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INNERWORKINGS | INWK

INVESTMENT RESEARCH REPORT

"Printing Revenues"

RECOMMENDATION: *Strong Sell*

PRESCIENCE POINT
RESEARCH GROUP

April 30, 2013

InnerWorkings, Inc. | Nasdaq: INWK

*We believe shares of **InnerWorkings, Inc. (Nasdaq: INWK or "IW")** are grossly overvalued and poised to collapse by as much as 55%. We believe the company is inflating its revenues in violation of GAAP principles by misapplying gross revenue accounting, placing it in violation of its credit agreement. The SEC has inquired about IW's gross revenue treatment, and we believe management's response was incomplete and/or misleading. We note that **Groupon (Nasdaq: GRPN)** – which has many connections with IW, including a common cofounder, former board members, and the same auditor in Ernst & Young, Chicago – violated GAAP principles in the same way and was forced to restate its revenues. Similarly, we believe IW will be forced to restate its historical financial results. Furthermore, IW shares many of the same bad qualities we profiled in our previous reports on **The Active Network (Nasdaq: ACTV or "Active")** and **Boulder Brands (Nasdaq: BDBD or "Boulder")**. Similar to Active, we note IW was also formed through dozens of questionable acquisitions – but IW structures them with opaque contingent payment terms that artificially boost EBITDA and EPS, even when its deals fail! To be clear, we believe IW has been able to inflate its EBITDA and EPS by converting acquisition earn-out payables to earnings. Similar to Boulder, where we spotted prior failures of management and trouble at the Board level with numerous departures, we note that IW had 4 out of its 7 board members either resign or decide not to run for reelection in 2012. Follow the $$: IW's gross margins and free cash flow have been declining for several years, and its CEO began selling stock just weeks after announcing an expanded relationship with its biggest customer! **We believe IW's financial statements fail to reflect its true financial condition, that management is misrepresenting IW's growth prospects, and that IW's stock has an intrinsic value today of $5.00/share.***

Research Highlights

Conclusion:	Strong Sell
Current Price:	$11.00
Price Target:	$5.00
Downside:	~55%
Ticker:	INWK
Exchange:	Nasdaq
Basic shares o/s	50.7
Options/RSUs	2.7
Fully Dil. Shares	53.3
Market Cap:	$586.6
Unrestricted Cash:	$17.2
Current Debt:	$65.0
Enterprise Value:	$634.4

Fiscal Year Ended December 31,
$ in millions

Street Est.	**2012A**	**2013E**	**2014E**
Sales	$797	$917	$1,070
Adj. EBITDA	$45	$50	$66
Adj. EPS	$0.37	$0.49	$0.65

Valuation	**2012E**	**2013E**	**2014E**
EV/Sales	0.8x	0.7x	0.6x
EV/EBITDA	14.0x	12.6x	9.6x
P/EPS	30.0x	22.7x	17.1x
P/Tg. Book	NM		

IW appears to be Inflating its Revenues and Misleading both the SEC and Investors

- At the heart of IW's revenue shenanigans are its misapplication of gross vs. net accounting. We have reviewed its customer and supplier agreements, and conclude IW's revenue recognition policy is a blatant violation of GAAP principles as corroborated by a 3rd party accounting expert. IW bears no inventory risk as it never takes title to goods, and makes suppliers provide a full warranty for its products. This directly calls into question if IW is the "primary obligor" in the transaction and carries "inventory risk," which are foundations of its argument for applying gross revenue accounting.
- The SEC already issued a comment letter in Oct. 2012 which questioned, among other things, the company's use of gross revenue accounting. Our findings will be of interest to both the SEC and IW's creditors. IW has borrowed money from banks on the basis of its financials being stated in accordance with GAAP, which, based on our research, is not the case.

IW Mischaracterizes its Market Opportunity and Uses Murky Accounting for its Acquisition Roll-up Strategy

- IW lures investors with its "huge" opportunity to crack the "$500bn" printing market. We believe IW's addressable market figures are as inflated as its revenues and neglect to consider the impact of print capacity.
- Most of IW's revenue has been acquired through aggressive deal structures that contain little upfront cash payments, and earn-outs paid over 3-4yrs to retain and motivate owners/salesmen. This allows IW to artificially boost current earnings, by moving significant deal costs away from the income statement and deferring them into future periods through the cash flow statement. Furthermore, IW can manipulate its earnings by setting targets very high and booking income for failing to achieve targets. IW's deals are becoming more desperate as evidenced by the acquisition of Productions Graphics, a European firm of questionable quality acquired in late 2011, that already is struggling.

Follow the Money: IW's Financial State Looks Increasingly Fragile

- Looking beyond IW's above market revenue growth, we find a company with declining gross margins and free cash flow. IW just lost business from its largest customer, yet the CEO began selling stock a few weeks after IW announced an "expanded" relationship with the same customer. Where there's smoke, there's fire. IW had two directors resign and two decide not to run for reelection in 2012 (3 were on the audit committee).

IW's Founder Has a History of Over-Promising and Under-Delivering to Shareholders

- IW's founders have used the same playbook of over-promising their ability to disrupt a big market opportunity with a proprietary technology in the past. As detailed previously by both Barron's and Fortune articles, IW's founder Eric Lefkofsky (also a co-founder of Groupon) has a history of burning investors with failed expectations. One of his prior ventures, Starbelly.com, promised to transform the apparel industry, but rapidly went into bankruptcy. Fraud lawsuits followed claiming its software never worked as promised. Ironically, IW touted its PPM4 technology, which has been quietly swept under the rug. However, a recently disclosed patent lawsuit could cost the company up to $56m.

Sell-Side Analysts Are Seeing None of These Major Issues and Incorrectly Valuing IW's Stock

- Sell-side analysts incorrectly believe IW's stock price is worth $16.00, indicating 45% upside. They are incorrectly evaluating IW's revenue growth and market opportunities, and overlooking the numerous red flags we will highlight.
- Given these risks, we believe IW should be valued closer to its commercial printing/diversified business products and services peers at 8-12x 2013 earnings and 5x-7x 2013 EBITDA, which would result in a stock price closer to $5.00/share.

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Table of Contents

Executive Summary

We believe shares of **InnerWorkings, Inc. (Nasdaq: INWK or "IW")** are grossly overvalued and poised to collapse by as much as 55%. We believe the company is inflating its revenues in violation of GAAP principles by misapplying gross revenue accounting, placing it in violation of its credit agreement. The SEC has inquired about IW's gross revenue treatment, and we believe management's response was incomplete and/or misleading. We note that **Groupon (Nasdaq: GRPN)** – which has many connections with IW, including a common cofounder, former board members, and the same auditor in Ernst & Young, Chicago – violated GAAP principles in the same way and was forced to restate its revenues. Similarly, we believe IW will be forced to restate its historical financial results. Furthermore, IW shares many of the same bad qualities we profiled in our previous reports on **The Active Network (Nasdaq: ACTV or "Active")** and **Boulder Brands (Nasdaq: BDBD or "Boulder")**. Similar to Active, we note IW was also formed through dozens of questionable acquisitions – but IW structures them with opaque contingent payment terms that artificially boost EBITDA and EPS, even when its deals fail! To be clear, we believe IW has been able to inflate its EBITDA and EPS by converting acquisition earn-out payables to earnings. Similar to Boulder, where we spotted prior failures of management and trouble at the Board level with numerous departures, we note that IW had 4 out of its 7 board members either resign or decide not to run for reelection in 2012. IW also appears to be overstating its revenue opportunity: our research shows that IW has penetrated 25% of its North American market opportunity (80% of revenue), while having claimed a penetration rate <1% – a harbinger of waning organic growth. *Follow the $$:* IW's gross margins and free cash flow have been declining for several years and its CEO is selling stock!

Given our concerns that IW's financials fail to represent the company's true financial condition, that it will be forced to restate its historical financials, that its true prospects are obscured by management over-promotion, and that it should be valued closer to its commercial printing/diversified business products and services peers, we believe IW's stock has an intrinsic value today of $5.00 per share, ~55% below current levels.

In this report, we detail numerous red flags that warrant investors to peer beyond the headline revenue and earnings growth numbers, including:

- IW lures investors with its "huge" opportunity to crack the "$500bn" global printing market. We believe IW is both mischaracterizing the market opportunity and its revenues. IW persistently touts its revenue growth, which has largely been achieved through an opaque and aggressive roll-up strategy that uses accounting tricks to defer costs to future periods, while artificially boosting current EBITDA and EPS.
- At the heart of IW's revenue shenanigans are its misapplication of gross vs. net accounting. We have had its customer and supplier documents reviewed by a 3rd party accounting expert, and conclude IW is blatantly violating GAAP. IW has no inventory risk as it never takes title to goods, and makes suppliers provide a full warranty for its products. This directly calls into question if IW is the "primary obligor" in the transaction and carries "inventory risk," which are foundations of their argument for applying gross revenue accounting.
- The SEC is already hot on IW's tail and issued a comment letter in October 2012 which questioned, among other things, the company's use of gross revenue accounting. Our findings will be of interest to both the SEC and IW's creditors. IW has borrowed money from banks on the basis of its financials being stated in accordance with GAAP. Our results imply it is currently violating its credit terms.
- We believe that behind all the charades, IW is clearly struggling, and not growing nearly as fast as it is reporting. IW recently announced the loss of a major source of revenue from SuperValu, its largest enterprise customer. However, we believe IW's problems are worse than advertised, and likely started years ago. IW's gross margins are continually declining and cash from operations has been stagnate for at least 5 years. Furthermore, the company has artificially created much of its cash flow by squeezing terms to its suppliers. Adjusting its cash flow for capex and contingent payment requirements, we will illustrate that IW is nothing more than a money losing operation.
- As an additional indication that IW's domestic growth is not as advertised, we note that the company expanded into Europe through the acquisition of Production Graphics in 2011. IW made aggressive use of an earn-out to acquire this terrible business, which has allowed it to keep costs from appearing on its income statement, while booking income as the aggressive earn-out targets are not achieved.
- Investors should have been spooked in 2012 when two directors resigned, while two others decided not to stand for reelection. Three of these directors served on the company's audit committee. However, IW's stock price continued to march higher without much thought behind these departures, or why the company mysteriously increased the size of its credit facility in April 2012 by 50% to $150 million. Abrupt director resignations aren't our only governance concerns. We will illustrate egregious management salaries, and several related-party transactions with other Nasdaq listed companies such as Echo Logistics ("ECHO") and Groupon pointing to a web of inaccuracies.
- IW's founders have used the same playbook of over-promising their ability to disrupt a big market opportunity with a proprietary technology. As detailed previously by both Barron's and Fortune articles, IW's founder Eric Lefkofsky (also a co-founder of Groupon) has a history of burning investors with failed expectations. One of his prior ventures, Starbelly.com, promised to transform the apparel industry, but rapidly went into bankruptcy, and incited fraud lawsuits claiming its software never worked as promised. Ironically, IW touted its PP4M technology, which has been quietly swept under the rug. However, a remaining patent lawsuit could cripple IW's financial condition.
- IW has worked hard to convince sell-side analysts that it is a revenue growth machine, worthy of a higher stock price. We note that IW has presented at no less than thirteen different broker-hosted investment conferences in the past few years. Their hard work has paid off, with four brokers claiming IW is a "Buy" with 45% upside from the current price.

InnerWorkings' Financials Are "Grossly" Misleading

Since being founded in 2002, IW has reportedly grown its revenues at a blistering pace, and is now guiding investors to expect nearly $915m of global revenues in 2013, while still having a "huge" global market opportunity of $505bn. Since inception, the company has reported a revenue compounded annual growth rate (CAGR) of 61.3%, which has been achieved through a combination of acquisitions and large enterprise contract wins. The charts below are taken from IW's current investor presentation. The "*Revenue Momentum*" slide is conveniently and prominently placed at the beginning of the document for investors to see their success growing revenue. The "*Revenue Guidance Build*" illustrates that a substantial majority of IW's growth in 2013 will come from "*New Global Enterprise Growth*." We note these slides were made before the company cut its 2013 guidance due to a loss of business from its largest customer.

In the following sections we will deconstruct IW's financial model, and expose, what we believe, are significant problems with IW's reported revenue. We will closely scrutinize IW's revenue recognition policies, which the SEC began questioning in October 2012. We believe the company's responses are inadequate, and have provided documentary evidence to suggest that IW has dramatically overstated its revenues. We believe IW has also dramatically inflated its market opportunity, which is nowhere close to $500 billion, and substantially understated its competition. We will illustrate that IW has been built on a shaky foundation of exaggerated market opportunity, overstated revenues, opaque acquisitions and shaky contract wins. We will follow IW's money trail and piece together various clues to suggest holes are being plugged in a sinking ship. IW's management is reaping enormous compensation boosting its revenues and EBITDA while gross margins and cash flow decline. However, IW has had no issues quietly going back to its bankers and asking for more credit. The pressure appears to have gotten too high for its Board to handle. In 2012 four out of seven members either resigned or did not stand for reelection. Three members sat on the Audit Committee. Finally, in early 2013, IW announced an abrupt modification of a contract with its largest customer, yet its CEO started selling stock just after the contract was first announced.

IW's Revenue Recognition Policy Violates GAAP Principles, Overstates Revenue

We are not the only skeptics of IW's reported revenue growth. In October 2012, the SEC issued a comment letter that asked for expanded disclosures, and justification for IW's revenue recognition. In particular, the SEC asked for a detailed analysis of how management evaluated each of the criteria for determining gross versus net revenue reporting under ASC 605-45-45. For a concise summary of relevant gross vs. net revenue conditions, please see Grant Thornton's Revenue Recognition Guide (page 184).

Our readers will recall that Groupon, a company with significant ties to IW's founder and Board, was forced to restate its revenues after it liberally booked gross revenues. The restatement cut their revenues in half! **IW uses Ernst & Young (Chicago office) as its auditor, the exact same auditor Groupon used to bless its gross revenue accounting.** To illustrate the shenanigans being played, consider the following example where Groupon sells a $10 coupon for $5 to a customer, and has to remit a certain percentage to its merchants. Groupon was booking the full $5 as revenue, even though a certain percentage of that would have to be paid to its merchant partners as a cost of good sold. The merchants are fully responsible for fulfilling the coupon, not Groupon, so it is not a primary obligor of the transaction and never has title or risks/rewards associated with the underlying product/service that the merchant has sold.

We will demonstrate that the situation faced by Groupon and its merchant partners is 100% analogous to IW and its relationships with its suppliers. Through its network of more than 10,000 global suppliers, IW offers its customers a range of print, fulfillment and logistics services that allows it to procure printed products. At the moment, when a customer order is placed, IW reaches out to its supplier network to fulfill the order, and **books the entire purchase order amount as revenue**. At the heart of the debate, is whether or not IW is a primary obligor, has title and inventory risk, and bears the risks and rewards of its transactions.

IW's arguments and response to the SEC is here, and shortly after the SEC issued a follow-up response. IW's final response to the SEC is here. We have pasted the company's justification for applying gross revenue accounting below and will present our evidence that suggests that IW has not been transparent about its business practices. We have *underlined* areas we want to emphasis in our analysis.

IW's Response to SEC Question on Gross Revenue Accounting

> We recognize revenue on a gross basis upon delivery to the customer within contract terms in accordance with ASC 605-45-45, including transactions where we have arranged for products to be shipped directly from our suppliers to our customers. These arrangements allow us to deliver product to our customers without requiring us to physically hold the inventory at our warehouses, thereby increasing efficiency and reducing costs. In making this decision, we considered various factors and indicators set forth in the guidance provided with the following key indicators supporting a gross revenue reporting treatment:
>
> ***The Company is the Primary Obligor in the Arrangement***
>
> *We are directly responsible to the customer for providing the product or service desired by the customer including order fulfillment and incur the risks and rewards as principal in the transaction. Once a customer orders a product, we determine at our discretion the best supplier to fulfill the customer order and contract with the supplier directly. Suppliers do not attend our sales presentations to clients and potential clients, nor do suppliers participate in our general marketing activities. Accordingly, fulfillment obligations are our sole responsibility legally and from our customers' perspective. Our customers and suppliers do not have interaction with each other during the course of a transaction. Upon fulfillment by the supplier, we are responsible for paying the supplier, which is independent of our receipt of payment from our customer. In addition, our contract sales terms further support a gross revenue reporting treatment as they are solely between us and our customer, binding us as the primary obligor in the arrangement. Furthermore, our customer contracts do not specify a print manufacturer to be used.*
>
> ***The Company has General Inventory Risk***
>
> *We have general inventory risk in our transactions because we are responsible for products which do not meet customer specifications or quality standards. We do not have rights to return unsold products to our suppliers, and we do not receive inventory price protection from our suppliers.*
>
> ***The Company has Latitude in Establishing Price***
>
> *We have latitude in establishing the sales price directly with the customer based on several economic factors. The supplier does not set the contractual terms with our customers.*
>
> ***The Company has Discretion in Supplier Selection***
>
> *We have printer vendors for a product and we have discretion over which printer we select, which is typically based on a number of factors including price, service quality, production equipment, capacity and location.*
>
> ***The Company has Credit Risk***
>
> *We assume 100% of all customer credit risk and must pay the amount owed to the supplier regardless of whether the product is accepted by our customer or our sales price is fully collected from our customer.*
>
> ***The Company is Involved in the Determination of Product Specifications***
>
> *Our print production managers work closely with our customers to determine their required product specifications. We then select, at our discretion, from our supplier network a printer that will allow us to achieve the best economic value and service that meet the customer's needs.*

Our Analysis of IW's Supplier Contracts indicates that the Suppliers Take All the Risk

A critical assumption underlying gross revenue accounting is that IW is "the primary obligor" of its transactions and "bears the risks and rewards as principal in the transaction." Based on our review of two of IW's supplier agreements from 2008 and 2013, we believe the company has changed its policies to shift a predominance of the risks to suppliers. IW claims that it has general inventory risk, does not have return rights to suppliers, and does not receive inventory price protection from suppliers. However, our review of the contracts indicate new fees imposed on suppliers (an alternative form of price protection), full warranty requirements, and title/risk provisions are in place that put substantially all the inventory risk on suppliers. The company appears to force its suppliers to accept this risk until the customer pays. We have provided complete copies of the contracts in Appendix I and II. Key terms and changes from 2008 to 2013 are summarized in the table below.

Key Provision	Current Supplier Agreement (2013)	Supplier Agreement (2008)	Who benefits?
Fees to suppliers	Certification and Technology Fee amounting to 3% of total annual invoice	NONE	Increases revenue to INWK and reduces their risk; *No disclosure of this practice in company SEC filings*
Audit	Supplier agrees to permit INWK and its designated agents to audit Supplier's compliance with this Agreement and any PO, including unannounced on-site inspections of manufacturing facilities and employer-provided housing; reviews of books and records including employment files; and private interviews with employees.	NONE	New onerous provision placed on suppliers
Payment Terms	3.5% 10 days, net 60 days	2% 15 days, net 60 days	INWK benefits by taking a bigger payment discount to suppliers
Title and Risk	Risk of loss and title remain with Supplier until the goods arrive at the shipping point specified in the purchase order	Risk of loss and title remain with Supplier until the goods arrive at the shipping point specified in the purchase order, even if freight is paid by the buyer. Also specifies title may pass if accepted by INWK into storage (whether owned by supplier or not)	Substantially the same language except for the elimination of the storage provision, but makes clear the supplier carries the bulk of the risk throughout the process
Quantity Variation/ Substitutions/ Transportation	Specified allowances for "overs/unders" provided in each purchase order; no changes without INWK's consent; cost of expedited freight expenses borne by supplier	Specified allowances for "overs/unders" provided in each purchase order; no changes without INWK's consent; cost of expedited freight expenses borne by supplier	Substantially the same language. INWK receives protections for cost overruns at the expense of suppliers
Warranty	Supplier expressly warrants all (i) goods delivered under each PO shall be free from defects in material and workmanship and of the quality, size, and dimensions ordered and (ii) work performed under each PO will be in conformity with all plans, specifications, and other data incorporated as part of the PO.	Supplier expressly warrants all (i) goods delivered under this PO to be free from defects in material and workmanship and to be of the quality, size and dimensions ordered and (ii) work performed under this PO to be in conformity with all plans, specifications and other data incorporated as part of the PO. These express warranties shall not be waived by reason of acceptance or payment by INWK.	Substantially the same language. Full warranty placed on supplier reduces risk to INWK
Indemnification/ Hold Harmless	Supplier agrees to indemnify, defend and hold harmless INWK and its clients from any and all 3rd party claims that may result directly or indirectly from Supplier's production or supply of goods and services pursuant to a PO or Supplier's negligence or breach of this Agreement	From and after the date of this PO, the supplier agrees to indemnify, defend and hold harmless INWK and its clients from any and all claims, regardless or by whom such claim or claims may be asserted, for personal injury, including death, or property damage or otherwise that may result directly or indirectly from the use, possession or ownership of the goods or from the services provided by supplier pursuant to this PO	Substantially the same language. Full indemnification in favor of INWK

Our Analysis of IW's Customer Quote, Terms and Conditions, and Customer Credit Agreement Also Confirms Our Conclusion

In Appendix III we've provided a recent Formal Quotation ("FQ") from a recent customer inquiry. At the bottom of the FQ, there is a reference link to IW's Terms and Conditions ("T&C"). A copy of the T&C document is also provided in Appendix III. Under the "**Risk of Loss**" section, it states that "risk of loss shall pass to the Customer F.O.B. Printer's printing facility." The "**Passage of Title**" section states further, *"Title to finished goods shall pass to Customer upon the earlier of Printer's delivery to carrier or postal service, or delivery into storage, regardless of whether the transport medium or storage facilities are owned and/or operated by Printer."*

Both customer and supplier agreements make clear that IW never takes title to the product and, therefore, has no risk of loss. Since the suppliers are substantially responsible for fulfilling the orders and taking the risks, it appears that **IW cannot claim to be the "primary obligor."** The primary obligor condition is the most critical in determining the applicability of gross revenue accounting. Without satisfying this condition, IW is in clear violation of GAAP. Lastly, we have provided a copy of the Terms and Conditions listed in the company's Application for Credit in Appendix IV, which can also be accessed via the following link. The company requests that customers sign this document for the extension of credit. We note that this document contains slightly different language that gives the appearance that IW has risk of loss by saying "*Unless shipping has been contracted for directly by Customer, title and risk of loss of finished work shall pass to the Customer upon InnerWorkings' delivery of the Work to the delivery location designated by Customer in the Purchase Order.*" **However, at this point, we've clearly illustrated that the suppliers are delivering the work, not IW.**

IW Revised its Revenue Recognition Language in its Recent Annual Report: Is it Correct? You be the Judge!

Revenue Recognition Disclosure (Pre-2012)	Revised Revenue Recognition Disclosure (2012 Annual Report)
Revenue is recognized when title transfers, which occurs when the product is shipped either from a third party to the customer or shipped directly from our warehouse to the customer. Unbilled revenue relates to shipments that have been made to customers for which the related account receivable has not yet been billed. In accordance with Accounting Standards Codification ("ASC") 605-45-45, Revenue Recognition, Principal Agent Considerations and Other Presentation Matters, the Company recognizes revenue on a gross basis, as opposed to a net basis similar to a commission arrangement, because it bears the risks and benefits associated with revenue-generated activities by: (1) acting as a principal in the transaction; (2) establishing prices; (3) being responsible for fulfillment of the order; (4) taking the risk of loss for collection, delivery and returns; and (5) marketing the products, among other things	We recognize 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 our customer contracts, (ii) the customer takes title and assumes the risks and rewards of ownership which occurs at shipment, (iii) the sales price charged is fixed or determinable as evidenced by customer contracts, and (iv) collectability is reasonably assured. Unbilled revenue relates to shipments that have been made to customers for which the related account receivable has not yet been billed. In accordance with ASC 605-45, Revenue Recognition – Principal Agent Considerations, we account for all of our revenue that meet the following criteria on a gross basis: (i) we are the primary obligor in the arrangement, (ii) we have general inventory risk before the customer order is placed and upon customer return, (iii) we have latitude in establishing price, (iv) we have discretion in supplier selection from our existing network, and (v) we have credit risk with customer payments. Accordingly, all revenue billed to customers which meets these criteria is classified as revenue and all corresponding supplier payments are classified as cost of goods sold. We recognize revenue for services provided to our 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. We recognize revenue for services provided on a stand-alone basis upon completion of the service. Service revenue has not been material to our overall revenue to date.

Other Points to Consider

We also note that the SEC comment letter asked IW to separately state revenues and costs of sales for products and services on the face of the income statement in accordance with Rule 5-03(b)(1) of Regulation SX, or explain why it should not be required to do so. In light of the clear evidence that IW is now charging "certification and technology" fees to suppliers, we wonder how and where this is being accounted for? IW's response made no mention of this service fee in their SEC response letter. Lastly, we note that the SEC comment letter also asked for greater disclosure on other critical accounting policies. We observe that IW used this opportunity to expand its discussion of Contingent Purchase Consideration and Allowance for Doubtful Accounts. We will air our concern about IW's Contingent Consideration accounting more completely later in this report.

All Aboard the Hype Train! IW May Be Mischaracterizing and Overstating its Market Opportunity

IW's management is not only exaggerating and inflating its revenues, but also its potential market opportunity. Just as the revenue problem has persisted for years, so has management's claims that it has a "huge" and "once-in-a-life-time" opportunity in the print management industry. The company's mischaracterization of its market opportunity is directly linked to its false-belief that it should be booking revenues as gross, and not on a net basis.

IW's management has told investors that its eligible market opportunity is defined by the size of the commercial print markets of the geographies in which it operates. So, for example, on IW's Nov 7, 2007 earnings call – when IW operated exclusively in the US – former CEO Steven E. Zuccarini stated, "*Our target market opportunity in this $170 billion U.S. printing industry is roughly a $130 to $140 billion* (downward adjustment presumably due to IW's limited product offering at the time)." More recently, at a company conference presentation on March 11, 2013 – with IW now operating globally – CEO Eric Belcher stated, "*We believe our eligible market opportunity is about $0.5 trillion*," the amount of revenue generated by the global commercial print markets according to IW's recently filed 10-K.

We believe IW is patently wrong – and that management is potentially misleading – in claiming its market opportunity is equivalent to the size of the entire print market. IW is a broker of print services, not a printer; >75% of the revenue IW generates is pocketed by outside affiliates, primarily its suppliers. IW's egregious misstatements would be tantamount to a securities brokerage firm like Goldman Sachs claiming its total market opportunity in equities is the daily value of all stocks that traded in the world, or in the multi-trillions of dollars. Clearly, this cannot be true because it only collects pennies on each transaction and cannot have a competitive edge in every single market around the world.

Based on the slide in Figure 1 below, IW claims the size of the market opportunity for its North America segment is $150bn. If we were to agree with management that IW's market opportunity is indeed related to the size of the North American commercial print markets and that IW, as a broker, keeps 25% of the price of each transaction, then its market opportunity is only 25% of the size of the print market, or $37.5bn (25% of $150bn). But we believe that even this figure vastly overstates IW's market opportunity.

Based on the slide in Figure 2 below, only "*~2% of all print in North America is currently run through a print management channel*," which we understand to mean that only 2% of North American commercial print market revenues are directed toward brokers like IW. This requires a further reduction of our estimate of IW's true market potential, as follows: If the entire North American print industry generates $150bn, and (based on Figure 2) we assume that only 2% of those revenues goes to brokers, IW's available North American market opportunity is only $3bn (2% of $150bn), on a gross basis. Further, if we assume, as we did in the preceding paragraph, that brokers as an industry keep 25% of the gross revenues they generate, then IW's available North American market opportunity is only $750m, on a net basis.

IW management has guided for $915m in 2013 gross revenue. If we assume that 80% is generated in North America, IW will generate $732m in gross and ~$183m in net North American revenue, implying it has already penetrated ~25% of its $750m North American market opportunity and is likely faced with rapidly waning organic growth in its primary end market (80% of revenue). In spite of management continually claiming having penetrated <1% of an enormous North American market opportunity, the truth is between the lines of the company's aggressive expansion into Europe in the middle of that continent's economic depression.

Figure 1: Misguiding Investors by Exaggerating Available Market Opportunity?

Source: [InnerWorkings Investor Presentation, 2013]

Figure 2: Claimed "Huge" Market Opportunity

Source: [InnerWorkings Investor Day Presentation, Feb 22 2010]

Figure 3: Latest Slide Touts "Big Data" Buzz Word

Source: [InnerWorkings Investor Presentation, 2013]

We dug through the company's conference call transcripts to see if any investors had previously questioned management about potentially misunderstanding its own market opportunity. Specifically, we searched for words related to 'market opportunity,' and have displayed the results below. We should note that in general, management adores the word 'opportunity' (which is said so many times on this company's calls that we chose to ignore it in most instances), and CEO Eric Belcher has a strong tendency to use the word 'massive' or say the phrase 'once-in-a-lifetime' prior to saying 'market opportunity.'

We found that the topic had been brought up on most of the company's calls, but seemingly always by IW management, in conjunction with the making of some bold proclamation. They pushed IW's definition of market opportunity so many times that we wondered if there were some concerted effort by management to control that conversation, potentially misguiding investor perceptions about the company's growth prospects. As a matter of fact they have a tendency to emphasize the enormity of this market opportunity ("$500bn global opportunity"), to remind investors that IW has barely begun to penetrate this mammoth opportunity ("We're actually less than 1% of what we consider to be just our eligible domestic market opportunity"), that IW is the pioneer in its field with a track record of success and undeniable prospects. Below are some recent promotional quotes by management. In Appendix VI we have a complete record of quotes from management tracing back to 2007.

Company Conference Presentation: 3/11/2013

- **Eric Belcher:** Now, we believe we are just getting started. I showed earlier that we delivered almost $800 million in revenue last year. And that is just the drop in the bucket versus what we believe is our eligible market opportunity of about $0.5 trillion. So, what I would like to do is spend a few minutes on our growth engines, how we see ourselves penetrating that $500 billion market opportunity going forward, and then a little bit about our financial performance… So, what gets us out of bed in the morning is we all truly believe that we are on top of the once in the lifetime opportunity in our careers. A market of this size with a solution this novel, and now a track record as substantial as ours, doesn't come around every day and we intend to capitalize on it. We think we are just getting started. We have grown up a little bit. We have gotten a little bit bigger, but we are still a very, very small company in relation to our aspirations and in relation to what we believe the market will allow… the way we look at that $500 billion opportunity is the market opportunity in front of us mirrors the business that we currently have. Meaning we don't look at it as though we need to expand into any new product categories beyond the ones that we are in. And now that we are in every major economy, we believe that's an eligible $500 billion eligible market opportunity for us. We are not looking at growth from the industry overall.

Analyst/Investor Day: 2/22/2013

- **Eric Belcher:** As we march toward -- if we were to add 2013 on our way to and through a $1 billion and yet stack that chart up, that bar up against what we think our eligible market opportunity is, of at least $500 billion a year globally, we wouldn't even see this year's chart, we wouldn't see the bar… Now one of the main reasons, aside from the size of the market opportunity and the fact that we've got, we believe, the solution for the future in our space, one of the main reasons why we're so confident in where the business is headed is that we've got a very clear and very simple, elegant, I believe, growth strategy. There are 3 pillars to our growth strategy, none of which are untested or have any sort of doubt in our minds, create any sort of doubt in our minds, as to whether or not we can successfully implement it… So my last comments before your questions. We are thinking big. We view ourselves as a very small company with a huge opportunity in front of us and it's inevitable that the industry is going to transform and adopt a solution like ours. What's not obvious or what's not been determined at this stage is who is going to capitalize on that. Is it going to be some of the print manufacturers that Andy interacts with? Is it going to be a massive corporation that decides to enter our market in a meaningful way or maybe an advertising agency or a BPO consulting firm? Or is it going to be us? And we think, we are right now, with the clear leadership in this space, undeniable at this stage, that InnerWorkings is the pioneer. It is the company with the track record, with the momentum. It's undeniable at this stage. We need to fight for that every day, but we think this is a once-in-a-lifetime opportunity, for us as a leadership team, and we feel that all the way through the company and through our geographies, that we really have found ourselves in a very fortunate space and we don't intend to give up on that.

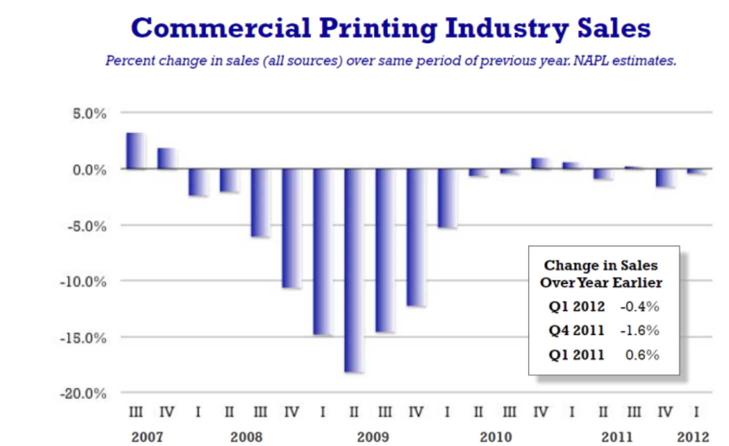
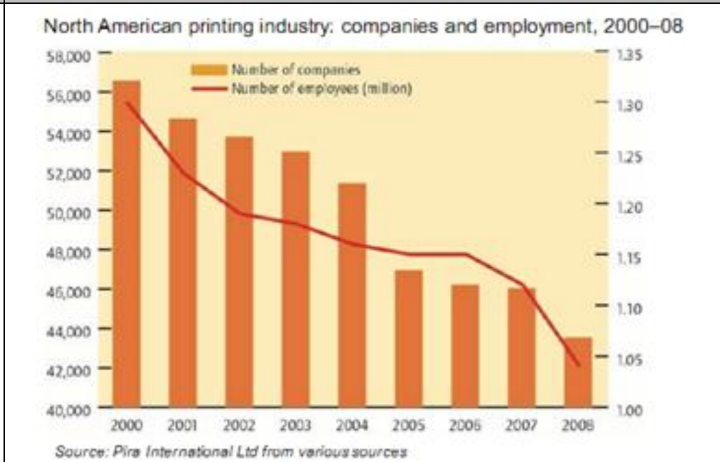
Because InnerWorkings is a print broker, and not a printer, we believe that any discussion of market opportunity is irrelevant absent a focus on excess industry capacity, the primary driver of its profitability. According to IW's own words, it is in the business of capitalizing, "*on imbalances between supply and demand in the print industry by obtaining favorable pricing terms from suppliers in our network with excess capacity*."[1] According to IW's 10-K, the primary driver of its profitability are the rates its suppliers charge it, not the levels of customer spend: "*Our profit margin and profitability are largely a function of the rates that our suppliers charge us compared to the rates that we charge our clients. If our suppliers increase the price of our print orders, and we are not able to find suitable or alternative suppliers, our profit margin may decline*."

It stands to reason that a direct relationship exists between a supplier's levels of unused capacity and the prices it charges IW. In its 10-K, IW states, "*We believe that the most competitive prices we obtain from our suppliers are offered by the suppliers with the most unused capacity*." Clearly, for InnerWorkings, the more the better: The company's 2012 10-K states clearly, "*Reduced excess capacity in the print industry generally, and in our supplier network specifically, could have an adverse impact on our ability to execute our business strategy and on our business results and growth prospects*."

As such, IW's business strategy, results, and growth prospects are all dependent on the existence of excess capacity in the commercial print industry, and more specifically, on changes in levels of that excess capacity. IW's market opportunity is primarily a function of capacity utilization in the commercial printing industry **NOT** how much money is **SPENT** in the print industry. If industry capacity utilization begins to turn, we can imagine a scenario where IW's market opportunity begins to shrink in unison with improving levels of print spend: To focus on geographic industry sales levels – which management pushes investors to do – is likely to leave investors in the dust. We guess that from management's perspective, it's sexier to sell people on a $100bn+ print market than the company's dependency on a struggling industry that will eventually land on its feet. For the past several years the U.S. commercial print industry

[1] InnerWorkings 2012 10-K.

has experienced significant levels of excess capacity. One must wonder what consequences a post-rationalization industry recovery will have bear on this company.

Print Market Sales in Secular Decline	Number of Companies and Employees in Secular Decline
 Source: NAPL State of the Industry Report, Nov 15 2012	

Questionable Roll-up Strategy and Potential Problems with Contingent Payment Accounting

Time and time again, we've found problems with companies that tout their "*superior*" M&A abilities and a "*large fragmented market*" as justification for undertaking a roll-up strategy. We've previously written about The Active Network (ACTV) and Student Transportation (STB), as examples of companies that have failed to achieve any synergies or valuation creation to shareholders after completing 40 and 47 acquisitions, respectively. We believe that both of these companies have gone through great length to obscure their acquisition failures through opaque disclosures and murky accounting.

IW shares many of the same hallmarks of a poorly constructed roll-up. Collectively, they appear to have succeeded in quickly building revenue and rewarding management's bonuses, but have done nothing to accrete free cash flow to shareholders. According to the company's latest investor presentation (slide 20) entitled "Track Record of Success," IW has completed 29 acquisitions from 2006 – 2012 with a purchase price > $1 million. The company has paid an average EBITDA of 5.7x, but a realized multiple of 3.9x. IW does not define what it considers to be a realized EBITDA multiple. Overall IW touts a number of impressive sounding statistics and baits investors with comments that they have a pipeline of deals consisting of "*over 5,000 companies in total*" and "*over 2,000 that we have had a dialogue with in the past.*"

We believe IW has been particularly opaque with their M&A strategy, and may be using aggressive accounting for contingent payment (earn-outs) to artificially boost its earnings. In the table below, we've analyzed every announced and SEC reported deal by IW. We observe that the company has discussed 16 deals since 2006, acquired ~$315m in revenue, and paid ~35% of their total deal values in upfront cash payments (note: The investor presentation says average down payment of 50%). In other words, of the $260m of announced deals, $170m or ~65% have been structured as contingent payments to be made in future periods (up to 4 years), and subject to the acquired company reaching certain milestones.

InnerWorkings' Announced M&A Targets

$ in millions

Announced	Target	Business	Region	LTM Revenues	Upfront Cash Value	Cash Earnout	Total Deal Value	Deal Value/ Revenues	Earnout Maturity	Financial Targets	Employees/ Sales Reps
4/16/2013	DB Studio	POP displays and retail fixtures	US	$20.0	--	--	--	--	--	--	--
9/11/2012	Mechandise Mania	Corporate promo merchandising	UK	$9.6	--	--	--	--	--	--	33
10/25/2011	Productions Graphics	Int'l Print Mgmt. Firm	Europe	$22.0	$7.6	$86.9	$94.5	4.3x	4yrs	EBITDA	70
2/4/2011	CPRO	Print Management	Latam	$22.0	--	--	--	--	--	--	50
10/6/2008	Origen Partners	Point of Purhcase Displays	US	$36.0	$7.4	$14.0	$21.4	0.6x	4yrs	N/A	35
8/11/2008	Mikam Graphics	Managed Print / Promos	US	$30.0	$13.0	$14.1	$27.1	0.9x	3yrs	N/A	17
7/1/2008	Marketing-Out-Box	Print Services	US	--	$6.9	$5.8	$12.7	--	3yrs	N/A	N/A
7/1/2008	MediaLink Creative	Print Services	US	--	$7.4	$4.8	$12.2	--	3yrs	N/A	N/A
5/12/2008	etrinsic	Print Mgmt/Marketing Svcs	Europe	$44.0	$6.9	$5.9	$12.8	0.3x	3yrs	N/A	100
12/3/2007	Corporate Edge	Promo Products Distributor	US	$59.0	$18.0	$15.0	$33.0	0.6x	3yrs	N/A	145
11/12/2007	Graphic Resource/DFMS	Print Procurement Services	US	$14.0	$6.1	$5.8	$11.9	0.9x	2yrs	EBITDA	10
7/9/2007	Brown+Partners	Print Mgmt Services	US	$17.0	$0.6	$5.0	$5.6	0.3x	1.5yrs	N/A	25
3/8/2007	Spectrum Printing	Print Procurement Solutions	US	$12.9	$3.6	$2.5	$6.1	0.5x	2yrs	EBITDA	5
10/11/2006	Applied Graphics	Print Mgmt Solutions	US	$29.0	$7.0	$4.9	$11.9	0.4x	1yr	Gross Pft/EBITDA	35
9/1/2006	CoreVision Group	Marketing Solutions	US	--	$1.1	$2.5	$3.6	--	3yrs	Gross Pft.	15
5/31/2006	Graphography Ltd	Print outsourcing	US	--	$4.5	$3.0	$7.5	--	4yrs	Revenue	5
			Total	**$315.5**	**$90.0**	**$170.2**	**$260.3**				
			% of Total		**35%**	**65%**	**100%**				

Source: Company filings; press releases

We believe there are numerous problems here that investors should consider. First, the company does not disclose the exact formulas or milestones that drive the contingent payments. In certain instances, the company has disclosed that the target will be EBITDA, revenues, or gross profits, but in general we do not know how aggressive or conservative IW is setting the financial targets to be achieved. Secondly, investors are not being given a clear picture as to who is receiving the payments (owners, sales reps, or both). Earn-outs are typically structured to align and reduce risks between the buyers of a business and the target company's selling shareholders. The Financial Accounting Standards Board ("FASB") defines contingent consideration as "*an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met.*" We believe that many of these smaller companies are being acquired predominately for their owners, sales reps and relationships, and not for their technology, proprietary processes, or hard assets. IW obscures its discussion of employee retention by claiming in their investor presentation that "*82% of Entrepreneurs Are Retained.*" Are entrepreneurs owners or salesmen?

IW's current accounting method for earn-outs may be artificially boosting its earnings. Under ASC 805, the company is currently estimating the future liability from earn-out payments based on the present value of the potential contingent purchase price, and accruing a liability on the balance sheet. Changes in the fair value estimate are recorded through the income statement, and ultimate payments go through the cash flow statement. If the owner/salesmen are being retained and paid strictly on an earn-out basis, we believe this method serves to remove ordinary operating expenses from the income statement and boost current earnings.

A recent study conducted by Duff & Phelps in 2012 on Contingent Consideration gives some instructive guidance for us to consider. They note that determining whether contingent payments to the selling shareholders should be classified as contingent consideration or post-combination compensation expense depends on a number of factors and can sometimes be a challenging exercise. However, they say authoritatively that, "contingent payments made to shareholders who will continue as employees post-acquisition and that are tied to retention of those employees are often considered payments for future performance and classified as compensation expense."

We have one prime example to illustrate IW's aggressive accounting. In October 2011 IW acquired Productions Graphics ("PG") in Europe for $94.5m with an enormous 92% of the deal value, or $86.9m, coming in the form of an earn-out structure. The company's deal announcement and Share Purchase Agreement noted that "*As part of the acquisition, CEO Christophe Delaune has agreed to a long term contract to remain with InnerWorkings.*"

So there you have it in black and white: PG was IW's largest M&A deal ever, they locked-up its owner with a retention contract, structured and enormous earn-out, and saw none of the cost go through the income statement!

The PG deal appears to be a particularly bad deal for IW's shareholders, and symptomatic of the problems the company is facing, which we'll explore more completely in the coming sections. IW has repeatedly told investors they have a $150 billion market opportunity in

North America, yet the company moved aggressively into Europe in the middle of the continent's economic depression. The financial filings of PG, quietly filed as an amended 8-K a few months after the deal was announced, illustrates a company of questionable financial quality. PG's income statement indicates they were producing an annualized run-rate EBITDA of ~$500,000. If we consider that IW paid EUR 5.8m (US$7.6m) upfront in cash/stock and assumed US$5.1m of debt, then the implied Enterprise Value to EBITDA multiple equates to 25.6x, which is dramatically higher than what IW claims to pay for its acquisitions at 5.7x EBITDA.

Productions Graphics Minimal EBITDA or Net Income

	Nine Months Ended September 30, 2011		
	InnerWorkings	Productions Graphics	Total
Revenue	$ 458,611,577	$ 18,689,158	$ 477,300,734
Cost of goods sold	351,848,878	12,685,598	364,534,476
Gross profit	106,762,699	6,003,560	112,766,259
Operating expenses:			
Selling, general, and administrative expenses	83,365,659	5,631,715	88,997,374
Depreciation and amortization	7,389,824	344,131	7,733,956
Preference claim liability	950,000	-	950,000
Income from operations	15,057,216	27,713	15,084,929
Other income (expense):			
Gain on sale of investment	2,960,027	-	2,960,027
Interest income	102,277	142,986	245,262
Interest expense	(1,554,805)	(59,980)	(1,614,785)
Other, net	(211,155)	(6,168)	(217,323)
Total other income (expense)	1,296,344	76,838	1,373,182
Income before taxes	16,353,559	104,551	16,458,111
Income tax expense	5,725,157	31,607	5,756,764
Net income	$ 10,628,402	$ 72,945	$ 10,701,347

Book Value of Just $70,000

Liabilities and stockholders' equity	INWK	PG	Total
Current liabilities:			
Accounts payable-trade	$ 96,358,716	$ 6,657,865	$ 103,016,581
Advances from related parties	2,008	-	2,008
Current maturities of capital lease obligations	2,002	4,079,400	4,081,402
Due to seller	10,077,567	-	10,077,567
Customer deposits	451,478	-	451,478
Other liabilities	5,000,948	1,985,509	6,986,458
Accrued expenses	21,702,132	-	21,702,132
Total current liabilities	133,594,853	12,722,774	146,317,627
Revolving credit facility	53,200,000	1,021,797	54,221,797
Capital lease obligations, less current maturities	-	-	-
Other long-term liabilities	16,834,269	70,166	16,904,435
Total liabilities	203,629,122	13,814,737	217,443,859
Stockholders' equity:			
Common stock, par value $0.0001 per share, 46,0 2010 and September 30, 2011, respectively	466	-	466
Additional paid-in capital	178,334,260	-	178,334,260
Treasury stock at cost	(74,307,200)		(74,307,200)
Accumulated other comprehensive income	1,163,844	(2,472)	1,161,372
Retained earnings	67,647,335	72,945	67,720,280
Total stockholders' equity	172,838,706	70,473	172,909,179
Total liabilities and stockholders' equity	$ 376,467,828	$ 13,885,210	$ 390,353,038

The PG deal is perhaps the only deal where IW has filed a Share Purchase Agreement with details about the earn-out mechanics. The earn-out structure also illustrates the incentives IW has for setting high financial targets, and the resulting consequences for failing to attain them. To illustrate, consider that by the fifth year measurement period, there are mechanisms to pay the seller if EBITDA exceeds Eur 7.2m or is between Eur 5.7m and Eur 7.2m. These are aggressive EBITDA targets relative to PG's 2011 performance of approximately Eur $0.5m (1,052% – 1,340% growth). If PG fails to obtain these lofty targets, then IW can write-down the value of their contingent payment liability and book income from the resulting fair value change.

We already have indications that the PG deal is a big bust. We note that the company mentioned in their 2012 earnings results that, "*Due to the softness in Europe, some of the applicable performance measures were not met in the fourth quarter of 2012, and as a result, the Company recorded a net benefit to release a portion of its contingent consideration obligations.*" IW does not specify where on its income statement this non-cash gain rests, but we suspect it is being included in the large SG&A account. The cash flow statement correctly removes this non-cash accounting gain.

Income Statement Overstates Earnings By Including Gains from Change in Contingent Consideration

	Years Ended December 31,		
	2010	2011	2012
Revenue	$ 482,212,101	$ 633,846,120	$ 797,698,870
Cost of goods sold	366,199,728	484,483,592	612,275,393
Gross profit	116,012,373	149,362,528	185,423,477
Operating expenses:			
Selling, general and administrative expenses	91,796,566	115,624,276	143,632,284
Depreciation and amortization	9,008,514	10,171,758	10,790,452
Preference claim settlement charge	-	950,000	1,099,386
VAT settlement charges	-	-	1,485,088
Income from operations	15,207,293	22,616,494	28,416,267
Other income (expense):			
Gain on sale of investment	3,578,431	3,948,082	1,196,196
Interest income	150,506	182,050	66,489
Interest expense	(1,928,210)	(2,251,010)	(2,438,234)
Other, net	(48,725)	-	94,411
Total other income (expense)	1,752,002	1,879,122	(1,081,138)
Income before taxes	16,959,295	24,495,616	27,335,129
Income tax expense	5,748,806	8,102,609	8,223,241
Net income	$ 11,210,489	$ 16,393,007	$ 19,111,888
Basic earnings per share	$ 0.25	$ 0.35	$ 0.39
Diluted earnings per share	$ 0.24	$ 0.34	$ 0.37

Cash Flow Statement Removes Non-Cash Effect

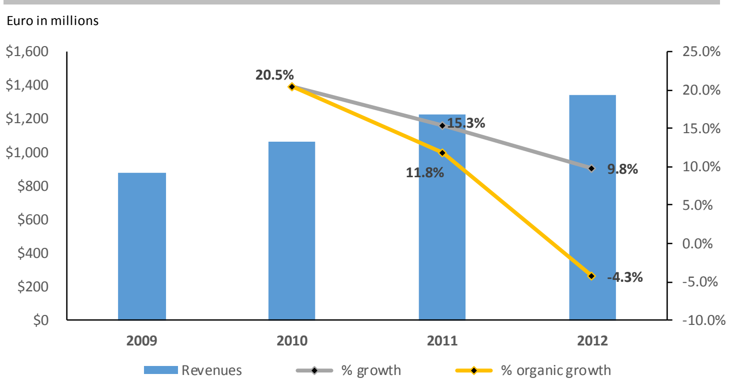
	Years Ended December 31,		
	2010	2011	2012
Cash flows from operating activities			
Net income	$ 11,210,489	$ 16,393,007	$ 19,111,888
Adjustments to reconcile net income			
Depreciation and amortization	9,008,514	10,171,758	10,790,452
Stock-based compensation expense	3,148,619	3,976,187	6,192,870
Deferred income taxes	801,406	1,228,443	1,090,502
Gain on sale of investment	(3,578,431)	(3,948,082)	(1,196,196)
Bad debt provision	2,901,216	2,414,710	1,681,942
Excess tax benefit from exercise of stock awards	(862,458)	(1,144,344)	(6,666,884)
Change in fair value of contingent consideration liability	(1,987,042)	(147,529)	(2,724,978)
Other operating activities	259,806	255,949	533,842
Change in assets, net of acquisitions:			
Accounts receivable and unbilled revenue	(21,385,688)	(24,785,185)	(23,278,410)
Inventories	368,909	(3,326,116)	(2,134,490)
Prepaid expenses and other	5,360,326	(2,715,853)	(13,063,957)
Change in liabilities, net of acquisitons:			
Accounts payable	1,079,820	25,432,811	13,582,947
Accrued expenses and other	2,027,038	4,024,780	6,616,912
Net cash provided by operating activities	8,352,524	27,830,536	10,536,440

Many Other Red Flag Clues That IW's Revenues Don't Add-Up

Pure Play Global Competitor's Revenues Show Abysmal Organic Growth

Williams Lea, owned by Deutsche Post, is perhaps the closest pure-play competitor to IW. As illustrated in the chart below, Williams Lea operates a global business in Europe, Asia, North and South America, and Australia, and according to their website, is a BPO with 10,000 employees. Fortunately, Deutsche Post breaks out Williams Lea's revenue results in their annual reports. In the second quarter of 2008, Deutsche Post increased its stake in Williams Lea from 66 % to 96%, so we can analyze fully consolidated financial results from 2009 onward. The chart below illustrates the company's increasing revenues in the past four years, but rapidly declining growth rate. We note that Williams Lea's organic revenue growth rate in 2012, adjusted for the acquisition of Tag and currency effects, was a dismal -4.3%. To be perfectly fair, we do not know what percentage of their revenue comes from Europe, which is clearly struggling. However, we note that IW currently has 20% of their revenues from international markets including Europe, Latin America and Asia.

Williams Lea Declining Organic Revenue Growth Rate



Source: Deutsche Post Annual Reports

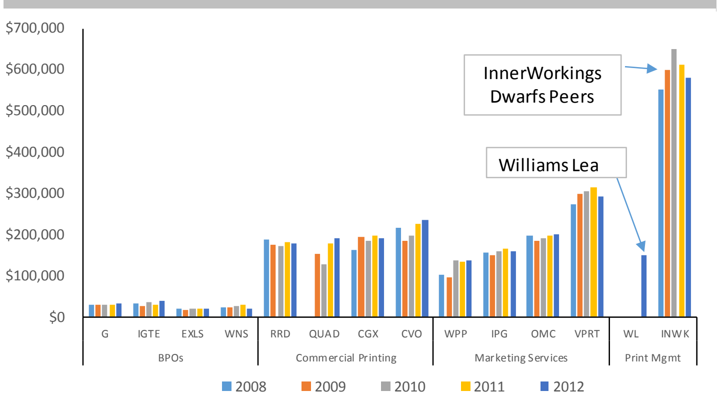
Williams Lea Global Prescence

Source: Williams Lea

Other Peer Comparisons Call Into Question IW's Reported Revenue

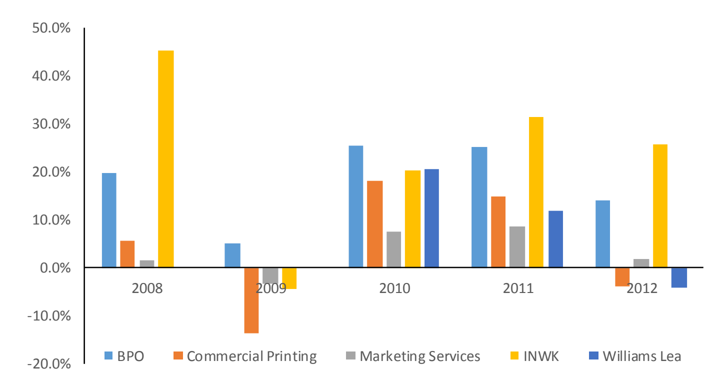
In the charts below we have benchmarked IW's revenues against a set of industry peers. Broadly speaking, IW's business is a combination of printing, marketing and business process outsourcing services. On the left, we have measured, by industry group, the revenue productivity per full time and contractor employees. IW appears as a dramatic outlier in this analysis. On the right, we have charted, by industry group, the annual reported revenue growth in the past 5 years. We also note that IW has consistently grown its revenues at a rate much faster than industry peers. In light of our previous concerns, and discussion later in this report about IW's use of gross revenue accounting, we believe IW's reported revenue growth is highly suspicious.

IW's Revenue Per Employee is Way Out of Line



Source: Company financials

IW's Annual Revenue Growth Consistently Outperforms Peer Industry Revenue Growth Rates

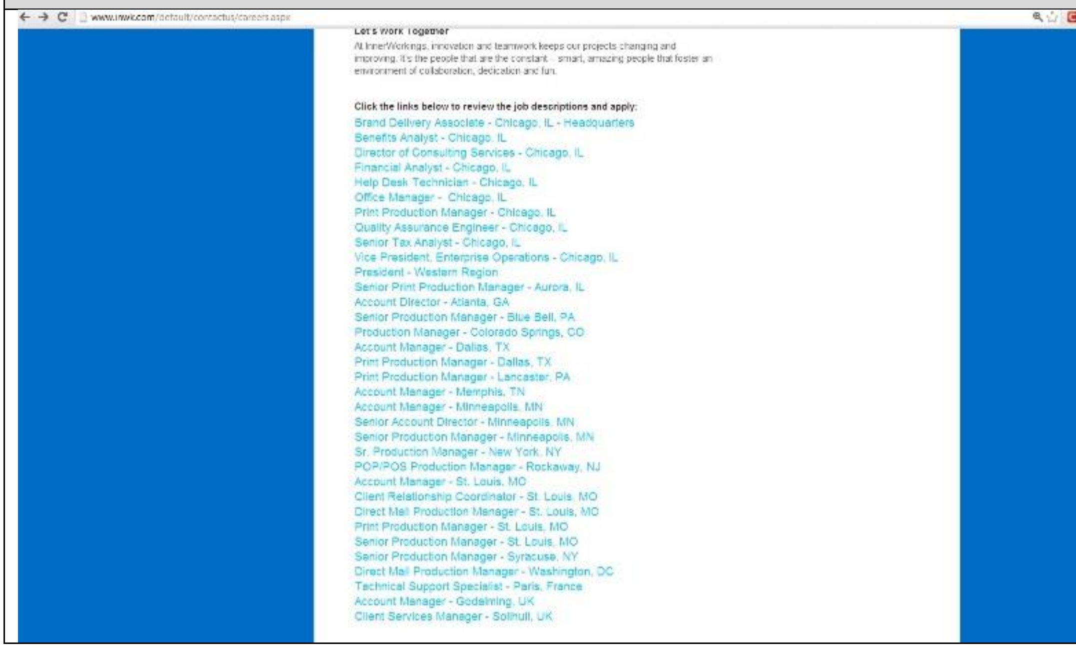


Note: Industry growth composities comprised of reported peer revenue growth rates

IW's Career Website Shows Limited Employee Growth to Support Ambitious Objectives

IW's revised guidance is to grow 2013 revenues to between $900 -$930m (13% - 17% yoy) and 2013 EPS from $0.41c to $0.45-$0.50c (10.0% - 22.0%). At the company's February 2013 Investor Day, IW guided investors to assume that same customer spending growth will be zero, to assume no new acquisitions, and that inside sales is going to drive a majority of the growth. Therefore, we've decided to put these assumptions to the test with some of our own stress tests! From the company's career website, we observe that just 34 job openings currently appear. Overall, the company ended 2012 with 1,379 employees (including 400 account managers). Assuming no employee churn, IW appears to believe it can grow its revenue by ~15% with its total employee count growing by just 2.3%.

Just 34 Job Opening on IW's Career Website - 4/22/13


www.inwk.com/default/contactus/careers.aspx

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Click the links below to review the job descriptions and apply:

Brand Delivery Associate - Chicago, IL - Headquarters
Benefits Analyst - Chicago, IL
Director of Consulting Services - Chicago, IL
Financial Analyst - Chicago, IL
Help Desk Technician - Chicago, IL
Office Manager - Chicago, IL
Print Production Manager - Chicago, IL
Quality Assurance Engineer - Chicago, IL
Senior Tax Analyst - Chicago, IL
Vice President, Enterprise Operations - Chicago, IL
President - Western Region
Senior Print Production Manager - Aurora, IL
Account Director - Atlanta, GA
Senior Production Manager - Blue Bell, PA
Production Manager - Colorado Springs, CO
Account Manager - Dallas, TX
Print Production Manager - Dallas, TX
Print Production Manager - Lancaster, PA
Account Manager - Memphis, TN
Account Manager - Minneapolis, MN
Senior Account Director - Minneapolis, MN
Senior Production Manager - Minneapolis, MN
Sr. Production Manager - New York, NY
POP/POS Production Manager - Rockaway, NJ
Account Manager - St. Louis, MO
Client Relationship Coordinator - St. Louis, MO
Direct Mail Production Manager - St. Louis, MO
Print Production Manager - St. Louis, MO
Senior Production Manager - St. Louis, MO
Senior Production Manager - Syracuse, NY
Direct Mail Production Manager - Washington, DC
Technical Support Specialist - Paris, France
Account Manager - Godalming, UK
Client Services Manager - Solihull, UK

The relationship between IW's reported revenue growth and total employee growth is remarkably high with a statistical correlation close to 98%. We've highlighted the relationship in the table on the following page. The notion that IW is going to dramatically grow revenues and earnings in 2013 without a material investment in new sales people, account executives, and production managers should be viewed as a "prove it to me" story. Assuming the historical employee/revenue relationship held, IW would need to hire over 200 people to hit their revenue growth target.

Simply stated, IW is a sales driven business. To illustrate further, we note that IW used to state in 10-K filings prior to 2008 that:

"Commissions paid to our account executives are a significant component of our operating expenses. The commissions we pay to our account executives are based on the gross profit we collect from the clients."

However, post-2007 IW completely stopped disclosing its sales commissions. Even worse, in 2011 the company stopped providing detail on enterprise and middle market clients. We believe this is a clear sign of an attempt to cover-up slowing growth. In Appendix V we have provided a list of all announced enterprise customer wins, and the historical disclosures which point to increasing obfuscation.

With no ability to follow trends in sales commissions, or client counts in its main businesses, IW's revenues have become harder to reconcile. The combination of these material omissions cast further doubt on the reliability of the company's reported revenues.

$ in millions

	2006	2007	2008	2009	2010	2011	2012
Revenue	$160.5	$288.4	$419.0	$400.4	$482.2	$633.8	$797.7
% growth	*108.7%*	*79.7%*	*45.3%*	*-4.4%*	*20.4%*	*31.4%*	*25.9%*
Sales Commissions	$8.8	$16.4	No Longer Disclosed				
% of revenue	*5.5%*	*5.7%*					
# of Suppliers	5,000	6,000	7,000	8,000	8,000	9,000	10,000
% growth	--	*20.0%*	*16.7%*	*14.3%*	*0.0%*	*12.5%*	*11.1%*
# of Enterprise Clients	92	116	143	172	195	No Longer Disclosed	
New additions	23	24	27	29	23		
% growth	*33%*	*26%*	*23%*	*20%*	*13%*		
# of Middle Market Clients	2,228	4,584	5,776	4,828	4,805		
New additions	1,561	2,356	1,192	-948	-23		
% growth	*234.0%*	*105.7%*	*26.0%*	*-16.4%*	*-0.5%*		
# of Total Clients	2,320	4,700	5,919	5,000	5,000	6,000	7,000
% growth	*215.2%*	*102.6%*	*25.9%*	*-15.5%*	*0.0%*	*20.0%*	*16.7%*
On-Site Managers	21	38	56	77	96	180	249
Total Production Managers	109	250	336	250	260	500	682
Account Executives	153	221	280	295	300	400	400
Corporate Staff	50	96	145	122	183	134	297
Total Employees	312	567	761	667	743	1,034	1,379
% growth	*102.6%*	*81.7%*	*34.2%*	*-12.4%*	*11.4%*	*39.2%*	*33.4%*
Avg Revenue/Total Employee	$514,423	$508,697	$550,612	$600,370	$649,007	$613,004	$578,461
Avg Revenue/Acct Executive	$1,049,020	$1,305,118	$1,496,486	$1,357,447	$1,607,373	$1,584,615	$1,994,245
Avg Revenue/Middle Mkt Client	$21,611	$23,910	$26,116	$28,200	$29,103	--	--
Avg Revenue/Enterprise Client	$1,221,196	$1,541,614	$1,875,316	$1,536,599	$1,755,746	--	--
Avg Revenue/Client	$69,181	$61,368	$70,792	$80,089	$96,442	$105,641	$113,957
Acct Executives/Clients	15	21	21	17	17	15	18
Production Mgrs/Clients	21	19	18	20	19	12	10

Source: Company filings

Glassdoor Internal Reviews Indicate Limited Inside Sales Opportunities

As additional evidence that IW's growth story may not be as advertised, we visited Glassdoor.com for an insider's view. There are currently 40 reviews, with approximately 70% of the ratings between "Neutral" to "Very Dissatisfied." **Ironically, the most recent posts from April 2013 are from members of the inside sales team warning about a lack of sales opportunities.** The employees' views contrast markedly with management's claim that inside sales is going to drive the bulk of 2013 revenue and earnings performance. Other recent posts from insider sales personnel echo a recurring theme that IW does not have a blue sky sales career potential.

Very Recent Glassdoor.com Reviews Paint a Troubling Picture

"Great people, but Inside Sales is a dead end""
Former Inside Sales Account Executive in Chicago, IL – Reviewed Apr 5, 2013 – New

Pros – Awesome people
Simple business model
Great location
Informative and well run training program (trainers do the best they can with what they are given)

Cons – Poor commission structure
Zero chance of upward mobility unless you are "tight" with management
Your work/success is solely measured on metrics (call time, dials, opportunities)
Information learned in training ("what makes us different from everyone else") is not true
They claim that things are changing but they never do (if anything the get worse)

Advice to Senior Management – Don't lie to your employees. Keep them in the loop and be honest. Work on our "buying power" and other value propositions so we can actually be competitive in our pricing and overall service. Keep a closer eye on your managers and make sure they are helping set their teams up for success. Also, HR needs to lighten up a little...aren't they supposed to be the friendly people?

"Buyer Beware"
Current Inside Sales Account Executive in Chicago, IL – Reviewed Apr 14, 2013 – New

Pros – With all the organizational changes opportunities abound, IF they post the job. Some really nice people to work with outside of senior management. Spend six months there and get gorilla training.

Cons – No opportunity to really make money. Always changing compensation. Senior management worries more about lining their pockets rather than helping you earn money.

Advice to Senior Management – Don't have double standards. Pay your people better. Post jobs internally like you are supposed to instead just announcing a new position.

"Good luck, you'll need it. Employee, buyer, investor beware!"
Current Inside Sales Account Executive in Chicago, IL – Reviewed Feb 9, 2013

Pros – Great office location
Meet cool people
Few managers genuinely care about their team

Cons – Recruiters will tell you anything to get you hired, nobody makes the money the say
Recent changes in management has company heading from good to worse
Sales person takes the hit for anything that goes wrong in a sale, even when it's not our fault
New "frat house" leadership
No annual increase for sales people
Frequent changes before results are measured

Advice to Senior Management – Wake up, don't keep making same mistakes - good people leaving means it's you not them.
Hire a real HR team to support the employee
We can buy our own beer if you pay us what we are worth.
Hire articulate leaders and good sales people not just warm bodies otherwise it makes us all look bad

"A very bad career move"
Former Inside Sales in Chicago, IL – Reviewed Jan 29, 2013

Pros – You'll meet some fun people. Chicago is great.

Non-inside sales part of the company is a good place to be.

Cons – Fair warning: Positive reviews are posted by InnerWorkings HR department. (They began end of October into beginning of November 2012 immediately after HR was reprimanded by management due to low quality hires.)

This is not a company to have a career. You will get paid next to nothing (no opportunity for significant growth). They do not provide things that should be typical of sales such as reimbursing mandatory work excursions. InnerWorkings has many practices that are unethical. They have been reported to Better Business Bureau on at least two occasions that I know of. You will be told to lie to clients. They actually provide very little to no value to clients.

They will misrepresent the job to you during your interview. You will find out shortly after starting that the job is much different. Leadership is very poor. Most quality employees or leaders will move on quickly.

If you are a motivated, educated person who is interested in going places in your career, stay far away from InnerWorkings.

"Every time I thought things were getting better they would find another way to let me down..."
Former Middle Management in Chicago, IL – Reviewed Oct 12, 2012

Pros – You'll meet some great, enthusiastic, young and hard working people at this place. I still have numerous friends I keep in touch with from INWK. I learned a great deal about sales, management, and corporate American. Most importantly I learned what NOT to do when if you would like to run a successful business

Cons – There was not one thing that satisfied me about this job other than the fact that you could take vacation whenever you pleased. Everything changes on a daily basis and you can not rely on anyone for their word. Management had gone back on written contracts of mine and the way they value their employees is at an all time low, even when you advance into middle management roles. They may tell you this is not a call center but you are being misled to the moment you walk in that door. The money they promise you will make is completely unattainable within the first 1-2 years. It took me about 2 weeks on the sales floor to realize that this company is not only unprofessional but also a disgrace to the print and promo industry. Upon acceptance of this job you will find out very soon that every person there is looking for another job elsewhere.

Advice to Senior Management – Quit communicating to your sales reps like they are children when you are actually the children. I have never worked with such an unprofessional, disrespectful group of people in my entire life.

"Work for to get experience BUT move on quickly, very quickly"
Current Print Production Manager in Chicago, IL – Reviewed Jun 30, 2012

Pros – If you are self motivated, this is a great place for you to work.

Cons – Where do I start??????
The company is a revolving door with employment. You will get a weekly e-mail from the CEO or some other "big wig" explaining how someone has left the company and not to worry. YOU BETTER WORRY!

They fire for no reason and can. If you make waves after termination they will create documents with false statements to cover themselves.

Yes, they have a network of vendors BUT what they don't tell you is they do not pay their vendors in a timely manner intentionally. I was getting contacted by vendors who hadn't been paid for 90+ days and when I brought this to my manager's attention she stated that InnerWorkings does this intentionally. They want to show investors that they have a lot of money on the books (money they don't really have.) So their network of vendors is slowly diminishing.

They make mistakes, and instead of eating the cost of their mistake, they charge it to their client. We had a miscellaneous job that we would stuff overage costs into and at one point in grew to $15K. When we were producing a new job, and say the cost was $1,000, we would take the overages from the miscellaneous job and add some of the debt to the new job. That $1,000 job now was $1,500 before adding margin. Deceptive? Yes, and totally approved by management.

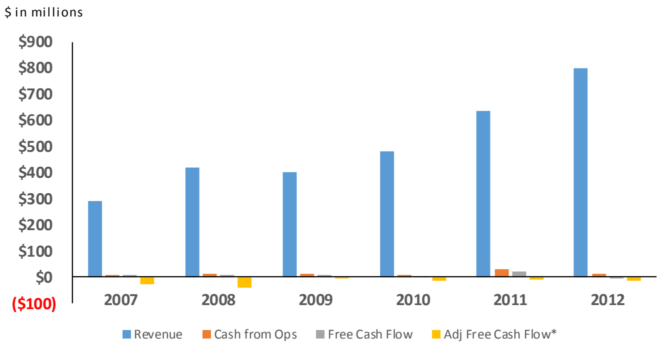
You will never grow with the company. You will start out as a Print Production Manager and maybe, just maybe will they add Senior to your titled after 5 years. Don't hold your breath.

Source: Glassdoor.com

Follow the Money: Deteriorating Margins, No Cash Flow, Increased Borrowing, and Insider Sales

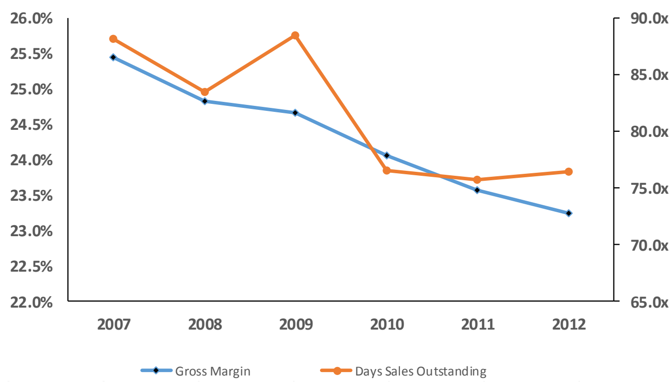
IW touts its stellar revenue growth, while conveniently ignoring any discussion about its free cash flow. The charts below profile the true picture of the company's fragile financial state. Declining gross margins indicate that the company is acquiring lower margin business to keep revenues growing. Cash from operations is struggling to grow, so in 2011 the company appears to have extended its payables to suppliers in order to generate a majority of its cash flow. IW's has not been able to compensate by shrinking its days sales outstanding (DSO) in the past few years. As a result, the company has steadily increased its borrowing facility, most recently in April 2012 to $150m at the same time directors were leaving the company (sound similar to Active and Boulder?). Debt is increasing too, and when factoring in the maximum cash liability associated with deal earn-outs, IW's gross leverage is deceptively higher than advertised. Lastly, we note IW's COE just instituted a 10b5-1 trading plan on Nov. 14, 2012 just weeks after IW announced its expanded relationship with SuperValu!

IW's Explosive Revenue Growth and Anemic Cash Flow



* Adjusted for acquisitions and contingent payments

IW's Gross Margins are In Persistent Decline / Limited DSO Improvement in the Past 3 years

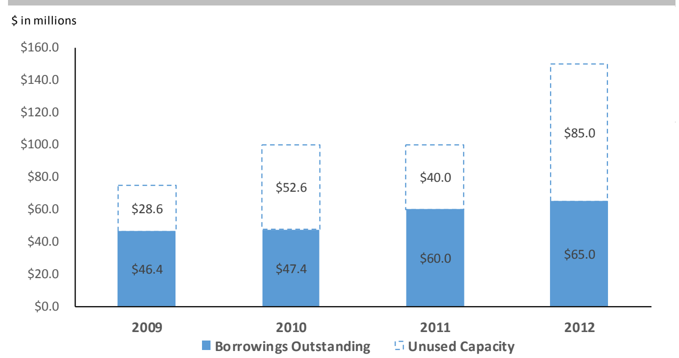


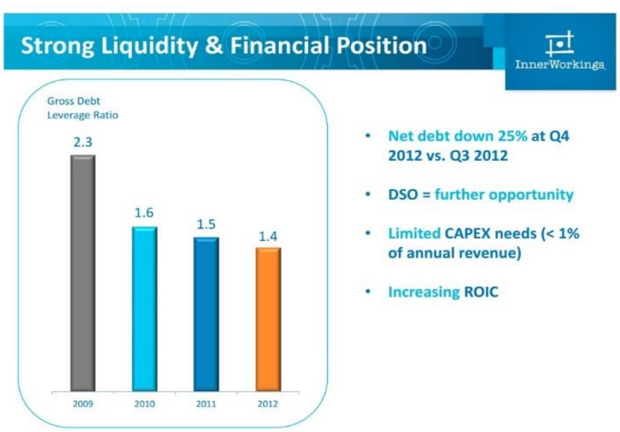
IW "Generates" Cash Flow By Not Paying Suppliers on Time

	Years Ended December 31, 2010		2011		2012
Cash flows from operating activities					
Net income	11,210,489	$	16,393,007	$	19,111,888
Adjustments to net cash provided by operating activities:					
Depreciation and amortization	9,008,514		10,171,758		10,790,452
Stock-based compensation expense	3,148,619		3,976,187		6,192,870
Deferred income taxes	801,406		1,228,443		1,090,502
Gain on sale of investment	(3,578,431)		(3,948,082)		(1,196,196)
Bad debt provision	2,901,216		2,414,710		1,681,942
Excess tax benefit from exercise of stock awards	(862,458)		(1,144,344)		(6,666,884)
Change in fair value of contingent consideration liability	(1,987,042)		(147,529)		(2,724,978)
Other operating activities	259,806		255,949		533,842
Change in assets, net of acquisitions:					
Accounts receivable and unbilled revenue	(21,385,688)		(24,785,185)		(23,278,410)
Inventories	368,909		(3,326,116)		(2,134,490)
Prepaid expenses and other	5,360,326		(2,715,853)		(13,063,957)
Change in liabilities, net of acquisitons:					
Accounts payable	1,079,820		25,432,811		13,582,947
Accrued expenses and other	2,027,038		4,024,780		6,616,912
Net cash provided by operating activities	8,352,524		27,830,536		10,536,440

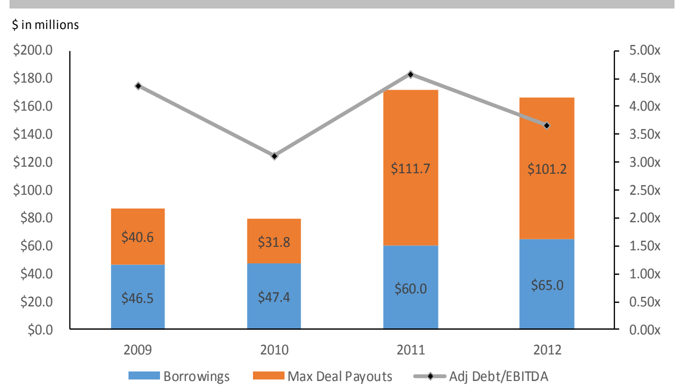
Source: 2012 Annual Report

IW Has Continued to Increase its Credit Facility





IW's Adjusted Leverage For Contingent Payouts



Misaligned Incentives: Egregious Management Awards tied to Revenue and EBITDA Inflation

"Senior Management worries more about lining their pockets rather than helping you earn money" – Glassdoor, April 14, 2013

We have gone through great length to illustrate how management likes to portray their strong revenue growth, and make aggressive use of gross revenue accounting. We don't believe this is by accident, but rather by design, and to compensate management heavily for their efforts. Below we have included management's "Target Award Opportunities" from the 2011 Proxy Statement.

*"The 2011 target opportunities under the Annual Incentive Plan were approved by the Compensation Committee on February 17, 2011. The 2011 management bonus award opportunities were based on the following criteria: **40% on adjusted EBITDA performance** (100% pay-out based on reaching an EBITDA, less stock based compensation, of $35.8MM), **40% on revenue growth** (100% pay-out on reaching $600MM of revenue) and **20% based on non-financial performance**, which includes goals such as client retention rate of 98% or higher, growing the middle market segment, international expansion and improved ROIC results)."*

So there it is in black and white: management gets paid the most for worrying about revenue growth and adjusted EBITDA. We also observe that management is paid 20% based on non-financial performance metrics that are loosely defined, and are never disclosed to shareholders in the company's financial reporting. Therefore, investors have no way of tracking how management is being evaluating and performing against these criteria.

How much compensation does management have at stake for achieving their goals? The answer is an incredibly material amount to shareholders! In the table below, we illustrate management's total compensation in relation to GAAP net income and cash from operations. For 2011, management's all-in compensation amounted to a staggering 45% of cash provided from operations. What's even more egregious is that total compensation has grown 285% from 2009 – 2011, while cash from operations has grown just 26% over the same time period.

Compensation of InnerWorkings' Top Executives

	2010	2011	2012	CAGR
Base Salary	$1,150,000	$1,168,270	$1,443,942	12%
Cash Incentive Bonuses	$241,000	$1,100,000	$1,090,000	113%
Option Awards	--	$1,090,000	$850,000	--
Stock Awards	$669,600	$1,090,000	$850,000	13%
Perks	$99,228	$262,791	$101,191	1%
Total Compensation	**$2,159,828**	**$4,711,061**	**$4,337,145**	42%
% cum growth		*118%*	*254%*	
GAAP Net Income	$11,210,489	$16,393,007	$19,111,888	31%
Cash From Operations (CFO)	$8,352,524	$27,830,536	$10,536,440	12%
% cum growth		*233%*	*26%*	
Management Compensation				
% of GAAP Net Income	19%	29%	23%	
% Cash From Operations	26%	17%	41%	

Souce: IW's Proxy Statement

We do not place too much faith in the Company's Compensation Committee to look after shareholder's best interests. We note that, for competitive benchmarking purposes, the committee has chosen a peer group that reflects nothing of IW's current business. The peer group includes many unrelated companies such as: **Accretive Health** (AH), **IHS Inc.** (IHS), **Corporate Executive Board** (CEB), **Huron Consulting** (HURN), **Navigant Consulting** (NCI), and **Resources Connection** (RECN). We observe that almost 60% of IW's supposed peers are actually consulting/professional service firms, which has nothing to do with print management or marketing services!

The Inner Workings of InnerWorkings: All Guts, No Glory

Background on InnerWorkings Today

InnerWorkings ("IW" or "the company") provides outsourced print procurement solutions for corporate clients. The company acts as a broker, matching the 10,000 printers and their equipment profiles (IW owns no printing equipment) in its database with customer orders; by leveraging buying power, workflows and pricing records into operating efficiencies, IW says it is able to pass along print savings of 10%-25% to clients.

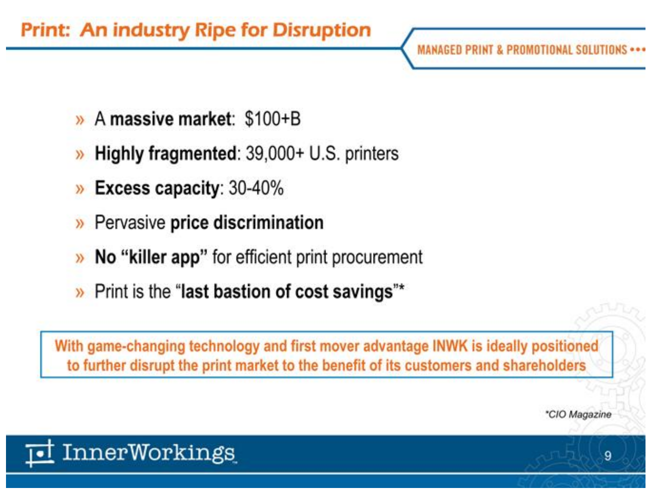
Since its IPO in 2006, the company has grown its revenues from ~$160m in 2006 to ~$800m in 2012. It generates 80% and 20% of revenue from its North American (US and Canada) and International segments (United Kingdom, continental Europe, the Middle East, Latin America and Asia), respectively; the company has pushed in the last couple of years to expand from a national to a global focus with acquisitions in Latin America and Europe. IW's largest customer accounted for 8% and its top ten clients accounted for 32% of 2012 revenue.

IW serves both enterprise and middle market customers. It enters into contracts with enterprise clients to provide some or all of their printed products, typically on a recurring basis. Contracts with enterprise clients are generally for a 3-5 year term with a termination right ranging from 90 days to 12 months. Enterprise clients accounted for 75% of 2012 revenue. Middle market clients account for the remaining 25%. IW provides products to these clients on transactional basis.

IW was founded in 2001 by Bill Heinsle and Eric Lefkofsky, who is perhaps better known for also co-founding Groupon. Based on their public history together, they appear to be shrewd businessmen who have rolled-up mature, low-margin businesses and used highly effective spin to cast them as fast-growing, high margin technology companies with leverageable, "proprietary" technology. InnerWorkings fits this mold.

The company is a consolidator of print brokers and, having completed 29 acquisitions from 2006-2012, shares many of the same hallmarks of a poorly constructed roll-up: While the company has succeeded in quickly building revenue and issuing rewarding management bonuses, it has performed poorly in accreting free cash flow to shareholders. Yet the company positions itself as a technology company. Investor materials imply having designed a "killer app" for efficient print procurement and claim the development of a "game-changing technology" that is disrupting the print market, "for the benefit of its customers and shareholders" of course.

InnerWorkings Investor Day Presentation, Feb 2010



We believe IW offers a commodity service, operating in an industry with very low barriers to entry in spite of the company's claims. Today, it is capitalizing on excess capacity left by a deteriorating print market. Over time, that capacity is being rationalized as printers exit the market or consolidate. Numerous larger, and better funded companies have also entered the market, and are eroding IW's early mover advantages.

Furthermore, in light of having researched the backgrounds of IW's founders, having identified potential shareholder misdirection emanating from IW's promotional management team, and conducted a thorough analysis of IW's accounts, we feel we know how this story is set to unfold. Who's holding the bag?

Chasing "Huge Opportunities" With Allegedly Misleading Claims of "Proprietary Technology"

> *Lets start having fun... lets get funky... let's announce everything...* ***let's be WILDLY positive in our forecasts****... lets take this thing to the extreme... if we get wacked on the ride down-who gives a shit... THE TIME TO GET RADICAL IS NOW... WE HAVE NOTHING TO LOSE...*
>
> *Lefkofsky's email to employees* while COO of a failing public company Ha-Lo Industries

To better understand IW and the choices management has made as a public company, we sought to identify behavioral trends in its key personnel – in this case, the man behind the company and who by some accounts has controlled all aspects of the business, co-founder Eric Lefkofsky. [2] [3] Our background search resulted in many articles that praise Lefkofsky for his admirable successes and charitable doings, and many others that allude to his failures as a leader and knack for self-serving decision-making. Based on our research, Lefkofsky's career has consisted of chasing the hot trend of the moment and betting the house – other's people's money – in hopes of riches.

Lefkofsky has left behind two bankrupt companies and a managerial track record that appears to bear certain hallmarks: promises of "proprietary" technologies that will transform brick and mortar businesses, rapid revenue growth accompanied by big losses, aggressive accounting, a penchant to sell stock early on, and lawsuits filed by investors, lenders or customers who feel they have been wronged. [4]

His first venture, right out of law school, was the takeover of sports apparel manufacturer Brandon Apparel in 1994. The city of Columbus, WI backed him in this endeavor, loaning the company $750,000, allegedly on promises he would create jobs using "proprietary software". [5] The company rapidly grew its revenue from $2 million to $20 million, but failed to grow fast enough to support the weight of its debts. "*We over-leveraged the company and it eventually crumbled under the weight of that debt*," Lefkofsky wrote. Columbus was forced to write off the loan. "*They basically bailed out of Columbus, and that seems to be their ongoing tactic*," Columbus's city attorney said at the time. Brandon Apparel's downfall resulted in a series of lawsuits. The former owner of Brandon reportedly sued the company, as did National Football League Properties and Major League Baseball Properties. Its lender, Johnson Bank, sued Lefkofsky and won a default judgment of $11 million; the bank also alleged that Lefkofsky and his partner used Brandon's resources to nurture their next venture, Starbelly. [6]

In 1999, at the height of the dot com craze, Lefkofsky co-founded Starbelly.com, a B2B procurement website. There, again, Lefkofsky allegedly promised investors he had "proprietary software" that would revolutionize the way the marketplace worked. [7] A little over a year later, Starbelly was acquired by Ha-Lo Industries for $240m. Lefkofsky and other Starbelly officers assumed key executive positions within Ha-Lo. But a little more than a year later, the business flopped; Ha-Lo wrote off Starbelly entirely and filed for bankruptcy protection in July 2001.

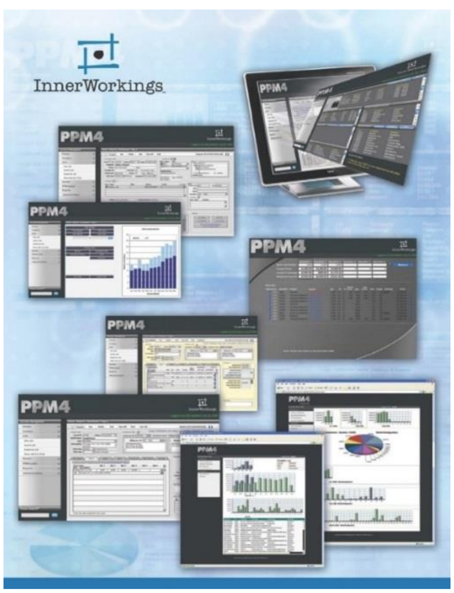
[2] Sports Publishing v. Lefkofsky et al. US District Court Central District of Illinois. 2008.*Court House News*. Web. 31 Mar. 2008.
[3] Alpert, Bill, "The Inner Workings of InnerWorkings," *Barron's*, 2007 January 15.
[4] Kelleher, Kevin, "The Checkered Past of Groupon's Chairman," *Fortune Magazine*, 2011 June 10.
[5] Sports Publishing v. Lefkofsky et al. US District Court Central District of Illinois. 2008.*Court House News*. Web. 31 Mar. 2008.
[6] Kelleher, Kevin, "The Checkered Past of Groupon's Chairman," *Fortune Magazine*, 2011 June 10.
[7] Sports Publishing v. Lefkofsky et al. US District Court Central District of Illinois. 2008.*Court House News*. Web. 31 Mar. 2008.

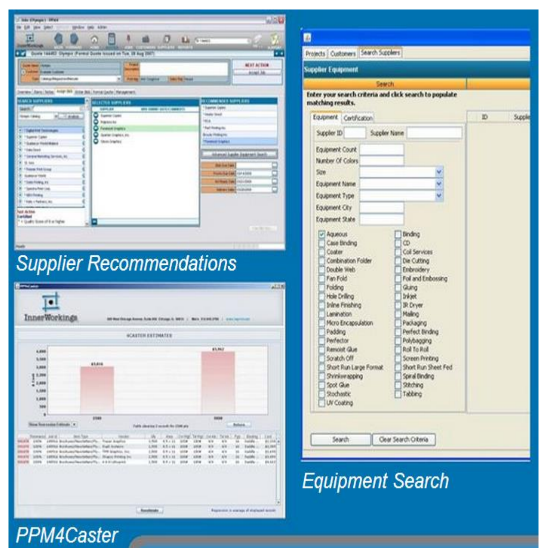
Securities fraud and bankruptcy litigation against Lefkofsky and Ha-Lo quickly followed. One class action suit alleged that Ha-Lo's top officers and directors "*knowingly, or at least recklessly, made grossly inaccurate statements concerning its agreement to acquire Starbelly.com*" and they, "*repeatedly highlighted the extraordinary benefits of the acquisition,*" although it led, at least in part, to Ha-Lo's bankruptcy.

Discovery in those cases exposed reckless emails Lefkofsky had sent to his employees (one of which has been pasted as the introduction to this section), in which he appears to be encouraging employees to be deceptive in communications with his shareholders and/or creditors. According to Ha-Lo documents discovered in subsequent shareholder suits, a due diligence investigation by Ernst & Young had even warned Ha-Lo that Starbelly's software was **not as proprietary -- or even as functional -- as Starbelly claimed**. [8] [9]

Lefkofsky's next venture would be InnerWorkings. Barron's writer Bill Alpert wrote a scathing article about InnerWorkings and Lefkofsky in 2007 that almost prefigured the concerns surrounding Groupon's IPO (a subsequent Lefkofsky venture). He called InnerWorkings "*a glorified broker of print jobs*," and argued that Lefkofsky "*has a history of busting investors after promising to radically transform bricks-and-mortar industries*." He also called to question InnerWorkings' "proprietary" software, known as PPM4:

> *Eerily like Starbelly, there's less than meets the eye to the company's touted "PPM4" software, say some InnerWorkings ex-employees. In the weeks before Morgan Stanley's eagle-eyed due diligence team toured InnerWorkings for its August 2006 initial underwriting, workers stayed late padding the company's off-the-shelf FileMaker Pro database with an impressive-looking list of suppliers. Then they dummied up some screen-shots of the software for the inside cover of the prospectus (pictured below)… Numerous ex-employees of InnerWorkings told me that its vaunted software also doesn't work as claimed*. [10]

<table>
<tr><th>Sexy Pre-IPO Look of PPM4 from Prospectus</th><th>PPM4 2 Years Later, 2008 Investor Presentation</th></tr>
<tr><td>

Source: *InnerWorkings Prospectus, May 2006*</td><td>

Source: *InnerWorkings Investor Day Presentation, Nov 2008*</td></tr>
</table>

After founding InnerWorkings, Lefkofsky co-founded two other firms which are now public, Echo Global Logistics (ECHO) and Groupon (GRPN). When ECHO went public in 2009, its management – as one would expect – touted its "proprietary" Web-based platform that manages a network of thousands of transportation providers. Groupon encountered major issues in going public and subsequent to its IPO – mainly related to Lefkofky & Co. being over-promotional during its pre-IPO quiet period, violations of GAAP accounting standards,

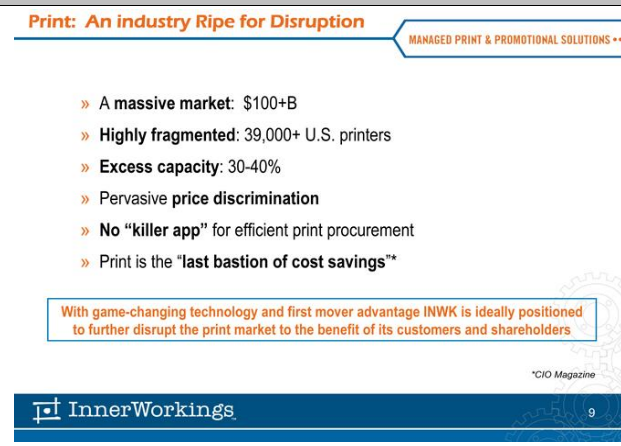
[8] Sports Publishing v. Lefkofsky et al. US District Court Central District of Illinois. 2008.*Court House News*. Web. 31 Mar. 2008.
[9] Alpert, Bill, "The Inner Workings of InnerWorkings," *Barron's*, 2007 January 15.
[10] Ibid.

and being forced to restate its revenues. Later in the report, we will profile the web of related dealing among ECHO, GRPN, and IW, and our evidence that IW is also at high risk of having to restate its revenues.

What Happened to IW's Proprietary, Industry-Changing PPM4 Technology?

During its IPO process, in almost every investor presentation, and in every 10-K filing since coming public, management has touted its reliance on the company's 'proprietary' software program, PPM4. The technology was pushed as a "killer app" and a "revolutionary," "game-changing" technology. More importantly, the patent-protected software was said to give the company a leg up on the competition, was an essential component of IW's competitive advantage, and it was said to have created significant barriers to entry.

<table>
<tr><th>Patent-Protected PPM4 Creates Barriers to Entry</th><th>PPM4 Described as a "Killer App", Game Changer</th></tr>
<tr><td>


Source: *InnerWorkings Investor Day Presentation, Nov 2008*
</td><td>


Source: *InnerWorkings Investor Day Presentation, Feb 2010*
</td></tr>
</table>

Strangely, aside from a paragraph devoted to discussing a legal proceeding brought against the company, PPM4 has been dropped from mention in the company's 2012 10-K. Furthermore, we have noticed interesting changes in language in comparing previous 10-K's with the 2012 filing, specifically in reference to the company's patents.

Every 10-K filed since IW IPO'ed, contained an Intellectual Property disclosure with language resembling the following, excerpted from the 2011 filing: *"As of December 31, 2011, we have been issued one US Patent and have seven patent applications pending related to our proprietary sourcing methods. We expect to apply for additional patents in the future*." This language was completely dropped from the 2012 filing.

Similarly, we noted the subtle removal of the word 'patent' in one of the company's risk disclosures:

- 2011 Risk Disclosure: "*If we fail to protect our intellectual property rights adequately, our competitors could replicate our proprietary technology in order to offer similar services and harm our competitive position. We rely on a combination of patent, trademark and trade secret laws and confidentiality and nondisclosure agreements to protect our proprietary technology*."
- 2012 Risk Disclosure: "*If we fail to protect our intellectual property rights adequately, our competitors could replicate our proprietary technology and offer similar services, which would harm our competitive position. We rely primarily on a combination of trademark and trade secret laws and confidentiality and nondisclosure agreements to protect our proprietary technology*."

And as stated, the only mention of PPM4 was found in the following disclosure of a new patent infringement suit brought against the company:

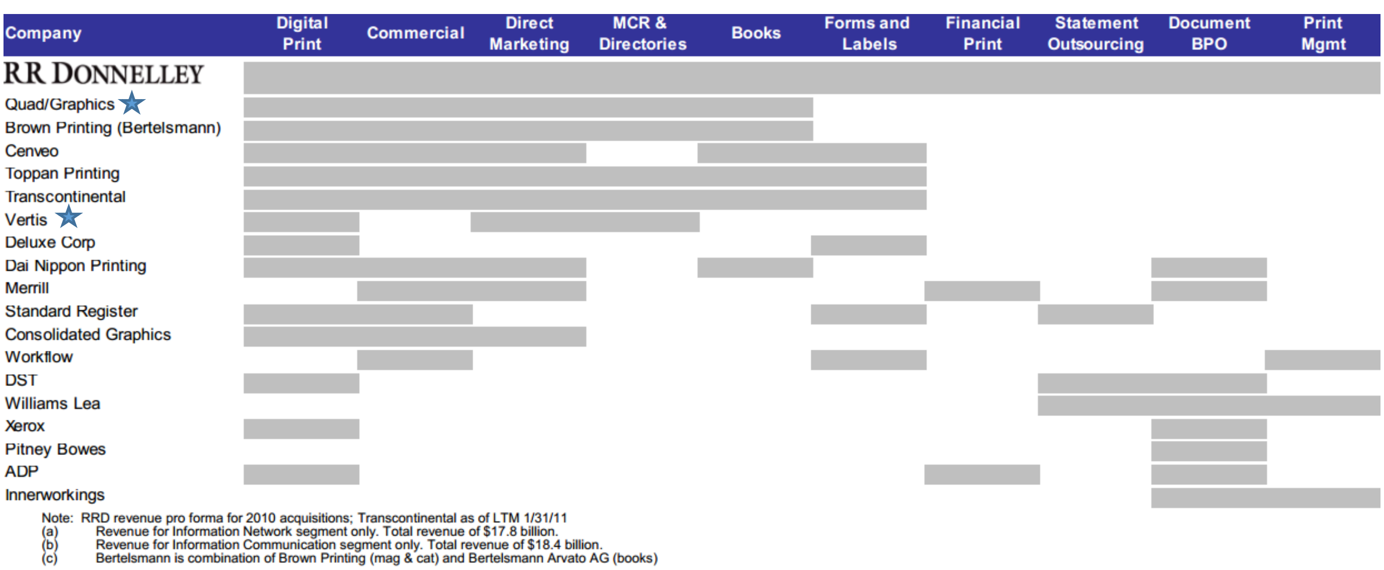
> *In December 2010, e-Lynxx Corporation filed a complaint against the Company and numerous other defendants for patent infringement in the United States District Court for the Middle District of Pennsylvania. As to the Company, the complaint alleges, among other things, that certain aspects of the Company's PPM4™ 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 February 2013, e-Lynxx asserted that the monetary damages it seeks from the Company are in the range of $22 million to $56 million for the period from May 2009 through December 2011; e-Lynxx has not yet specified damages sought for 2012 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. A trial of this matter is currently scheduled in July 2013. The Company believes that an unfavorable outcome is reasonably possible but not probable, and therefore, no reserve has been recorded for a potential loss. The loss that is reasonably possible cannot be estimated.*

Frankly, we are baffled as to why a company that intends to defend itself vigorously in a patent infringement suit appears to have dropped claim of the patent in question. We find it alarming that no announcement was made pertaining to the potential loss of a technology platform thought to be an integral part of IW's business. In light of these peculiarities, and the size of the asserted monetary damages, we wonder whether the escalation of this suit led to the company increasing the size of its credit facility in April 2012 by $50m.

Competition Stiffening Just as Barriers to Entry… Disappear?

For the time being, while excess capacity remains high in the commercial printing industry, many will see a potential profit opportunity to be had for building scale and full service solutions. As previously discussed, we believe there is nothing special about how IW operates, and that print brokerage is a commodity business with low barriers to entry. That said, the competitive landscape has already begun to worsen and, with time, attractive broker spreads are likely to be competed away.

In reading through IW's SEC filings, we get the sense that management has dramatically understated the competitive landscape. The company cited only Williams Lea, Logicsource, Cirqit, Noosh, RR Donnelly and Quad/Graphics as competitors. However, we believe IW also competes against several other, better-capitalized industry heavyweights such as Xerox, Pitney Bowes, Cannon, HP, DST Systems, Consolidated Graphics, ADP, and Merrill Corp. The table below, copied from a March 2013 RR Donnelly presentation, demonstrates how an incumbent leader views IW from a competitive threat standpoint...dead last at the very bottom!



Quad acquired Vertis

As a final thought, we observe that even IW's CEO recognizes the competitive landscape has intensified. Commenting in a recent article on the increasing competition, he said, "*It's inevitable. I'm a little surprised it hasn't happened faster*." This might explain IW's rationale for announcing the acquisition of DB Studios at the same time it lost a significant portion of business from its largest customer SuperValu. DB Studios is a California-based distributor of permanent POP displays and retail fixtures, whose clients include major retail and consumer package goods brands. The acquisition provides IW with creative, design, engineering, and prototyping capabilities, which are critical in the permanent display world.

DB Studios appears to be in a totally unrelated area to IW's core business, and we don't expect IW to break ground on dominating this market any time soon. Just months earlier, industry heavyweight Quad/Graphics announced it would acquire all the assets of Vertis out of bankruptcy. The combination of Quad/Graphics and Vertis appears to be a natural and strategic fit. The complementary capabilities of the two businesses in retail advertising inserts, direct marketing and in-store marketing will further strengthen and expand its offerings, and will allow it to better serve its clients

Management Churn and Rapid Director Departures in 2012 Should Be a Concern For Investors

In our previous report on Boulder Brands, we noted how the abrupt resignations of three directors and the CFO after the acquisition of Glutino should have been a serious red flag to investors. In similar fashion, IW's shareholders appear to have completely ignored the major changes with management and at the Board level in 2012. Moreover, we note that a majority of the Board turnover in March 2012 came not long after IW acquired Productions Graphics in late 2011 and expanded its credit facility.

In light of all our concerns about the IWs revenue recognition, technology, increasing competition, and over-promotion, we think investors should see the disturbing pattern of turnover at the management ranks in the past few years. We observe that every major role at IW has turned over since the IPO. Management's actions speak much louder than their words.

	Date of Resignation	Individual / Title or Board Role
Executive Management	Jan 1, 2008	Scott Risoni / EVP of Sales
	Nov 17, 2008	Steven Zuccarini / Chief Executive Officer
	July 1, 2008	Nicholas J. Galassi / Chief Financial Officer
	Jan 13, 2009	Neil P. Graver / Chief Technology Officer (demotion to VP Technology)
	June 30, 2010	Jan J. Sevcick / Chief Information Officer
	Jan 19, 2011	Jonathan Shean / SVP of Operations
Board of Directors	October 26, 2012	Eric Lefkofsky (Comp, Governance)
	April 30, 2012	Sharyar Baradaran (Audit, Comp, Governance)
	April 30, 2012	Peter Barris (Audit, Comp, Governance)
	March 2, 2012	John Walter / (Chairman, Audit, Comp, Governance)

The Board level changes are even more disturbing. According to the 2012 proxy statement filed on April 30, 2012, both Mr. Sharyar Baradaran and Mr. Peter Barris decided not to stand for reelection. We note that both individuals served on the company's Audit Committee in 2011. Mr Barris' decision not to stand for reelection is particularly troublesome considering that he represented a 9.4% ownership position of New Enterprise Associates ("NEA"), which at the time was one of the largest shareholders. However, according to a recent SEC 13G filing, NEA has completely exited its investment after Mr. Barris' departure. Mr. Baradaran, a board member since 2006, was also a 1% shareholder at the time of his resignation. Both individuals also served on the Compensation and Corporate Governance Committees.

Perhaps a more mysterious resignation was John Walter's departure on March 2, 2012. Instead of filing a typical 8-K with the SEC, IW quietly slipped his resignation notice into item 9B of their 2011 10-K filing. Mr. Walter had served as the non-executive Chairman of the Board since 2004 and was also on the Audit Committee and Chairman of the Compensation and Corporate Governance Committees. **So there you have three board departures, with all members having served on the Audit and Corporate Governance committees**. **Can there be any clearer signs of a potential cover-up at IW**? Adding insult to injury, later in October 2012 co-founder Eric Lefkofsky also resigned from the Board. He had served on the Board since 2008 and sat on the Compensation and Corporate Governance Committees. According to the latest filings, Mr. Lefkofsky owns 6.4% of the company.

Related Party Dealings and Other Governance Concerns

The executives and Board members of IW also have ties to other public companies such as Groupon and Echo Logistics. Each company also has Ernest & Young (Chicago Office) as its auditor. Moreover, Mr. Joseph Del Preto has served as the financial controller for each company at some point in time. This can be easily seen from his public LinkedIn profile page. **We observe that all of the related individuals have distanced themselves from InnerWorkings at the current time.**

Individual	Groupon	InnerWorkings	Echo Logistics
Andrew Mason	Co-Founder, former CEO	Mr. Mason worked as a computer programmer with InnerWorkings	
Eric Lefkofsky	Co-Founder, Executive Chairman	Co-Founder, former Board Member (resigned in Oct 12)	
Peter J. Barris	Board member since 2008	Former Board member, does not run for re-election in 2012	Board member since 2009
Joseph M. Del Preto II	Chief Accounting Officer since April 2011	From January 2006 to March 2009, Mr. Del Preto served as Controller of InnerWorkings	Controller and Vice President, Finance of Echo Global Logistics, Inc from April 2009 to December 2010.
Bradley A. Keywell	Co-Founder, Current Director		Co-Founder and Board member
John Walter	Former Board member	Former Board member, resigned in Mar 12	Board member since 2006

We have also scoured each company's financial disclosures, and have found a web of insider dealing and inconsistencies that would make any prudent investor think twice about owning shares of IW. First (1), consider that in 2011 IW said it billed Groupon $1.6m, and in the next year's filing changed the figure to $2.46m. Secondly (2), we observe that IW abruptly terminated an agreement with Groupon for corporate procurement cards in March 2012. This was right around the time IW's three board members departed. Furthermore, Groupon never disclosed this procurement relationship. There is not enough detail to understand what exactly corporate procurement cards are for in the context of IW's business. Thirdly (3), we observe inconsistencies between the amounts billed, and revenue reported between IW and ECHO (i.e. 2010 IW said the amount was $5.7m vs. ECHO reporting $6.82m). Lastly (4), we note that ECHO has disclosed a "rebate program" that was in place through Q4 2010 with IW, however, IW did not disclose this to its shareholders. Interestingly enough, this rebate program was terminated shortly after ECHO's COO resigned, and its controller, Mr. Del Preto, left the firm in December 2010.

Company	2011 10K Disclosure	2012 10K Disclosure
InnerWorkings	<u>Groupon</u> During 2011, we provided promotional product procurement services to Groupon. The total amount billed for such services during the year ended December 31, 2011 was approximately $1.6 million (1) During Q2 2010, we entered into an agreement with Groupon related to corporate procurement cards. The agreement allows Groupon to obtain corporate procurement cards under our existing credit arrangement. Under the agreement, we billed Groupon $64,000 and $88,000 during the years ended Dec. 31, 2010 and 2011.	<u>Groupon</u> During 2011 and 2012, the Company provided promotional product procurement services to Groupon. The total amount billed for such services during the years ended December 31, 2011 and 2012 was approximately $2,461,188 and $905,489, respectively During Q2 2010, the Company entered into an agreement with Groupon related to corporate procurement cards. The agreement allows Groupon to obtain corporate procurement cards under the Company's existing credit arrangement. Under the agreement, the Company billed Groupon $64,000, $88,000 and $32,000 during the years ended Dec. 31, 2010, 2011 and 2012. This agreement was terminated on March 31, 2012 (2)

	Echo Logistics We provide print procurement services to Echo. The total amount billed for such print procurement services during the years ended December 31, 2009, 2010 and 2011 were ~$68,000, $60,000 and $83,000, respectively. In addition, Echo has provided transportation services to us. As consideration for (3) these services, Echo billed us ~$3.6m, $5.7m and $8.7m for the yrs ended Dec. 31, 2009, 2010, 2011	**Echo Logistics** We provide print procurement services to Echo. The total amount billed for such print procurement services during the years ended December 31, 2010, 2011 and 2012 were ~$60,000, $83,000 and $102,482, respectively. In addition, Echo has provided transportation services to the Company. As consideration for these services, Echo billed the Company ~$5.7m, $8.7m and $10.8m for the yrs ended Dec. 31, 2010, 2011, 2012.
Groupon	During 2011, the Company transacted with InnerWorkings, Inc. a company co-founded by the Company's co-founder and Executive Chairman of the Board, for promotional services. Amounts paid in advance to InnerWorkings for services which had not yet been expensed totaled $1.3 million, which was recorded in “Prepaid expenses and other current assets” on the consolidated balance sheet.	During 2011, the Company engaged InnerWorkings, Inc. to provide marketing services. The Company's Executive Chairman, Eric Lefkofsky, is a former director and significant stockholder of InnerWorkings. The Company recognized $1.1 million of expense under its agreement with InnerWorkings for the year ended December 31, 2012. The Company also paid InnerWorkings $1.3 million during 2011 for gift cards that the Company sells to customers.
Echo Logistics	The Company provides transportation and logistics services to InnerWorkings. The Company recognized revenue of $4.19m, $6.82m and $8.76m for the years ended December 31, 2009, 2010 and 2011, respectively, from InnerWorkings. In 2009 and 2010, the Company also had a (4) rebate program in place with InnerWorkings in association with the transportation and logistics services provided. The rebate agreement was terminated in the fourth quarter of 2010. InnerWorkings also provides print and procurement services to the Company. As of Dec. 31, 2010 and Dec. 31, 2011, the Company had a net receivable due from INWK $941,669 and $1,800,181, respectively. The Company had accounts payable of $184,803 and $148,443 due to InnerWorkings as of Dec. 31, 2010 and Dec. 31, 2011, respectively, as a result of the rebate agreement in 2010 as well as the print and procurement services.	The Company provides transportation and logistics services to InnerWorkings. The Company recognized revenue of $10.46m, $8.76m and $6.82m for the years ended December 31, 2012, 2011 and 2010, respectively, from InnerWorkings. In 2010, the Company also had a rebate program in place with InnerWorkings in association with the transportation and logistics services provided. The rebate agreement was terminated in the fourth quarter of 2010. InnerWorkings also provides an immaterial amount of print procurement services to the Company. As of December 31, 2012 and December 31, 2011, the Company had a net receivable due from InnerWorkings of $2,583,949 and $1,800,181, respectively. The Company had accounts payable of$53,347 and $148,443 due to InnerWorkings as of December 31, 2012 and December 31, 2011, respectively, as a result of the print procurement services provided by InnerWorkings.

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IW Has Fooled Analysts Into Thinking There's 45% Upside In the Stock

IW Has Canvased the Street to Find Some Supporting Analysts

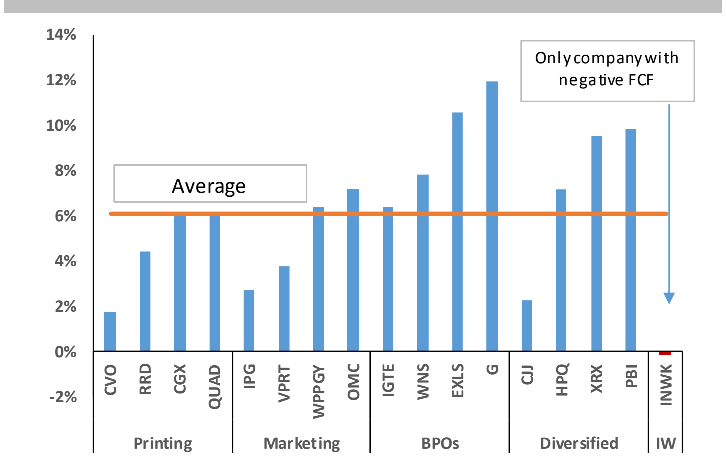
IW has worked hard to convince sell-side analysts that it is a growth machine, worthy of a higher stock price. We note that IW has presented at thirteen different broker-hosted investment conferences in the past few years. Their hard work has paid off, with four brokers claiming IW is a "Buy" with 40% upside from the current price.

Investor Presentation	Rating/Price	Link
Credit Suisse		http://investor.inwk.com/releasedetail.cfm?ReleaseID=746701
Barrington Research	Buy: $16.00	http://investor.inwk.com/releasedetail.cfm?ReleaseID=746702
JP Morgan		http://investor.inwk.com/releasedetail.cfm?ReleaseID=717500
CL King		http://investor.inwk.com/releasedetail.cfm?ReleaseID=703546
Jefferies, **Craig-Hallum**, Benchmark	Buy: $16.00	http://investor.inwk.com/releasedetail.cfm?ReleaseID=669241
Morgan Stanley, **Sidoti**	Buy: $19.00	http://investor.inwk.com/releasedetail.cfm?ReleaseID=649452
Needham		http://investor.inwk.com/releasedetail.cfm?ReleaseID=635147
William Blair	Outperform	http://investor.inwk.com/releasedetail.cfm?ReleaseID=630203
Morgan Keegan		http://investor.inwk.com/releasedetail.cfm?ReleaseID=595551
Morgan Joseph		http://investor.inwk.com/releasedetail.cfm?ReleaseID=475399

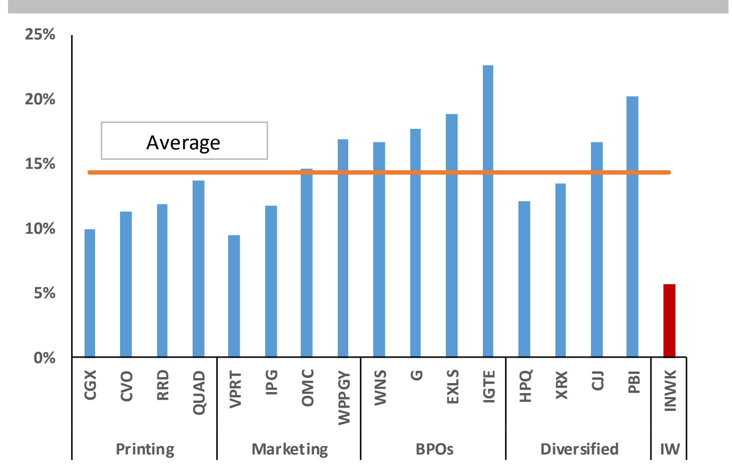
Our Valuation Incorporates a Realistic View of IW's Business Model

Analysts seem to be justifying inflated stock price targets with the assumption that management's projections will come to fruition, and IW is the fastest growing company in business services. We believe IW is nothing more than a provider of print brokering services, and should be viewed closer to its commercial printing, marketing and business process outsourcing (BPO) peers. IW's financial profile is so weak that its EBITDA and Free Cash Flow margins are at the very bottom of its peers.

LTM Free Cash Flow Margin



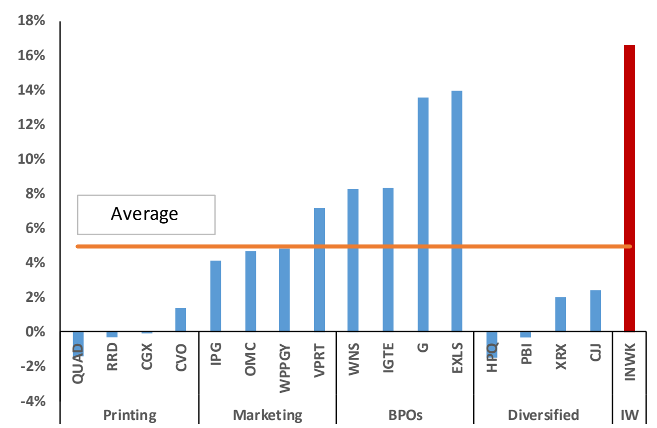
LTM EBITDA Margin



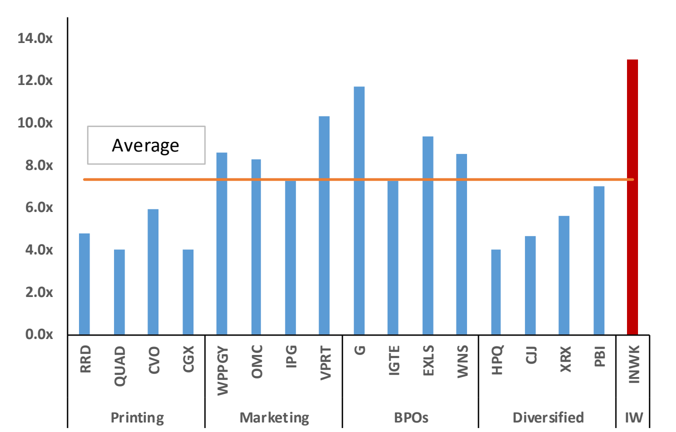
We've benchmarked IW's valuation next to a wide variety of commercial printing, marketing service, business process outsourcing (BPO), and diversified business service companies. Many of these companies are dramatically larger with dominant global footprints, and are better capitalized. See Appendix VII for a complete list of comparable companies.

In the top left chart, we observe that IW's estimated revenue growth is the highest amongst all its peers. IW's valuation premium, therefore, appears to be a direct result of the false belief that its revenue growth is properly accounted for, and that its targets will be achieved.

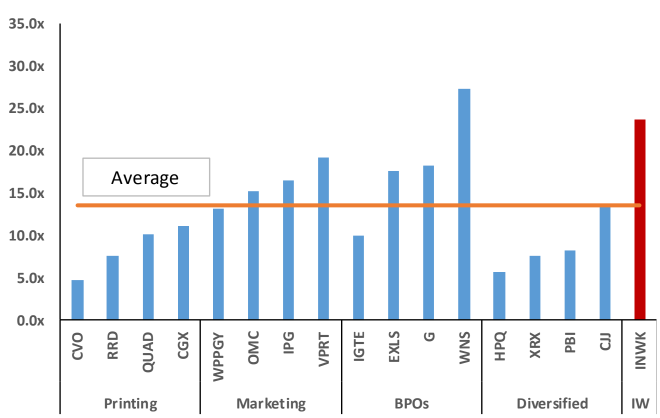
2013-2014E Sales Growth



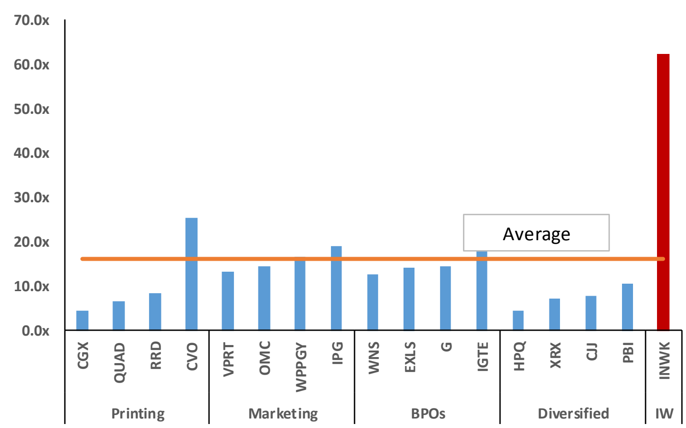
Ent. Value / 2013E EBITDA



Price / 2013E EPS



Ent. Value / LTM Cash From Operations



Source: CapitalIQ, Company filings

Price Target and Conclusion

IW's revenues are being incorrectly accounted for, and its market opportunity is dramatically less than advertised. These problems are causing the market to assign and irrationally high growth rate to the company's revenues, and premium valuation to IW's stock price.

We believe IW should trade at the low range of its peers for the following reasons:

1. Revenues stated on a gross basis are in violation of GAAP, which places the company in current violation of their credit agreement and at above average risk of the SEC opening a formal investigation, and compelling a restatement
2. Declining financial disclosures surrounding enterprise/middle market client counts and sales commissions that make reconciling reported revenue growth challenging
3. Potential global market opportunity of "$500bn" dramatically lower than advertised, rendering IW's growth opportunities much lower than they appear
4. Business features more closely aligned with a slow growth commercial printing/business process outsourcing firm, in a highly competitive space crowded with better-capitalized players such as HP, Xerox, Pitney Bowes, Williams Lea and others
5. Increased risk exposure to foreign markets; notably Europe where the company committed significant resources through an aggressively structured deal
6. Weakening financial model that indicates declining gross and free cash flow margins and increased reliance on borrowing
7. Corporate governance concerns as illustrated by related-party dealings, unexplained director departures, unusually high management compensation, and recent insider sales shortly before a large enterprise contract failure

Given our grave concerns about the condition of their business, and high degree risk of a financial restatement or SEC enforcement, we believe IW should be valued closer to its commercial printing/diversified business products and services peers at 8x-12x 2013 earnings and 5x-7x 2013 EBITDA, which would result in a stock price closer to $5.00 per share (~55% downside)

Appendix I: IW's 2008 Supplier Contract

InnerWorkings

Purchase Order Terms and Conditions

The goods and services described in this Purchase Order (the "PO") are provided by Supplier subject to the following terms and conditions. Supplier agrees to be bound by and to comply with all such conditions. Other terms and conditions are not binding upon InnerWorkings (IW), unless accepted in writing.

Terms of Payment – All payments are made in US funds. InnerWorkings standard payment terms are 2% / 15 days, net 60 days from invoice arrival date. All supplier invoices are stamped and scanned into our accounts payable system on the day they arrive. All invoices should be sent to 600 W. Chicago, Suite 850, Chicago, IL 60610. Supplier invoices should only incorporate one purchase order, and the purchase order # should be clearly noted on the invoice. Any invoices with an incorrect or missing PO number will be rejected and will be mailed back to the supplier.

Quantity Variation / Substitutions / Transportation - Overs / unders: Specified allowance for "overs / unders" is provided on the Purchase Order. No substitution or modification of any goods, component parts, or raw materials, processes, or manufacturing sites may be made without IW's prior written consent. If in order to comply with IW's required delivery date, it becomes necessary for supplier to ship by a more expensive mode than specified on the face of this PO, any premium transportation cost resulting there from shall be paid for by supplier unless supplier can establish to IW's satisfaction that the necessity for the change in routing is occasioned by force majeure events.

Warranty - Supplier expressly warrants all (i) goods delivered under this purchase order to be free from defects in material and workmanship and to be of the quality, size and dimensions ordered and (ii) work performed under this purchase order to be in conformity with all plans, specifications and other data incorporated as part of this purchase order. These express warranties shall not be waived by reason of acceptance or payment by IW. This purchase order incorporates by reference all terms of the Uniform Commercial Code as adopted in the State of Illinois (the "UCC") providing any protection to Buyer including but not limited to all warranty protection (express or implied) and all of Buyer's remedies under the UCC. All goods and services shall also be subject to any stricter warranties specified in the purchase order or in other materials incorporated by reference.

Risk of Loss - Unless the PO expressly states otherwise, all goods shall be shipped FOB the "Ship to" location designated on the PO. Risk of loss shall not pass to IW until goods have been received and accepted by IW or its client at the destination specified herein or when goods are placed into storage at supplier's facility. Supplier assumes full responsibility for packing, crating, marking, transportation and liability for loss and/or damage even if Buyer has agreed to pay freight, express or other transportation changes.

Hold Harmless - From and after the date of this PO, the supplier agrees to indemnify, defend and hold harmless IW and its clients from any and all claims, regardless of by whom such claim or claims may be asserted, for personal injury, including death, or property damage or otherwise that may result directly or indirectly from the use, possession or ownership of the goods or from the services provided by supplier pursuant to this PO.

Confidential Information / Non-Solicitation - All specifications, documents, artwork, or drawings delivered to supplier by IW remain IW's property. The information is delivered solely for the purpose of supplier's performance of this PO and on the express condition that neither supplier nor the information contained therein shall be disclosed to others nor used for any purpose other than in connection with this PO without IW's prior express written consent. IW reserves the right to request that supplier return all such information to IW upon IW's written request. During the period that this PO is in effect and for a period of twenty-four (24) months after completion, supplier agrees not to 1) solicit for employment any employees or sales people of IW, or 2) solicit IW's end client that is being serviced as part of this PO. Supplier's obligations under this paragraph shall survive the cancellation, termination or other completion of this PO.

Passage of Title - Title to finished goods shall pass to IW upon carrier's delivery and acceptance by IW or IW's client, or delivery and acceptance into storage on IW's behalf, regardless of whether the transport medium or storage facilities are owned and/or operated by supplier. Artwork, drawings, sketches, dummies, film positives, negatives, and separations to be sold to IW pursuant to this PO shall become the property of IW upon completion of printing and payment.

Force Majeure - Supplier shall not be liable for default or delay due to causes beyond Supplier's reasonable control and without fault or negligence on the part of Supplier. The Supplier must give IW prompt notice in writing when any such cause appears likely to delay deliveries and/or performances of services and takes appropriate action to avoid or minimize such delay. If any such default or delay threatens to impair Supplier's ability to meet delivery requirements for its material, supplies and services, IW shall have the right, without any liability to Supplier, to cancel the portion or portions of this PO so affected. IW shall not be liable for default or delay in the performance of its obligations due to cause beyond its reasonable control.

Gratuities - No gratuities (in the form of entertainment, gifts or otherwise) or kickbacks shall be offered or given by Supplier to any customer or employee of IW for the purpose of obtaining or rewarding favorable treatment as a supplier.

Assignment / Subcontracting – Supplier does NOT have any right to assign this purchase order or any benefits arising from the purchase order without prior written consent of IW and, unless otherwise agreed upon in writing, the rights of any assignee shall be subject to all set-offs, counterclaims, and other comparable rights arising hereunder. Supplier shall not, except in the case of raw materials or standard commercial goods or except as otherwise agreed in writing by IW, delegate or subcontract the work on any item or service to be delivered or performed.

Bankruptcy - If supplier makes an assignment for the benefit of creditors, or admits in writing its failure or inability to perform its obligations under this purchase order, or becomes the subject of an "order for relief" within the meaning of that phrase in the U.S. Bankruptcy Code, or applies for or consents to the appointment of a receiver for any of its property, IW may terminate any agreement arising out of or relating to this purchase order, at any time, effective immediately upon notice. Such termination shall not relieve either party from any obligations accrued hereunder up to the date of notice of termination.

Inspection / Rejection - The goods and services are subject to inspection and test by IW or IW's client at any time and place. If the goods and services furnished are found to be defective, IW may reject them, or require Supplier to correct them without charge, or require a reduction in price which is equitable under the circumstances. If Supplier is unable or refuses to correct such items within a time deemed reasonable by IW, IW may terminate the PO in whole or in part. Supplier bears all risks as to rejected goods and services. Supplier reimburses IW for all transportation costs, other related costs incurred, and overpayments in respect of the neglected goods and services.

Governing Law / Legal Action - The supplier agrees to comply with all applicable federal, state, and local laws and regulations. This Agreement will be governed by the internal laws of the State of Illinois. If either party commences an action against the other party arising out of or in connection with this Offer or any agreement arising out of or relating to this Offer, the prevailing party shall be entitled to have and recover from the losing party said prevailing party's reasonable attorneys' fees and costs of suit.

Changes to Terms & Conditions – Supplier agrees to be bound by all of the terms, conditions contained in this PO. IW may modify the terms and conditions, upon mailing notice of such changes to suppliers known address or by posting most up to date terms and conditions on www.iwprint.com/potc. Such changes shall be effective for all transactions between printer and customer after the date of the notice / posting.

SUPPLIER'S REPRESENTATIVE, BY SIGNING BELOW, REPRESENTS AND WARRANTS THAT SHE/HE HAS BEEN DULY AUTHORIZED TO MAKE THE STATEMENTS CONTAINED HEREIN AND TO BIND THE APPLICANT TO THE TERMS AND CONDITIONS SET FORTH HEREIN, AND FURTHER REPRESENTS AND WARRANTS THAT THE INFORMATION SET FORTH ABOVE (INCLUDING, WITHOUT LIMITATION, ANY ADDITIONAL SHEETS ATTACHED HERETO) ARE TRUE, CORRECT AND COMPLETE.

Appendix II: IW's 2013 Supplier Contract

InnerWorkings

Certified Supply and Services Agreement

This Supply and Services Agreement ("Agreement") shall govern all purchases of goods and services described in each Purchase Order ("PO") issued to Supplier by InnerWorkings, Inc. ("IW").

Invoice Submission: All invoices must be uploaded to the IW supplier portal within 5 days of delivery of goods. Invoices are recognized on the date that Supplier uploads the invoice to the IW supplier portal. IW will send an electronic communication confirming receipt of the invoice. Supplier invoices should only incorporate one PO, and the PO number should be clearly noted on the invoice. Any invoices with an incorrect or missing PO number will not be accepted.

Payment Terms: Payment terms shall be 3.5% 10 days, net 60 (i.e. all invoices shall be paid within 60 days from the invoice upload date provided that IW may reduce the amount invoiced by 3.5% for all or any portion paid within 10 days from the invoice upload date).

Certification and Technology Fee: As a participant of IW's certified supplier program and certified user of IW's supplier portal, each year Supplier will be assessed a certification and technology fee in the amount of 3% of total amount invoiced by Supplier to IW in the calendar year. If total amount invoiced exceeds IW's technology scale threshold (as determined and modified by IW from time to time) ("Technology Threshold") during the calendar year, the certification and technology fee shall be reduced to 2% for amounts invoiced above the Technology Threshold for the remainder of that calendar year. In the first quarter of each following calendar year, IW shall report to Supplier the total amount invoiced and the calculated certification and technology fee for the previous calendar year. Thereafter IW will apply the certification and technology fee in the form of a credit towards invoices for future purchases from Supplier.

Quantity Variation / Substitutions / Transportation: Specified allowance, if any, for "overs / unders" is provided on each PO. No substitution or modification of any goods, component parts, raw materials, processes or manufacturing sites may be made without IW's prior written consent. Time is of the essence with respect to Supplier's performance of this Agreement and any PO. If in order to comply with IW's required delivery date, it becomes necessary for Supplier to ship by a more expensive mode than specified on the PO, any resulting premium transportation cost shall be borne by Supplier unless caused by force majeure event and agreed to in writing by IW.

Title and Risk of Loss: Unless the PO expressly states otherwise, the FOB point for all goods shall be the shipping location designated on the PO. Risk of loss and title remain with Supplier until the goods arrive at the shipping point specified in the PO.

Ownership: All specifications, documents, artwork, drawings, sketches, dummies, film positives, negatives, separations, deliverables, goods, intellectual property, Confidential Information (as defined below), or other information or materials or portions thereof ("Proprietary Materials") delivered to Supplier by IW or IW's client or created by Supplier pursuant to this Agreement or any PO shall be and remain IW's property and shall be deemed a "work made for hire" (as defined in the Copyright Act of 1976). If, for any reason, such Proprietary Materials shall not legally be deemed a "work made for hire," then Supplier hereby irrevocably assigns and agrees to assign all of Supplier's right, title, and interest thereto to IW.

Confidential Information: All information to which Supplier is given access or which is made available to Supplier as a result of its relationship with IW is referred to herein as "Confidential Information." Confidential Information is delivered solely for the purpose of Supplier's performance of this Agreement and any PO and Supplier shall not disclose to others nor use for any purpose other than to perform this Agreement or any PO without IW's express prior written consent. Under no circumstances will Supplier transmit, store, or access Confidential Information from any location outside the United States without the prior written consent of IW. For purposes of this Agreement, Confidential Information shall include, without limitation, all technology, know-how, processes, software, databases, trade secrets, contracts, all historical and financial information, business strategies, operating data and organizational and cost structures, product descriptions, and pricing information. Confidential Information also includes any other information that is deemed to be nonpublic personal information or personally identifiable information under applicable privacy or data security laws or regulations. Confidential Information shall not include information that: (a) was in Supplier's possession, free of any obligation of confidence, prior to receipt from IW, as proven by the Supplier's written records; (b) is in the public domain through no breach of duty; or (c) is independently developed by Supplier without use of or reference to any Confidential Information.

Return of Materials: At any time, IW may demand and Supplier shall immediately return, or at IW's direction destroy, any and all Proprietary Materials that relates to IW and/or IW's clients that is in the possession of Supplier.

Relationship: Supplier's relationship with IW is that of an independent contractor, and this Agreement shall not create a partnership, agency, joint venture, or employment relationship. Entry into this Agreement makes Supplier eligible to enter into POs with IW; however, IW is not required to award any POs or to provide any minimum volume to Supplier.

Warranty: Supplier expressly warrants all (i) goods delivered under each PO shall be free from defects in material and workmanship and of the quality, size, and dimensions ordered and (ii) work performed under each PO will be in conformity with all plans, specifications, and other data incorporated as part of the PO. Each PO incorporates by reference all terms of the Uniform Commercial

Code as adopted in the State of Illinois (the "UCC") providing any protection to a buyer including but not limited to all warranty protection (express or implied) and all of buyers remedies under the UCC. All goods and services shall also be subject to any stricter warranties specified in the PO or in other materials incorporated by reference.

Indemnification / Hold Harmless: Supplier agrees to indemnify, defend and hold harmless IW and IW's clients from any and all third party claims that may result directly or indirectly from Supplier's production or supply of goods and services pursuant to a PO or Supplier's negligence or breach of this Agreement.

Insurance: Supplier shall, at its own cost, maintain the following insurance during the term of this Agreement: (a) Worker's Compensation and Occupational Disease Insurance with statutory limits and Employer's Liability coverage with a minimum limit of $500,000 per occurrence; (b) Automobile Liability Insurance with a minimum limit of $1,000,000 per occurrence covering all owned, non-owned and hired vehicles; (c) General Liability Insurance including Product Liability Insurance with a minimum limit of $1,000,000 per occurrence; and (d) Errors and Omissions / Professional Liability Insurance with a minimum limit of $1,000,000 per occurrence.

Assignment / Subcontracting: Supplier shall not assign this Agreement or any PO or any benefits arising from any PO without prior written consent of IW and, unless otherwise agreed upon in writing, the rights of any assignee shall be subject to all set-offs, counterclaims, and other comparable rights. Except as otherwise agreed in writing by IW, Supplier shall not delegate or subcontract its obligations under this Agreement or any PO.

Non-Solicitation / Non-Circumvent: During the Term of this Agreement and for a period of 24 months after the Term, Supplier agrees not to directly or indirectly solicit for employment any employees of IW with whom Supplier has had contact as a result of its relationship with IW. During the Term of this Agreement and for a period of 24 months after the Term, Supplier agrees not to directly or indirectly solicit, accept work from, or otherwise circumvent IW's relationship with a client serviced by IW as part of this Agreement or any PO. If Supplier has a current direct relationship with IW's end client that predates the Term of this Agreement or any prior similar agreement with IW, Supplier shall promptly notify IW in writing before accepting the applicable PO and the PO and this circumvention restriction shall be considered null and void as it relates to such prior direct relationship.

Compliance with Laws / Code: Supplier shall comply with all applicable laws, rules, and regulations, including, without limitation: (a) the United States Foreign Corrupt Practices Act and all other applicable laws relating to bribery or corruption, and (b) the Consumer Product Safety Improvement Act of 2008, California Proposition 65, and all other applicable laws relating to product safety or hazardous materials. Additionally, Supplier shall comply with the then current "InnerWorkings Supplier Code of Conduct," as updated from time to time and available on the IW supplier portal.

Gratuities: No gratuities (in the form of entertainment, gifts or otherwise) or kickbacks shall be offered or given by Supplier to any employee of IW or IW's client.

Audit: Supplier agrees to permit IW and its designated agents to audit Supplier's compliance with this Agreement and any PO, including unannounced on-site inspections of manufacturing facilities and employer-provided housing; reviews of books and records including employment files; and private interviews with employees. Supplier will maintain on site all documentation establishing compliance with this Agreement.

Applicable Terms & Conditions: Supplier, including its successors and assigns, agrees to be bound by all of the terms and conditions of this Agreement and these terms shall govern all transactions between Supplier and IW. All amendments to this Agreement or any PO must be in a writing signed by Supplier and IW. Any terms and conditions provided by Supplier are null and void.

Force Majeure: Neither Supplier nor IW shall be liable to the other for any delay or failure in performance due to a force majeure event that is beyond the reasonable control of the party unable to perform. If a force majeure event occurs, the party delayed or unable to perform shall give immediate notice to the other party, and the other party may terminate the affected PO if the force majeure event remains in effect for more than 5 days. A force majeure event means acts of God, wars, riots, terrorism, civil insurrections, and abnormal forces of nature.

Bankruptcy: If Supplier makes an assignment for the benefit of creditors, or admits in writing its failure or inability to perform its obligations under any PO, or becomes the subject of an "order for relief" within the meaning of that phrase in the U.S. Bankruptcy Code, or applies for or consents to the appointment of a receiver for any of its property, IW may terminate this Agreement or any PO, at any time, effective immediately upon notice. Such termination shall not relieve either party from any obligations accrued hereunder up to the date of notice of termination.

Governing Law / Forum: This Agreement will be governed by the internal laws of the State of Illinois without regard to conflict of laws. All legal actions relating to this Agreement or any PO shall be commenced within the federal or state courts located in Chicago, IL, and Supplier and IW hereby consent to venue and jurisdiction of such courts.

Term: The term of this Agreement shall commence on the date of Supplier's signature below and either Supplier or IW may terminate this Agreement by giving 60 days notice to the other party, provided that these terms and conditions shall continue in force during the performance of any PO that has not been completed prior to termination ("Term"). IW may terminate this Agreement or any PO immediately due to Supplier's breach of this Agreement or any PO.

Appendix III: IW's Recent Customer Quotation and Terms and Conditions

This recent job quote contains a link to IW's key Terms and Conditions. The Terms and Conditions document further illustrates passage of title from printer to customer, and the warranty being provided by the printer

InnerWorkings

FORMAL QUOTATION

Bow[redacted]
Attn:

DATE March 19th, 2013

JOB [redacted]
CONTACT [redacted]
DIRECT LINE [redacted]
FAX [redacted]

JOB DESCRIPTION
OUTDOOR BANNER

ITEM PRICING
VINYL BANNER
Outdoor vinyl banner
6 feet width x 3 feet height

Flat Width 6
Flat Height 3
Finished Width 6
Finished Height 3
Substrate Vinyl
Substrate Weight 13 ounce
Ink 4/0
Ink Details 4CP, UV Inks
Finishing Options Other
Finishing Options
Other Wind slits equally spaced

Grommets Yes
# of Grommets 6
Grommet Placement 1 in each corner and 1 top middle and bottom middle edges, 2 feet apart
Sewn Edges Yes
Sewing Details 1 inch sewn edge along all 4 sides
Special Shipping Instructions
Single bulk shipment
Pre Press Application Files Supplied
Proof Format PDF Proof

Quantity	**5**	**15**	**30**
Unit Price	$36.7347	$32.7273	$30.5083
Total Price	$183.67	$490.91	$915.25
	☐	☐	☐

The prices quoted above are guaranteed for 30 days from the date indicated above. Unless stated otherwise above, shipping and/or applicable sales tax is not included in the quoted price. Please check the quantity desired. Client will accept allowable overs/unders, not to exceed 10.00%. For complete terms and conditions, see http://www.inwk.com/tc Upon signature this quote will become a binding order. Thank you for the opportunity!

Accepted and Approved by ______________________ [redacted] Date______________

600 West Chicago Avenue Chicago, IL 60654 | Main: 312.642.3700 | www.inwk.com

www.inwk.com/tc/TC.pdf

InnerWorkings

Terms and Conditions

UNLESS AND TO THE EXTENT OTHERWISE SPECIFIED IN WRITING BETWEEN APPLICANT AND INNERWORKINGS OR ITS SUBSIDIARY (SELLER), AS CONSIDERATION FOR THE ADVANCEMENT OF CREDIT, APPLICANT(S) INDIVIDUALLY, JOINTLY AND SEVERALLY AGREES TO THE TERMS AND CONDITIONS SET FORTH BELOW.

Terms of Payment - Subject to approval of Customer's credit, net payment shall be due 30 days from invoice date unless otherwise noted in writing. If Printer (at its sole discretion) determines that Customer should not be extended credit, Printer may demand payment in full prior to any work or delivery, or require other payment arrangements satisfactory to Printer. Past-due invoices are subject to a service charge, calculated on the outstanding balance, at the lesser of (i) the rate of 1-½% per month or (ii) the highest legal rate authorized by applicable law. The service charge is not intended as an alternative to payment when due, and upon delinquency further purchases may be declined and the Customer's account may be referred for collection. Customer agrees to pay all costs including reasonable collection costs, attorney's fees and expenses related to the enforcement of applicant's obligations hereunder.

Quantity Variation - Variations in quantity of up to 10% over or under quantities ordered shall constitute acceptable delivery; and the excess or deficiency shall be charged or credited at the "additional thousands" rate set forth in the Price Schedule.

Warranty - Printer warrants that its services shall be performed according to the terms of this Offer and standards acceptable in the printing industry. However, by reason of differences in equipment, paper, inks and other conditions between the color proofing and production pressroom operations, a reasonable variation in color between color proofs and the completed job and normally expected manufacturing variances within tolerances established by trade customs may exist and shall be considered in conformity with this warranty. THIS WARRANTY IS EXCLUSIVE AND IN LIEU OF ANY OTHER EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY IMPLIED WARRANTY OF MECHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE.

Risk of Loss - The risk of loss of finished work shall pass to the Customer F.O.B. Printer's printing facilities upon the earlier of Printer's delivery to carrier or postal service, or delivery into storage, regardless of whether the transport medium or storage facilities are owned and/or operated by Printer, and regardless of whether Printer charges Customer for storage. The risk of loss of property furnished and/or owned by Customer shall be on Customer while such property is at the facilities at which printing is to occur, whether before or after the printing process, and while in transit to and from those facilities. Printer shall bear the risk of loss during the printing process to the extent of any all-risk insurance coverage therefore.

Responsibility for Content / Right to Rescind / Indemnity - Customer warrants that any material it furnishes for printing or for inclusion or use in other goods or services provided by Printer hereunder, and any goods provided by Printer hereunder in accordance with specifications, designs, drawings or instructions proposed or furnished by Customer, and any goods or services promoted or advertised by any goods or services provided hereunder, do not infringe any copyright or trademark or other proprietary right, are not libelous or obscene, do not constitute false or deceptive advertising, do not invade any person's right to privacy, do not otherwise violate any law or infringe the rights of any third party, and comply with all applicable governmental regulations, including but not limited to those relating to safety. Without limiting the foregoing, Printer shall in no way be liable for any claim that any goods or services provided by Printer hereunder or promoted or advertised by any goods or services provided hereunder failed to bear or contain all appropriate warnings, whether or not required or recommended by any governmental agency or other authority. Customer agrees to indemnify and hold Printer, its parent, subsidiaries and affiliates, and their officers, directors, agents, and employees, and the successors and assigns of any of the foregoing, harmless against all losses, claims, damages, liabilities and expenses, including Printer's attorneys' fees, which Printer, its parent, subsidiaries or affiliates, or their officers, directors, agents or employees, and the successors and assigns of any of the foregoing, may incur as a result of (a) any claims of such violation or infringement, (b) the failure of any goods or services provided hereunder or promoted or advertised by goods or services provided hereunder to bear or contain all appropriate warnings, or (c) claims related to personal injury (including death) alleged to be caused by (i) goods provided hereunder in accordance with specifications, designs, drawings or instructions furnished by Customer, or goods including materials furnished by Customer, or (ii) the use or consumption of any products or goods promoted or advertised by the goods or services provided by Printer hereunder. Printer shall have the right to rescind this Offer or any agreement arising out of or relating to this Offer (in whole or in part), without liability of any kind to Customer, in the event that, in Printer's good faith judgment, any material furnished may give rise to claims as aforesaid, or may be considered scandalous or offensive to some viewers, readers or other end-users of goods or services provided or to be provided hereunder.

Passage of Title - Title to finished goods shall pass to Customer upon the earlier of Printer's delivery to carrier or postal service, or delivery into storage, regardless of whether the transport medium or storage facilities are owned and/or operated by Printer. Artwork, drawings, sketches, dummies, film positives, negatives, and separations to be sold to Customer pursuant to this Offer shall become the property of Customer upon completion of printing and payment therefore; provided, however, that if such items are furnished by Printer by subcontracting the production thereof, then title thereto shall pass to Customer upon shipment to Customer. All experimental work, drawings and other art work, compositions, dies, sketches, dummies, lithographic separations, negatives, positives and plates and other items supplied by Printer shall be and remain the property of Printer.

Appendix IV: Terms and Conditions (From Customer Credit Extension Agreement)

InnerWorkings

Terms and Conditions

Unless and to the extent otherwise specified in writing between applicant ("customer") and Innerworkings or any of its subsidiaries ("seller" or "Innerworkings"). As consideration for the advancement of credit, applicant(s) individually, jointly and severally agrees to the terms and conditions set forth below for all services and product (collectively and individually referred to as "work") supplied by Innerworkings.

1. Terms of Payment – Subject to approval of Customer's credit, net payment shall be due 30 days from invoice date unless otherwise noted in writing. If Innerworkings (at its sole discretion) determines that Customer should not be extended credit, Innerworkings may require payment in full prior to any Work or delivery, or require other payment arrangements satisfactory to Innerworkings. Past-due invoices are subject to a service charge, calculated on the outstanding balance, at the lesser of (i) the rate of 1-½% per month or (ii) the highest legal rate authorized by applicable law. The service charge is not intended as an alternative to payment when due, and upon delinquency further purchases may be declined and the Customer's account may be referred for collection. Customer agrees to pay all costs including reasonable collection costs, attorney's fees and expenses related to the enforcement of Customer's obligations hereunder.

2. Warranty – Innerworkings warrants that its services shall be performed according to the terms of the applicable purchase orders accepted by Innerworkings, and that its services and finished Work shall meet the generally accepted quality standards of the commercial printing industry. THIS WARRANTY IS EXCLUSIVE AND IN LIEU OF ANY OTHER EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY IMPLIED WARRANTY OF MECHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE.

3. Risk of Loss and transfer of title – Unless shipping has been contracted for directly by Customer, title and risk of loss of finished work shall pass to the Customer upon Innerworkings' delivery of the Work to the delivery location designated by Customer in the Purchase Order. If shipping has been contracted for by Customer, title and risk of loss of finished work shall pass to the Customer upon Innerworkings' delivery of the Work to the designated carrier. If the Purchase Order provides that the Work is to be delivered by the US Postal Services, title and risk of loss shall pass to the Customer upon the placement of the Work with the US Postal Service.

4. Responsibility for Content – Customer represents and warrants that content or materials incorporated into the Work at Customer's direction does not and will not violate any law or infringe any third party intellectual property rights or be defamatory to any third party, does not constitute false or deceptive advertising, does not invade any person's right to privacy, and does not otherwise violate any law or infringe the rights of any third party. Customer also warrants that the content and materials incorporated into the Work at Customer's direction complies with all applicable governmental regulations, including but not limited to those relating to safety. Without limiting the foregoing, Innerworkings shall in no way be liable for any claim that any Work provided by Innerworkings hereunder, or goods or services promoted or advertised by Work provided hereunder, failed to bear or contain all appropriate warnings, whether or not required or recommended by any governmental agency or other authority.

5. Contingencies –Neither party shall be liable for any delay or failure to perform hereunder to the extent such delay or failure to perform arises out of causes beyond its reasonable control, including but not limited to Acts of God, labor trouble, governmental acts and regulations, inability to obtain materials or carrier space or equipment, or delays of suppliers or carriers. Innerworkings shall give written notice to Customer of any such condition within five (5) business days after it arises.

6. Claims / Limitation of Remedies – All claims for defective or damaged Work, or for shortages, must be made by Customer in writing fully setting forth the nature of the alleged defect, damage or shortage, accompanied by samples demonstrating any defect or damage, within 20 business days after Customer's receipt thereof. Customer's failure to do so shall constitute irrevocable acceptance of the goods and a waiver of any defect, damage or shortage. Claims for damage in transit must be made by Customer directly against the carrier. Customer's sole and exclusive remedy for Innerworkings' negligence or other tort, breach of warranty or contract or any other claim arising out of or connected with this agreement or any purchase order between the parties shall be the return of the selling price allocable to that portion of the work which is nonconforming or at Innerworkings' option, correcting the claimed defect or damage. IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES, WHETHER FOR BREACH OF CONTRACT OR WARRANTY, NEGLIGENCE OR OTHER TORT OR ON ANY STRICT LIABILITY THEORY.

7. Bankruptcy – If Customer files for bankruptcy protection, makes an assignment for the benefit of creditors, or admits in writing its failure or inability to pay its debts as they become due, or becomes the subject of an "order for relief" within the meaning of that phrase in the U.S. Bankruptcy Code, or applies for or consents to the appointment of a receiver for any of its property, Innerworkings may terminate any agreement or purchase order arising out of or relating to any order placed by Customer, at any time, effective immediately upon notice. Such termination shall not relieve either party from any obligations accrued hereunder up to the date of notice of termination.

8. Waivers – No waiver by either party of any default by the other in the performance of or compliance with any provision, condition or requirement herein shall be deemed to be a waiver of, or in any manner release such other party from compliance with any such provision, condition or requirement in the future; nor shall any delay or omission of either party to exercise any right hereunder or otherwise in law in any manner impair the exercise of any such right thereafter.

9. Governing Law / Legal Action – This Agreement and any purchase order between the parties will be governed by the internal laws of the State of Illinois If either party commences an action against the other party arising out of or in connection with any agreement or purchase order between the parties, the prevailing party shall be entitled to have and recover from the losing party said prevailing party's reasonable attorneys' fees and costs of suit.

Customer's signature attests solvency, ability and willingness to pay Innerworkings' invoices in accordance with the terms established. Applicant's representative by signing below represents and warrants that she/he has been duly authorized to make the statements contained herein and to bind the applicant to the terms and conditions set forth herein and further represents and warrants that the information set forth above (including, without limitation, any additional sheets attached hereto) and in the financial statements delivered in connection herewith are true, correct and complete.

Customer Name:______________________________

Print Name:________________________________

Appendix V: IW's New Enterprise Client Press Releases and Disclosures

We observe new enterprise win press releases declined in 2012 (none issued yet in 2013), while IW stopped disclosing customer counts in 2010.

Date	Company	Term	Financial Terms	Reference Link
10/23/2012	Fortune 100 Grocer (Expansion)	"Multi-Yr"	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=715364
9/25/2012	National Wildlife	"Multi-Yr"	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=709265
9/10/2012	Gannett	5yr	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=705682
4/12/2012	PNC Financial Services Group	"Multi-Yr"	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=663826
9/28/2011	"Undisclosed Non-Profit"	No	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=603986
6/28/2011	MoneyGram Int'l	"Multi-Yr"	"Multi-Million"	http://investor.inwk.com/releasedetail.cfm?ReleaseID=587648
6/2/2011	Morningstar	No	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=582516
4/29/2011	Willis Group Holdings	No	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=573176
4/8/2011	Walgreen (Extension Contract)	3yr	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=569744
11/10/2010	William Grant & Sons	No	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=529693
11/4/2010	Realogy Corp	"Multi-Yr"	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=527077
11/2/2010	Merial Limited	No	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=526366
9/23/2010	National Grid	"Multi-Yr"	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=510025
7/19/2010	Rent-A-Center	No	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=489428
4/27/2010	Junior Achievement	No	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=463819
2/19/2010	Unilever	"Multi-Yr"	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=445834
12/18/2009	Party City	No	"Multi-Million"	http://investor.inwk.com/releasedetail.cfm?ReleaseID=431402
12/1/2009	The Scotts Company	No	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=427280
10/7/2009	InterContinental Hotels Group	"Multi-Yr"	"Multi-Million"	http://investor.inwk.com/releasedetail.cfm?ReleaseID=414506
3/30/2009	Samsung	"Multi-Yr"	"Multi-Million"	http://investor.inwk.com/releasedetail.cfm?ReleaseID=373960
12/17/2008	Anchor Blue	No	"Multi-Million"	http://investor.inwk.com/releasedetail.cfm?ReleaseID=354748
11/19/2008	Sun-Times News Group	2yr	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=348697
10/29/2008	Nicor Gas	5yr	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=343750
6/4/2008	Modell's Sporting Goods	No	"Multi-Million"	http://investor.inwk.com/releasedetail.cfm?ReleaseID=318227
5/6/2008	Xerox (Extension Contract)	No	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=308621
4/10/2008	Group O Inc.	No	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=304168
11/26/2007	Navistar	3yr	No	http://investor.inwk.com/releasedetail.cfm?ReleaseID=276841

Source: InnerWorking's Website Press Releases

Comparison of years ended December 31, 2010, 2011 and 2012 (2012 10-k, page 21)

2012 compared to 2011. Our revenue increased by $163.9 million, or 25.9%, from $633.8 million in 2011 to $797.7 million in 2012. North America revenue increased by $108.4 million, or 20.0%, from $540.7 million in 2011 to $649.1 million in 2012. This increase in revenue is driven primarily by organic new enterprise and middle market account growth. International revenue increased by $56.8 million, or 60.7%, from $93.5 million in 2011 to $150.3 million in 2012. This increase is primarily due to a full year of revenue in 2012 after our expansion into Latin America and continental Europe through the acquisitions of CPRO and Productions Graphics, respectively, during 2011, in addition to various European tuck-in acquisitions of independent brokers.

2011 compared to 2010. Our revenue increased by $151.6 million, or 31.4%, from $482.2 million in 2010 to $633.8 million in 2011. North America revenue increased by $96.1 million, or 21.6%, from $444.6 million in 2010 to $540.7 million in 2011. This increase in revenue is driven primarily by organic new enterprise and middle market account growth, as well as several tuck-in acquisitions of independent brokers. International revenue increased by $55.8 million, or 147.9%, from $37.7 million in 2010 to $93.5 million in 2011. This increase is primarily due to our expansion into Latin America and continental Europe through the acquisitions of CPRO and Productions Graphics, respectively, during 2011.

Comparison of years ended December 31, 2010 and 2009 (2010 10-k, page 20)

Our revenue increased by $81.8 million, or 20.4%, from $400.4 million in 2009 to $482.2 million in 2010. The increase in revenue reflects an increase in both our enterprise and transactional business. Our revenue from enterprise clients increased by $75.8 million, or 28.6%, from $265.4 million in 2009 to $341.2 million in 2010. This increase in revenue is due to the addition of 23 new enterprise clients under contract as of December 31, 2010. Our revenue from transactional clients increased by $6.0 million, or 4.4%, from $135.0 million in 2009 to $141.0 million in 2010. This increase in revenue is largely the result of our growth initiatives in the areas of an outbound call center and internet sales and efforts to hire or acquire experienced sales executives with existing books of business, which helped, in turn, drive this transactional business growth.

Comparison of years ended December 31, 2009 and 2008 (2019 10-k, page 23)

Our revenue decreased by $18.6 million, or 4.4%, from $419.0 million in 2008 to $400.4 million in 2009. The decrease in revenue reflects a decrease in both our enterprise and transactional business. Our revenue from enterprise clients decreased by $2.3 million, or 0.9%, from $267.7 million in 2008 to $265.4 million in 2009. As of December 31, 2009, we had 172 enterprise clients under contract compared to 143 enterprise clients under contract as of December 31, 2008. The decline in enterprise revenue is comprised of $51.6 million of new account revenue offset by same customer declines due to poor macroeconomic conditions in 2009. Our revenue from transactional clients decreased by $16.2 million, or 10.7%, from $151.3 million in 2008 to $135.0 million in 2009. The decline in transactional revenue is due to poor macroeconomic conditions in 2009.

Appendix VI: IW's Quotes on "Huge" Market Opportunity

Earnings call: 9/8/2012

- **Joe Busky:** We're nowhere near to having -- tapping out on what the market opportunity in this space is. I mean there are billions and billions and billions of dollars being spent just in the U.S. alone every day -- I mean not every day, every year in this segment.

Earnings call: 8/10/2012

- **Eric Belcher**: I'm really pleased with our start to the year, and more importantly, the way in which the business is capitalizing on the bigger picture We have now generated record revenue for the seventh quarter in a row and our operating profitability continues to grow even while we are making a number of meaningful investments designed to capitalize on the huge market opportunity in front of us… But we aren't doing so at the expense of the bigger picture massive growth opportunity we find in front of us today… So wrap up, as you might imagine, I am pleased with the results for the first half of the year, and more importantly the way in which the business is capitalizing on the bigger picture opportunity in front of us. The chance to revolutionize one of the oldest and largest supply chains in the world is once in a lifetime and we're not going to let this opportunity pass us by.

Earnings call: 5/3/2012

- **Eric Belcher**: I'm really pleased with our start to the year, and more importantly, the way in which the business is capitalizing on the bigger picture opportunity in front of us… I do think that the company's doing a very good job of not shortchanging this massive market opportunity we have in front of us by cutting back on investments in the near term, but yet also being responsible with the way in which we utilize our shareholders' money in the short term. It's a nice balance. It's a nice blend.

Earnings call: 9/3/2011

- **Eric Belcher**: Kevin, there was an extensive sale cycle involved and as of right now everything is progressing exactly as we had planned with the implementation as the client had planned and there will be meaningful savings for this client next year and in the years ahead and so we said all along that we're quite confident that there is a large market opportunity for us with our BPO solution as we've grown and therefore have become more qualified to handle increasingly larger amounts of spend and this is just one step along the path of signing increasingly larger contracts.

Earnings call: 8/4/2011

- **Eric Belcher**: We InnerWorkings generated record revenue for the third consecutive quarter and the operating profitability of the business continues to grow even while we are investing to take advantage of the immense opportunity offered by the global print supply chain… We believe it's the right thing to do to capitalize on this large market opportunity.

Earnings call: 5/5/2011

- **Joe Busky**: This year our forecast calls for 45% to 60% increases in EPS and we expect to see meaningful growth in EPS in 2012 and beyond too, all the while taking advantage of a massive once in a lifetime global market opportunity.

Earnings call: 2/15/2011

- **Eric Belcher**: Looking forward, we're well positioned to capitalize on the massive market opportunity that is out there for the taking… We're actually less than 1% of what we consider to be just our eligible domestic market opportunity… In other words, we don't see ourselves spending any less energy focusing on growing our business in the United States, which of course is a wide open green field market opportunity for us still today.

Earnings call: 8/5/2010

- **Eric Belcher:** We could if we chose, remove 10% to 20% of our workforce tomorrow and significantly increase our near-term earnings, but that's not the investment thesis, that's not the value maximizing share strategy we believe and so we are keeping our focus on ensuring that we capitalize on the market opportunity in front of us.

Earnings call: 5/6/2010

- **Steven E. Zuccarini:** As we have outlined on past calls, we see tremendous opportunity in this 170 billion and growing US printing industry. In terms of market share, our penetration remains less than 1%.
- **Eric Belcher**: We'll most likely grow around the globe over time and with existing clients, where the relationship began in North America, but we are primarily focused in the U.S. and the UK marketplace where we have a reputation established and a very large market opportunity in front of us.

Earnings call: 8/11/2008

- **Steven E. Zuccarini:** So, these are expenses that we believe are necessary for the long term maximization of shareholder value and we will continue to make investments as we see fit, as most important for us is to take advantage of this massive market opportunity that we have in front of us right now.

Earnings call: 5/8/2008

- **Steven E. Zuccarini**: As we have outlined on past calls, we see tremendous opportunity in this 170 billion and growing US printing industry. In terms of market share, our penetration remains less than 1%.
- **Eric Belcher**: These seasoned new additions bring with them exceptional sales backgrounds and experience navigating the executive hallways of corporate America. In some cases, we have been pursuing these talented individuals for some time, but only recently secured their services as they came to fully appreciate our massive market opportunity, the benefits of our compensation structure, and the established credibility of our brand.

Earnings call: 2/21/2008

- **Steven E. Zuccarini**: The good news for our shareholders is we have barely scratched the surface of our opportunity. As we've talked about on our past calls and at our recent Analyst Day, we see our target market opportunity of $130 to $140 billion and this $170 billion in growing US print industry. Thus, in terms of market share, our penetration still remains less than 1%.
- **Eric Belcher**: It's important to note that this talent comes to us under a variable compensation plan and in most cases these executives left positions where they were highly compensated to join us. What they see in InnerWorkings is what we see, a massive market opportunity in front of us and a great place to build the career.

Earnings call: 11/7/2007

- **Steven E. Zuccarini**: I want to remind all of you that despite our outstanding track record of success, we still capture less than 20% of the available print universe within our existing client base. And furthermore, our target market opportunity in this $170 billion U.S. printing industry is roughly a $130 billion to $140 billion, with the company's penetration of this market well under 1% market share.

Appendix VII: IW's Trading Comparables

($ in millions, except per share figures)

		Stock	% of		'13E-'14E		LTM						Enterprise Value /						
		Price	52-wk	Ent.	Revenue	EPS	Gross	EBITDA	FCF	P / E			EBITDA			Revenue			LTM Cash
Name	**Ticker**	**4/26/2013**	**High**	**Value**	**Growth**	**Growth**	**Margin**	**Margin**	**Margin**	**LTM**	**2013E**	**2014E**	**LTM**	**2013E**	**2014E**	**LTM**	**2013E**	**2014E**	**from Ops.**
Commercial Printing																			
RR Donnelley	RRD	$12.32	93%	$5,486	-0.3%	0.0%	22.6%	11.9%	4.4%	NM	7.5x	7.5x	4.5x	4.8x	4.8x	0.5x	0.5x	0.5x	8.5x
Quad/Graphics	QUAD	$21.35	87%	$2,374	-1.4%	21.0%	22.2%	13.8%	6.1%	18.9x	10.2x	8.4x	4.2x	4.0x	3.9x	0.6x	0.5x	0.5x	6.7x
Cenveo	CVO	$2.20	70%	$1,316	1.4%	31.9%	18.7%	11.3%	1.7%	NM	4.7x	3.5x	6.5x	5.9x	5.7x	0.7x	0.7x	0.7x	25.3x
Consolidated Graphics	CGX	$35.16	79%	$482	-0.1%	2.5%	23.3%	9.9%	6.1%	21.1x	11.1x	10.8x	4.7x	4.0x	4.0x	0.5x	0.5x	0.5x	4.5x
				Max	1.4%	31.9%	23.3%	13.8%	6.1%	21.1x	11.1x	10.8x	6.5x	5.9x	5.7x	0.7x	0.7x	0.7x	25.3x
				Average	-0.1%	13.8%	21.7%	11.7%	4.6%	20.0x	8.4x	7.6x	5.0x	4.7x	4.6x	0.6x	0.6x	0.6x	11.2x
				Min	-1.4%	0.0%	18.7%	9.9%	1.7%	18.9x	4.7x	3.5x	4.2x	4.0x	3.9x	0.5x	0.5x	0.5x	4.5x
Global Marketing Services																			
WPP	WPPGY	$16.05	99%	$24,585	4.9%	9.8%	21.4%	16.9%	6.4%	16.9x	13.2x	12.0x	9.2x	8.6x	8.1x	1.6x	1.5x	1.4x	16.7x
Omicom	OMC	$60.00	99%	$17,881	4.7%	11.2%	26.8%	14.7%	7.1%	16.4x	15.3x	13.7x	8.5x	8.3x	7.9x	1.2x	1.2x	1.2x	14.4x
Interpublic Group	IPG	$13.98	97%	$6,793	4.1%	25.9%	37.2%	11.8%	2.7%	15.2x	16.4x	13.1x	8.2x	7.2x	6.6x	1.0x	1.0x	0.9x	19.0x
VistaPrint	VPRT	$42.44	98%	$1,613	7.2%	27.4%	65.7%	9.5%	3.8%	48.2x	19.2x	15.1x	14.9x	10.3x	8.6x	1.4x	1.3x	1.2x	13.1x
				Max	7.2%	27.4%	65.7%	16.9%	7.1%	48.2x	19.2x	15.1x	14.9x	10.3x	8.6x	1.6x	1.5x	1.4x	19.0x
				Average	5.2%	18.6%	37.8%	13.2%	5.0%	24.2x	16.0x	13.5x	10.2x	8.6x	7.8x	1.3x	1.2x	1.2x	15.8x
				Min	4.1%	9.8%	21.4%	9.5%	2.7%	15.2x	13.2x	12.0x	8.2x	7.2x	6.6x	1.0x	1.0x	0.9x	13.1x
Business Process Outsourcing																			
Genpact	G	$18.65	96%	$4,492	13.5%	13.7%	39.1%	17.7%	12.0%	23.9x	18.3x	16.1x	13.3x	11.7x	10.2x	2.4x	2.1x	1.8x	14.5x
iGate	IGTE	$16.70	84%	$1,893	8.4%	15.5%	39.0%	22.7%	6.4%	17.8x	9.9x	8.6x	7.7x	7.3x	6.3x	1.7x	1.7x	1.5x	18.9x
ExlService	EXLS	$31.91	73%	$929	13.9%	16.6%	38.6%	18.8%	10.6%	25.3x	17.6x	15.1x	11.2x	9.4x	8.3x	2.1x	1.9x	1.6x	14.1x
WNS Holdings	WNS	$14.44	96%	$728	8.3%	31.6%	32.3%	16.6%	7.8%	35.2x	27.2x	20.7x	9.5x	8.5x	7.5x	1.6x	1.5x	1.4x	12.7x
				Max	13.9%	31.6%	39.1%	22.7%	12.0%	35.2x	27.2x	20.7x	13.3x	11.7x	10.2x	2.4x	2.1x	1.8x	18.9x
				Average	11.0%	19.3%	37.3%	19.0%	9.2%	25.6x	18.3x	15.1x	10.4x	9.2x	8.1x	1.9x	1.8x	1.6x	15.0x
				Min	8.3%	13.7%	32.3%	16.6%	6.4%	17.8x	9.9x	8.6x	7.7x	7.3x	6.3x	1.6x	1.5x	1.4x	12.7x
Diversified																			
Hewlett Packard	HPQ	$19.97	79%	$54,439	-1.5%	2.3%	23.5%	12.1%	7.1%	5.0x	5.7x	5.6x	3.8x	4.0x	4.1x	0.5x	0.5x	0.5x	4.6x
Canon	CAJ	$36.27	77%	$34,827	2.4%	8.5%	47.4%	16.7%	2.2%	18.8x	13.4x	12.4x	5.9x	4.7x	4.4x	1.0x	0.9x	0.9x	7.8x
Xerox	XRX	$8.33	89%	$18,123	2.1%	15.3%	31.1%	13.5%	9.6%	9.1x	7.5x	6.5x	6.0x	5.6x	5.3x	0.8x	0.8x	0.8x	7.2x
Pitney Bowes	PBI	$15.90	89%	$6,925	-0.3%	0.0%	50.4%	20.2%	9.9%	7.4x	8.2x	8.2x	7.0x	7.0x	7.2x	1.4x	1.4x	1.4x	10.5x
				Max	2.4%	15.3%	50.4%	20.2%	9.9%	18.8x	13.4x	12.4x	7.0x	7.0x	7.2x	1.4x	1.4x	1.4x	10.5x
				Average	0.7%	6.5%	38.1%	15.6%	7.2%	10.1x	8.7x	8.2x	5.7x	5.3x	5.2x	0.9x	0.9x	0.9x	7.5x
				Min	-1.5%	0.0%	23.5%	12.1%	2.2%	5.0x	5.7x	5.6x	3.8x	4.0x	4.1x	0.5x	0.5x	0.5x	4.6x
InnerWorkings	**INWK**	**$11.00**	**70%**	**$629**	**16.6%**	**33.0%**	**23.2%**	**5.7%**	**-0.2%**	**29.7x**	**22.7x**	**17.1x**	**13.9x**	**12.5x**	**9.5x**	**0.8x**	**0.7x**	**0.6x**	**59.9x**

Source: Company financials, CapitalIQ calendarized estimates.