	\$(49,458)	\$ 224,480	\$ (20,799)	\$ 110,397	\$ 264,626
Net income							9,951	9,951
Total other comprehensive income, net of tax						5,859		5,859
Comprehensive income								15,810
Issuance of common stock upon exercise of stock awards	417	—			536			536
Issuance of treasury shares as consideration for acquisition			(24)	275			(16)	259
Acquisition of treasury shares			1,029	(10,041)				(10,041)
Stock-based compensation expense					2,921			2,921
Cumulative effect of change related to adoption of ASU 2016-09					2,093		(613)	1,480
Balance at June 30, 2017	63,808	\$ 6	10,308	\$(59,224)	\$ 230,030	\$ (14,940)	\$ 119,719	\$ 275,591

See accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net income (loss)	\$9,951	\$(5,017)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	6,086	9,316
Stock-based compensation expense	2,921	2,358
Deferred income taxes	76	450
Bad debt provision	82	789
Change in fair value of contingent consideration	844	9,187
Other operating activities	104	105
Change in assets:		
Accounts receivable and unbilled revenue	(29,395)	(2,366)
Inventories	3,446	(2,573)
Prepaid expenses and other assets	(957)	16,255
Change in liabilities:		
Accounts payable	4,304	(33,984)
Accrued expenses and other liabilities	851	4,632
Net cash used in operating activities	(1,687)	(848)
Cash flows from investing activities		
Purchases of property and equipment	(7,024)	(7,445)
Net cash used in investing activities	(7,024)	(7,445)
Cash flows from financing activities		
Net borrowings from revolving credit facilities	11,491	12,553
Net short-term secured borrowings	37	104
Repurchases of common stock	(10,041)	—
Payments of contingent consideration	(2,089)	(4,144)
Proceeds from exercise of stock options	1,319	1,090
Other financing activities	(119)	(474)
Net cash provided by financing activities	598	9,129
Effect of exchange rate changes on cash and cash equivalents	726	15
Increase (decrease) in cash and cash equivalents	(7,387)	851
Cash and cash equivalents, beginning of period	30,924	30,755
Cash and cash equivalents, end of period	\$23,537	\$31,606

See accompanying notes to the condensed consolidated financial statements.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2017

1. Summary of Significant Accounting Policies

Basis of Presentation of Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements of InnerWorkings, Inc. and subsidiaries (the "Company") included herein have been prepared to conform to the rules and regulations of the Securities and Exchange Commission ("SEC") and accounting principles generally accepted in the United States ("GAAP") for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation of the accompanying unaudited financial statements have been included, and all adjustments are of a normal and recurring nature. The operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year ending December 31, 2017. 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, 2016 included in the Company's Annual Report on Form 10-K filed with the SEC on March 9, 2017.

Description of the Business

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

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 the consolidated financial statements is in conformity with accounting principles generally accepted in the United States ("GAAP"). 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 costs. 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 may differ from those estimates.

Foreign Currency Translation

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

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2017

Revenue Recognition

The Company recognizes revenue upon meeting all of the following revenue recognition criteria, which is typically met upon shipment or delivery of our 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 represents shipments that have been made to customers for which the related account receivable has not yet been invoiced.

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 printed 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 the Company 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 printed materials and products. When the Company is not the primary obligor, revenue is reported on a net basis.

The Company recognizes revenue for creative, design, installation, warehousing 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. When provided on a stand-alone basis, the Company recognizes revenue for these services upon completion of the service. Service revenue has not been material to the Company’s overall revenue to date.

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

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 on the grant date for restricted shares and performance share units. 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.

On June 1, 2017, the Compensation Committee approved, pursuant to the 2006 Stock Incentive Plan, awards of performance share units (“PSUs”) for certain executive officers and employees. The PSUs are performance-based awards that will settle in shares of the Company's common stock, in an amount between 0% and 200% of the target award level, based on the cumulative adjusted earnings per share and the return on invested capital achieved by the Company between April 1, 2017 and December 31, 2019. Compensation expense for PSUs is measured by determining the fair value of the award using the closing share price on the grant date and is recognized ratably from the grant date to the vesting date for the number of awards expected to vest. The amount of compensation expense recognized for PSUs is dependent upon a quarterly assessment of the likelihood of achieving the performance conditions.

Stock-based compensation cost recognized during the period is based on the full grant date fair value of the share-based payment awards adjusted for any forfeitures during the period.

The Company recorded \$1.5 million and \$1.1 million in stock-based compensation expense for the three months ended June 30, 2017 and 2016, respectively, and \$2.9 million and \$2.4 million for the six months ended June 30, 2017 and 2016, respectively.

Recent Accounting Pronouncements

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, Scope of Modification Accounting ("ASU 2017-09"), which amends ASC 718, Compensation - Stock Compensation. This ASU amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new guidance will allow companies to make certain changes to awards without accounting for them as modifications. It does not change the accounting for modifications. The new guidance will be applied prospectively to awards modified on or after the adoption date. This new guidance

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2017

is effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Simplifying the Test for Goodwill Impairment ("ASU 2017-04"), which simplified the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. This ASU is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this standard is not expected to have a material impact on the consolidated financial statements and related disclosures.

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.

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. Under the standard, the income tax effect of awards is required to be recognized in the income statement when the awards vest or are settled, as opposed to in additional paid-in capital under Topic 718. The standard also provides an option to recognize gross share-based compensation expense with actual forfeitures recognized as they occur. 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.

The Company adopted all amendments to the standard at January 1, 2017. The amendments related to the classification of excess tax benefits on the statement of cash flows were adopted prospectively and the classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes was adopted retrospectively. The adoption of both resulted in no prior period adjustments. With the adoption of the standards related to eliminating the requirement that excess tax benefits be realized before companies can recognize them and election to recognize forfeitures as they occur, the Company elected to use the modified retrospective method which resulted in changes to retained earnings, components of equity and net assets. The net cumulative effect of these changes resulted in a \$2.1 million increase to additional paid in capital, a \$1.5 million decrease to deferred tax liabilities and a \$0.6 million decrease to retained earnings.

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"). 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. The FASB has issued several amendments to the standard since ASU 2014-09.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective transition method). We currently anticipate adopting the standard electing to use the modified retrospective transition method. The standard provides an option to apply the transition method to all contracts at the inception date or only to contracts that are not completed as of that date. At the current time, the Company only intends to apply the standard to contracts that are not completed as of December 31, 2017. Also, we anticipate disclosing the aggregate effect of contract modifications that occur before the beginning of the earliest reporting period presented (only for contracts not completed at the date of adoption).

We are currently evaluating the full impact that ASU No. 2014-09 will have on the Company's consolidated financial statements. Historically, the Company generally reports revenue on a gross basis because the Company has been determined to

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2017

be the primary obligor in its arrangements to procure marketing materials and other products for our customers. In March 2016, the FASB issued further guidance on principal versus agent considerations. We are currently evaluating the impact of the principal versus agent guidance on our classification of revenues and cost of goods sold.

The new standard will be effective for annual reporting periods beginning after December 15, 2017. 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 expects to adopt the standard in the first quarter of 2018.

2. Contingent Consideration

In connection with certain of the Company's acquisitions, contingent consideration is payable in cash or common stock of the Company 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.

On June 30, 2017, the EYELEVEL acquisition reached the required performance measures at the end of its earnout period and the balance of the fair value of the contingent consideration liability was reclassified to due to seller. At June 30, 2017, the Company reduced the contingent liability to \$0.0 million and recorded \$17.8 million in Due to Seller related to these arrangements. During the three months ended June 30, 2017 and 2016, the Company recorded expense of \$1.9 million and \$7.3 million, respectively. During the six months ended June 30, 2017 and 2016 the Company recorded expense of \$0.8 million and \$9.2 million, respectively. The change in the fair value of the contingent liability is driven by the final adjustment of the DB Studios liability during the first quarter of 2017 and the final adjustment of the EYELEVEL liability during the second quarter of 2017.

3. Goodwill

The following is a summary of the goodwill balance for each reportable segment as of June 30, 2017 (in thousands):

	North America	International	Total
Net goodwill as of December 31, 2016	\$170,757	\$ 31,943	\$202,700
Foreign exchange impact	22	2,677	2,699
Net goodwill as of June 30, 2017	\$170,779	\$ 34,620	\$205,399

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 assesses for goodwill impairment each reporting period and does not believe that goodwill is impaired as of June 30, 2017.

4. Other Intangible Assets

The following is a summary of the Company's other intangible assets as of June 30, 2017 and December 31, 2016 (in thousands):

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InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2017

	June 30, 2017	December 31, 2016	Weighted Average Life
Customer lists	\$73,858	\$72,667	13.6
Noncompete agreements	955	943	4.1
Trade names	2,510	2,510	13.3
Patents	57	57	9.0
	77,380	76,177	
Less accumulated amortization	(47,681)	(44,639)	
Intangible assets, net	\$29,699	\$31,538	

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 \$1.3 million and \$1.4 million for the three months ended June 30, 2017 and 2016, respectively, and \$2.5 million and \$2.7 million for the six months ended June 30, 2017 and 2016, respectively.

The estimated amortization expense for the remainder of 2017 and each of the next five years and thereafter is as follows (in thousands):

Remainder of 2017	\$2,452
2018	4,524
2019	4,291
2020	4,281
2021	4,158
Thereafter	9,993
	\$29,699

5. Restructuring Activities and Other Charges

On December 14, 2015, the Company approved a global realignment plan that allowed the Company to more efficiently meet client needs across its international platform. Through improved integration of global resources, the plan created back office and other efficiencies and allowed for the elimination of approximately 100 positions. In connection with these actions, the Company incurred pre-tax cash restructuring charges of \$6.7 million, the majority of which were recognized during 2016. These cash charges included approximately \$5.6 million for employee severance and related benefits and \$1.1 million for lease and contract terminations and other associated costs. The charges were all incurred by the end of 2016 with payouts of the charges occurring in 2017. As required by law, the

Company consulted with each of the affected countries' local Works Councils throughout the plan.

For the three and six months ended June 30, 2017, the Company recognized no additional restructuring charges related to this plan, as the plan was completed by the end of 2016.

The following table summarizes the accrued restructuring activities for this plan for the six months ended June 30, 2017 (in thousands):

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InnerWorkings, Inc. and subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Three and Six Months Ended June 30, 2017

	Employee Severance and Related Benefits	Lease and Contract Termination Costs	Other	Total
Balance at December 31, 2016	\$ 1,349	\$ 17	\$ 200	\$ 1,566
Cash payments	(349)	(17)	—	(366)
Balance at June 30, 2017	\$ 1,000	\$ —	\$ 200	\$ 1,200

As of June 30, 2016, the Company recognized \$5.0 million in restructuring charges related to this plan, of which \$0.3 million, \$3.9 million and \$0.8 million related to the North America, International and Other segments, respectively.

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 43.0% and 702.0% for the three months ended June 30, 2017 and 2016, respectively, and 36.5% and (2,038.9)% for the six months ended June 30, 2017 and 2016. 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 June 30, 2017 and 2016, \$1.9 million and \$7.3 million, respectively, was recognized from fair value changes to contingent consideration. In the six months ended June 30, 2017 and 2016, \$0.8 million and \$9.2 million, respectively, was recognized from fair value changes to contingent consideration.

The effective tax rate for the three and six months ended June 30, 2017 was unfavorably impacted by \$0.2 million and \$0.2 million, respectively, of stock-based compensation activity due to the adoption ASU 2016-09 on January 1, 2017.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will expire unutilized. At the end of each reporting period, the Company reviews the realizability of its deferred tax assets. During the second quarter of 2017, the valuation allowance balance was decreased for a Peruvian valuation allowance adjustment. The Company believes sufficient positive evidence exists to release the valuation allowance, therefore, the Company adjusted the valuation allowance by \$0.8 million resulting in a \$0.2 million benefit to income tax expense for the three and six months ended June 30, 2017. Additionally, the Company continues to incur losses in jurisdictions which have valuation allowances against tax loss carryforwards, so a tax benefit has not been recognized in the financial statements for these losses.

7. Earnings Per Share

Basic earnings (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted average shares outstanding assuming dilution. Dilutive common shares outstanding is computed using the Treasury Stock Method and reflects the additional shares that would be outstanding if dilutive stock options were exercised and restricted stock and restricted stock units were settled for common shares during the period. In addition, dilutive shares would include any shares issuable related to PSUs for which the performance conditions have been met as of the end of the period. During the three months ended June 30, 2017 and 2016, an aggregate of 2.5 million and 4.2 million options and restricted common shares, respectively, and during the six months ended June 30, 2017 and 2016, an aggregate of 2.6 million and 4.2 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 (loss) per common share for three and six months ended June 30, 2017 and 2016 are as follows (in thousands, except per share amounts):

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InnerWorkings, Inc. and subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Three and Six Months Ended June 30, 2017

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Numerator:				
Net income (loss)	\$4,493	\$(2,324)	\$9,951	\$(5,017)
Denominator:				
Weighted-average shares outstanding – basic	53,278	53,411	53,665	53,278
Effect of dilutive securities:				
Employee and director stock options and restricted common shares	1,150	—	1,025	—
Contingently issuable shares	761	—	380	—
Weighted-average shares outstanding – diluted	55,189	53,411	55,070	53,278
Basic earnings (loss) per share	\$0.08	\$(0.04)	\$0.19	\$(0.09)
Diluted earnings (loss) per share	\$0.08	\$(0.04)	\$0.18	\$(0.09)

8. Accumulated Other Comprehensive Loss

The table below presents changes in the components of accumulated other comprehensive loss for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30, 2017		2016	
	Foreign currency translation adjustments	Foreign currency translation adjustments	Foreign currency translation adjustments	Foreign currency translation adjustments
Balance, beginning of period	\$(18,820)		\$(14,463)	
Other comprehensive income (loss) before reclassifications	3,880		(1,390)	
Net current-period other comprehensive income (loss)	3,880		(1,390)	
Balance, end of period	\$(14,940)		\$(15,853)	
	Six Months Ended June 30, 2017		2016	
	Foreign currency translation adjustments	Foreign currency translation adjustments	Foreign currency translation adjustments	Foreign currency translation adjustments
Balance, beginning of period	\$(20,799)		\$(13,993)	
Other comprehensive income (loss) before reclassifications	5,859		(1,860)	
Net current-period other comprehensive income (loss)	5,859		(1,860)	
Balance, end of period	\$(14,940)		\$(15,853)	

9. Related Party Transactions

The Company provides print procurement services to Arthur J. Gallagher & Co. J. Patrick Gallagher, Jr., a member of the Company's Board of Directors, is the Chairman, President and Chief Executive Officer of Arthur J. Gallagher & Co. and has a direct ownership interest in Arthur J. Gallagher & Co. The total amount billed for such print procurement services during the three months ended June 30, 2017 and 2016 was \$0.5 million and \$0.5 million, respectively, and \$0.9 million and \$1.0 million during the six months ended June 30, 2017 and 2016, respectively. Additionally, Arthur J. Gallagher & Co. has provided 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 \$0.1 million for the three months ended June 30, 2017 and 2016, respectively, and \$0.0 million and \$0.2 million for the six months ended June 30, 2017, respectively. The net amount receivable from Arthur J. Gallagher & Co. was \$0.2 million and \$0.4 million as of June 30th, 2017 and December 31, 2016, respectively.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2017

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.

As of June 30, 2017 the Company no longer has any Level 3 assets or liabilities remaining on its condensed consolidated financial statements as a result of the finalization of the contingent consideration liabilities discussed in Note 2. As of December 31, 2016, the only Level 3 liabilities on the Company's financial statements related to its potential contingent consideration payments from acquisitions occurring subsequent to January 1, 2009. The fair value of the liabilities determined by this analysis was primarily driven by the probability of reaching the performance measures required by the applicable purchase agreements and the associated discount rates. Probabilities were 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 reached the required performance measure, the estimated probability would be increased to 100% and reclassified to due to seller, and if the measure was not reached, the probability would have been reduced to reflect the amount earned, if any, depending on the terms of the agreement. Discount rates were determined by applying a risk premium to a risk-free interest rate.

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 June 30, 2017 and December 31, 2016 (in thousands):

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
At June 30, 2017	Total Fair Value Measurement			
Liabilities:				
Contingent consideration	\$	— \$	— \$	— \$

At December 31, 2016	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:					
Contingent consideration	\$ 19,283	\$ —	\$ —	\$ —	\$ 19,283

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):

InnerWorkings, Inc. and subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Three and Six Months Ended June 30, 2017

	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3) Contingent Consideration
Balance as of December 31, 2016	\$ (19,283)
Change in fair value ⁽¹⁾	(844)
Reclassification to Due to seller	17,842
Contingent Consideration paid in cash	2,089
Contingent Consideration paid in stock	259
Foreign exchange impact ⁽²⁾	(63)
Balance as of June 30, 2017	\$ —

Adjustments to original contingent consideration obligations recorded were the result of using revised financial (1) forecasts and actuals 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.

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2017

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 \$0.7 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.

12. Revolving Credit Facilities

The Company entered into a Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of February 3, 2017, 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 3.0 to 1.0 for the trailing twelve months ended June 30, 2017 and 3.0 to 1.0 for each period thereafter. The Company is also required to maintain an interest coverage ratio of no less than 5.0 to 1.0. The Company is in compliance with all debt covenants as of June 30, 2017.

At June 30, 2017, the Company had \$54.8 million of unused availability under the Credit Agreement and \$0.8 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 June 30, 2017 as the interest rates are considered in line with current market rates.

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

InnerWorkings, Inc. and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
Three and Six Months Ended June 30, 2017

whereby maturity dates vary based on each individual drawdown. Outstanding borrowings under the Facility are guaranteed by the Company's assets. Borrowings and repayments are made in renminbi, the official Chinese currency. The applicable interest rate is 110% of the People's Bank of China's base rate. The terms of the Facility include limitations on use of funds for working capital purposes as well as customary representations and warranties made by the Company. At June 30, 2017, the Company had \$4.2 million of unused availability under the Facility.

13. Share Repurchase Program

On February 12, 2015, the Company announced that its Board of Directors approved a share repurchase program authorizing the repurchase of up to an aggregate of \$20 million of its common stock through open market and privately negotiated transactions over a two-year period. On November 2, 2016, the Board of Directors approved a two-year extension to the share repurchase program through February 28, 2019. On May 4, 2017, the Board of Directors authorized the repurchase of up to an additional \$30.0 million of its common stock through open market and privately negotiated transactions over a two-year period ending May 31, 2019. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. Repurchases will be made in compliance with SEC rules and other legal requirements.

During the six months ended June 30, 2017, the Company repurchased 1,028,654 shares of its common stock for \$10.0 million in the aggregate at an average cost of \$9.76 per share. During the three months ended June 30, 2017, the Company repurchased 459,030 shares of its common stock for \$4.6 million in the aggregate at an average cost of \$9.91 per share. During the three and six months ended June 30, 2016 the company did not repurchase any shares of its common stock. 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. The Company is organized and managed 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.

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.

InnerWorkings, Inc. and subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Three and Six Months Ended June 30, 2017

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

	North America	International	Other	Total
Three Months Ended June 30, 2017:				
Revenue from third parties	\$ 186,807	\$ 92,723	\$ —	\$ 279,530
Revenue from other segments	1,087	2,987	(4,074)	—
Total revenue	187,894	95,710	(4,074)	279,530
Adjusted EBITDA ⁽¹⁾	18,108	7,028	(8,492)	16,644

Three Months Ended June 30, 2016:

Revenue from third parties	\$ 177,006	\$ 92,214	\$ —	\$ 269,220
Revenue from other segments	—	3,742	(3,742)	—
Total revenue	177,006	95,956	(3,742)	269,220
Adjusted EBITDA ⁽¹⁾	15,793	6,103	(7,103)	14,793

	North America	International	Other	Total
Six Months Ended June 30, 2017				
Revenue from third parties	\$ 370,633	\$ 176,287	\$ —	\$ 546,920
Revenue from other segments	2,842	6,347	(9,189)	—
Total revenue	373,475	182,634	(9,189)	546,920
Adjusted EBITDA ⁽¹⁾	37,000	9,449	(17,537)	28,912

Six Months Ended June 30, 2016

Revenue from third parties	\$ 367,009	\$ 173,283	\$ —	\$ 540,292
Revenue from other segments	—	7,509	(7,509)	—
Total revenue	367,009	180,792	(7,509)	540,292
Adjusted EBITDA ⁽¹⁾	31,799	10,038	(15,350)	26,487

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, 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.

- (1) 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):

InnerWorkings, Inc. and subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Three and Six Months Ended June 30, 2017

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Adjusted EBITDA	16,644	14,793	28,912	26,487
Depreciation and amortization	(3,182)	(4,721)	(6,086)	(9,316)
Stock-based compensation expense	(1,503)	(1,117)	(2,921)	(2,358)
Change in fair value of contingent consideration	(1,884)	(7,276)	(844)	(9,187)
Restructuring and other charges	—	(623)	—	(3,967)
Income from operations	10,075	1,056	19,061	1,659
Interest income	12	24	46	38
Interest expense	(1,038)	(985)	(2,041)	(2,062)
Other, net	(1,165)	291	(1,388)	130
Income (loss) before income taxes	\$7,884	\$ 386	\$ 15,678	\$(235)

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 those in the Fortune 1000. As a comprehensive outsourced global solution, we leverage proprietary technology, an extensive supplier network and deep domain expertise to streamline the creation, production and distribution of marketing and promotional materials, signage and displays, retail experiences, events and promotions and product packaging across every major market worldwide. The items we source generally are procured through the marketing supply chain and we refer to these items collectively as marketing materials. Through our network of more than 8,000 global suppliers, we offer a full range of fulfillment and logistics services that allow us to procure marketing materials of virtually any kind. The breadth of our product offerings and services and the depth of our supplier network enable us to fulfill the marketing materials procurement needs of our clients.

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

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

We generate revenue by procuring and purchasing marketing materials from our suppliers and selling those products to our clients. We procure products for clients across a wide range of industries, such as retail, financial services, hospitality, consumer packaged goods, non-profits, healthcare, pharmaceuticals, food and beverage, broadcasting and cable and transportation. 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 for certain categories, geographies and/or campaigns, on a recurring basis. We provide marketing materials to our transactional clients on an order-by-order basis.

As of June 30, 2017, we had approximately 1,900 employees and independent contractors in more than 26 countries. 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. In 2016, we generated global revenue from third parties of \$734.2 million in the North America segment and \$356.5 million in the International Segment. We believe the opportunity exists to expand our business into new geographic markets. Our objective is to continue to increase our sales in the United States and internationally by adding new clients and increasing our sales to existing clients through additional marketing execution services or geographic markets. We intend to hire or acquire more account executives within close proximity to these large markets.

Revenue

We generate revenue through the procurement of marketing materials for our clients. Our revenue is generated from two different types of clients: enterprise and transactional. Enterprise clients usually order marketing materials in higher dollar amounts and volume than our transactional clients. We categorize a client as an enterprise client if we have a contract with the client for the provision of marketing materials on a recurring basis; if the client has signed an open-ended purchase order or a series of related purchase orders; or if the client has enrolled in our e-stores program, which enables the client to make online purchases of marketing materials on a recurring basis. We categorize all other clients as transactional. We enter into contracts with our enterprise clients to provide some or a specific portion of their marketing products on a recurring basis. Our contracts with enterprise clients are generally three to five years, often subject to termination by either party upon prior notice ranging from 90 days to twelve months.

Several of our enterprise clients have outsourced substantially all of their recurring marketing materials needs to us. We provide marketing materials to our transactional clients on an order-by-order basis.

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 margins than our revenue from transactional clients because the gross profit margins established in our contracts with large enterprise clients are generally lower. 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 June 30, 2017 and 2016 was \$70.2 million and \$65.1 million, or 25.1% and 24.2% 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 gross profit decreased to 78.4% for the three months ended June 30, 2017 compared to 79.0% for the three months ended June 30, 2016.

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, decreased to \$0.2 million as of June 30, 2017 from \$0.5 million as of December 31, 2016.

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 June 30, 2017 and 2016

Revenue

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

	Three Months Ended June 30,			Three Months Ended June 30,		
	2017	% of Total		2016	% of Total	
	(dollars in thousands)					
North America	\$186,807	66.8	%	\$177,006	65.7	%
International	92,723	33.2	%	92,214	34.3	%
Revenues from third parties	\$279,530	100.0	%	\$269,220	100.0	%

North America

North America revenue increased by \$9.8 million, or 5.5%, from \$177.0 million during the three months ended June 30, 2016 to \$186.8 million during the three months ended June 30, 2017. 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 \$0.5 million, or 0.6%, from \$92.2 million during the three months ended June 30, 2016 to \$92.7 million during the three months ended June 30, 2017. This increase in revenue is driven primarily by organic growth from new and existing enterprise customers.

Cost of goods sold

Our cost of goods sold increased by \$5.2 million, or 2.5%, from \$204.1 million during the three months ended June 30, 2016 to \$209.3 million during the three months ended June 30, 2017. Our cost of goods sold as a percentage of revenue was 74.9% and 75.8% during the three months ended June 30, 2017 and 2016, respectively.

Gross profit margin

Our gross profit margin was 25.1% and 24.2% during the three months ended June 30, 2017 and 2016, respectively. This increase was primarily driven by benefits from supply chain initiatives and favorable product category and geographical mix during three months ended June 30, 2017.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by \$3.7 million, or 7.1%, from \$51.4 million during the three months ended June 30, 2016 to \$55.1 million during the three months ended June 30, 2017. This increase is primarily driven by increased investments in operational improvements and product category and geographical mix during the current quarter. As a percentage of gross profit, selling, general and administrative expenses decreased to 78.4% for the three months ended June 30, 2017 compared to 79.0% for the three months ended June 30, 2016.

Depreciation and amortization

Depreciation and amortization expense decreased by \$1.5 million, or 32.6%, from \$4.7 million during the three months ended June 30, 2016 to \$3.2 million during the three months ended June 30, 2017. This decrease is driven by the impact of the change in useful life of certain proprietary software made during the fourth quarter of 2016 as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

Change in fair value of contingent consideration

Expense from the change in fair value of contingent consideration decreased by \$5.4 million from \$7.3 million during the three months ended June 30, 2016 to \$1.9 million during the three months ended June 30, 2017. The change in the fair value

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of the contingent liability is driven by the final adjustment of the DB Studios liability during the first quarter of 2017 and the final adjustment of the EYELEVEL liability during the second quarter of 2017.

Restructuring and other charges

During the fourth quarter of 2015, management approved a global realignment plan that allowed the Company to more efficiently meet client needs across its international platform. Through improved integration of global resources, the plan created back office and other efficiencies and allowed for the elimination of approximately 100 positions deemed unnecessary. The realignment plan was completed during the fourth quarter of 2016. In connection with these actions, the Company incurred total pre-tax cash restructuring charges of \$6.7 million, the majority of which were recognized during 2016.

No restructuring charges occurred during the three months ended June 30, 2017.

During the three months ended June 30, 2016, the Company recorded restructuring and other charges of \$0.6 million.

Income from operations

Income from operations increased by \$9.0 million from \$1.1 million during the three months ended June 30, 2016 to \$10.1 million during the three months ended June 30, 2017. As a percentage of revenue, income from operations was 3.6% and 0.4% during the three months ended June 30, 2017 and 2016, respectively. As a percentage of gross profit, income from operations was 14.3% and 1.6% during the three months ended June 30, 2017 and 2016, respectively. This increase is primarily attributable to operating leverage and changes in depreciation and amortization, fair value of contingent consideration and restructuring charges discussed above.

Other expense

Other expense increased by \$1.5 million from \$0.7 million for the three months ended June 30, 2016 to \$2.2 million during three months ended June 30, 2017. This increase included a \$0.4 million foreign exchange loss due to the Czech National Bank's decision to discontinue the Czech koruna's peg to the Euro during the second quarter of 2017. The remaining expense was primarily driven by unrealized foreign exchange losses on balances denominated in foreign currencies, including intercompany loans, caused by exchange rate changes in the Euro, Brazilian Real, and some other currencies.

Income tax expense

Income tax expense increased by \$0.7 million from \$2.7 million during the three months ended June 30, 2016 to \$3.4 million during the three months ended June 30, 2017. Our effective tax rate was 43.0% and 702.0% for the three months ended June 30, 2017 and 2016, 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 June 30, 2017 and 2016, \$1.9 million and \$7.3 million, respectively, was recognized from fair value changes to contingent consideration. Excluding the impact of the contingent liability, prior year restructuring charge in each period and Czech exit from exchange rate commitment, the effective tax rate was 34.6% and 29.9% in the three months ended June 30, 2017 and 2016, respectively.

The effective tax rate for the three months ended June 30, 2017 was unfavorably impacted by \$0.2 million of stock-based compensation activity due to the adoption ASU 2016-09 on January 1, 2017. There was no impact for the three months ended June 30, 2016.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will expire unutilized. At the end of each reporting period, the Company reviews the realizability of its deferred tax assets. During the second quarter of 2017, the valuation allowance balance was decreased for a Peruvian valuation allowance adjustment. The Company believes sufficient positive evidence exists to release the valuation allowance, therefore, the Company adjusted the valuation allowance by \$0.8 million resulting in a \$0.2 million benefit to income tax expense for the three months ended

June 30, 2017. There were no material valuation adjustments for the three months ended June 30, 2016. Additionally, the Company continues to incur losses in jurisdictions which have valuation allowances against tax loss carryforwards, so a tax benefit has not been recognized in the financial statements for these losses.

Net income (loss)

Net income (loss) increased by \$6.8 million, or 293.4%, from a net loss of \$2.3 million during the three months ended June 30, 2016 to net income of \$4.5 million during the three months ended June 30, 2017. Net income (loss) as a percentage of revenue was 1.6% and (0.9)% during the three months ended June 30, 2017 and 2016, respectively. Net income (loss) as a percentage of gross profit was 6.4% and (3.6)% during the three months ended June 30, 2017 and 2016, respectively. This increase is primarily attributable to changes in depreciation and amortization, change in fair value of contingent consideration and restructuring charges discussed above.

Diluted earnings (loss) per share

	Three Months Ended June 30,	
	2017	2016
(in thousands, except per share data)		
Net income (loss)	\$4,493	\$(2,324)
Denominator for dilutive earnings per share	55,189	53,411
Diluted earnings (loss) per share	\$0.08	\$(0.04)

Diluted earnings (loss) per share increased by \$0.12 from a loss of \$0.04 per share during the three months ended June 30, 2016 to earnings per share of \$0.08 per share during the three months ended June 30, 2017.

Comparison of six months ended June 30, 2017 and 2016

Revenue

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

	Six Months Ended June 30,					
	2017	% of Total	2016	% of Total		
	(dollars in thousands)					
North America	\$370,633	67.8 %	\$367,009	67.9 %		
International	176,287	32.2 %	173,283	32.1 %		
Revenue from third parties	\$546,920	100.0 %	\$540,292	100.0 %		

North America

North America revenue increased by \$3.6 million, or 1.0%, from \$367.0 million during the six months ended June 30, 2016 to \$370.6 million during the six months ended June 30, 2017. 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 \$3.0 million, or 1.7%, from \$173.3 million during the six months ended June 30, 2016 to \$176.3 million during the six months ended June 30, 2017. This increase in revenue is driven primarily by organic growth from new and existing enterprise customers.

Cost of goods sold

Our cost of goods sold decreased by \$0.9 million, or 2.5%, from \$413.3 million during the six months ended June 30, 2016 to \$412.4 million during the six months ended June 30, 2017. Our cost of goods sold as a percentage of revenue was 75.4% and 76.5% during the six months ended June 30, 2017 and 2016, respectively.

Gross profit margin

Our gross profit margin was 24.6% and 23.5% during the six months ended June 30, 2017 and 2016, respectively. This increase was primarily driven by benefits from supply chain initiatives and favorable product category and geographical mix during six months ended June 30, 2017.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by \$5.6 million, or 5.4%, from \$102.9 million during the six months ended June 30, 2016 to \$108.5 million during the six months ended June 30, 2017. This increase is primarily driven by increased investments into the infrastructure of the Company through operational improvements during the current quarter. As a percentage of gross profit, selling, general and administrative expenses decreased to 80.7% for the six months ended June 30, 2017 compared to 81.0% for the six months ended June 30, 2016.

Depreciation and amortization

Depreciation and amortization expense decreased by \$3.2 million, or 34.7%, from \$9.3 million during the six months ended June 30, 2016 to \$6.1 million during the six months ended June 30, 2017. This decrease is driven by the impact of the change in useful life of certain proprietary software made during the fourth quarter of 2016 as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

Change in fair value of contingent consideration

Expense from the change in fair value of contingent consideration decreased by \$8.4 million from expense of \$9.2 million during the six months ended June 30, 2016 to expense of \$0.8 million during the six months ended June 30, 2017. The change

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in the fair value of the contingent liability is driven by the final adjustment of the DB Studios liability during the first quarter of 2017 and the final adjustment of the EYELEVEL liability during the second quarter of 2017.

Restructuring and other charges

During the fourth quarter of 2015, management approved a global realignment plan that allowed the Company to more efficiently meet client needs across its international platform. Through improved integration of global resources, the plan created back office and other efficiencies and allowed for the elimination of approximately 100 positions deemed unnecessary. The realignment plan was completed during the fourth quarter of 2016. In connection with these actions, the Company incurred total pre-tax cash restructuring charges of \$6.7 million, the majority of which were recognized during 2016.

No restructuring activities occurred during the six months ended June 30, 2017.

During the six months ended June 30, 2016, the Company recorded restructuring and other charges of \$4.0 million.

Income from operations

Income from operations increased by \$17.4 million from \$1.7 million during the six months ended June 30, 2016 to \$19.1 million during the three months ended June 30, 2017. As a percentage of revenue, income from operations was 3.5% and 0.3% during the six months ended June 30, 2017 and 2016, respectively. As a percentage of gross profit, income from operations was 14.2% and 1.3% during the six months ended June 30, 2017 and 2016, respectively. This increase is primarily attributable to operating leverage and changes in depreciation and amortization, fair value of contingent consideration and restructuring charges discussed above.

Other expense

Other expense increased by \$1.5 million from \$1.9 million for the six months ended June 30, 2016 to \$3.4 million for the six months ended June 30, 2017. This increase included a \$0.4 million foreign exchange loss due to the Czech National Bank's decision to discontinue the Czech koruna's peg to the Euro during the second quarter of 2017. The remaining expense was primarily driven by unrealized foreign exchange losses on balances denominated in foreign currencies, including intercompany loans, caused by exchange rate changes in the Euro, Brazilian Real, and some other currencies.

Income tax expense

Income tax expense increased by \$0.9 million from \$4.8 million during the six months ended June 30, 2016 to \$5.7 million during the six months ended June 30, 2017. Our effective tax rate was 36.5% and (2,038.9)% for the six months ended June 30, 2017 and 2016, 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.

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 six months ended June 30, 2017 and 2016, \$0.8 million and \$9.2 million, respectively, was recognized from fair value changes to contingent consideration. Excluding the impact of the contingent liability, prior year restructuring charge in each period and Czech exit from exchange rate commitment, the effective tax rate was 34.6% and 35.1% in the six months ended June 30, 2017 and 2016, respectively.

The effective tax rate for the six months ended June 30, 2017 was unfavorably impacted by \$0.2 million of stock-based compensation activity due to the adoption ASU 2016-09 on January 1, 2017. There was no impact for the six months ended June 30, 2016.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will expire unutilized. At the end of each reporting period, the Company reviews the realizability of its deferred tax assets. During the second quarter of 2017, the valuation allowance balance was decreased for a Peruvian valuation allowance adjustment. The Company believes sufficient positive evidence exists to release the valuation allowance, therefore, the Company adjusted the valuation allowance by \$0.8 million resulting in a \$0.2 million benefit to income tax expense for the six months ended June 30, 2017. There were no material valuation adjustments for the six months ended June 30, 2016. Additionally, the Company continues to incur losses in jurisdictions which have valuation allowances against tax loss carryforwards, so a tax benefit has not been recognized in the financial statements for these losses.

Net income (loss)

Net income (loss) increased by \$15.0 million, or 298.3%, from a net loss of \$5.0 million during the six months ended June 30, 2016 to net income of \$10.0 million during the six months ended June 30, 2017. Net income (loss) as a percentage of revenue was 1.8% and (0.9)% during the six months ended June 30, 2017 and 2016, respectively. Net income (loss) as a percentage of gross profit was 7.4% and (3.9)% during the six months ended June 30, 2017 and 2016, respectively. This increase is primarily attributable to changes in depreciation and amortization, change in fair value of contingent consideration and restructuring charges discussed above.

Diluted earnings (loss) per share

	Six months ended June 30,	
	2017	2016
(in thousands, except per share data)		
Net income (loss)	\$9,951	\$(5,017)
Denominator for dilutive earnings per share	55,070	53,278
Diluted earnings (loss) per share	\$0.18	\$(0.09)

Diluted earnings (loss) per share increased by \$0.27 from a loss of \$0.09 per share during the six months ended June 30, 2016 to \$0.18 per share during the six months ended June 30, 2017.

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 June 30,			
	2017	% of Total	2016	% of Total
	(dollars in thousands)			
North America	\$18,108	108.8 %	\$15,793	106.8 %
International	7,028	42.2	6,103	41.2
Other ⁽¹⁾	(8,492)	(51.0)	(7,103)	(48.0)
Adjusted EBITDA	\$16,644	100.0 %	\$14,793	100.0 %

	Six Months Ended June 30,			
	2017	% of Total	2016	% of Total
	(dollars in thousands)			
North America	\$37,000	128.0 %	\$31,799	120.1 %
International	9,449	32.7	10,038	37.9
Other ⁽¹⁾	(17,537)	(60.7)	(15,350)	(58.0)
Adjusted EBITDA	\$28,912	100.0 %	\$26,487	100.0 %

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

Comparison of three months ended June 30, 2017 and 2016. Adjusted EBITDA increased by \$1.8 million, or 12.5%, from \$14.8 million during the three months ended June 30, 2016 to \$16.6 million during the three months ended June 30, 2017. North America Adjusted EBITDA increased by \$2.3 million, or 14.7%, from \$15.8 million during the three months ended June 30, 2016 to \$18.1 million during the three months ended June 30, 2017 due to improved gross margins. International Adjusted EBITDA increased by \$0.9 million, or 15.2%, from \$6.1 million during the three months ended June 30, 2016 to \$7.0 million during the three months ended June 30, 2017 due to improved gross margins. Other Adjusted EBITDA decreased by \$1.4 million, or 19.6%, from a loss of \$7.1 million during the three

months ended June 30, 2016 to a loss of \$8.5 million during the three months ended June 30, 2017 due to investments in operational improvements.

Comparison of six months ended June 30, 2017 and 2016. Adjusted EBITDA increased by \$2.4 million, or 9.2%, from \$26.5 million during the six months ended June 30, 2016 to \$28.9 million during the six months ended June 30, 2017. North America Adjusted EBITDA increased by \$5.2 million, or 16.4%, from \$31.8 million during the six months ended June 30, 2016 to \$37.0 million during the six months ended June 30, 2017 due to improved gross margins. International Adjusted EBITDA decreased by \$0.6 million, or 5.9%, from \$10.0 million during the six months ended June 30, 2016 to \$9.4 million during the six months ended June 30, 2017 due to lower revenue and client mix. Other Adjusted EBITDA decreased by \$2.1 million, or 14.2%, from a loss of \$15.4 million during the six months ended June 30, 2016 to a loss of \$17.5 million during the six months ended June 30, 2017 due to investments in operational improvements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	\$4,493	\$(2,324)	\$9,951	\$(5,017)
Income tax expense	3,391	2,710	5,727	4,782
Interest income	(12)	(24)	(46)	(38)
Interest expense	1,038	985	2,041	2,062
Other, net	1,165	(291)	1,388	(130)
Depreciation and amortization	3,182	4,721	6,086	9,316
Stock-based compensation expense	1,503	1,117	2,921	2,358
Change in fair value of contingent consideration	1,884	7,276	844	9,187
Restructuring and other charges	—	623	—	3,967
Non-GAAP Adjusted EBITDA	\$16,644	\$14,793	\$28,912	\$26,487

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	\$4,493	\$(2,324)	\$9,951	\$(5,017)
Change in fair value of contingent consideration	1,884	7,276	844	9,187
Czech exit from exchange rate commitment, net of tax	294	—	294	—
Restructuring and other charges, net of tax	—	618	—	3,582
Realignment-related income tax charges	—	238	—	635
Adjusted net income	\$6,671	\$5,808	\$11,089	\$8,387
Weighted-average shares outstanding, diluted	55,189	54,297	55,070	54,139

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Non-GAAP Diluted Earnings Per Share	\$0.12	\$0.11	\$0.20	\$0.15
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Comparison of three months ended June 30, 2017 and 2016. Adjusted EPS increased by \$0.01 or 11.0% from \$0.11 during the three months ended June 30, 2016 to \$0.12 during the three months ended June 30, 2017. This increase is primarily attributable to improved gross margin and the reduction in depreciation expense as discussed above.

Comparison of six months ended June 30, 2017 and 2016. Adjusted EPS increased by \$0.05, or 33.3%, from \$0.15 during the six months ended June 30, 2016 to \$0.20 during the six months ended June 30, 2017. This increase is primarily attributable to improved gross margin and the reduction in depreciation expense as discussed above.

Liquidity and Capital Resources

At June 30, 2017, we had \$23.5 million of cash and cash equivalents.

Operating Activities. Cash used in operating activities primarily consists of net income (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 six months ended June 30, 2017 was \$1.7 million and consisted of net income of \$10.0 million and \$10.1 million of non-cash items, offset by \$21.8 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 \$29.4 million, a decrease in inventory of \$3.4 million and an increase in accounts payable of \$4.3 million, offset by an increase in accrued expenses and other liabilities of \$0.9 million.

Cash used in operating activities for the six months ended June 30, 2016 was \$0.8 million and consisted of a net loss of \$5.0 million and \$22.2 million of non-cash items, offset by \$18.0 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 \$2.4 million, an increase in inventory of \$2.6 million and a decrease in accounts payable of \$34.0 million, offset by and a decrease in prepaid expenses and other assets of \$16.3 million and an increase in accrued expenses and other liabilities of \$4.6 million.

Investing Activities. Cash used in investing activities for the six months ended June 30, 2017 of \$7.0 million was entirely attributable to capital expenditures.

Cash used in investing activities for the six months ended June 30, 2016 of \$7.4 million was entirely attributable to capital expenditures.

Financing Activities. Cash provided by financing activities for the six months ended June 30, 2017 of \$0.6 million was primarily attributable to net borrowings under the revolving credit facility of \$11.5 million, offset by repurchases of common stock of \$10.0 million.

Cash provided by financing activities for the six months ended June 30, 2016 of \$9.1 million was primarily attributable to net borrowings under the revolving credit facility of \$12.6 million, offset by payments of contingent consideration of \$4.1 million and net short-term secured repayments of \$0.1 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 through February 28, 2019. On May 4, 2017, the Board of Directors authorized the repurchase of up to an additional \$30.0 million of its common stock through open market and privately negotiated transactions over a two-year period ending May 31, 2019. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be

discontinued or suspended at any time. Repurchases will be made in compliance with SEC rules and other legal requirements.

During the six months ended June 30, 2017, the Company repurchased 1,028,654 shares of its common stock for \$10.0 million in the aggregate at an average cost of \$9.76 per share. During the three months ended June 30, 2017, the Company repurchased 459,030 shares of its common stock for \$4.6 million in the aggregate at an average cost of \$9.91 per share. During the three and six months ended June 30, 2016, the Company did not repurchase any shares of its common stock. 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 February 3, 2017, 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 5.0 to 1.0. We were in compliance with all debt covenants as of June 30, 2017.

At June 30, 2017, we had \$54.8 million of unused availability under the Credit Agreement and \$0.8 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. Borrowings and repayments are made in renminbi, the official Chinese currency. The applicable interest rate is 110% of the People’s Bank of China’s base rate. The terms of the Facility include limitations on use of funds for working capital purposes as well as customary representations and warranties made us. At June 30, 2017, the Company had \$4.2 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 \$21.5 million and \$27.8 million of foreign cash and cash equivalents as of June 30, 2017 and December 31, 2016, 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, 2016, under the caption “Contractual Obligations.”

Critical Accounting Policies and Estimates

Stock-Based Compensation

On June 1, 2017, the Compensation Committee approved, pursuant to the 2006 Stock Incentive Plan, awards of performance share units ("PSUs") for certain executive officers and employees. The PSUs are performance-based awards that will settle in shares of our stock, in an amount between 0% and 200% of the target award level, based on the cumulative adjusted earnings per share and the return on invested capital achieved by the Company between April 1, 2017 and December 31, 2019. Compensation expense for PSUs is measured by determining the fair value of the award using the closing share price on the grant date and is recognized ratably from the grant date to the vesting date for the number of awards expected to vest. The amount of compensation expense recognized for PSUs is dependent upon our quarterly assessment of the likelihood of achieving the performance conditions.

As of June 30, 2017, except for the new critical accounting policy for PSUs described above and the adoption of ASU 2016-09 disclosed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, 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, 2016.

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," "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, 2016.

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 June 30, 2017 was less than one year. Due to the short-term nature of our investments, we believe that there is no material risk exposure.

Foreign Currency Risk

We transact business in various foreign currencies other than the U.S. dollar, principally the Euro, British pound sterling, Czech Koruna, Brazilian real, Peruvian Nuevo Sol, Mexican peso, Colombian peso and Chilean peso, which exposes us to foreign currency risk. For the six months ended June 30, 2017, we derived approximately 33.2% of our revenue from international customers, and we expect the percentage of revenue derived from outside the United States to increase in future periods as we continue to expand globally. Revenue and related expenses generated from our international operations are denominated in the functional currencies of the corresponding country. The functional currency of our subsidiaries that either operate or support these markets is generally the same as the corresponding local currency. The results of operations of, and certain of our intercompany balances associated with, our international operations are exposed to foreign exchange rate fluctuations. Changes in exchange rates could negatively affect our revenue and other operating results as expressed in U.S. dollars. We may record significant gains or losses on the remeasurement of intercompany balances. Foreign exchange gains and losses recorded to date have been immaterial to our financial statements. At this time we do not, but in the future we may enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities would have on our results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our chief executive officer and chief financial officer, we evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2017, our chief executive officer and chief financial officer concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

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 and, beginning in January 2017, includes a cloud-based consolidation and reporting tool. 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 June 30, 2017 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, 2016.

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

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

Issuer Purchases of Equity Securities

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

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

During the six months ended June 30, 2017, the Company repurchased 1,028,654 shares of its common stock for \$10.0 million in the aggregate at an average cost of \$9.76 per share.

The following table provides information relating to our purchase of shares of our common stock in the second quarter of 2017 (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⁾
4/1/17-4/30/17	459	\$ 9.91	459	620
5/1/17-5/31/17	—	11.65	—	4,067
6/1/17-6/30/17	56	10.96	—	4,240
Total	515	\$ 10.02	459	

(1)

Includes 56,175 shares delivered to us by employees to satisfy the mandatory tax withholding requirement upon vesting of restricted stock.

The share repurchase plan authorized by our Board of Directors allows repurchases of up to \$50 million of our (2) common stock. 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: August 7, 2017 By: /s/ Eric D. Belcher
Eric D. Belcher
Chief Executive Officer

Date: August 7, 2017 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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