INNERWORKINGS INC
Form 10-K/A
April 21, 2014

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

FORM 10-K/A
(Amendment No. 1)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013
Commission file number: 000-52170

INNERWORKINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-5997364**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
600 West Chicago Avenue, Suite 850, Chicago, IL 60654	**(312) 642-3700**
(Address of principal executive offices) (Zip Code)	(Registrants' telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.0001 par value	Nasdaq Global Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" 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 ¨

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 28, 2013, the last business day of the registrant's most recent completed second quarter, was $444,451,512 (based on the closing sale price of the registrant's common stock on that date as reported on the Nasdaq Global Market).

As of March 11, 2014, the registrant had 51,363,906 shares of common stock, par value $0.0001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file with the Securities and Exchange Commission a proxy statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended December 31, 2013. Portions of such proxy statement are incorporated by reference into Part III of this Annual Report on Form 10-K.

EXPLANATORY NOTE

InnerWorkings, Inc. (the "Registrant") is filing this Amendment No. 1 on Form 10-K/A ("Form 10-K/A") to its Annual Report on Form 10-K for the year ended December 31, 2013 ("Form 10-K") to correct the following clerical errors contained in the third paragraph of Note 19 of the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" (which were correctly stated in the tabular presentation included in Note 19):

- The reference to $1.8 million in the first bullet is revised to $1.9 million and the reference to $7.2 million in revised to $7.8 million;
- The references to $1.5 million in the first, second and third sub-bullets under the third bullet are revised to $1.6 million; and
- The references to $7.8 million in the second and third sub-bullets under the third bullet are revised to $7.7 million.

In addition, the last four line items ("Payments for acquisitions, net of cash acquired," "Net cash used in investing activities," "Payments of contingent consideration," and "Net cash provided by financing activities") of the tabular presentation of the restated consolidated statements of cash flow for the year ended December 31, 2011 contained in Note 19 of the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" were revised to move the adjustments previously shown in the "Productions Graphics" adjustments column to the "Other" adjustments column. In connection with the amendments described above, the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" included in the Form 10-K have been amended and restated in their entirety in this Form 10-K/A.

As required by Rule 12b-15, the Registrant's principal executive officer and principal financial officer are providing currently dated certifications on Exhibits 31.1, 31.2 and 32.2. Accordingly the Registrant hereby amends Item 15 in this Form 10-K/A to add such reports as Exhibits.

Except as described above, this Form 10-K/A does not amend, update or change any other items or disclosures in the Form 10-K and does not purport to reflect any information or events subsequent to the filing thereof. Accordingly, this Form 10-K/A should be read in conjunction with the Form 10-K.

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PART II

Item 8. ***Financial Statements and Supplementary Data***

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

INNERWORKINGS, INC.:

MANAGEMENT'S ASSESSMENT OF
INTERNAL CONTROL OVER FINANCIAL REPORTING

The financial statements were prepared by management, which is responsible for their integrity and objectivity and for establishing and maintaining adequate internal controls over financial reporting.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

iii. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the design and effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control Integrated Framework* (1992 framework). Based on this evaluation, management concluded that our internal control over financial reporting was not effective as of December 31, 2013 based on criteria in Internal Control Integrated Framework issued by the COSO.

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

Management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2013 because of the identified material weakness related to an inadequate control environment in our French-based Productions Graphics business. Specifically, this control environment did not prevent or detect the override of controls and misconduct by local management personnel resulting in the overstatement of revenue. In addition, there was a lack of awareness or willingness of some local personnel with knowledge of the overstatement to take other actions. The circumvention of these controls affected the accounts in the restated Consolidated Financial Statements discussed in Note 19 to our Consolidated Financial Statements. We had previously concluded in our annual reports on Form 10-K for 2011 and 2012 and in our quarterly reports on Form 10-Q for all quarters in 2012 and 2013 that our controls were effective. As a result of the material weakness, we have now concluded that such controls were ineffective.

We have excluded from our assessment the internal controls over financial reporting at DB Studios, Inc., Lightning Golf and Promotions, Inc., Professional Packaging Services Limited, Xpando Media Limited and EYELEVEL, which were acquired on March 6, 2013, April 4, 2013, May 9, 2013, July 9, 2013 and July 25, 2013, respectively, and whose financial statements reflect combined total assets and total revenue constituting 4% and 7%, respectively, of our consolidated financial statement amounts as of and for the year ended December 31, 2013.

Ernst & Young LLP, independent registered public accounting firm, has audited the financial statements of the Company for the fiscal years ended December 31, 2011, 2012 and 2013 and the Company's internal control over financial reporting as of December 31, 2013. Their reports are presented on the following pages.

InnerWorkings, Inc.
March 17, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of InnerWorkings, Inc.

We have audited the accompanying consolidated balance sheets of InnerWorkings, Inc. as of December 31, 2012 and 2013 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of InnerWorkings, Inc. at December 31, 2012 and 2013 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 and 19 to the consolidated financial statements, the 2011 and 2012 financial statements have been restated to account for revenue recognition and certain other identified errors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), InnerWorkings, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 17, 2014 expressed an adverse opinion thereon.

/s/
Ernst & Young LLP
Chicago, Illinois
March 17, 2014

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Stockholders of InnerWorkings, Inc.

We have audited InnerWorkings, Inc.’s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). InnerWorkings, Inc.’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management’s Assessment of Internal Control Over Financial Reporting, management’s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of DB Studios, Inc., Lightning Golf and Promotions, Inc., Professional Packaging Services Limited, Xpando Media Limited and EYELEVEL, which are included in the 2013 consolidated financial statements of InnerWorkings, Inc. and constituted 4% total assets as of December 31, 2013 and 7% of revenues for the year then ended. Our audit of internal control over financial reporting of InnerWorkings, Inc. also did not include an evaluation of the internal control over financial reporting of DB Studios, Inc., Lightning Golf and Promotions, Inc., Professional Packaging Services Limited, Xpando Media Limited and EYELEVEL.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management’s assessment. Management has identified a material weakness in controls relating to an inadequate control environment at its French based Productions Graphics business. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of InnerWorkings, Inc. as of December 31, 2012 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of those financial statements, and this report does not affect our report dated March 17, 2014, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, InnerWorkings, Inc. has not maintained effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

Ernst & Young LLP
Chicago, Illinois
March 17, 2014

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InnerWorkings, Inc.

Consolidated Statements of Operations

	Years Ended December 31,		
	2011 (as restated)	2012 (as restated)	2013
Revenue	$ 632,313,722	$ 789,585,041	$ 890,959,963
Cost of goods sold	484,931,838	612,026,494	688,933,899
Gross profit	147,381,884	177,558,547	202,026,064
Operating expenses:			
Selling, general and administrative expenses	115,818,065	146,123,614	183,443,438
Depreciation and amortization	10,171,758	10,790,452	13,663,859
Change in fair value of contingent consideration	(1,701,529)	(27,688,774)	(31,330,567)
Preference claim settlement charge	950,000	1,099,386	-
VAT settlement charge	-	1,485,088	-
Goodwill impairment charge	-	-	37,908,000
Restructuring and other charges	-	-	4,321,862
Income (loss) from operations	22,143,590	45,748,781	(5,980,528)
Other income (expense):			
Gain on sale of investment	3,948,082	1,196,196	-
Interest income	182,050	66,489	75,931
Interest expense	(2,251,010)	(2,438,234)	(2,954,339)
Other, net	-	94,411	(357,341)
Total other income (expense)	1,879,122	(1,081,138)	(3,235,749)
Income (loss) before taxes	24,022,712	44,667,643	(9,216,277)
Income tax expense (benefit)	7,406,686	5,873,621	(555,928)
Net income (loss)	$ 16,616,026	$ 38,794,022	$ (8,660,349)
Basic earnings (loss) per share	$ 0.36	$ 0.79	$ (0.17)
Diluted earnings (loss) per share	$ 0.34	$ 0.76	$ (0.17)

See accompanying notes to the consolidated financial statements.

InnerWorkings, Inc.

Consolidated Statements of Comprehensive Income (Loss)

	Years Ended December 31,					
	2011		2012		2013	
	(as restated)		(as restated)			
Net income (loss)	$	16,616,026	$	38,794,022	$	(8,660,349)
Other comprehensive income (loss), before tax						
Foreign currency translation adjustments		(540,032)		676,272		2,505,417
Unrealized gains on marketable securities						
Unrealized holding gains arising during the period		807,557		85,958		317
Less: Reclassification adjustments for gains included in net income		(3,909,678)		(1,196,196)		(2,518)
Unrealized losses on marketable securities, net		(3,102,121)		(1,110,238)		(2,201)
Other comprehensive income (loss), before tax		(3,642,153)		(433,966)		2,503,216
Income tax benefit related to components of other comprehensive loss		976,103		438,556		863
Other comprehensive income (loss), net of tax		(2,666,050)		4,590		2,504,079
Comprehensive income (loss)	$	13,949,976	$	38,798,612	$	(6,156,270)

See accompanying notes to the consolidated financial statements.

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InnerWorkings, Inc.

Consolidated Balance Sheets

	December 31, 2012 (as restated)		2013	
Assets				
Current assets:				
Cash and cash equivalents	$	17,218,899	$	18,606,030
Accounts receivable, net of allowance for doubtful accounts of $1,553,926 and $2,128,790, respectively		142,104,621		173,569,905
Unbilled revenue		30,798,230		25,746,546
Inventories		18,362,282		26,473,732
Prepaid expenses		16,028,013		11,746,965
Deferred income taxes		1,513,414		1,119,333
Other current assets		21,247,531		22,408,692
Total current assets		247,272,990		279,671,203
Property and equipment, net		17,078,384		23,724,750
Intangibles and other assets:				
Goodwill		212,796,422		251,228,698
Intangible assets, net of accumulated amortization of $18,195,508 and $25,270,793, respectively		36,396,865		56,575,534
Deferred income taxes		413,244		2,319,515
Other assets		822,275		1,147,078
		250,428,806		311,270,825
Total assets	$	514,780,180	$	614,666,778
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable-trade	$	122,367,817	$	166,154,959
Current portion of contingent consideration		7,795,489		16,718,516
Due to seller		3,000,000		-
Other liabilities		6,793,796		15,818,791
Accrued expenses		14,890,150		20,206,268
Total current liabilities		154,847,252		218,898,534
Revolving credit facility		65,000,000		69,000,000
Deferred income taxes		3,961,281		9,061,535
Contingent consideration, net of current portion		46,702,335		70,613,945
Other long-term liabilities		1,317,255		1,651,190
Total liabilities		271,828,123		369,225,204
Stockholders' equity:				
Common stock, par value $0.0001 per share, 200,000,000 and 200,000,000 shares authorized, 60,735,561 and 61,395,494 shares issued, 50,200,098 and 51,282,185 shares outstanding, respectively		6,074		6,140
Additional paid-in capital		198,117,936		202,042,296
Treasury stock at cost, 10,535,463 and 10,113,309 shares, respectively		(67,071,323)		(62,312,101)
Accumulated other comprehensive income		272,921		2,777,000
Retained earnings		111,626,449		102,928,239
Total stockholders' equity		242,952,057		245,441,574
Total liabilities and stockholders' equity	$	514,780,180	$	614,666,778

See accompanying notes to the consolidated financial statements.

InnerWorkings, Inc.

Consolidated Statements of Stockholders' Equity

	Common Stock		Treasury Stock			Accumulated Other		
	Shares	Amount	Shares	Amount	Additional Paid-in-Capital	Comprehensive Income (Loss)	Retained Earnings	To
Balance at December 31, 2010 (as restated)	57,269,604	$ 5,727	11,177,313	$ (74,307,200)	$ 174,532,285	$ 2,934,381	$ 57,018,933	$ 1
Net income							16,616,026	1
Other comprehensive income:								
Foreign currency translation adjustment						(540,032)		(
Change in unrealized gain on marketable securities, net of tax						(2,126,018)		(
Total other comprehensive income (loss)						(2,666,050)		(
Total comprehensive income								1
Issuance of common stock upon exercise of stock awards	633,814	63			354,521			3
Issuance of treasury shares as consideration for acquisition			(271,906)	3,065,253	(200,028)		(629,830)	2
Excess tax benefit derived from stock award exercises					1,024,538			1
Stock based compensation expense					3,976,187			3

Balance at December 31, 2011 (as restated)	57,903,418	5,790	10,905,407	(71,241,947)	179,687,503	268,331	73,005,129	1
Net income							38,794,022	3
Other comprehensive income:								
Foreign currency translation adjustment						676,272		6
Change in unrealized gain on marketable securities, net of tax						(671,682)		(
Total other comprehensive income						4,590		4
Total comprehensive income								3
Issuance of common stock upon exercise of stock awards	2,832,143	284			5,445,056			5
Issuance of treasury shares as consideration for acquisition			(369,944)	4,170,624	145,768		(172,702)	4
Excess tax benefit derived from stock award exercises					6,646,739			6
Stock based compensation expense					6,192,870			6
Balance at December 31, 2012 (as restated)	60,735,561	6,074	10,535,463	(67,071,323)	198,117,936	272,921	111,626,449	2
Net loss							(8,660,349)	(
Other comprehensive income:								
						2,505,417		2

Foreign currency translation adjustment								
Change in unrealized gain on marketable securities, net of tax						(1,338)		(
Total other comprehensive income						2,504,079		2
Total comprehensive loss								(
Issuance of common stock upon exercise of stock awards	659,933	66			1,594,299			1
Issuance of treasury shares as consideration for acquisition			(422,154)	4,759,222	490,522		(37,861)	5
Excess tax benefit derived from stock award exercises					(2,893,492)			(
Stock based compensation expense					4,733,031			4
Balance at December 31, 2013	61,395,494	$ 6,140	10,113,309	$ (62,312,101)	$ 202,042,296	$ 2,777,000	$ 102,928,239	$ 2

See accompanying notes to the consolidated financial statements.

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InnerWorkings, Inc.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2011 (as restated)	2012 (as restated)	2013
Cash flows from operating activities			
Net income (loss)	$ 16,616,026	$ 38,794,022	$ (8,660,349)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	10,171,758	10,790,452	13,663,859
Stock-based compensation expense	3,976,187	6,192,870	4,733,031
Deferred income taxes	749,876	(995,218)	(652,395)
Gain on sale of investment	(3,948,082)	(1,196,196)	-
Bad debt provision	2,414,710	1,681,942	1,285,326
Excess tax benefit from exercise of stock awards	(1,144,344)	(6,666,884)	2,618,779
Change in fair value of contingent consideration liability	(1,701,529)	(27,688,774)	(31,330,567)
Goodwill impairment charge	-	-	37,908,000
Reduction of prepaid commissions	-	-	3,939,974
Other operating activities	255,949	533,842	238,778
Change in assets, net of acquisitions:			
Accounts receivable and unbilled revenue	(25,406,527)	(14,846,005)	(4,843,040)
Inventories	(2,854,634)	(3,089,909)	(1,383,994)
Prepaid expenses and other	(2,635,853)	(13,077,541)	2,331,672
Change in liabilities, net of acquisitons:			
Accounts payable	27,451,575	14,818,713	29,642,545
Accrued expenses and other	3,885,424	4,160,421	(12,120,684)
Net cash provided by operating activities	27,830,536	9,411,735	37,370,935
Cash flows from investing activities			
Purchases of property and equipment	(8,182,832)	(11,823,646)	(12,226,083)
Payments for acquisitions, net of cash acquired	(14,782,797)	(1,127,954)	(19,300,864)
Payments to seller for acquisitions closed prior to 2009	(12,247,533)	(3,000,000)	-
Proceeds from sale of marketable securities	3,952,172	1,213,501	-
Other investing activities	-	31,566	-
Net cash used in investing activities	(31,260,990)	(14,706,533)	(31,526,947)
Cash flows from financing activities			
Net borrowings from revolving credit facility and short-term debt	12,600,000	5,000,000	4,000,000
Payments of contingent consideration	(2,314,362)	(7,178,407)	(7,297,803)
Proceeds from exercise of stock options	354,584	5,458,981	2,005,114
Excess tax benefit from exercise of stock awards	1,144,345	6,666,884	(2,618,779)
Payment of debt issuance costs	-	(356,700)	(325,240)
Other financing activities	(31,217)	(7,270)	(410,750)
Net cash provided by (used in) financing activites	11,753,350	9,583,488	(4,647,458)
Effect of exchange rate changes on cash and cash equivalents	(362,783)	(289,176)	190,601
Increase in cash and cash equivalents	7,960,113	3,999,514	1,387,131
Cash and cash equivalents, beginning of period	5,259,272	13,219,385	17,218,899

Cash and cash equivalents, end of period	$ 13,219,385	$ 17,218,899	$ 18,606,030
Supplemental disclosure of cash flow information			
Cash paid for interest	$ 1,995,060	$ 2,229,525	$ 2,414,527
Cash paid for income taxes	4,068,966	4,208,970	811,108

See accompanying notes to the consolidated financial statements.

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

1. Description of the Business

InnerWorkings, Inc. (the Company) is a leading provider of global print management and promotional solutions to corporate clients across a wide range of industries. With proprietary technology, an extensive supplier network and deep domain expertise, the Company procures, manages and delivers printed materials and promotional products as part of a comprehensive outsourced enterprise solution.

The Company is organized and managed as three business segments, North America, Latin America and EMEA, and is viewed as three operating segments by the chief operating decision maker for purposes of resource allocation and assessing performance. See Note 17 for further information about the Company's reportable segments.

2. Summary of Significant Accounting Policies

Restatement

The Company has restated herein its audited consolidated financial statements as of December 31, 2012 and for the years ended December 31, 2011 and 2012, as well as its unaudited interim consolidated financial statements as of and for the quarters and year to date periods ended March 31, 2013, June 30, 2013 and September 30, 2013, and related 2012 comparative prior quarter and year to date periods. See Note 19 for additional information.

Basis of Presentation

The consolidated financial statements include the accounts of InnerWorkings, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Preparation of Financial Statements and Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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. Actual results can differ from those estimates.

Foreign Currency Translation

The functional currency for the Company's foreign operations is the local currency. Assets and liabilities of these operations are translated into U.S. currency at the rates of exchange at the balance sheet date. The resulting translation adjustments are included in accumulated other comprehensive income, a separate component of stockholders' equity. Income and expense items are translated at average monthly rates of exchange.

The net realized gains (losses) on foreign currency transactions were $0.0 million, $(0.1) million and $0.3 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Since January 1, 2010, Venezuela has been designated as a highly inflationary economy under GAAP and as a result, the functional currency of the Company's subsidiary in Venezuela is the U.S. Dollar. Effective February 8, 2013, the Venezuelan government devalued the official exchange rate from 4.3 to 6.3, which resulted in a charge of $0.2 million during the year ended December 31, 2013.

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 relates to shipments that have been made to customers for which the related account receivable has not yet been billed.

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

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 printed 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 it is paid by its customers, and (iv) has reasonable latitude to establish exchange price. In some transactions, the Company also has general inventory risk and is involved in the determination of the nature or characteristics of the printed materials and products. When the Company is not the primary obligor, revenues are reported net.

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

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

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are uncollateralized customer obligations due under normal trade terms. Invoices require payment within 30 to 90 days from the invoice date. Accounts receivable are stated at the amount billed to the customer. Customer account balances with invoices past due 90 days are considered delinquent. Interest is not accrued on outstanding balances.

The carrying amount of accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances and, based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Fully reserved receivables are reviewed on a monthly basis and uncollectible accounts are written off when all reasonable collection efforts have been exhausted.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method, and represents the lower of replacement cost or estimated realizable value. Inventories consist of purchased finished goods.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives, by asset class, are as follows:

Computer equipment	3 years
Software	3 to 6 years
Office equipment	5 years
Furniture and fixtures	7 years

Leasehold improvements are depreciated using the straight-line method over the shorter of their estimated useful lives or the terms of the related leases.

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Internal-Use Software

In accordance with ASC 350-40, *Intangibles Goodwill and Other, Internal-Use Software,* certain costs incurred in the planning and evaluation stage of internal-use computer software are expensed as incurred. Costs incurred during the application development stage are capitalized and included in property and equipment. Capitalized internal-use software costs are depreciated over the expected economic life of three to six years using the straight-line method. Capitalized internal-use software asset depreciation expense for the years ended December 31, 2011, 2012 and 2013 was $5.1 million, $4.3 million and $3.9 million, respectively, and is included in total depreciation expense in Note 7. At December 31, 2012 and 2013, the net book value of internal-use software was $10.6 million and $17.3 million, respectively.

Goodwill and Other Intangibles

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. In accordance with ASC 350, *Intangibles Goodwill and Other*, goodwill is not amortized, but instead is tested for impairment annually, or more frequently if circumstances indicate a possible impairment may exist. Absent any interim indicators of impairment, the Company tests for goodwill impairment as of December 31 of each year. The provisions of ASU 2011-08, "Testing Goodwill for Impairment," were adopted in the fourth quarter of 2012. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. If the quantitative test is required, in the first step, the fair value for each reporting unit is compared to its book value including goodwill. In the case that the fair value is less than the book value, a second step is performed which compares the implied fair value of goodwill to the book value of goodwill. The fair value for the goodwill is determined based on the difference between the fair value of the reporting unit and the net fair values of the identifiable assets and liabilities. If the implied fair value of the goodwill is less than the book value of the goodwill, the difference is recognized as an impairment.

In the third quarter of 2013, the Company recorded a non-cash, goodwill impairment charge of $37.9 million. For additional information related to the goodwill impairment, see Note 4.

As of December 31, 2013, the Company defines its three reporting units as North America, Latin America and EMEA. At December 31, 2013, the Company elected to perform the quantitative impairment test for each of its three reporting units. In performing this test, the Company determined the fair value of the reporting units based on the income approach. Under the income approach, the fair value of a reporting unit is calculated based on the present value of estimated future cash flows. No impairment was identified as of December 31, 2013 as a result of this test.

In accordance with ASC 350*, Intangibles Goodwill and Other,* the Company amortizes its intangible assets with finite lives over their respective estimated useful lives and reviews for impairment whenever impairment indicators exist. 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 fourteen years, are being amortized using the economic life method. The Company's noncompete agreements, trade names and patents are being amortized on the straight-line basis over their estimated weighted-average useful lives of approximately four years, twelve years and nine years, respectively.

Shipping and Handling Costs

Shipping and handling costs are classified in cost of goods sold in the consolidated statements of income.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*, under which deferred tax assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying values of assets and liabilities and their respective tax bases. A valuation allowance is established to reduce the carrying value of deferred tax assets if it is considered more likely than not that such assets will not be realized. Any change in the valuation allowance would be charged to income in the period such determination was made.

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. There was no interest or penalties related to unrecognized tax benefits for the years ended December 31, 2011, 2012 and 2013.

Based on the Company's evaluation, it was concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The evaluation was performed for the tax years ended December 31, 2011, 2012 and 2013, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2013.

Advertising

Costs of advertising, which are expensed as incurred by the Company, were \$0.3 million, \$0.8 million and \$0.7 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Comprehensive Income

The components of accumulated comprehensive income included in the Consolidated Balance Sheets at December 31, 2012 and 2013 are as follows:

	Foreign currency	Unrealized holding gains on available-for-sale securities	Total accumulated other comprehensive income
Balance at December 31, 2011 (as restated)	$ (404,689)	$ 673,020	$ 268,331
Other comprehensive income before reclassifications	676,272	55,605	731,877
Amounts reclassified from AOCI	-	(727,287)	(727,287)
Net current-period other comprehensive income	676,272	(671,682)	4,590
Balance at December 31, 2012 (as restated)	271,583	1,338	272,921
Other comprehensive income before reclassifications	2,505,417	-	2,505,417
Amounts reclassified from AOCI		(1,338)	(1,338)
Net current-period other comprehensive income	2,505,417	(1,338)	2,504,079
Balance at December 31, 2013	$ 2,777,000	$ -	$ 2,777,000

Stock-Based Compensation

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

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

New Accounting Pronouncements

In February 2012, the FASB issued ASU 2013-02, which requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. These requirements are effective for public companies for reporting periods beginning after December 15, 2012. The Company adopted ASU 2013-02 in the first quarter of 2013.

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

3. Acquisitions

2013 Acquisitions

During March 2013, the Company acquired 100% of the stock of DB Studios, Inc. ("DB Studios"), a California-based distributor of permanent point of purchase displays and retail fixtures, whose clients include major retail and consumer package goods brands. The acquisition provides the Company with creative, design, engineering and prototyping capabilities, which are critical in the permanent display world. DB Studios contributed revenues and gross profit which represent 1% and 2%, respectively, of the Company's consolidated results for the year ended December 31, 2013. Pro forma results of this acquisition are not disclosed as they would not have a material impact on the Company's financial statements.

On July 25, 2013, the Company purchased all of the outstanding shares of capital stock or other equity interests of the U.S. and international businesses of EYELEVEL, a leading global provider of permanent retail displays and store fixtures. EYELEVEL operates from their European headquarters in Prague, Czech Republic and their U.S. base in Portland, Oregon, with additional operations in Australia, Brazil, China, Russia, and the United Kingdom. EYELEVEL contributed revenue and gross profit which represent approximately 3% and 4%, respectively, of the Company's consolidated results for the year ended December 31, 2013. The following unaudited pro forma summary presents consolidated financial information of the Company as if the business combination had occurred on January 1, 2012.

	Year ended December 31,	
	2012	2013
Revenue	$ 830,934,575	$ 917,322,482
Gross profit	187,265,538	210,932,557
Net income (loss)	42,665,326	(5,212,310)

Additionally, the Company acquired 100% of the voting equity interests of one domestic and two international companies. These other acquisitions contributed revenue and gross profit which comprised approximately 3% and 4%, respectively, of the Company's consolidated results for the year ended December 31, 2013. Pro forma results of these acquisitions are not disclosed as these acquisitions would not have a material impact on the Company's financial statements.

The following table summarizes the total consideration transferred to acquire these companies and the amount of identified assets acquired and liabilities assumed at the acquisition dates.

	DB Studios	EYELEVEL	Other	Total
Cash	$ 6,459,609	$ 13,505,356	$ 5,458,377	$ 25,423,342
Common stock	-	-	2,488,842	2,488,842
Contingent consideration	35,999,651	20,900,000	11,266,023	68,165,674
Total consideration transferred	$ 42,459,260	$ 34,405,356	$ 19,213,242	$ 96,077,858
Cash and cash equivalents	$ 9,282	$ 5,312,275	$ 918,235	$ 6,239,792
Accounts receivable	2,046,573	6,338,627	6,465,435	14,850,635
Inventories	62,433	6,380,145	1,182,206	7,624,784
Other assets	1,282,088	2,313,739	236,670	3,832,497

Customer lists	3,176,075	19,300,000	3,984,960	26,461,035
Goodwill	39,568,534	18,657,659	14,376,601	72,602,794
Accounts payable	(1,376,071)	(8,095,760)	(5,336,623)	(14,808,454)
Other current liabilities	(1,064,696)	(10,617,336)	(1,769,085)	(13,451,117)
Deferred income taxes	(1,244,958)	(5,183,993)	(845,157)	(7,274,108)
Total identifiable net assets and goodwill	$ 42,459,260	$ 34,405,356	$ 19,213,242	$ 96,077,858

Goodwill generally consists of expected synergies from combining operations of these companies with the Company's existing operations. Acquisition-related costs were included in selling, general and administrative expenses and were immaterial. None of the goodwill related to these acquisitions is expected to be deductible for tax purposes.

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

3. Acquisitions (Continued)

Contingent Consideration

In connection with certain of the Company's acquisitions, contingent consideration is payable in cash or common stock upon the achievement of certain performance measures over future periods. The Company has recorded the acquisition date fair value of the contingent consideration liability as additional purchase price. The Company has recorded $87.3 million in contingent consideration at December 31, 2013 related to these arrangements. Any adjustments made to the fair value of the contingent consideration liability subsequent to the acquisition date will be recorded in the Company's results of operations. During the years ended December 31, 2011, 2012 and 2013, the Company recorded income of $1.7 million, $27.7 million and $31.3 million for changes in the fair value of contingent consideration.

For the years ended December 31, 2011, 2012 and 2013, the Company's fair value adjustment to the contingent consideration liability includes adjustments of $1.6 million, $25.4 million and $26.6 million, respectively, to reduce the liability relating to the Productions Graphics acquisition in 2011. As of December 31, 2013, the fair value of the potential remaining $66.8 million contingent consideration payments was $8.0 million. See Note 9 for more information on Productions Graphics.

As of December 31, 2013, the potential maximum contingent payments are payable as follows:

	Cash	Common Stock	Total
2014	$ 5,194,140	$ 57,210,778	$ 62,404,918
2015	13,490,680	21,937,168	35,427,848
2016	33,244,890	30,489,870	63,734,760
2017	-	21,977,240	21,977,240
	$ 51,929,710	$ 131,615,056	$ 183,544,766

If the performance measures required by the purchase agreements are not achieved, the Company may pay less than the maximum amounts as presented in the table above, depending on the terms of the agreement.

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

4. Goodwill

The following is a summary of the goodwill balance for each operating segment as of December 31:

	North America	Latin America	EMEA	Total
Balance as of December 31, 2011 (as restated)	$ 115,895,946	$ 9,481,056	$ 70,850,079	$ 196,227,081
Goodwill acquired related to 2012 acquisitions	3,262,280	-	10,181,937	13,444,217
Finalization of purchase accounting for prior year acquisitions	-	175,361	1,665,573	1,840,934
Foreign exchange impact	4,509	-	1,279,681	1,284,190
Balance as of December 31, 2012 (as restated)	119,162,735	9,656,417	83,977,270	212,796,422
Goodwill acquired related to 2013 acquisitions	52,025,837	-	20,576,957	72,602,794
Finalization of purchase accounting for prior year acquisitions	(34,120)	218,819	(40,940)	143,759
Impairment charge	-	-	(37,908,000)	(37,908,000)
Foreign exchange impact	(59,876)	-	3,653,599	3,593,723
Balance as of December 31, 2013	$ 171,094,576	$ 9,875,236	$ 70,258,886	$ 251,228,698

As discussed in Note 17, the Company defines its reportable operating segments as North America, Latin America and EMEA. For purposes of testing goodwill for impairment, the Company defines its reporting units as the same three units. This change in the reporting units along with a decline in forecasted financial performance in 2013 compelled management to perform an interim goodwill impairment test for these reporting units as of September 30, 2013. In the first step of the impairment test, the Company concluded that the carrying amount of the EMEA reporting unit exceeded its fair value, requiring the Company to perform the second step of the impairment test to measure the amount of impairment loss, if any. The fair values of the North America and Latin America reporting units exceeded their carrying values, and the second step was not necessary.

Based upon fair value estimates of long-lived assets and discounted cash flows of the EMEA reporting unit, the Company compared the implied fair value of the goodwill in this reporting unit with the carrying value. The test resulted in a $37.9 million non-cash, goodwill impairment charge which was recognized in the third quarter of 2013. No tax benefit is recognized on the goodwill impairment. This charge had no impact on the Company’s cash flows or compliance with debt covenants.

The fair value estimates used in the goodwill impairment analysis required significant judgment. The Company's fair value estimates for purposes of determining the goodwill impairment charge 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.

5. Other Intangible Assets

The following is a summary of the Company’s other intangible assets as of December 31:

	2012	2013	Weighted Average Life	
Customer lists	$ 50,008,913	$ 77,244,427	13.8	years
Noncompete agreements	1,077,349	1,077,349	3.9	years
Trade names	3,467,655	3,467,655	12.4	years
Patents	38,456	56,896	9.0	years
	54,592,373	81,846,327		
Less accumulated amortization	(18,195,508)	(25,270,793)		
Intangible assets, net	$ 36,396,865	$ 56,575,534		

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

5. Other Intangible Assets (Continued)

Amortization expense related to these intangible assets was $3.7 million, $4.6 million and $6.9 million for the years ended December 31, 2011, 2012 and 2013, respectively.

The estimated amortization expense for the next five years is as follows:

2014	$ 7,308,111
2015	6,606,179
2016	6,151,448
2017	5,699,472
2018	5,172,887
Thereafter	25,637,437
	$ 56,575,534

6. Restructuring Activities and Other Charges

During the third quarter of 2013, the Company commenced various restructuring actions which resulted in charges of $3.0 million during the quarter. These actions consisted of terminating 49 employees and providing them with severance benefits in accordance with benefit plans previously communicated to the affected employee group or local employment laws.

The following table summarizes the restructuring charges by reportable segment. As of December 31, 2013, there are no unpaid obligations remaining.

	North America	EMEA	Total
Employee terminations and other benefits	$ 2,745,373	$ 260,407	$ 3,005,780
Cash payments	(121,482)	(260,407)	(381,889)
Write-off of prepaid commissions balance (1)	(2,623,891)	-	(2,623,891)
Accrued restructuring costs as of December 31, 2013	$ -	$ -	$ -

(1) Prepaid commission balances represent cash paid to our account executives in advance of commissions earned and is recorded in prepaid expenses on the balance sheet. For employees who had a balance and were affected by the restructuring actions, which primarily includes Small and Medium Business (“SMB”) account executives, the Company included these balances as part of the severance paid to these individuals.

The Company’s SMB division was one of the principal groups affected by the restructuring actions noted above. In addition to these restructuring charges, the Company changed its compensation structure during the third quarter so that remaining employees of SMB are paid a fixed salary. This change in compensation structure resulted in the recording of an additional charge of $1.3 million for these employees in 2013.

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

7. Property and Equipment

Property and equipment at December 31, 2012 and 2013 consisted of the following:

	2012	2013
Computer equipment	$ 5,427,019	$ 7,889,630
Software, including internal use software	31,571,109	41,987,111
Office equipment and furniture	3,584,174	2,136,168
Leasehold improvements	1,848,177	1,468,841
	42,430,479	53,481,750
Less accumulated depreciation	(25,352,095)	(29,757,000)
	$ 17,078,384	$ 23,724,750

Depreciation expense was $6.4 million, $6.2 million and $6.7 million for the years ended December 31, 2011, 2012 and 2013, respectively.

8. Revolving Credit Facility

The Company entered into a Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of December 27, 2013, 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 $150 million in the aggregate with a maturity date of August 2, 2015, and provides the Company the right to increase the aggregate commitment amount by an additional $25 million, to $175 million. Outstanding borrowings under the revolving credit facility are guaranteed by the Company’s material domestic subsidiaries. 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 3.25%-1.15% for letter of credit fees and loans based on the Eurodollar rate and 2.25%-0.15% 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, a minimum interest coverage ratio and a minimum net worth. The Credit Agreement requires the Company to maintain a leverage ratio of no more than 3.50 to 1.0 for the quarter ended December 31, 2013, 3.75 to 1.0 for the quarter ended March 31, 2014, 3.50 to 1.0 for the quarters ended June 30, 2014 and September 30, 2014, 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 5.00 to 1.0 and a minimum net worth of $119.0 million for each quarterly period. The Company is in compliance with all debt covenants as of December 31, 2013.

The Credit Agreement permits the Company to incur certain securitization transactions of up to $50 million in the aggregate, so long as certain tests are met, including a maximum Consolidated Leverage Ratio test and a minimum Consolidated EBITDA test. In the event the Company elects to incur securitization transactions in the future, (a) a new mandatory prepayment test will be implemented that will trigger prepayments based on the sum of the total outstanding borrowings under the revolving credit facility and any such securitization transaction measured against certain of the Company’s account receivables and (b) the quarterly maximum Consolidated Leverage Ratio test will be adjusted from 3.00:1.00 to 2.75:1.00.

At December 31, 2013, the Company had $33.3 million of unused availability under the Credit Agreement and $0.8 million of letters of credit which have not been drawn upon.

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

9. Transactions Involving Former Owner of Productions Graphics

The Company removed the former owner of Productions Graphics from his role as President of the Company's French subsidiary in October 2013 for performance-related reasons. This individual had served in such role since the Company's acquisition in 2011 of Productions Graphics, a European business then owned by this individual and an organization affiliated with him (collectively, the "Seller"). As of December 31, 2013, the Company had paid to the Seller €5.8 million in fixed consideration and €7.1 million in contingent earn-out consideration.

There are certain potential disputes between the former owner of Productions Graphics and the Company relating to, among other things, the termination of his employment and the Productions Graphics acquisition agreement. In connection with such disputes, the Company initiated a review of this individual's conduct in connection with certain transactions impacting the earn-out payments made to the Seller (collectively, the "Transactions"). As a result of the review, the Company concluded it was the victim of a fraud perpetrated by the former owner of Productions Graphics. Specifically, the Company concluded that the former owner of Productions Graphics artificially inflated the financial results of Productions Graphics in order to induce the Company to make earn-out payments of €1.2 and €5.9 million for the 2011 and 2012 earn-out measurement periods, respectively. He inflated the results by directing the issuance of fraudulent invoices to purported third-party customers and then, indirectly or directly, funded or reimbursed the third parties' payments in respect of such invoices. The Company estimates that he issued approximately €6.9 million of fraudulent invoices in 2011 and 2012, collectively, of which €5.7 million was subsequently received by the Company. The Company is accounting for these aggregate payments of €5.7 million as a partial refund of the €7.1 million in earn-out consideration unduly paid to the Seller.

The Company intends to seek to redress the harm caused by conduct of the former owner of Productions Graphics through appropriate legal proceedings. See Note 10 for further discussion of the legal matters relating to the former owner of Productions Graphics.

10. Commitments and Contingencies

Lease Commitments

The Company recognizes rental expense on a straight-line basis over the term of the lease. The total rent expense for the years ended December 31, 2011, 2012 and 2013 was $6.3 million, $7.7 million and $9.1 million, respectively.

Minimum annual rental payments are as follows:

	Operating Leases	
2014	$	7,179,871
2015		6,498,031
2016		4,894,071
2017		3,224,377
2018		2,162,612
Thereafter		4,434,475
Total minimum lease payments	$	28,393,437

Legal Contingencies

In November 2010, in connection with the Circuit City Stores, Inc. (“Circuit City”) bankruptcy proceedings, the Trustee of the Circuit City Liquidating Trust (the “Trust”) filed a lawsuit against the Company in United States Bankruptcy Court in the Eastern District of Virginia for the avoidance of payments as allegedly preferential transfers of $3.2 million paid to the Company during the 90 days preceding the filing of the bankruptcy petition of Circuit City on November 10, 2008. In January 2013, the Company and the Trust entered into a settlement agreement resolving this preference claim as well the Company’s administrative and general unsecured claims against the Trust for a net payment to the Trust of $900,000.

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

10. Commitments and Contingencies (Continued)

In May 2011, Her Majesty's Revenue and Customs ("HMRC") contacted the Company's United Kingdom subsidiary, InnerWorkings Europe Limited (formerly Etrinsic), to request information relating to its position that certain printed matter and direct mail products are zero-rated under the U.K.'s VAT law. Although Etrinsic has voluntarily exchanged information with the HMRC as to its position that the products at issue are zero-rated for VAT pursuant to UK law and HMRC's guidance, HMRC has stated that it disagrees with Etrinsic's position and in March 2012, HMRC issued Etrinsic a VAT assessment of £2,316,008 for VAT periods covering the 2008, 2009, 2010 and 2011 calendar years. Etrinsic sought independent review of the assessment with HMRC, and HMRC upheld the assessment. Etrinsic appealed the HMRC's assessment at the UK Tax Tribunal. In order to appeal the claim, the Company paid £2,316,008 to the HMRC on July 6, 2012. This payment was included in other current assets. In the fourth quarter of 2012, the Company accrued a loss reserve reflecting an anticipated settlement of £925,000, inclusive of all VAT periods for the 2008 through 2012 calendar years. In July 2013, the Company finalized settlement with the HMRC and received a refund of the amounts paid to HMRC in July 2012 less the settlement amount which was not materially different than the estimated reserve of £925,000.

In December 2010, e-Lynxx Corporation filed a complaint against the Company and numerous other defendants for patent infringement in the United States District Court for the Middle District of Pennsylvania. As to the Company, the complaint alleges, among other things, that certain aspects of the Company's PPM4 TM technology infringe on two patents owned by e-Lynxx purporting to cover a system and method for competitive pricing and procurement of customized goods and services, and seeks monetary damages, interest, costs, attorneys' fees, punitive damages and a permanent injunction. In May 2013, e-Lynxx asserted that the monetary damages it seeks from the Company are in the range of $35 million to $88 million for the period from May 2009 through December 2012; e-Lynxx has not yet specified damages sought for 2013 and future periods. The Company disputes the allegations contained in e-Lynxx's complaint and intends to vigorously defend this matter. Specifically, the Company contends that the patents at issue are invalid and not infringed, and, therefore, e-Lynxx is not entitled to any relief and the complaint should be dismissed. Further, even if e-Lynxx could establish liability, the Company contends that e-Lynxx is not entitled to the excessive monetary relief it seeks. On July 25, 2013, the Court granted the Company's motion for summary judgment, finding that the Company did not infringe the patents-in-suit. e-Lynxx filed a motion for reconsideration, which was recently denied. On March 5, 2014, e-Lynxx filed an appeal from the judgment entered in favor of the Company. The Company intends to vigorously defend the e-Lynxx appeal. The Company believes that an unfavorable outcome is reasonably possible or remote but not probable, and therefore, no reserve has been recorded for a potential loss. The loss that is reasonably possible or remote cannot be estimated.

In October 2012, a former sales employee of the Company filed an arbitration claim against the Company arising from the Company's termination of his employment in November 2011. He alleges disability discrimination, defamation, breach of employment agreement, invasion of privacy, and wage payment claims, and seeks monetary damages in excess of $9.0 million, interest, punitive damages, injunctive relief, declaratory relief, and attorneys' fees and costs. An arbitration hearing was held in this matter in November 2013, and the matter is currently in the post-hearing briefing phase. The Company disputes these allegations and intends to vigorously defend itself in the matter. Specifically, the Company contends that it lawfully terminated his employment for cause, and, therefore, that he is not entitled to any relief and his claims should be dismissed.

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 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 as payment security; the attachment order was confirmed in January 2014, and the Company filed an appeal of the order, which is currently pending. 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 into paying 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. 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. As of December 31, 2013, the Company had paid €5.8 million in fixed consideration and €7.1 million in contingent consideration to the former owner of Productions Graphics; the remaining maximum contingent consideration for the earn-out periods ended in 2013 and ending in 2014 and 2015 is €55.0 million.

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Notes to Consolidated Financial Statements

10. Commitments and Contingencies (Continued)

In February 2014, following the Company's February 2014 announcement of its intention to restate certain historical financial statements, an individual filed a putative securities class action complaint in the United Stated District Court for the Northern District of Illinois entitled *Van Noppen v. InnerWorkings et al.* The complaint alleges that the Company and certain executive officers and a former subsidiary officer violated federal securities laws by making materially false or misleading statements or omissions relating to the Company's financial results. The complaint seeks unspecified damages, interest, attorneys' fees and other costs. The Company disputes the claims and intends to vigorously defend the matter. Any loss that we may incur as a result of this matter cannot be estimated.

11. Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*, under which deferred assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying values of assets and liabilities and their respective tax bases.

The provision for income taxes consisted of the following components for the years ended December 31, 2011, 2012 and 2013:

	Year Ended December 31,					
	2011 (as restated)		2012 (as restated)		2013	
Current						
Federal	$	4,582,235	$	5,364,247	$	(1,803,191)
State		515,584		703,380		(316,367)
Foreign		1,558,991		801,212		2,216,025
Total current		6,656,810		6,868,839		96,467
Deferred						
Federal		741,346		1,494,274		2,823,798
State		459,475		206,125		449,424
Foreign		(450,945)		(2,695,617)		(3,925,617)
Total deferred		749,876		(995,218)		(652,395)
Income tax expense (benefit)	$	7,406,686	$	5,873,621	$	(555,928)

The provision for income taxes for the years ended December 31, 2011, 2012 and 2013 differs from the amount computed by applying the U.S. federal income tax rate of 35% to pretax income because of the effect of the following items:

	Year Ended December 31,					
	2011	(as restated)	2012	(as restated)	2013	
Tax expense at U.S. federal income tax rate	$	8,407,946	$	15,633,675	$	(3,225,697)
State income taxes, net of federal income tax effect		814,996		747,802		204,687
Effect of non-US operations		(821,547)		(1,294,217)		(644,353)
Foreign valuation allowances		-		-		607,467
		(543,900)		(8,737,329)		3,827,806

Nontaxable contingent liability fair value changes and goodwill impairment						
Research and development credit		(200,568)		-		(1,046,430)
199 Domestic production activities deduction		(109,171)		(141,376)		-
Nondeductible (benefit) and other		(141,070)		(334,935)		(279,408)
Income tax expense (benefit)	$	7,406,686	$	5,873,620	$	(555,928)

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11. Income Taxes (Continued)

At December 31, 2012 and 2013, the Company's deferred tax assets and liabilities consisted of the following:

	December 31, 2012 (as restated)	2013
Current deferred tax assets:		
Reserves and allowances	$ 1,481,809	$ 1,452,133
Other	104,216	19,561
Total current deferred tax assets	1,586,025	1,471,694
Noncurrent deferred tax assets:		
Income tax basis in excess of financial statement basis in intangible assets	6,981,503	6,140,517
Stock options	3,429,601	3,974,354
Net operating loss carryforward	923,504	10,002,615
Tax credit carryforwards	107,111	1,353,589
Other	22,385	46,303
	11,464,104	21,517,378
Valuation allowance	(144,964)	(762,123)
Total noncurrent deferred tax assets	11,319,140	20,755,255
Total deferred tax assets	12,905,165	22,226,949
Total current deferred tax liability:		
Prepaid & other expenses	(71,751)	(352,361)
Unrealized gain on available for sale securities	(860)	-
Total current deferred tax liability	(72,611)	(352,361)
Noncurrent deferred tax liabilities:		
Fixed assets	(2,312,584)	(5,085,865)
Intangible assets	(12,502,896)	(22,411,410)
Other	(51,697)	-
Total noncurrent deferred tax liabilities	(14,867,177)	(27,497,275)
Total deferred tax liabilities	(14,939,788)	(27,849,636)
Net deferred tax liability	$ (2,034,623)	$ (5,622,687)
Net current deferred tax asset	$ 1,513,414	$ 1,119,333
Net noncurrent deferred tax liability	(3,548,037)	(6,742,020)
Net deferred tax liability	$ (2,034,623)	$ (5,622,687)

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

11. Income Taxes (Continued)

The realizability of deferred income tax assets is based on a more likely than not standard. If it is determined that it is more likely than not that deferred income tax assets will not be realized, a valuation allowance must be established against the deferred income tax assets. Realization of our deferred tax assets is dependent primarily on the generation of future taxable income. In considering the need for a valuation allowance we consider our historical, as well as, future projected taxable income along with other positive and negative evidence in assessing the realizability of our deferred tax assets.

For the years ended December 31, 2012 and 2013, we recorded net increases in our valuation allowances of $0.1 million and $0.6 million, respectively.

As of December 31, 2013, the Company has gross federal and state net operating loss (“NOLs”) carryforwards of $17.8 million and $13.7 million, respectively. The federal carryovers begin to expire in 2025, and the state carryovers begin to expire in 2022. Section 382 of the Internal Revenue Code imposes an annual limitation on the utilization of net operating loss carryforwards related to acquired corporations based on a statutory rate of return (usually the “applicable federal funds rate” as defined in the Internal Revenue Code) and the value of the corporation at the time of a “change in ownership” as defined by Section 382. Our total federal NOL as of December 31, 2013 includes $2.0 million of NOLs from acquired corporations. $1.5 million of such acquired NOLs have an annual limitation under Section 382 of the Internal Revenue Code of $0.2 million.

As of December 31, 2013, the Company has gross NOLs in France, Chile and Brazil of $16.2 million, $1.1 million and $0.9 million, respectively, which have an indefinite carryover period.

As of December 31, 2013, we have gross federal and state research and development credit carryforwards of approximately $0.9 million and $0.4 million, respectively. The federal carryovers begin to expire in 2029, and the state carryovers begin to expire in 2015.

As a result of certain realization requirements of ASC 718, *Stock-Based Compensation* , the Company has not recorded certain deferred tax assets that arose directly from tax deductions related to equity compensation that are greater than the compensation recognized for financial reporting. As of December 31, 2013, the Company has $3.1 million in tax deductions related to these stock option exercises which have not been recorded but are available to reduce taxable income in future periods. These deductions will be recorded to additional paid in capital in the period in which they are realized.

The Company's intention is to permanently reinvest the undistributed earnings of its foreign subsidiaries in accordance with ASC 740. Deferred income taxes were not calculated on undistributed earnings of foreign subsidiaries, which were $5.4 million and $3.1 million at December 31, 2012 and 2013, respectively. Determination of the amount of unrecognized deferred tax liability on the undistributed earnings considered permanently reinvested is not practicable. If the undistributed earnings were to be remitted to the Company, foreign tax credits would be available to reduce any U.S. tax due upon repatriation.

The Company's income (loss) before taxes on foreign operations was $6.3 million, $23.8 million and $(13.8) million for the years ended December 31, 2011, 2012 and 2013, respectively.

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Notes to Consolidated Financial Statements

12. Fair Value Measurement

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

The fair value hierarchy consists of the following three levels:

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

The Company's potential contingent consideration payments relating to acquisitions occurring subsequent to January 1, 2009 are its only Level 3 liabilities as of December 31, 2012 and 2013. The fair value of the liabilities determined by this analysis is primarily driven by the probability of reaching the performance measures required by the purchase agreements and the associated discount rate. Probabilities are estimated by reviewing financial forecasts and assessing the likelihood of reaching the required performance measures based on factors specific to each acquisition as well as the Company's historical experience with similar arrangements. If an acquisition reaches the required performance measure, the estimated probability would be increased to 100%, and if the measure is not reached, the probability would be reduced to reflect the amount earned, if any, depending on the terms of the agreement. Discount rates are estimated by using the local government bond yields plus the Company's credit spread. A one percentage point increase in the discount rate across all contingent consideration liabilities would result in a decrease to the fair value of approximately $1.8 million.

The following tables set forth the Company's financial assets and financial liabilities measured at fair value on a recurring basis and the basis of measurement at December 31, 2012 and 2013, respectively:

At December 31, 2012	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds(1)	$ 667,045	$ 667,045	$ -	$ -
Liabilities:				
Contingent consideration (as restated)	$ (54,497,824)	$ -	$ -	$ (54,497,824)

Quoted Prices in Active Markets for	Significant Other	Significant

At December 31, 2013	Total Fair Value Measurement	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Money market funds(1)	$ 667,122	$ 667,122	$ -	$ -
Liabilities:				
Contingent consideration	$ (87,332,461)	$ -	$ -	$ (87,332,461)

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

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Notes to Consolidated Financial Statements

12. Fair Value Measurement (Continued)

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):

	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3) Contingent Consideration	
Balance at December 31, 2011 (as restated)	$	(77,729,672)
Contingent consideration from 2012 acquisitions		(10,419,881)
Contingent consideration payments paid in cash		4,178,407
Contingent consideration payments paid in stock		165,138
Reclassified to Due to seller		3,000,000
Change in fair value (1)		27,688,774
Foreign exchange impact (2)		(1,380,590)
Balance as of December 31, 2012 (as restated)		(54,497,824)
Contingent consideration from 2013 acquisitions		(68,165,674)
Contingent consideration payments paid in cash		4,297,803
Contingent consideration payments paid in stock		614,216
Change in fair value (1)		31,330,567
Foreign exchange impact (2)		(911,549)
Balance as of December 31, 2013	$	(87,332,461)

(1) Adjustments to original contingent consideration obligations recorded were the result of using revised financial forecasts and updated fair value measurements. These changes are recognized within selling, general and administrative expenses on the consolidated statements of income.

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

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

13. Earnings Per Share

Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is calculated by dividing net income by the weighted average shares outstanding plus share equivalents that would arise from the exercise of stock options and vesting of restricted common shares. For the years ended December 31, 2011, 2012 and 2013, respectively, 1,576,582, 1,099,604 and 4,288,084 options and restricted common shares were excluded from the calculation as these options and restricted common shares were anti-dilutive.

The computation of basic and diluted earnings per common share for the years ended December 31, 2011, 2012, and 2013, is as follows:

	Years Ended December 31,					
	2011		2012		2013	
		(as restated)		(as restated)		
Numerator:						
Net income (loss)	$	16,616,026	$	38,794,022	$	(8,660,349)
Denominator:						
Denominator for basic earnings per share weighted-average shares		46,428,443		48,811,218		50,875,131
Effect of dilutive securities:						
Employee stock options and restricted common shares		2,352,584		2,411,260		-
Contingently issuable shares		36,603		17,598		-
Denominator for dilutive earnings per share		48,817,630		51,240,076		50,875,131
Basic earnings per share	$	0.36	$	0.79	$	(0.17)
Diluted earnings per share	$	0.34	$	0.76	$	(0.17)

14. Stock-Based Compensation Plans

In 2006, the Company adopted the 2006 Stock Incentive Plan (the Plan). Upon adoption, all previously existing plans were merged into the Plan and ceased to separately exist. The Plan was amended and restated effective June 2012 resulting in an increase in the maximum number of shares of common stock that may be issued under the Plan by 900,000, from 4,750,000 to 5,650,000. The Company’s policy is to issue shares resulting from the exercise of stock options and conversion of restricted stock as new shares.

The Company recorded $4.0 million, $6.2 million and $4.7 million in compensation expense related to stock-based compensation, for the years ended December 31, 2011, 2012 and 2013, respectively. All stock-based compensation expense is recorded net of an estimated forfeiture rate and adjusted to reflect actual forfeiture activity. The estimated forfeiture rates applied as of December 31, 2013 ranged from 7% to 8.5% for various types of employees. In the fourth quarter of 2012, the Company recorded $2,047,405 of additional stock-based compensation expense for awards vested which exceeded the expense recorded using the estimated forfeiture rate.

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

14. Stock-Based Compensation Plans (Continued)

Stock Options

A summary of stock option activity for the years ended December 31, 2011, 2012 and 2013 is as follows:

	Outstanding Options	Weighted-Average Exercise Price		Aggregate Intrinsic Value	
Outstanding at December 31, 2010	5,343,637	$	4.33	$	16,638,131
Granted	917,552		8.05		-
Exercised	(298,770)		1.18		2,301,618
Forfeited	(11,938)		10.23		-
Outstanding at December 31, 2011	5,950,481		5.07		28,048,306
Granted	538,933		12.15		-
Exercised	(2,474,713)		2.23		23,936,039
Forfeited	(93,519)		7.35		-
Outstanding at December 31, 2012	3,921,182		7.80		23,767,012
Granted	226,971		14.60		-
Exercised	(415,480)		4.83		3,190,219
Forfeited	(179,139)		8.97		-
Outstanding at December 31, 2013	3,553,534	$	8.52	$	4,778,565
Options vested at December 31, 2013	2,569,366	$	7.63	$	4,579,822

The weighted-average fair values and ranges of exercise prices for stock options granted during the years ended December 31, 2011, 2012 and 2013, which vest ratably from one to five years, are as follows:

	Options Granted	Weighted-Average Fair Value		Exercise Prices	
2011	917,552	$	4.10	$	6.36 - $8.66
2012	538,933		5.99	$	11.97 - $14.39
2013	226,971		5.58	$	10.76 - $15.05

Vested options totaled 4,133,373, 2,458,206 and 2,569,366 as of December 31, 2011, 2012 and 2013, respectively.

The aggregate intrinsic value of options outstanding and exercisable represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of each fiscal year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options in 2011, 2012 and 2013, respectively. These amounts change based on the fair market value of the Company's stock which was $9.31, $13.78 and $7.79 on the last business day of the years ended December 31, 2011, 2012 and 2013, respectively.

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

14. Stock-Based Compensation Plans (Continued)

Using the Black-Scholes option valuation model and the assumptions listed below, the Company recorded $2.0 million, $3.0 million and $2.1 million in compensation expense related to stock options. The following assumptions were utilized in the valuation for options granted in 2011, 2012 and 2013:

	2011		2012		2013	
Dividend yield		%		%		%
Risk-free interest rate	1.33%-2.90	%	1.03%-1.67	%	1.32%-1.41	%
Expected life	7 years		6-7 years		6 years	
Volatility	47.5	%	38.0%-47.5	%	38.0	%

Expected term is estimated based on historical experience related to similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The Company believes that its historical experience provides the best estimate of future expected life. The risk-free interest rate is based on actual U.S. Treasury zero-coupon rates for bonds commensurate with the expected term. The expected volatility assumption is based on the historical volatility of the Company's common stock over a period commensurate with the expected term.

There was $3.5 million, $3.9 million and $2.9 million of unrecognized compensation costs related to the stock options granted under the Plan as of December 31, 2011, 2012 and 2013, respectively. This cost was expected to be recognized over a weighted average period of 2.8, 3.1 and 2.6 years, respectively.

The following table summarizes information about all stock options outstanding for the Company as of December 31, 2013:

Options Outstanding					Options Vested		
Exercise Price	Number Outstanding	Weighted-Average Life	Weighted-Average Exercise Price		Number Exercisable	Weighted-Average Exercise Price	
$0.65 - $4.92	780,258	2.43	$	3.63	774,640	$	3.63
$5.19 - $7.86	1,024,824	5.75		6.31	845,106		6.19
$8.07 - $11.97	654,980	7.35		9.35	330,665		9.23
$12.10 - $16.41	1,093,472	6.46		13.59	618,955		13.74
	3,553,534	5.54	$	8.52	2,569,366	$	7.63

Restricted Common Shares

Eligible employees receive restricted common shares as a portion of their total compensation. The restricted common shares vest over various time periods depending upon the grant, but generally vest from zero to five years and convert to common stock at the conclusion of the vesting period. The Company measures the compensation cost based on the closing market price of the Company's common stock at the grant date. The stock-based compensation expense for the year ended December 31, 2011, 2012 and 2013 was $2.0 million, $3.2 million and $2.6 million, respectively.

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

14. Stock-Based Compensation Plans (Continued)

The Company granted 490,074, 306,296 and 448,158 restricted common shares to employees during the years ended December 31, 2011, 2012 and 2013, respectively. A summary of restricted share activity is as follows:

	Outstanding Restricted Common Shares	Weighed-Average Grant-Date Fair Value
Nonvested Restricted Common Shares at December 31, 2010	690,377	$ 6.72
Granted	490,074	8.09
Vested and transferred to unrestricted common stock	(368,879)	6.93
Forfeited	(27,756)	5.71
Nonvested Restricted Common Shares at December 31, 2011	783,816	7.52
Granted	306,296	11.92
Vested and transferred to unrestricted common stock	(362,116)	8.86
Forfeited	(35,864)	7.02
Nonvested Restricted Common Shares at December 31, 2012	692,132	8.95
Granted	448,158	11.46
Vested and transferred to unrestricted common stock	(278,461)	9.22
Forfeited	(127,279)	8.56
Nonvested Restricted Common Shares at December 31, 2013	734,550	$ 10.45

There was $3.3 million, $3.6 million and $4.5 million of total unrecognized compensation costs related to the restricted common shares as of December 31, 2011, 2012 and 2013, respectively. This cost was expected to be recognized over a weighted average period of 2.9, 2.8 and 2.9 years, as of December 31, 2011, 2012 and 2013, respectively.

15. Benefit Plans

The Company adopted a 401(k) savings plan effective February 1, 2005, covering all of the Company's employees upon completion of 90 days of service. Employees may contribute a percentage of eligible compensation on both a before-tax basis and after-tax basis. The Company has the right to make discretionary contributions to the plan. For the years ended December 31, 2011, 2012 and 2013, total costs incurred from the Company's contributions to the 401(k) plan were $0.7 million, $0.5 million and $0.1 million, respectively.

16. Related Party Transactions

Investment in Echo Global Logistics, Inc.

In February 2005, the Company acquired shares of common stock of Echo Global Logistics, Inc. (Echo), a technology enabled transportation and logistics business process outsourcing firm. Two former members of our Board of Directors, Eric P. Lefkofsky and Peter J. Barris, were also directors of Echo during 2012. In addition, Jack M. Greenberg and Eric D. Belcher have a direct and/or an indirect ownership interest in Echo. Following Echo's initial public offering in October 2009, the Company has periodically sold shares of Echo common stock.

The Company sold 285,911 and 69,831 of its shares of Echo common stock for $3.9 million and $1.2 million and recorded a gain on sale of investment of $3.9 million and $1.2 million for the years ended December 31, 2011 and 2012, respectively. The gain on sale of investment is included in other income. The number of shares sold, proceeds and gain on sale for the year ended December 31, 2013 is immaterial.

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

16. Related Party Transactions (Continued)

The Company classified its shares of Echo's common stock as "available for sale" in accordance with ASC 320, *Investments Debt and Equity Securities*. The investment was stated at fair value based on market prices, with any unrealized gains and losses included as a separate component of stockholders' equity. Any realized gains and losses and interest and dividends have been determined using the specific identification method and included in other income. At December 31, 2013, the Company no longer owned any shares of Echo's common stock.

Agreements and Services with Related Parties

The Company provides print procurement services to Echo. The total amount billed for such print procurement services during the years ended December 31, 2011, 2012 and 2013 were approximately $0.1 million, $0.1 million and $0.2 million, respectively. In addition, Echo has provided transportation services to the Company. As consideration for these services, Echo billed the Company approximately $8.7 million, $10.8 million and $12.8 million for the years ended December 31, 2011, 2012 and 2013, respectively. The net amounts payable to Echo at December 31, 2012 and 2013 were $1.4 million and $2.1 million, respectively.

The Company provides print procurement services to Arthur J. Gallagher & Co. J. Patrick Gallagher, Jr., a member of the Company's Board of Directors since August 2011, 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 years ended December 31, 2011, 2012 and 2013 was $0.5 million, $0.6 million and $0.7 million, respectively. Additionally, Arthur J. Gallagher & Co. provides insurance brokerage and risk management services to the Company. As consideration for these services, Arthur J. Gallagher & Co. billed the Company $0.4 million, $0.4 million and $0.5 million for the years ended December 31, 2011, 2012 and 2013, respectively. The net amounts payable to Arthur J. Gallagher & Co. as of December 31, 2012 and 2013 were immaterial.

17. Business Segments

Segment information is prepared on the same basis that our CEO, who is our chief operating decision maker ("CODM"), manages the segments, evaluates financial results, and makes key operating decisions. Effective as of the third quarter of 2013, the Company changed the organization of its business segments to divide the International segment into two segments, Latin America and EMEA. This change was the result of the varying financial performance and economic conditions in recent periods which necessitated financial information to be reviewed by the CODM and for segment management to be organized under the CODM at this level. The Company is now organized and managed as three business segments: North America, Latin America, and EMEA. The North America segment includes operations in the United States and Canada; the Latin America segment includes operations in South America and Central America; and the EMEA segment includes operations in the United Kingdom, continental Europe, the Middle East, Africa and Asia. "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 net 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 2. 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 other items as described below. Management does not evaluate the performance of its operating segments using asset measures. The identifiable assets by segment disclosed in this note are those assets specifically identifiable within each segment and include cash, accounts receivable, inventory, goodwill and intangible assets. Shared service assets are primarily comprised of short-term investments, capitalized internal-use software and net property and equipment of the corporate headquarters.

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

17. Business Segments (Continued)

The table below presents financial information for our reportable operating segments and Other for the fiscal years noted (in thousands):

	North America	Latin America	EMEA	Other	Total
Fiscal 2013:					
Net revenues from third parties	$ 657,989	$ 88,016	$ 144,955	$ -	$ 890,960
Net revenues from other segments	33	1,270	75	(1,378)	-
Total net revenues	658,022	89,286	145,030	(1,378)	890,960
Adjusted EBITDA (1)	51,873	3,098	764	(28,834)	26,901
Total assets	431,562	29,841	119,531	33,733	614,667
Fiscal 2012 (as restated):					
Net revenues from third parties	648,732	57,575	83,278	-	789,585
Net revenues from other segments	68	1,625	27	(1,720)	-
Total net revenues	648,800	59,200	83,305	(1,720)	789,585
Adjusted EBITDA (1)	61,890	1,745	(2,664)	(23,754)	37,217
Total assets	330,159	23,219	139,466	21,936	514,780
Fiscal 2011 (as restated):					
Net revenues from third parties	541,036	42,979	48,299	-	632,314
Net revenues from other segments	11	-	413	(424)	-
Total net revenues	541,047	42,979	48,712	(424)	632,314
Adjusted EBITDA (1)	47,945	1,497	3,061	(17,365)	35,138
Total assets	322,460	18,785	108,633	10,405	460,283

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

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

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

17. Business Segments (Continued)

	Year Ended December 31,		
	2011 (as restated)	2012 (as restated)	2013
Adjusted EBITDA	$ 35,138	$ 37,217	$ 26,901
Depreciation and amortization	(10,172)	(10,791)	(13,664)
Stock-based compensation	(3,976)	(6,193)	(4,733)
Change in fair value of contingent consideration	1,702	27,689	31,331
Preference claim charge	(950)	(1,099)	-
VAT settlement charge	-	(1,485)	-
Payments to former owner of Productions Graphics, net of cash recovered	402	411	(2,624)
Goodwill impairment charge	-	-	(37,908)
Restructuring and other charges	-	-	(4,322)
Legal fees in connection with patent infringement	-	-	(961)
Total other income (expense)	1,879	(1,081)	(3,236)
Income (loss) before income taxes	$ 24,023	$ 44,668	$ (9,216)

The Company had long-lived assets, consisting of net property and equipment, in the United States of $10.3 million, $13.9 million and $18.1 million at December 31, 2011, 2012 and 2013, respectively. Long-lived assets in foreign countries were $1.7 million, $3.2 million and $5.6 million at December 31, 2011, 2012 and 2013, respectively.

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

18. Quarterly Financial Data (Unaudited)

The tables below are a condensed summary of the Company's unaudited quarterly statements of income and quarterly earnings per share data for the years ended December 31, 2012 and 2013 (in thousands). With the exception of the fourth quarter of 2013, the tables have been restated to correct for the items described in Note 19. See Notes 19 and 20 for additional information and reconciliations from the amounts as originally reported to the applicable restated amounts:

	Year Ended December 31, 2013							
		First Quarter(1)		Second Quarter(2)		Third Quarter(3)		Fourth Quarter
	(In thousands, except per share data)							
		(as restated)		(as restated)		(as restated)		
Revenue	$	204,577	$	210,876	$	232,630	$	242,877
Gross profit		46,350		48,177		53,181		54,318
Net income (loss)		(2,801)		3,675		(9,066)		(469)
Net income (loss) per share:								
Basic	$	(0.06)	$	0.07	$	(0.18)	$	(0.01)
Diluted	$	(0.06)	$	0.07	$	(0.18)	$	(0.01)

(1) The Company acquired DB Studios, Inc. in March 2013. Financial results for this acquisition are included in the Consolidated Financial Statements beginning in March 2013.
(2) The Company made acquisitions during the second quarter of 2013 which were not material to the Company's operations. Financial results for these acquisitions are included in the Consolidated Financial Statements beginning at the respective acquisition dates.
(3) The Company acquired U.S. and international businesses of EYELEVEL in July 2013 as well as one other company which was not material to the Company's operations. Financial results for these acquisitions are included in the Consolidated Financial Statements beginning at the respective acquisition dates.

	Year Ended December 31, 2012							
		First Quarter		Second Quarter(1)		Third Quarter(2)		Fourth Quarter
	(In thousands, except per share data)							
		(as restated)		(as restated)		(as restated)		(as restated)
Revenue	$	187,576	$	201,321	$	198,844	$	201,844
Gross profit		40,707		47,797		45,957		43,098
Net income		4,430		3,773		4,303		26,287
Net income per share:								
Basic	$	0.09	$	0.08	$	0.09	$	0.53
Diluted	$	0.09	$	0.07	$	0.08	$	0.51

(1) The Company made acquisitions during the second quarter of 2012 which were not material to the Company's operations. Financial results for these acquisitions are included in the Consolidated Financial Statements beginning in April 2012.

(2) The Company made acquisitions during the second quarter of 2012 which were not material to the Company's operations. Financial results for these acquisitions are included in the Consolidated Financial Statements beginning in August 2012.

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

19. Restatement of Prior Period Financial Statements

As a result of an internal review conducted by the Company, with the assistance of outside independent counsel it was determined that the former owner of Productions Graphics and other company personnel, engaged in fraudulent activities that resulted in improper revenue recognition that affected the results of previously filed annual and interim financial information. As a result, the Company restated its consolidated financial statements for the annual and interim periods ended December 31, 2011, March 31, 2012, June 30, 2012, September 30, 2012, December 31, 2012, March 31, 2013, June 30, 2103 and September 30, 2013.

The aforementioned errors related primarily to the former owner of Production Graphics directing the issuance of fraudulent invoices to purported customers which directly caused the Company to overstate revenue during 2011 and 2012 (the "Transactions") for which the Company received payments on a portion of the Transactions. The recognition of this revenue resulted in the Company issuing earn-out payments of $1.5 million in 2012 related to the 2011 earn-out target and $7.8 million in 2013 related to the 2012 earn-out target, to the former owner of Productions Graphics which otherwise would not have been earned. The Company has restated its prior period financial statements to make the following corrections:

reversed the revenue and associated accounts receivable recognized in connection with the Transactions in the years ended December 31, 2011 of $1.9 million and 2012 of $7.8 million;

recorded the cash received by the Company in connection with the Transactions in the years ended December 31, 2011 of $0.4 million, 2012 of $2.0 million and 2013 of $5.1 million as a reduction of selling, general and administrative expense;

because the reversal of the revenue recognized in connection with the Transactions means the applicable earn-out targets were not achieved and the Company's calculations of the fair value of contingent consideration was not performed correctly:

- the amount due under the contingent consideration liability decreased as of December 31, 2011 by $1.6 million (for the effect of not reaching the 2011 earn-out target), resulting in income related to the change in the fair value of the contingent consideration of $1.6 million;
- the amount due under the contingent consideration liability decreased as of December 31, 2012 by $25.0 million (including the effect of not reaching the 2012 earn-out target and not earning the associated $7.7 million earn-out payment and revisions to the estimated future earn-out targets of $17.2 million), resulting in income related to the change in the fair value of the contingent consideration; and
- recorded the amounts of the earn-out payments when they were paid to the former owner of Productions Graphics in 2012 of $1.6 million and 2013 of $7.7 million as selling, general and administrative expense;

recorded the income tax effects of the corrections described above.

The Company also recorded balance sheet adjustments unrelated to the Transactions which include (i) corrections to purchase price allocations recorded in the year ended December 31, 2012 related to deferred tax liabilities, contingent consideration liabilities and intangible assets acquired in order to push back final fair value adjustments to the period of acquisition; (ii) corrections to the classification of current liabilities to noncurrent liabilities; and (iii) other various balance sheet classification corrections.

Additionally, the Company recorded various other corrections to the prior period financial statements which were immaterial individually and in the aggregate.

The aggregate net impact of the corrections across all affected periods is a net decrease in income before taxes of $2.2 million. The net impact includes a decrease in income before taxes of $0.5 million for the year ended December 31, 2011, an increase in income before taxes of $17.3 million for the year ended December 31, 2012, and a decrease in income before taxes of $19.1 million for the nine months ended September 30, 2013.

The prior period financial statements included in this filing have been restated to reflect these corrections. The following schedules reconcile the amounts as originally reported in the applicable financial statement to the corresponding restated amounts. Restated quarterly financial statements, including reconciliations to the amounts as originally reported, are included in Note 20.

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

19. Restatement of Prior Period Financial Statements (Continued)

Restated consolidated statements of income amounts

	As Reported	Adjustments Productions Graphics	Other	As Restated
Year Ended December 31, 2011:				
Revenue	$ 633,846,120	$ (1,852,243)	$ 319,845	$ 632,313,722
Cost of goods sold	484,483,592	165,516	282,730	484,931,838
Gross profit	149,362,528	(2,017,759)	37,115	147,381,884
Selling, general and administrative expenses	115,771,805	(401,740)	448,000	115,818,065
Change in fair value of contingent consideration	(147,529)	(1,554,000)	-	(1,701,529)
Income from operations	22,616,494	(62,019)	(410,885)	22,143,590
Income before taxes	24,495,616	(62,019)	(410,885)	24,022,712
Income tax expense	8,102,609	(534,856)	(161,067)	7,406,686
Net income	16,393,007	472,837	(249,818)	16,616,026
Basic earnings per share	0.35	0.01	-	0.36
Diluted earnings per share	0.34	0.01	(0.01)	0.34
Year Ended December 31, 2012:				
Revenue	$ 797,698,870	$ (7,793,984)	$ (319,845)	$ 789,585,041
Cost of goods sold	612,275,393	33,831	(282,730)	612,026,494
Gross profit	185,423,477	(7,827,815)	(37,115)	177,558,547
Selling, general and administrative expenses	146,357,262	(250,688)	17,040	146,123,614
Change in fair value of contingent consideration	(2,724,978)	(24,963,796)	-	(27,688,774)
Income from operations	28,416,267	17,386,669	(54,155)	45,748,781
Income before taxes	27,335,129	17,386,669	(54,155)	44,667,643
Income tax expense	8,223,241	(2,328,391)	(21,229)	5,873,621
Net income	19,111,888	19,715,060	(32,926)	38,794,022
Basic earnings per share	0.39	0.40	-	0.79
Diluted earnings per share	0.37	0.38	-	0.76

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

19. Restatement of Prior Period Financial Statements (Continued)

Restated consolidated statements of comprehensive income amounts

	As Reported	Adjustments Productions Graphics	Other	As Restated
Year Ended December 31, 2011:				
Net income	$ 16,393,007	$ 472,837	$ (249,818)	$ 16,616,026
Comprehensive income	13,726,957	472,837	(249,818)	13,949,976
Year Ended December 31, 2012:				
Net income	$ 19,111,888	$ 19,715,060	$ (32,926)	$ 38,794,022
Foreign currency translation adjustments	608,813	67,459	-	676,272
Other comprehensive income (loss), before tax	(501,425)	67,459	-	(433,966)
Other comprehensive income (loss), net of tax	(62,869)	67,459	-	4,590
Comprehensive income	19,049,019	19,782,519	(32,926)	38,798,612

Restated consolidated balance sheet amounts

	As Reported	Adjustments Productions Graphics	Other	As Restated
As of December 31, 2012:				
Accounts receivable	$ 149,246,568	$ (7,141,947)	$ -	$ 142,104,621
Inventories	17,406,863	-	955,419	18,362,282
Prepaid expenses	16,210,053	-	(182,040)	16,028,013
Other current assets	21,051,907	-	195,624	21,247,531
Total current assets	253,445,934	(7,141,947)	969,003	247,272,990
Goodwill	214,086,880	-	(1,290,458)	212,796,422
Total intangibles and other assets	251,719,264	-	(1,290,458)	250,428,806
Total assets	522,243,582	(7,141,947)	(321,455)	514,780,180
Accounts payable-trade	$ 121,132,051	$ 199,347	$ 1,036,419	$ 122,367,817
Due to seller	10,796,850	(7,796,850)	-	3,000,000
Other liabilities	8,111,051	-	(1,317,255)	6,793,796
Accrued expenses	17,558,675	(2,632,853)	(35,672)	14,890,150
Total current liabilities	165,394,116	(10,230,357)	(316,507)	154,847,252
Deferred income taxes	5,000,740	-	(1,039,459)	3,961,281
Contingent consideration, net of current portion	63,869,281	(17,166,946)	-	46,702,335
Other long-term liabilities	-	-	1,317,255	1,317,255
Total liabilities	299,264,137	(27,397,303)	(38,711)	271,828,123
	205,462	67,459	-	272,921

Accumulated other comprehensive income				
Retained earnings	91,721,296	20,187,897	(282,744)	111,626,449
Total stockholders' equity	222,979,445	20,255,356	(282,744)	242,952,057
Total liabilities and stockholders' equity	522,243,582	(7,141,947)	(321,455)	514,780,180

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

19. Restatement of Prior Period Financial Statements (Continued)

Restated consolidated statements of cash flows amounts

	As Reported	Adjustments Productions Graphics	Other	As Restated
Year Ended December 31, 2011:				
Net income	$ 16,393,007	$ 472,837	$ (249,818)	$ 16,616,026
Deferred income taxes	1,228,443	-	(478,567)	749,876
Change in fair value of contingent consideration liability	(147,529)	(1,554,000)	-	(1,701,529)
Accounts receivable and unbilled revenue	(24,785,185)	1,450,503	(2,071,845)	(25,406,527)
Inventories	(3,326,116)	-	471,482	(2,854,634)
Prepaid expenses and other	(2,715,853)	-	80,000	(2,635,853)
Accounts payable	25,432,811	165,516	1,853,248	27,451,575
Accrued expenses and other	4,024,780	(534,856)	395,500	3,885,424
Net cash provided by operating activities	27,830,536	-	-	27,830,536
Payments for acquisitions, net of cash acquired	(17,097,159)	-	2,314,362	(14,782,797)
Net cash used in investing activities	(33,575,352)	-	2,314,362	(31,260,990)
Payments of contingent consideration	-	-	(2,314,362)	(2,314,362)
Net cash provided by financing activites	14,067,712	-	(2,314,362)	11,753,350
Year Ended December 31, 2012:				
Net income	$ 19,111,888	$ 19,715,060	$ (32,926)	$ 38,794,022
Deferred income taxes	1,090,502	-	(2,085,720)	(995,218)
Change in fair value of contingent consideration liability	(2,724,978)	(24,963,796)	-	(27,688,774)
Accounts receivable and unbilled revenue	(23,278,410)	5,691,444	2,740,961	(14,846,005)
Inventories	(2,134,490)	-	(955,419)	(3,089,909)
Prepaid expenses and other	(13,063,957)	-	(13,584)	(13,077,541)
Accounts payable	13,582,947	33,831	1,201,935	14,818,713
Accrued expenses and other	6,616,912	(1,601,244)	(855,247)	4,160,421
Net cash provided by operating activities	10,536,440	(1,124,705)	-	9,411,735
Payments for acquisitions, net of cash acquired	(1,127,954)	-	-	(1,127,954)

Net cash used in investing activities	(14,706,533)	-	-	(14,706,533)
Payments of contingent consideration	(8,303,112)	1,124,705	-	(7,178,407)
Net cash provided by financing activites	8,458,783	1,124,705	-	9,583,488

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited)

As discussed in greater detail in Note 19 - Restatement of Prior Period Financial Statements, the Company determined that it needed to restate its previously issued consolidated financial information for the quarterly periods ended March 31, 2012, June 30, 2012, September 30, 2012, December 31, 2012, March 31, 2013, June 30, 2103 and September 30, 2013. The following tables summarize the effects of the restatements on our previously issued unaudited condensed consolidated financial statements.

Condensed consolidated statements of income (unaudited)

	Three Months Ended March 31,			
	2012		2013	
	(as restated)		(as restated)	
Revenue	$	187,577,031	$	204,577,416
Cost of goods sold		146,870,289		158,227,615
Gross profit		40,706,742		46,349,801
Operating expenses:				
Selling, general and administrative expenses		31,115,144		47,111,617
Depreciation and amortization		2,444,096		2,465,667
Change in fair value of contingent consideration		200,141		608,832
Income (loss) from operations		6,947,361		(3,836,315)
Other income (expense):				
Gain on sale of investment		247,697		-
Interest income		51,741		7,334
Interest expense		(698,094)		(485,107)
Other, net		138,268		(446,163)
Total other income (expense)		(260,388)		(923,936)
Income (loss) before taxes		6,686,973		(4,760,251)
Income tax expense (benefit)		2,257,759		(1,958,977)
Net (loss) income	$	4,429,214	$	(2,801,274)
Basic earnings (loss) per share	$	0.09	$	(0.06)
Diluted earnings (loss) per share	$	0.09	$	(0.06)
Comprehensive income (loss)	$	4,861,474	$	(4,718,963)

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (as restated)	2013 (as restated)	2012 (as restated)	2013 (as restated)
Revenue	$ 201,321,036	$ 210,875,626	$ 388,898,067	$ 415,453,042
Cost of goods sold	153,523,598	162,699,024	300,393,887	320,926,639
Gross profit	47,797,438	48,176,602	88,504,180	94,526,403
Operating expenses:				
Selling, general and administrative expenses	38,381,812	41,347,183	69,496,956	88,458,800
Depreciation and amortization	2,936,981	2,648,396	5,381,077	5,114,063
Change in fair value of contingent consideration	266,544	(1,649,389)	466,685	(1,040,557)
Income from operations	6,212,101	5,830,412	13,159,462	1,994,097
Other income (expense):				
Gain on sale of investment	247,875	-	495,572	-
Interest income	43,047	555	94,788	7,889
Interest expense	(660,492)	(514,825)	(1,358,586)	(999,932)
Other, net	(124,329)	25,510	13,939	(420,653)
Total other income (expense)	(493,899)	(488,760)	(754,287)	(1,412,696)
Income before taxes	5,718,202	5,341,652	12,405,175	581,401
Income tax expense (benefit)	1,944,378	1,666,131	4,202,137	(292,846)
Net income	$ 3,773,824	$ 3,675,521	$ 8,203,038	$ 874,247
Basic earnings per share	$ 0.08	$ 0.07	$ 0.17	$ 0.02
Diluted earnings per share	$ 0.07	$ 0.07	$ 0.16	$ 0.02
Comprehensive income (loss)	$ 2,829,531	$ 3,477,251	$ 7,691,005	$ (1,241,712)

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
	(as restated)	(as restated)	(as restated)	(as restated)
Revenue	$ 198,843,932	$ 232,629,788	$ 587,741,999	$ 648,082,830
Cost of goods sold	152,887,337	179,448,580	453,281,224	500,375,219
Gross profit	45,956,595	53,181,208	134,460,775	147,707,611
Operating expenses:				
Selling, general and administrative expenses	36,299,315	44,724,982	105,796,271	133,183,782
Depreciation and amortization	2,696,255	3,880,431	8,077,332	8,994,494
Change in fair value of contingent consideration	330,791	(29,627,005)	797,476	(30,667,562)
Goodwill impairment charge	-	37,908,000	-	37,908,000
Restructuring and other charges	-	4,321,862	-	4,321,862
Income (loss) from operations	6,630,234	(8,027,062)	19,789,696	(6,032,965)
Other income (expense):				
Gain on sale of investment	346,836	-	842,408	-
Interest income	10,667	14,887	105,455	22,776
Interest expense	(633,085)	(820,081)	(1,991,671)	(1,820,013)
Other, net	108,667	77,147	122,606	(343,506)
Total other income (expense)	(166,915)	(728,047)	(921,202)	(2,140,743)
Income (loss) before taxes	6,463,319	(8,755,109)	18,868,494	(8,173,708)
Income tax expense (benefit)	2,159,825	310,961	6,361,962	18,115
Net income (loss)	$ 4,303,494	$ (9,066,070)	$ 12,506,532	$ (8,191,823)
Basic earnings (loss) per share	$ 0.09	$ (0.18)	$ 0.26	$ (0.16)
Diluted earnings (loss) per share	$ 0.08	$ (0.18)	$ 0.25	$ (0.16)
Comprehensive income (loss)	$ 4,724,259	$ (5,694,098)	$ 12,415,264	$ (6,935,810)

Quarterly financial data (unaudited)

	Three Months Ended December 31, 2012		
	As Reported	Adjustments	As Restated
Revenue	$ 207,987	$ (6,143)	$ 201,844
Gross profit	49,303	(6,205)	43,098
Net income	5,974	20,313	26,287
Net income per share:			
Basic	$ 0.12	$ 0.41	$ 0.53
Diluted	$ 0.12	$ 0.39	$ 0.51

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

Condensed consolidated balance sheets (unaudited)

	March 31, 2013 (as restated)	June 30, 2013 (as restated)	September 30, 2013 (as restated)
Assets			
Current assets:			
Cash and cash equivalents	$ 10,609,171	$ 14,164,356	$ 19,224,801
Accounts receivable, net of allowance for doubtful accounts	145,033,144	148,458,376	165,267,866
Unbilled revenue	30,191,086	27,041,664	28,920,833
Inventories	15,310,762	16,390,726	29,423,436
Prepaid expenses	19,830,132	16,226,314	10,639,529
Deferred income taxes	1,541,351	1,440,660	3,059,701
Other current assets	20,934,611	18,735,224	23,766,065
Total current assets	243,450,257	242,457,320	280,302,231
Property and equipment, net	18,327,091	19,516,534	20,763,736
Intangibles and other assets:			
Goodwill	250,025,226	260,714,048	250,863,723
Intangible assets, net of accumulated amortization	38,186,926	39,367,233	57,100,375
Deferred income taxes	-	-	-
Other assets	1,417,979	699,262	1,035,867
	289,630,131	300,780,543	308,999,965
Total assets	$ 551,407,479	$ 562,754,397	$ 610,065,932
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable-trade	$ 126,805,292	$ 117,764,548	$ 143,548,372
Current portion of contingent consideration	26,678,442	29,241,446	24,876,636
Due to seller	943,424	685,114	1,194,520
Other liabilities	6,115,295	7,987,811	12,490,643
Accrued expenses	9,258,800	9,467,010	11,106,292
Total current liabilities	169,801,253	165,145,929	193,216,463
Revolving credit facility	70,500,000	78,300,000	91,500,000
Deferred income taxes	5,117,858	5,760,815	15,989,408
Contingent consideration, net of current portion	60,712,734	63,083,023	64,212,585
Other long-term liabilities	1,500,705	1,406,296	1,369,131
Total liabilities	307,632,550	313,696,063	366,287,587
Stockholders' equity:			
Common stock, par value $0.0001 per share, 200,000,000 shares authorized, 60,971,436, 61,268,422 and 61,363,632 shares issued, 50,623,049, 50,932,298 and 51,250,323 shares outstanding, respectively	6,097	6,127	6,136
Additional paid-in capital	201,550,716	203,233,352	201,158,609

Treasury stock at cost, 10,336,124, 10,113,309 and 10,113,309 shares, respectively		(64,962,291)		(64,824,042)		(62,312,100)
Accumulated other comprehensive income		(1,644,768)		(1,843,038)		1,528,935
Retained earnings		108,825,175		112,485,935		103,396,765
Total stockholders' equity		243,774,929		249,058,334		243,778,345
Total liabilities and stockholders' equity	$	551,407,479	$	562,754,397	$	610,065,932

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

	March 31, 2012 (as restated)	June 30, 2012 (as restated)	September 30, 2012 (as restated)
Assets			
Current assets:			
Cash and cash equivalents	$ 15,665,972	$ 11,971,416	$ 9,156,463
Short-term investments	888,897	793,707	362,259
Accounts receivable, net of allowance for doubtful accounts	146,907,627	139,259,771	152,529,957
Unbilled revenue	30,883,113	33,512,456	33,630,255
Inventories	12,198,821	11,787,614	14,401,850
Prepaid expenses	10,696,763	11,288,934	14,109,383
Deferred income taxes	1,463,492	1,734,274	1,681,213
Other current assets	24,697,846	19,574,702	36,286,672
Total current assets	243,402,531	229,922,874	262,158,052
Property and equipment, net	12,168,279	13,707,584	14,531,012
Intangibles and other assets:			
Goodwill	199,257,989	202,761,094	211,191,783
Intangible assets, net of accumulated amortization	37,268,369	36,918,524	36,594,576
Deferred income taxes	3,715,207	3,716,284	2,695,971
Other assets	791,106	1,061,292	1,043,296
	241,032,671	244,457,194	251,525,626
Total assets	$ 496,603,481	$ 488,087,652	$ 528,214,690
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable-trade	$ 120,157,340	$ 100,268,319	$ 125,889,990
Current portion of contingent consideration	16,199,571	15,396,575	16,923,240
Due to seller	1,532,592	-	-
Other liabilities	7,633,577	9,587,750	7,086,530
Accrued expenses	15,050,039	12,148,857	12,076,796
Total current liabilities	160,573,119	137,401,501	161,976,556
Revolving credit facility	71,400,000	73,000,000	74,000,000
Deferred income taxes	6,833,274	7,002,310	7,301,933
Contingent consideration, net of current portion	63,411,139	66,107,784	69,546,954
Other long-term liabilities	1,370,976	1,354,311	1,379,506
Total liabilities	303,588,508	284,865,906	314,204,949
Stockholders' equity:			
Common stock, par value $0.0001 per share, 200,000,000 shares authorized, 58,961,117, 59,833,466 and 60,460,457 shares issued, 48,123,303, 49,184,937 and 49,924,994 shares outstanding, respectively	5,896	5,983	6,046
Additional paid-in capital	185,458,845	190,769,991	195,558,997
Treasury stock at cost, 10,837,814, 10,648,529 and 10,535,463 shares, respectively	(70,479,927)	(68,345,991)	(67,071,323)

Accumulated other comprehensive income		700,591		(243,701)		177,063
Retained earnings		77,329,568		81,035,464		85,338,958
Total stockholders' equity		193,014,973		203,221,746		214,009,741
Total liabilities and stockholders' equity	$	496,603,481	$	488,087,652	$	528,214,690

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

Condensed consolidated statements of cash flows (unaudited)

	Three Months Ended March 31, 2012 (as restated)	2013 (as restated)
Cash flows from operating activities		
Net income (loss)	$ 4,429,214	$ (2,801,274)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	2,444,096	2,465,667
Stock-based compensation expense	1,047,645	973,193
Deferred income taxes	902,380	585,098
Gain on sale of investment	(247,697)	-
Bad debt provision	145,447	13,844
Excess tax benefit from exercise of stock awards	(4,163,793)	(951,066)
Change in fair value of contingent consideration liability	200,141	608,832
Other operating activities	30,254	55,629
Change in assets, net of acquisitions:		
Accounts receivable and unbilled revenue	(21,904,760)	(1,304,702)
Inventories	1,648,396	2,920,270
Prepaid expenses and other	(10,351,793)	(3,098,782)
Change in liabilities, net of acquisitons:		
Accounts payable	16,003,529	3,710,942
Accrued expenses and other	2,344,303	(4,020,290)
Net cash used in operating activities	(7,472,638)	(842,639)
Cash flows from investing activities		
Purchases of property and equipment	(1,862,648)	(2,886,245)
Payments for acquisitions, net of cash acquired	(1,587,576)	(6,261,942)
Proceeds from sale of marketable securities	249,540	-
Other investing activities	11,567	-
Net cash used in investing activities	(3,189,117)	(9,148,187)
Cash flows from financing activities		
Net borrowings (repayments) from revolving credit facility and short-term debt	11,400,000	5,500,000
Payments of contingent consideration	(3,228,375)	(3,720,821)
Proceeds from exercise of stock options	555,355	846,541
Excess tax benefit from exercise of stock awards	4,163,793	951,066
Other financing activities	(4,349)	(36,642)
Net cash provided by financing activites	12,886,424	3,540,144
Effect of exchange rate changes on cash and cash equivalents	221,918	(159,046)
Increase (decrease) in cash and cash equivalents	2,446,587	(6,609,728)

Cash and cash equivalents, beginning of period	13,219,385	17,218,899
Cash and cash equivalents, end of period	$ 15,665,972	$ 10,609,171

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

	Six Months Ended June 30, 2012 (as restated)	2013 (as restated)
Cash flows from operating activities		
Net income	$ 8,203,038	$ 874,247
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,381,077	5,114,063
Stock-based compensation expense	2,451,374	2,054,106
Deferred income taxes	806,152	720,547
Gain on sale of investment	(495,572)	-
Bad debt provision	352,332	158,730
Excess tax benefit from exercise of stock awards	(7,447,068)	(1,066,357)
Change in fair value of contingent consideration liability	466,685	(1,040,557)
Other operating activities	81,728	111,258
Change in assets, net of acquisitions:		
Accounts receivable and unbilled revenue	(15,750,384)	1,449,472
Inventories	1,984,370	1,984,593
Prepaid expenses and other	(6,975,351)	4,288,640
Change in liabilities, net of acquisitons:		
Accounts payable	(5,392,463)	(7,511,701)
Accrued expenses and other	5,212,828	(4,227,037)
Net cash provided by (used in) operating activities	(11,121,254)	2,910,004
Cash flows from investing activities		
Purchases of property and equipment	(5,045,823)	(5,822,741)
Payments for acquisitions, net of cash acquired	287,396	(11,559,092)
Payments to seller for acquisitions closed prior to 2009	(3,000,000)	-
Proceeds from sale of marketable securities	499,122	-
Other investing activities	11,567	-
Net cash used in investing activities	(7,247,738)	(17,381,833)
Cash flows from financing activities		
Net borrowings (repayments) from revolving credit facility and short-term debt	13,000,000	13,300,000
Payments of contingent consideration	(4,367,253)	(4,664,219)
Proceeds from exercise of stock options	1,171,660	1,842,044
Excess tax benefit from exercise of stock awards	7,447,068	1,066,357
Other financing activities	(7,270)	(36,642)
Net cash provided by financing activites	17,244,205	11,507,540
Effect of exchange rate changes on cash and cash equivalents	(123,182)	(90,254)
Decrease in cash and cash equivalents	(1,247,969)	(3,054,543)
Cash and cash equivalents, beginning of period	13,219,385	17,218,899

Cash and cash equivalents, end of period	$ 11,971,416	$ 14,164,356

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

	Nine Months Ended September 30, 2012 (as restated)	2013 (as restated)
Cash flows from operating activities		
Net income (loss)	$ 12,506,532	$ (8,191,823)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,077,332	8,994,494
Stock-based compensation expense	3,171,073	3,036,188
Deferred income taxes	1,908,788	4,026,444
Gain on sale of investment	(842,408)	-
Bad debt provision	856,098	372,482
Excess tax benefit from exercise of stock awards	(8,352,190)	1,768,277
Change in fair value of contingent consideration liability	797,476	(30,667,562)
Goodwill impairment charge	-	37,908,000
Reduction of prepaid commissions	-	3,939,974
Other operating activities	-	166,888
Change in assets, net of acquisitions:		
Accounts receivable and unbilled revenue	(28,134,374)	(6,171,498)
Inventories	397,738	(7,321,557)
Prepaid expenses and other	(26,239,457)	999,626
Change in liabilities, net of acquisitons:	-	-
Accounts payable	18,587,299	6,752,468
Accrued expenses and other	3,040,904	(6,148,551)
Net cash provided by (used in) operating activities	(14,225,189)	9,463,850
Cash flows from investing activities		
Purchases of property and equipment	(7,462,169)	(8,690,905)
Payments for acquisitions, net of cash acquired	(946,060)	(19,795,603)
Payments to seller for acquisitions closed prior to 2009	(3,000,000)	-
Proceeds from sale of marketable securities	603,053	-
Other investing activities	11,567	-
Net cash used in investing activities	(10,793,609)	(28,486,508)
Cash flows from financing activities		
Net borrowings (repayments) from revolving credit facility and short-term debt	14,000,000	26,500,000
Payments of contingent consideration	(5,015,639)	(5,489,373)
Proceeds from exercise of stock options	3,958,789	1,939,274
Excess tax benefit from exercise of stock awards	8,352,190	(1,768,277)
Other financing activities	(7,270)	(274,052)
Net cash provided by financing activites	21,288,070	20,907,572
Effect of exchange rate changes on cash and cash equivalents	(332,194)	120,988

Increase (decrease) in cash and cash equivalents		(4,062,922)		2,005,902
Cash and cash equivalents, beginning of period		13,219,385		17,218,899
Cash and cash equivalents, end of period	$	9,156,463	$	19,224,801

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

Reconciliation of restated quarterly financial statement amounts (unaudited)

Restated consolidated statements of income amounts (unaudited)

	Three Months Ended March 31, 2012				Three Months Ended March 31, 2013		
		Adjustments				Adjustments	
	As Reported	Productions Graphics	Other	As Restated	As Reported	Productions Graphics	Other
Revenue	$ 188,546,402	$ (649,526)	$ (319,845)	$ 187,577,031	$ 204,316,125	$ 261,291	$ -
Cost of goods sold	147,153,019	-	(282,730)	146,870,289	158,323,630	(96,015)	-
Gross profit	41,393,383	(649,526)	(37,115)	40,706,742	45,992,495	357,306	-
Selling, general and administrative expenses	32,883,123	(1,410,979)	(357,000)	31,115,144	41,126,957	6,308,660	(324,000
Income (loss) from operations	5,866,023	761,453	319,885	6,947,361	1,791,039	(5,951,355)	324,001
Income (loss) before taxes	5,605,635	761,453	319,885	6,686,973	867,103	(5,951,355)	324,001
Income tax expense (benefit)	1,917,947	214,417	125,395	2,257,759	(28,027)	(2,057,958)	127,008
Net income (loss)	3,687,688	547,036	194,490	4,429,214	895,130	(3,893,397)	196,993
Basic earnings (loss) per share	0.08	0.01	-	0.09	0.02	(0.08)	-
Diluted earnings (loss) per share	0.07	0.01	0.01	0.09	0.02	(0.07)	-
Comprehensive income (loss)	4,089,394	577,590	194,490	4,861,474	(956,066)	(3,959,890)	196,993

	Three Months Ended June 30, 2012				Three Months Ended June 30, 2013			
		Adjustments				Adjustments		
	As Reported	Productions Graphics	Other	As Restated	As Reported	Productions Graphics	Other	As
Revenue	$ 201,397,471	$ (76,435)	$ -	$ 201,321,036	$ 210,875,626	$ -	$ -	$ 21(
Cost of goods sold	153,551,408	(27,810)	-	153,523,598	162,699,024	-	-	162
Gross profit	47,846,063	(48,625)	-	47,797,438	48,176,602	-	-	48,
Selling, general and administrative	37,377,559	1,004,253	-	38,381,812	43,907,070	(2,559,887)	-	41,

expenses								
Income from operations	7,264,979	(1,052,878)	-	6,212,101	3,270,525	2,559,887	-	5,8
Income before taxes	6,771,080	(1,052,878)	-	5,718,202	2,781,765	2,559,887	-	5,3
Income tax expense	2,296,680	(352,302)	-	1,944,378	878,420	787,711	-	1,6
Net income	4,474,400	(700,576)	-	3,773,824	1,903,345	1,772,176	-	3,6
Basic earnings per share	0.09	(0.01)	-	0.08	0.04	0.03	-	0.0
Diluted earnings per share	0.09	(0.02)	-	0.07	0.04	0.03	-	0.0
Comprehensive income	3,493,203	(663,672)	-	2,829,531	1,705,075	1,772,176	-	3,4

	Six Months Ended June 30, 2012				Six Months Ended June 30, 2013		
		Adjustments				Adjustments	
	As Reported	Productions Graphics	Other	As Restated	As Reported	Productions Graphics	Other
Revenue	$ 389,943,873	$ (725,961)	$ (319,845)	$ 388,898,067	$ 415,191,751	$ 261,291	$ -
Cost of goods sold	300,704,427	(27,810)	(282,730)	300,393,887	321,022,654	(96,015)	-
Gross profit	89,239,446	(698,151)	(37,115)	88,504,180	94,169,097	357,306	-
Selling, general and administrative expenses	70,260,682	(406,726)	(357,000)	69,496,956	85,034,027	3,748,773	(324,000
Income from operations	13,131,002	(291,425)	319,885	13,159,462	5,061,564	(3,391,467)	324,000
Income before taxes	12,376,715	(291,425)	319,885	12,405,175	3,648,868	(3,391,467)	324,000
Income tax expense (benefit)	4,214,627	(137,885)	125,395	4,202,137	850,393	(1,270,246)	127,007
Net income	8,162,088	(153,540)	194,490	8,203,038	2,798,475	(2,121,221)	196,993
Basic earnings per share	0.17	-	-	0.17	0.06	(0.04)	-
Diluted earnings per share	0.16	-	-	0.16	0.05	(0.03)	-
Comprehensive income (loss)	7,582,597	(86,082)	194,490	7,691,005	749,009	(2,187,714)	196,993

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

As a result of the revised estimates of fair value as of December 31, 2012, the contingent consideration liability decreased by $17.2 million. This amount has been reflected as a reduction in the fair value adjustment originally recognized as of September 30, 2013.

	Three Months Ended September 30, 2012				Three Months Ended September 30, 2013			
		Adjustments				Adjustments		
		Productions				Productions		
	As Reported	Graphics	Other	As Restated	As Reported	Graphics	Other	As Re
Revenue	$ 199,768,676	$ (924,744)	$ -	$ 198,843,932	$ 232,629,788	$ -	$ -	$ 232
Cost of goods sold	152,887,337	-	-	152,887,337	179,511,134	(62,554)	-	179
Gross profit	46,881,339	(924,744)	-	45,956,595	53,118,654	62,554	-	53,
Selling, general and administrative expenses	36,253,631	(4,355)	50,040	36,299,315	45,832,645	(1,107,663)	-	44,
Change in fair value of contingent consideration	330,791	-	-	330,791	(46,793,951)	17,166,946	-	(29
Income (loss) from operations	7,600,662	(920,388)	(50,040)	6,630,234	7,969,667	(15,996,729)	-	(8,0
Income (loss) before taxes	7,433,747	(920,388)	(50,040)	6,463,319	7,241,620	(15,996,729)	-	(8,7
Income tax expense (benefit)	2,457,403	(277,962)	(19,616)	2,159,825	(50,301)	361,262	-	310
Net income (loss)	4,976,344	(642,426)	(30,424)	4,303,494	7,291,921	(16,357,992)	-	(9,0
Basic earnings (loss) per share	0.10	(0.01)	-	0.09	0.14	(0.32)	-	(0.1
Diluted earnings (loss) per share	0.10	(0.02)	-	0.08	0.14	(0.32)	-	(0.1
Comprehensive income (loss)	5,397,109	(642,426)	(30,424)	4,724,259	10,663,894	(16,357,992)	-	(5,6

	Nine Months Ended September 30, 2012				Nine Months Ended September 30, 2013		
		Adjustments				Adjustments	
		Productions				Productions	
	As Reported	Graphics	Other	As Restated	As Reported	Graphics	Other
Revenue	$ 589,712,549	$ (1,650,705)	$ (319,845)	$ 587,741,999	$ 647,821,539	$ 261,291	$ -
Cost of goods sold	453,591,764	(27,810)	(282,730)	453,281,224	500,533,788	(158,569)	-

Gross profit	136,120,785	(1,622,895)	(37,115)	134,460,775	147,287,751	419,860	-
Selling, general and administrative expenses	106,514,313	(411,082)	(306,960)	105,796,271	130,866,672	2,641,110	(323,99
Change in fair value of contingent consideration	797,476	-	-	797,476	(47,834,508)	17,166,946	-
Income (loss) from operations	20,731,664	(1,211,813)	269,845	19,789,696	13,031,231	(19,388,196)	324,000
Income (loss) before taxes	19,810,462	(1,211,813)	269,845	18,868,494	10,890,488	(19,388,196)	324,000
Income tax expense (benefit)	6,672,030	(415,847)	105,779	6,361,962	800,092	(908,984)	127,007
Net income (loss)	13,138,432	(795,966)	164,066	12,506,532	10,090,396	(18,479,213)	196,994
Basic earnings (loss) per share	0.27	(0.01)	-	0.26	0.20	(0.36)	-
Diluted earnings (loss) per share	0.26	(0.01)	-	0.25	0.19	(0.35)	-
Comprehensive income (loss)	12,979,706	(728,508)	164,066	12,415,264	11,412,903	(18,545,706)	196,993

Restated consolidated balance sheets amounts (unaudited)

	As of March 31, 2013			
	As Reported	Adjustments Productions Graphics	Other	As Restated
Accounts receivable, net of allowance for doubtful accounts	$ 150,492,103	$ (5,458,959)	$ -	$ 145,033,144
Prepaid expenses	19,880,172	-	(50,040)	19,830,132
Other current assets	20,914,995	-	19,616	20,934,611
Total current assets	248,939,640	(5,458,959)	(30,424)	243,450,257
Goodwill	251,315,684	-	(1,290,458)	250,025,226
Total intangibles and other assets	290,920,589	-	(1,290,458)	289,630,131
Total assets	558,187,320	(5,458,959)	(1,320,882)	551,407,479
Accounts payable-trade	$ 126,701,960	$ 103,332	$ -	$ 126,805,292
Other liabilities	7,616,000	-	(1,500,705)	6,115,295
Accrued expenses	13,985,283	(4,690,811)	(35,672)	9,258,800
Total current liabilities	175,925,109	(4,587,479)	(1,536,377)	169,801,253
Deferred income taxes	6,317,317	-	(1,199,459)	5,117,858
Contingent consideration, net of current portion	77,879,680	(17,166,946)	-	60,712,734
Other long-term liabilities	-	-	1,500,705	1,500,705
Total liabilities	330,622,106	(21,754,424)	(1,235,132)	307,632,550
	(1,645,734)	966	-	(1,644,768)

Accumulated other comprehensive income				
Retained earnings	92,616,426	16,294,500	(85,751)	108,825,175
Total stockholders' equity	227,565,214	16,295,466	(85,751)	243,774,929
Total liabilities and stockholders' equity	558,187,320	(5,458,959)	(1,320,882)	551,407,479

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

	As of June 30, 2013			
	As Reported	Adjustments Productions Graphics	Other	As Restated
Accounts receivable, net of allowance for doubtful accounts	$ 151,357,448	$ (2,899,072)	$ -	$ 148,458,376
Prepaid expenses	16,276,354	-	(50,040)	16,226,314
Other current assets	18,715,608	-	19,616	18,735,224
Total current assets	245,386,816	(2,899,072)	(30,424)	242,457,320
Goodwill	262,004,506	-	(1,290,458)	260,714,048
Total intangibles and other assets	302,071,001	-	(1,290,458)	300,780,543
Total assets	566,974,351	(2,899,072)	(1,320,882)	562,754,397
Accounts payable-trade	$ 117,661,216	$ 103,332	$ -	$ 117,764,548
Other liabilities	9,394,107	-	(1,406,296)	7,987,811
Accrued expenses	13,405,782	(3,903,100)	(35,672)	9,467,010
Total current liabilities	170,387,665	(3,799,767)	(1,441,969)	165,145,929
Deferred income taxes	6,960,274	-	(1,199,459)	5,760,815
Contingent consideration, net of current portion	80,249,969	(17,166,946)	-	63,083,023
Other long-term liabilities	-	-	1,406,296	1,406,296
Total liabilities	335,897,908	(20,966,713)	(1,235,132)	313,696,063
Accumulated other comprehensive income	(1,844,004)	966	-	(1,843,038)
Retained earnings	94,505,010	18,066,675	(85,750)	112,485,935
Total stockholders' equity	231,076,443	18,067,640	(85,750)	249,058,334
Total liabilities and stockholders' equity	566,974,351	(2,899,072)	(1,320,882)	562,754,397

	As of September 30, 2013			
	As Reported	Adjustments Productions Graphics	Other	As Restated
Accounts receivable, net of allowance for doubtful accounts	$ 167,059,275	$ (1,791,409)	$ -	$ 165,267,866
Prepaid expenses	10,689,569	-	(50,040)	10,639,529
Other current assets	23,746,449	-	19,616	23,766,065
Total current assets	282,124,064	(1,791,409)	(30,424)	280,302,231
Goodwill	252,154,181	-	(1,290,458)	250,863,723
Total intangibles and other assets	310,290,423	-	(1,290,458)	308,999,965
Total assets	613,178,223	(1,791,409)	(1,320,882)	610,065,932
Accounts payable-trade	$ 143,507,594	$ 40,778	$ -	$ 143,548,372
Other liabilities	13,859,774	-	(1,369,131)	12,490,643

Accrued expenses	14,683,802	(3,541,838)	(35,672)	11,106,292
Total current liabilities	198,122,326	(3,501,059)	(1,404,804)	193,216,463
Deferred income taxes	17,188,867	-	(1,199,459)	15,989,408
Other long-term liabilities	-	-	1,369,131	1,369,131
Total liabilities	371,023,778	(3,501,059)	(1,235,132)	366,287,587
Accumulated other comprehensive income	1,527,969	966	-	1,528,935
Retained earnings	101,773,831	1,708,684	(85,750)	103,396,765
Total stockholders' equity	242,154,445	1,709,650	(85,750)	243,778,345
Total liabilities and stockholders' equity	613,178,223	(1,791,409)	(1,320,882)	610,065,932

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InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

	As of March 31, 2012			
		Adjustments		
	As Reported	Productions Graphics	Other	As Restated
Accounts receivable, net of allowance for doubtful accounts	$ 147,099,923	$ (192,296)	$ -	$ 146,907,627
Total current assets	243,594,827	(192,296)	-	243,402,531
Goodwill	208,313,495	-	(9,055,506)	199,257,989
Intangible assets, net of accumulated amortization	25,743,759	-	11,524,610	37,268,369
Total intangibles and other assets	238,563,567	-	2,469,104	241,032,671
Total assets	494,326,673	(192,296)	2,469,104	496,603,481
Accounts payable-trade	$ 119,991,824	$ 165,516	$ -	$ 120,157,340
Due to seller	2,620,392	(1,087,800)	-	1,532,592
Other liabilities	9,004,553	-	(1,370,976)	7,633,577
Accrued expenses	15,406,150	(320,439)	(35,672)	15,050,039
Total current liabilities	163,222,490	(1,242,723)	(1,406,648)	160,573,119
Deferred income taxes	-	-	6,833,274	6,833,274
Contingent consideration, net of current portion	67,684,309	-	(4,273,170)	63,411,139
Other long-term liabilities	-	-	1,370,976	1,370,976
Total liabilities	302,306,799	(1,242,723)	2,524,432	303,588,508
Common stock	4,812	-	1,084	5,896
Additional paid-in capital	185,459,929	-	(1,084)	185,458,845
Accumulated other comprehensive income	670,037	30,554	-	700,591
Retained earnings	76,365,023	1,019,873	(55,328)	77,329,568
Total stockholders' equity	192,019,874	1,050,427	(55,328)	193,014,973
Total liabilities and stockholders' equity	494,326,673	(192,296)	2,469,104	496,603,481

	As of June 30, 2012			
		Adjustments		
	As Reported	Productions Graphics	Other	As Restated
Accounts receivable, net of allowance for doubtful accounts	$ 139,408,050	$ (148,279)	$ -	$ 139,259,771
Total current assets	230,071,153	(148,279)	-	229,922,874
Goodwill	196,756,214	-	6,004,880	202,761,094
Intangible assets, net of accumulated amortization	36,012,094	-	906,430	36,918,524
Total intangibles and other assets	237,545,884	-	6,911,310	244,457,194
Total assets	481,324,621	(148,279)	6,911,310	488,087,652

Accounts payable-trade	$ 100,130,613	$ 137,706	$ -	$ 100,268,319
Other liabilities	10,942,061	-	(1,354,311)	9,587,750
Accrued expenses	12,857,270	(672,741)	(35,672)	12,148,857
Total current liabilities	139,326,519	(535,035)	(1,389,983)	137,401,501
Deferred income taxes	-	-	7,002,310	7,002,310
Other long-term liabilities	-	-	1,354,311	1,354,311
Total liabilities	278,434,303	(535,035)	6,966,638	284,865,906
Common stock	4,918	-	1,065	5,983
Additional paid-in capital	190,771,056	-	(1,065)	190,769,991
Accumulated other comprehensive income	(311,160)	67,459	-	(243,701)
Retained earnings	80,771,495	319,297	(55,328)	81,035,464
Total stockholders' equity	202,890,318	386,756	(55,328)	203,221,746
Total liabilities and stockholders' equity	481,324,621	(148,279)	6,911,310	488,087,652

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

	As of September 30, 2012			
	As Reported	Adjustments Productions Graphics	Other	As Restated
Accounts receivable, net of allowance for doubtful accounts	$ 153,598,624	$ (1,068,667)	$ -	$ 152,529,957
Prepaid expenses	14,159,423	-	(50,040)	14,109,383
Other current assets	36,267,056	-	19,616	36,286,672
Total current assets	263,257,143	(1,068,667)	(30,424)	262,158,052
Goodwill	204,887,280	-	6,304,503	211,191,783
Intangible assets, net of accumulated amortization	35,688,146	-	906,430	36,594,576
Total intangibles and other assets	244,314,693	-	7,210,933	251,525,626
Total assets	522,102,848	(1,068,667)	7,180,509	528,214,690
Accounts payable-trade	$ 125,752,284	$ 137,706	$ -	$ 125,889,990
Other liabilities	8,466,036	-	(1,379,506)	7,086,530
Accrued expenses	13,063,171	(950,703)	(35,672)	12,076,796
Total current liabilities	164,204,731	(812,997)	(1,415,178)	161,976,556
Deferred income taxes	-	-	7,301,933	7,301,933
Other long-term liabilities	-	-	1,379,506	1,379,506
Total liabilities	307,751,685	(812,997)	7,266,261	314,204,949
Common stock	4,992	-	1,054	6,046
Additional paid-in capital	195,560,051	-	(1,054)	195,558,997
Accumulated other comprehensive income	109,604	67,459	-	177,063
Retained earnings	85,747,839	(323,129)	(85,752)	85,338,958
Total stockholders' equity	214,351,163	(255,670)	(85,752)	214,009,741
Total liabilities and stockholders' equity	522,102,848	(1,068,667)	7,180,509	528,214,690

InnerWorkings, Inc.

Notes to Consolidated Financial Statements

20. Restatement of Prior Period Quarterly Financial Statements (Unaudited) (Continued)

Restated consolidated statements of cash flows amounts (unaudited)

	Three Months Ended March 31, 2012				Three Months Ended March 31, 2013		
		Adjustments				Adjustments	
	As Reported	Productions Graphics	Other	As Restated	As Reported	Productions Graphics	Other
Net income	$ 3,687,688	$ 547,036	$ 194,490	$ 4,429,214	$ 895,130	$ (3,893,397)	$ 196,993
Accounts receivable and unbilled revenue	(22,809,398)	(1,258,207)	2,162,845	(21,904,760)	378,286	(1,682,988)	-
Inventories	2,119,878	-	(471,482)	1,648,396	1,964,851	-	955,419
Prepaid expenses and other	(10,271,793)	-	(80,000)	(10,351,793)	(3,142,790)	-	44,008
Accounts payable	16,003,529	-	-	16,003,529	4,843,377	(96,015)	(1,036,420
Accrued expenses and other	3,438,985	711,171	(1,805,853)	2,344,303	(4,137,671)	277,381	(160,000)
Net cash provided by operating activities	(7,472,638)	-	-	(7,472,638)	4,552,380	(5,395,019)	-
Payments of contingent consideration	(3,228,375)	-	-	(3,228,375)	(9,115,840)	5,395,019	-
Net cash provided by (used in) financing activites	12,886,424	-	-	12,886,424	(1,854,875)	5,395,019	-

	Six Months Ended June 30, 2012				Six Months Ended June 30, 2013		
		Adjustments				Adjustments	
	As Reported	Productions Graphics	Other	As Restated	As Reported	Productions Graphics	Other
Net income	$ 8,162,088	$ (153,540)	$ 194,490	$ 8,203,038	$ 2,798,475	$ (2,121,221)	$ 196,993
Accounts receivable and unbilled revenue	(16,611,005)	(1,302,224)	2,162,845	(15,750,384)	5,692,347	(4,242,875)	-
Inventories	2,455,852	-	(471,482)	1,984,370	1,029,174	-	955,419
	(6,895,351)	-	(80,000)	(6,975,351)	4,244,632	-	44,008

Prepaid expenses and other							
Accounts payable	(5,364,653)	(27,810)	-	(5,392,463)	(6,379,266)	(96,015)	(1,036,42
Accrued expenses and other	6,659,812	358,869	(1,805,853)	5,212,828	(5,132,129)	1,065,092	(160,000
Net cash provided by operating activities	(9,996,549)	(1,124,705)	-	(11,121,254)	8,305,023	(5,395,019)	-
Payments of contingent consideration	(5,491,958)	1,124,705	-	(4,367,253)	(10,059,238)	5,395,019	-
Net cash provided by financing activites	16,119,500	1,124,705	-	17,244,205	6,112,521	5,395,019	-

	Nine Months Ended September 30, 2012				Nine Months Ended September 30, 2013		
	As Reported	Adjustments Productions Graphics	Other	As Restated	As Reported	Adjustments Productions Graphics	Other
Net income	$ 13,138,432	$ (795,967)	$ 164,067	$ 12,506,532	$ 10,090,396	$ (18,479,212)	$ 196,993
Bad debt provision	856,098	-	-	856,098	569,334	(196,852)	-
Change in fair value of contingent consideration liability	797,476	-	-	797,476	(47,834,508)	17,166,946	-
Accounts receivable and unbilled revenue	(29,915,383)	(381,836)	2,162,845	(28,134,374)	(1,017,812)	(5,153,686)	-
Inventories	869,220	-	(471,482)	397,738	(8,276,976)	-	955,419
Prepaid expenses and other	(26,189,881)	-	(49,576)	(26,239,457)	955,618	-	44,008
Accounts payable	18,615,109	(27,810)	-	18,587,299	7,947,457	(158,569)	(1,036,4
Accrued expenses and other	4,765,850	80,908	(1,805,854)	3,040,904	(7,414,905)	1,426,354	(160,00
Net cash provided by operating activities	(13,100,484)	(1,124,705)	-	(14,225,189)	14,858,869	(5,395,019)	-
Payments of contingent	(6,140,344)	1,124,705	-	(5,015,639)	(10,884,392)	5,395,019	-

consideration							
Net cash provided by financing activites	20,163,365	1,124,705	-	21,288,070	15,512,553	5,395,019	-

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SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Valuation and Qualifying Accounts

Description	Balance at Beginning of Period	Charged to Expense	(Uncollectible Accounts Written Off, Net of Recoveries)	Other	Balance at End of Period
Fiscal year ended December 31, 2013					
Allowance for doubtful accounts	$ 1,553,926	$ 1,285,326	$ (710,462)	$ -	$ 2,128,790
Fiscal year ended December 31, 2012					
Allowance for doubtful accounts	$ 3,293,241	$ 1,681,942	$ (3,421,257)	$ -	$ 1,553,926
Fiscal year ended December 31, 2011					
Allowance for doubtful accounts	$ 3,610,977	$ 2,414,710	$ (2,732,446)	$ -	$ 3,293,241

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PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

(a) (1) *Financial Statements:* Reference is made to the Index to Financial Statements and Financial Statement Schedule in the section entitled “Financial Statements and Supplementary Data” in Part II, Item 8 of this Annual Report on Form 10-K/A.

(2) *Financial Statement Schedule:* Reference is made to the Index to Financial Statements and Schedule II - Valuation and Qualifying Accounts in the section entitled “Financial Statements and Supplementary Data” in Part II, Item 8 of this Annual Report on Form 10-K/A. Schedules not listed above are omitted because they are not required or because the required information is given in the consolidated financial statements or notes thereto.

(3) *Exhibits:* Exhibits are as set forth in the section entitled “Exhibit Index” which follows the section entitled “Signatures” in this Annual Report on Form 10-K/A.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INNERWORKINGS, INC.

By:	/ S / ERIC D. BELCHER **Eric D. Belcher**
Title:	***Chief Executive Officer and President***

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/ S / ERIC D. BELCHER **Eric D. Belcher**	President, Chief Executive Officer and Director (principal executive officer)	April 21, 2014
* **Joseph M. Busky**	Chief Financial Officer (principal financial and accounting officer)	April 21, 2014
* **Jack M. Greenberg**	Chairman of the Board	April 21, 2014
* **Linda S. Wolf**	Director	April 21, 2014
* **Charles K. Bobrinskoy**	Director	April 21, 2014
* **Julie M. Howard**	Director	April 21, 2014
* **David Fisher**	Director	April 21, 2014
* **Patrick Gallagher**	Director	April 21, 2014

*By: /s/ Eric D. Belcher
Eric D. Belcher, as attorney-in-fact

EXHIBIT INDEX

Exhibit No.	Description
23.1	Consent of Ernst & Young LLP.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act 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 and 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 Calculation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document