UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS

_____________, Individually and On Behalf of All Others Similarly Situated,

Plaintiff,

v.

INNERWORKINGS, INC., ERIC D. BELCHER, RICHARD S. STODDART, CHARLES D. HODGKINS III, and DONALD W. PEARSON,

Defendants.

Case No. DRAFT

CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS

JURY TRIAL DEMANDED

Plaintiff ____________ ("Plaintiff"), individually and on behalf of all others similarly situated, by and through his attorneys, alleges the following upon information and belief, except as to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff's information and belief is based upon, among other things, his counsel's investigation, which includes without limitation: (a) review and analysis of regulatory filings made by InnerWorkings, Inc. ("InnerWorkings" or the "Company") with the United States ("U.S.") Securities and Exchange Commission ("SEC"); (b) review and analysis of press releases and media reports issued by and disseminated by InnerWorkings; and (c) review of other publicly available information concerning InnerWorkings.

NATURE OF THE ACTION AND OVERVIEW

1. This is a class action on behalf of persons and entities that purchased or otherwise acquired InnerWorkings securities between February 26, 2018 and March 16, 2020, inclusive (the "Class Period"), seeking to pursue claims against the Defendants under the Securities Exchange Act of 1934 (the "Exchange Act").

2. InnerWorkings is a marketing execution firm that streamlines the creation, production and distribution of marketing and promotional materials for marketing intensive companies, including those listed in the Fortune 1000.

3. On March 12, 2018, InnerWorkings disclosed that there was a material weakness in its internal controls over financial reporting.

4. On this news, the Company's share price fell $0.53, or over 5%, to close at $9.13 per share on March 13, 2018, on unusually heavy trading volume.

5. On July 31, 2018, the Company disclosed that "profitability [for fiscal 2017] was weaker than [it] had originally reported," due to errors in the recognition of revenue and the

accounting for costs of goods sold. Innerworkings also reduced its fiscal 2018 revenue guidance by $40 million due to the reduced sales to a single customer.

6. On this news, the Company's share price fell $2.66, or 30%, to close at $6.20 per share on August 1, 2018, on unusually heavy trading volume.

7. On November 8, 2018, after the market closed, InnerWorkings disclosed revenue declines from transactional and small accounts and reported a $41.9 million impairment to goodwill and assets.

8. On this news, the Company's share price fell $2.80, or 40%, to close at $4.24 per share on November 9, 2018, on unusually heavy trading volume.

9. On March 16, 2020, after the market closed, the Company issued a press release to announce its fourth quarter and full year 2019 financial results. Therein, InnerWorkings disclosed that "insufficient evidence existed to support the recognition of revenue in arrangements containing bill and hold provisions, [so the Company] deferred the related revenue until product shipped from [its] warehouse."

10. On this news, the Company's share price fell $0.36, or nearly 18%, to close at $1.68 per share on March 17, 2020, on unusually heavy trading volume.

11. Throughout the Class Period, Defendants made materially false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) that InnerWorkings experienced significant customer churn, including the loss of a large customer; (2) that the Company did not accurately account for the revenue and corresponding costs in certain periods; (3) that, as a result of the foregoing, the Company's profitability had been overstated in certain periods; (4) that, in connection with correcting these errors, InnerWorkings

would implement significant costly changes, including with respect to the contract review process; (5) that, as a result, the Company would be required to write-off certain inventory and incur asset impairment charges; and (6) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

12. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

JURISDICTION AND VENUE

13. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

14. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

15. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts in furtherance of the alleged fraud or the effects of the fraud have occurred in this Judicial District. Many of the acts charged herein, including the dissemination of materially false and/or misleading information, occurred in substantial part in this Judicial District.

16. In connection with the acts, transactions, and conduct alleged herein, Defendants directly and indirectly used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, and the facilities of a national securities exchange.

PARTIES

17. Plaintiff ____________, as set forth in the accompanying certification, incorporated by reference herein, purchased or otherwise acquired InnerWorkings securities during the Class Period, and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

18. Defendant InnerWorkings is incorporated under the laws of Delaware with its principal executive offices located in Chicago, Illinois. InnerWorkings's common stock trades on the NASDAQ exchange under the symbol "INWK."

19. Defendant Eric D. Belcher ("Belcher") served as Chief Executive Officer ("CEO") of the Company from 2009 to April 2018.

20. Defendant Richard S. Stoddart ("Stoddart") has served as the CEO of the Company since April 2018.

21. Defendant Charles D. Hodgkins III ("Hodgkins") was the Interim Chief Financial Officer ("CFO") of the Company from December 2017 to January 10, 2019.

22. Defendant Donald W. Pearson ("Pearson") has served as the CFO of the Company since January 10, 2019.

23. Defendants Belcher, Stoddart, Hodgkins, and Pearson (collectively the "Individual Defendants"), because of their positions with the Company, possessed the power and authority to control the contents of the Company's reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. The Individual Defendants were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of

their positions and access to material non-public information available to them, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and/or misleading. The Individual Defendants are liable for the false statements pleaded herein.

SUBSTANTIVE ALLEGATIONS

Background

24. InnerWorkings is a marketing execution firm that streamlines the creation, production and distribution of marketing and promotional materials for marketing intensive companies, including those listed in the Fortune 1000.

Materially False and Misleading Statements Issued During the Class Period

25. The Class Period begins on February 26, 2018. On that day, InnerWorkings announced its preliminary fourth quarter and full year 2017 financial results in a press release that stated, in relevant part:

> **Select Preliminary Unaudited Full Year 2017 and Recent Highlights**
>
> - Gross revenue is expected to be between $1,138 million and $1,143 million in 2017, an increase of 4 to 5% compared with $1,090.7 million in 2016.
>
> - Gross profit (net revenue) is expected to be between $281 million and $282 million, a 7% increase compared to $263.5 million in 2016.

26. The above statements identified in ¶ 25 were materially false and/or misleading, and failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) that the Company did not accurately account for the revenue and corresponding costs in certain periods; (2) that, as a result of the foregoing, the Company's profitability had been overstated in certain periods; (3) that, as a

result, the Company would be required to write-off certain inventory and incur asset impairment charges; and (4) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

27. The truth began to emerge on March 12, 2018 when, during a conference call held in connection with its full year 2017 financial results, the Company disclosed a material weakness in its internal controls over financial reporting. Specifically, defendant Hodgkins stated:

> Related to our detailed analysis around revenue recognitions standards, we also have concluded that we have a material weakness in certain internal controls over financial reporting as of December 31, 2017. We'll be working to remediate the deficient controls over the coming year. This of course won't impact our current or previously reported financials, which remain correct as stated.

28. On this news, the Company's share price fell $0.53, or over 5%, to close at $9.13 per share on March 13, 2018, on unusually heavy trading volume.

29. On March 12, 2018, InnerWorkings announced its fourth quarter and full year 2017 financial results in a press release that stated, in relevant part:

> **Full-Year 2017 Results and Recent Highlights**
>
> - Gross revenue was $1,136.3 million in 2017, an increase of 4% compared with $1,090.7 million in 2016.
> - Gross profit (net revenue) was $278.3 million, or 24.5% of gross revenue, in 2017, a 6% increase compared to $263.5 million, or 24.2% of revenue, in 2016.
> - Net income in 2017 was $19.0 million, or $0.35 per diluted share, compared to $4.4 million, or $0.08 per diluted share, in 2016.
> - Non-GAAP adjusted EBITDA was $62.3 million in 2017, reflecting growth of 5% compared to $59.2 million in 2016.
> - Non-GAAP diluted earnings per share for 2017 was $0.41, compared to $0.38 in 2016.

30. On March 16, 2018, InnerWorkings filed its annual report on Form 10-K with the SEC for the period ended December 31, 2017, affirming the previously reported financial results. It also described the material weakness in more detail as follows:

> With respect to revenue process, the Company's controls were ineffective to: (i) ensure revenue was recognized when the risk of loss transferred from the Company to the customer based on an analysis of customer arrangements and delivery terms, (ii) retain and review customer order documentation, including support for assessing whether pricing was fixed and determinable, and (iii) estimate the impact of future credit memos. These deficiencies also impacted unbilled revenue, inventory and cost of sales. With respect to compensation expense, the Company's controls were ineffective in relation to the design and operation of the review controls over compensation.

31. On May 7, 2018, the Company disclosed that it would restate its financial statements for fiscal years 2015 through 2017. In a press release, InnerWorkings stated, in relevant part:

> The Company will be restating its financial statements for the years ended December 31, 2017, 2016, and 2015, and all interim periods within those years.
>
> The accounting errors relate primarily to recording a portion of costs of goods sold in the wrong period, and have no material impact on InnerWorkings' cash flow, revenue, or liquidity. The restated financial statements will also correct other errors identified during prior periods, which were immaterial individually and in the aggregate. Based on its preliminary assessment, InnerWorkings estimates the aggregate impact of these corrections on income before income taxes as follows:
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> - For the year ended December 31, 2017, a decrease in income before income taxes of $2.5 - $4.5 million;
> - For the year ended December 31, 2016, a decrease in income before income taxes of $1.5 - $2.5 million; and
> - For the year ended December 31, 2015, an increase in income before income taxes of $0.5 - $1.5 million
>
> In order to allow sufficient time to complete its review and corrections to the historical financial statements, InnerWorkings is delaying reporting first quarter 2018 financial results and hosting its conference call, originally scheduled for May 8, 2018.

32. On May 11, 2018, the Company filed a notification on Form 12b-25 with the SEC that it could not timely file its quarterly report for the quarter ended March 31, 2018. Specifically, InnerWorkings stated:

> As previously disclosed, InnerWorkings, Inc. (the "Company") is in the process of restating its financial statements for the years ended December 31, 2017, 2016, and 2015, and all interim periods within those years (the "Restated Periods"). The Company is working diligently to prepare and file an amendment to its 2017 Form 10-K (the "10-K/A") reflecting the corrected financial statements for the Restated Periods. Promptly after the filing of the 10-K/A, the Company expects to file its Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (the "Form 10-Q"). Due to the extensive work required to complete the 10-K/A with all of the amended and restated information for the Restated Periods, the Company is unable to file the Form 10-Q on or before the prescribed due date of May 10, 2018. The delay could not be eliminated without unreasonable effort or expense.

33. On July 27, 2018, InnerWorkings filed an amended annual report on Form 10-K/A with the SEC for the period ended December 31, 2017 (the "2017 Amended 10-K"). Therein, the Company stated that the restatement corrected the accounting "for recording portions of revenue and costs of goods sold in the incorrect periods, which resulted in a material impact on net income and earnings per share." Specifically, the Company stated, in relevant part:

> The financial statements contained in this Form 10-K/A ***correct our accounting for recording portions of revenue and costs of goods sold in the incorrect periods, which resulted in a material impact on net income and earnings per share***, but have no material impact on our cash flow or liquidity for the Restated Periods. With respect to the year ended December 31, 2015 (the "Revised Period"), the corrections to the financial statements related to the recording of cost of goods sold were deemed immaterial: however, the Company has voluntarily made the adjustments to such year. The Restated and Revised Periods also include adjustments for certain immaterial accounting errors related to all periods covered in this Form 10-K/A, which are not material individually or in the aggregate.
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> * * *
>
> ***Description of the Restatement***
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> In completing our internal review procedures during the first quarter of 2018, the Company identified certain errors in the Restated Periods, primarily related to the ***timing of the recognition of (i) revenue recognized for goods shipped and***

services performed and (ii) cost of goods sold for certain orders that were not recorded in the period in which the end product was sold to the customer and revenue was recognized. Accordingly, we have restated the financial statements for the years ended December 31, 2017 and 2016 (and related interim periods) to correct for the identified misstatements.

In addition to the correction of the errors discussed above, the Company has voluntarily made other immaterial corrections in all periods presented. Such corrections are reflected in the Restated and Revised Periods and, together with the other immaterial corrections described above, are referred to herein as "Adjustments." ***These Adjustments resulted in a decrease in net income of $2.3 million in the aggregate for the Restated and Revised Periods.***

34. Regarding the sales trends and fluctuations, the 2017 Amended 10-K stated, in relevant part:

Our business is subject to seasonal sales fluctuations, which could result in volatility or have an adverse effect on the market price of our common stock.

Our business is subject to some degree of sales seasonality. Historically, the percentage of our annual revenue earned during the third and fourth fiscal quarters has been higher due, in part, to a greater number of orders for marketing materials in anticipation of the year-end holiday season. If our business continues to experience seasonality, we may incur significant additional expenses during our third and fourth quarters, including additional staffing expenses. Consequently, if we were to experience lower than expected revenue during any future third or fourth quarter, whether from a general decline in economic conditions or other factors beyond our control, our expenses may not be offset, which would have a disproportionate impact on our operating results and financial condition for that year. Such fluctuations in our operating results could result in volatility or have an adverse effect on the market price of our common stock.

35. The 2017 Amended 10-K stated described the Company's revenue and cost of goods sold as follows:

Revenue

We generate revenue through the procurement of marketing materials for our clients. Our annual revenue was $1,138.4 million, $1,094.4 million and $1,028.9 million in 2017, 2016 and 2015, respectively, reflecting growth rates of 4.0% and 6.4% in 2017 and 2016, respectively, as compared to the corresponding prior year.

Our revenue consists of the prices paid to us by our clients for marketing materials. These prices, in turn, reflect the amounts charged to us by our suppliers plus our gross profit. Our gross profit margin may be fixed by contract or may depend on prices negotiated on a job-by-job basis. Once the client accepts our pricing terms, the selling price is established and we procure the product for our own account in order to re-sell it to the client. We generally take full title and risk of loss for the product upon shipment. The finished product is typically shipped directly from our supplier to a destination specified by our client. Upon shipment, our supplier invoices us for its production costs and we invoice our client.

Cost of Goods Sold and Gross Profit

Our cost of goods sold consists primarily of the price at which we purchase products from our suppliers. Our selling price, including our gross profit, may be established by contract based on a fixed gross profit as a percentage of revenue, which we refer to as gross margin, or may be determined at the discretion of the account executive or production manager within predetermined parameters. Our gross profit for years ended December 31, 2017, 2016 and 2015 was $275.5 million, $262.6 million and $240.0 million or 24.2%, 24.0% and 23.3% of revenue, respectively.

36. Specifically, with respect to its revenue recognition policy, the Company stated in the 2017 Amended 10-K, in relevant part:

Revenue Recognition

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

In accordance with ASC 605-45, *Revenue Recognition – Principal Agent Considerations*, we generally report revenue on a gross basis because we are the primary obligor in our arrangements to procure marketing materials and other products for our customers. Under these arrangements, we are responsible for the fulfillment, including the acceptability, of the marketing materials and other products. In addition, we (i) determine which suppliers are included in our network, (ii) have discretion to select from among the suppliers within our network, (iii) are obligated to pay our suppliers regardless of whether we are paid by our customers and (iv) have reasonable latitude to establish exchange price. In some transactions, we also have general inventory risk and are involved in the determination of the nature or characteristics of the marketing materials and

> products. When we are not the primary obligor, revenues are reported on a net basis.
>
> We recognize revenue for creative and other services provided to our customers which may be delivered in conjunction with the procurement of manufactured materials at the time when delivery and customer acceptance occur and all other revenue recognition criteria are met. We recognize revenue for creative and other services provided on a stand-alone basis upon completion of the service. Service revenue has not been material to our overall revenue to date.

37. The 2017 Amended 10-K also identified certain material weaknesses in the Company's internal control over financial reporting:

> With respect to revenue recognition, the Company's controls were ineffective to: (i) ensure revenue was recognized when the risk of loss transferred from the Company to the customer based on an analysis of customer arrangements and delivery terms; (ii) retain and review customer order documentation, including support for assessing whether pricing was fixed and determinable; and (iii) estimate the impact of future credit memos. These deficiencies also impacted unbilled revenue, inventory and cost of sales. With respect to compensation expense, the Company's controls were ineffective in relation to the design and operation of the review controls over compensation. Finally, with respect to report accuracy, the Company's controls were ineffective to verify the completeness and accuracy of data in certain key reports used to reconcile revenue and cost accruals during the period-end process.

38. The above statements identified in ¶¶ 27, 29-37 were materially false and/or misleading, and failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) that InnerWorkings experienced significant customer churn, including the loss of a large customer; (2) that the Company did not accurately account for the revenue and corresponding costs in certain periods; (3) that, as a result of the foregoing, the Company's profitability had been overstated in certain periods; (4) that, in connection with correcting these errors, InnerWorkings would implement significant costly changes, including with respect to the contract review process; (5) that, as a result, the Company would be required to write-off certain inventory and incur asset impairment charges; and (6) that, as a result of the foregoing, Defendants' positive

statements about the Company's business, operations, and prospects, were materially misleading and/or lacked a reasonable basis.

39. The truth began to emerge on July 31, 2018 when, during a conference call held in connection with the announcement of first quarter 2018 financial results, InnerWorkings disclosed that "the discovery of these errors [reported in the 2017 Amended 10-K] also conveys that our profitability was weaker than we had originally reported." At the same time, the Company reduced its fiscal 2018 revenue guidance by $40 million due to the reduced sales to one customer.

40. On this news, the Company's share price fell $2.66, or 30%, to close at $6.20 per share on August 1, 2018, on unusually heavy trading volume.

41. The same day, the Company announced its first quarter 2018 financial results in a press release that stated, in relevant part:

Financial and Business Highlights

- Gross revenue was $274.5 million, an increase of 4% compared to $264.4 million in the first quarter of 2017.
- Gross profit (net revenue) was $66.1 million, or 24.1% of gross revenue in the first quarter of 2018, a 2% increase compared to $64.7 million, or 24.5% of revenue, in the same period of last year.
- Net loss for the first quarter of 2018 was $(1.7) million, or $(0.03) per diluted share, compared to net income of $5.7 million, or $0.10 per diluted share in the first quarter of 2017.
- Non-GAAP loss per diluted share for the first quarter was $(0.02), compared to earnings of $0.08 in the first quarter of 2017.
- Non-GAAP adjusted EBITDA was $7.4 million in the first quarter 2018, compared to $12.5 million in the first quarter of 2017.
- Cash flow provided by operating activities was $34.3 million in the first quarter of 2018, compared to $0.1 million in the same quarter of last year. Cash flow provided by operating activities for the trailing twelve months ended March 31, 2018 was a record $50.2 million.

- InnerWorkings has been awarded additional work from new and existing clients so far during 2018, which collectively is expected to exceed $70 million of annual revenue at full run-rate.

> "Our first quarter financial results reflect initial investments we are making to drive operational improvements, but also the need for aggressive actions to lower our SG&A expenses," said Chip Hodgkins, Interim Chief Financial Officer of InnerWorkings. "We are in the final stages of developing a plan and leveraging third-party expertise to reduce our cost structure while driving returns for our clients and our shareholders. We will provide further details in conjunction with our second quarter 2018 financial results."

42. The same day, the Company filed its quarterly report on Form 10-Q for the period ended March 31, 2018, affirming the results reported in the press release. Moreover, regarding its internal control over financial reporting, InnerWorkings stated, in relevant part:

> During the financial statement close process for the period ended December 31, 2017, management identified material weaknesses due to control deficiencies and gaps in the design and operating effectiveness of revenue recognition and compensation expense in the Company's North America business. During the financial statement close process for the quarter ended March 31, 2018, management identified an additional material weakness that existed as of December 31, 2017, primarily related to completeness and accuracy of data in certain key reports. As a result, we restated our previously reported financial statements for the years ended December 31, 2017 and 2016 and all interim periods in such years, as more fully described in the Form 10-K/A.
>
> *Material Weaknesses*
>
> With respect to revenue process, the Company's controls were ineffective to: (i) ensure revenue was recognized when the risk of loss transferred from the Company to the customer based on an analysis of customer arrangements and delivery terms, (ii) retain and review customer order documentation, including support for assessing whether pricing was fixed and determinable, and (iii) estimate the impact of future credit memos. These deficiencies also impacted unbilled revenue, inventory and cost of sales. With respect to compensation expense, the Company's controls were ineffective in relation to the design and operation of the review controls over compensation. Finally, with respect to report accuracy, the Company's controls were ineffective to verify the completeness and accuracy of data in certain key reports used to reconcile revenue and cost accruals during the period-end process.

43. On August 10, 2018, the Company filed its filed a notification on Form 12b-25 with the SEC that it could not timely file its quarterly report for the quarter ended June 30, 2018.

In particular, "[d]ue to the extensive work required to complete the 10-K/A and the First Quarter Form 10-Q, the Company's financial closing process for the quarter ended June 30, 2018 was substantially delayed."

44. On August 14, 2018, InnerWorkings announced its second quarter 2018 financial results as well as an "aggressive cots reduction plan." Specifically, in a press release, the Company stated:

> **Financial and Business Highlights**
>
> - Gross revenue was $282.0 million in the second quarter of 2018, an increase of 1% compared to $280.1 million in the second quarter of 2017. Excluding currency impacts, second quarter gross revenue increased 4% compared to the same period of last year.
> - Gross profit (net revenue) was $64.9 million, or 23.0% of gross revenue in the second quarter of 2018, compared to $70.0 million, or 25.0% of revenue, in the same period of last year.
> - Net loss for the second quarter of 2018 was $(0.3) million, or $(0.01) per diluted share, compared to net income of $4.4 million, or $0.08 per diluted share in the second quarter of 2017.
> - Non-GAAP earnings per diluted share for the second quarter of 2018 was $0.01, compared to $0.12 in the second quarter of 2017.
> - Non-GAAP adjusted EBITDA was $8.2 million in the second quarter of 2018, compared to $16.5 million in the second quarter of 2017.
> - InnerWorkings has been awarded additional work from new and existing clients so far during 2018, which collectively is expected to drive $85 million of annual revenue at full run-rate. Recent new wins include two expansions with global Fortune 500 companies in the healthcare and food verticals.
>
> **Cost Reduction Plan**
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> InnerWorkings has implemented an aggressive cost reduction plan which is expected to enable the company to reduce selling, general and administrative expenses in 2019 to be in line with 2017 expenses. The Company expects to reduce annualized G&A expenses by $20 million over the next few quarters, with reductions made across the business to optimize staffing levels, realign underperforming operations, and better leverage talent across accounts.

> "We have already initiated cost reduction measures with approximately 50% of the plan to be actioned by October 1st," said Chip Hodgkins, Interim Chief Financial Officer of InnerWorkings. "If in 2019 we achieve a similar gross revenue growth rate and gross margin as compared to this year, these cost reductions are expected to enable 2019 non-GAAP adjusted EBITDA of $65 to $70 million, or approximately 30% above our expectation for 2018."

45. The same day, the Company filed its quarterly report on Form 10-Q with the SEC for the period ended June 30, 2018, affirming the previously reported financial results. Regarding the material weaknesses in its internal control over financial reporting, InnerWorkings stated, in relevant part:

> With respect to revenue process, the Company's controls were ineffective to: (i) ensure revenue was recognized when the risk of loss transferred from the Company to the customer based on an analysis of customer arrangements and delivery terms, (ii) retain and review customer order documentation, including support for assessing whether pricing was fixed and determinable, and (iii) estimate the impact of future credit memos. These deficiencies also impacted unbilled revenue, inventory and cost of sales. With respect to compensation expense, the Company's controls were ineffective in relation to the design and operation of the review controls over compensation. Finally, with respect to report accuracy, the Company's controls were ineffective to verify the completeness and accuracy of data in certain key reports used to reconcile revenue and cost accruals during the period-end process.

46. The above statements identified in ¶¶ 39, 41-45 were materially false and/or misleading, and failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) that InnerWorkings experienced significant customer churn, including the loss of a large customer; (2) that the Company did not accurately account for the revenue and corresponding costs in certain periods; (3) that, as a result of the foregoing, the Company's profitability had been overstated in certain periods; (4) that, in connection with correcting these errors, InnerWorkings would implement significant costly changes, including with respect to the contract review process; (5) that, as a result, the Company would be required to write-off certain inventory and

incur asset impairment charges; and (6) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects, were materially misleading and/or lacked a reasonable basis.

47. The truth continued to emerge on November 8, 2018 when InnerWorkings disclosed revenue declines from transactional and small accounts. After the market closed, the Company announced its third quarter 2018 financial results in a press release that stated, in relevant part:

> "While we are ***experiencing greater revenue declines than expected in transactional and small accounts***, we are encouraged by the momentum we continue to build in new enterprise wins," said Chief Executive Officer Rich Stoddart. . . .
>
> **Financial and Business Highlights**
>
> - Gross revenue was $270.9 million in the third quarter of 2018, a decrease of 6% compared to $288.5 million in the third quarter of 2017. Excluding currency impacts, third quarter gross revenue decreased 5% compared to the same period of last year. Year-to-date gross revenue was $827.4 million, a decrease of 1% compared to $833.0 million in the same period of 2017.
>
> - Gross profit (net revenue) was $64.0 million, or 23.6% of gross revenue in the third quarter of 2018, compared to $71.9 million, or 24.9% of revenue, in the same period of last year. Excluding the impact of an inventory writeoff related to our retail environments business, our gross margin was 24.0% in the third quarter of 2018.
>
> - Net loss for the third quarter of 2018 was $(44.9) million, or $(0.87) per diluted share, compared to net income of $7.1 million, or $0.13 per diluted share in the third quarter of 2017. Third quarter net loss includes goodwill and intangible asset impairment charges of $41.9 million.
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> - Non-GAAP diluted earnings per share for the third quarter of 2018 was $0.04, compared to $0.15 in the third quarter of 2017.
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> - Non-GAAP adjusted EBITDA was $12.2 million in the third quarter of 2018, compared to $18.1 million in the third quarter of 2017.
>
> - Additional work from new and existing clients awarded so far during 2018 is expected to drive approximately $134 million of annual revenue at full

run-rate. This includes a major client expansion announced today, a global partnership with a Fortune 100 food and beverage company.

> "As planned, we have actioned $11 million of the $20 million in previously announced cost reduction measures as of October 1st," said Chip Hodgkins, Interim Chief Financial Officer of InnerWorkings. "We are focused on implementing the remaining $9 million and we believe additional cost reductions beyond the original scope are possible and necessary to drive shareholder value. In partnership with third-party experts, we are also scoping further profit enhancement initiatives to drive near-term sustainable margin improvement and will provide an update in tandem with our fourth quarter results."

48. During a related conference call held the same day, the Company disclosed that it had incurred a goodwill impairment and asset impairment charge totaling $41.9 million because "the carrying value of [its] assets outside North America was higher than their fair value." Moreover, "[t]he largest portion of these charges was related to [the Company's retail environments business."

49. On this news, the Company's share price fell $2.80, or 40%, to close at $4.24 per share on November 9, 2018, on unusually heavy trading volume.

50. On November 9, 2018, the Company filed its quarterly report on Form 10-Q with the SEC for the period ended September 30, 2018, affirming the previously reported financial results. Regarding material weaknesses in its internal control over financial reporting, InnerWorkings stated, in relevant part:

> With respect to revenue process, the Company's controls were ineffective to: (i) ensure revenue was recognized when the risk of loss transferred from the Company to the customer based on an analysis of customer arrangements and delivery terms, (ii) retain and review customer order documentation, including support for assessing whether pricing was fixed and determinable, and (iii) estimate the impact of future credit memos. These deficiencies also impacted unbilled revenue, inventory and cost of sales. With respect to compensation expense, the Company's controls were ineffective in relation to the design and operation of the review controls over compensation. Finally, with respect to report accuracy, the Company's controls were ineffective to verify the completeness and accuracy of data in certain key reports used to reconcile revenue and cost accruals during the period-end process.

51. On March 5, 2019, InnerWorkings announced its fourth quarter and full year 2018 financial results in a press release that stated, in relevant part:

Financial and Business Highlights

- Gross revenue was $294.2 million in the fourth quarter of 2018, a decrease of 4% compared to $305.4 million in the fourth quarter of 2017. Excluding currency impacts, fourth quarter gross revenue decreased 2% compared to the same period of last year. Full-year gross revenue was $1,121.6 million, a decrease of 1% compared to $1,138.4 million in 2017.
- Gross profit (net revenue) was $60.1 million, or 20.4% of gross revenue in the fourth quarter of 2018, compared to $68.8 million, or 22.5% of revenue, in the same period of last year.
- Net loss for the fourth quarter of 2018 was $(29.3) million, or $(0.57) per diluted share, compared to net loss of $(0.7) million, or $(0.01) per diluted share in the fourth quarter of 2017. Fourth quarter net loss includes $20.9 million of goodwill and other asset impairment charges, $5.5 million of inventory and other operational adjustments impacting gross profit, and $2.7 million of bad debt expense. The impacts to gross profit and bad debt mainly result from unprofitable client relationships that have been terminated.
- Non-GAAP diluted loss per share for the fourth quarter of 2018 was $(0.11), compared to earnings of $0.01 in the fourth quarter of 2017.
- Adjusted EBITDA was $1.3 million in the fourth quarter of 2018, compared to $10.8 million in the fourth quarter of 2017.
- Additional work from new and existing clients awarded during 2018 amounts to $136 million of annual revenue at full run-rate and more than $40 million was awarded in year-to-date 2019. The 2019 multi-year agreements span across five clients, including an expansion with global premium spirits producer Beam Suntory and a new engagement with one of the world's top commercial and retail banks.

"At year-end 2018, we had actioned nearly $15 million of the $20 million in previously announced cost reduction measures, with another $3 million being actioned in the first quarter of 2019," said Don Pearson, Chief Financial Officer. "But this original scope is not enough as our cost to serve our clients is still too high. With the assistance of third-party experts, we have launched a second phase of further profit enhancement opportunities, focused on driving consistency and sustainable efficiencies in our operations. ***We expect to realize $3 million of cost savings from this phase in the second half of 2019 and another $12 million in 2020 and beyond.*** These initiatives are designed to put in place a cost structure and operating platform that will deliver sustainable profitable growth. We look forward to updating you on our progress."

52. On March 19, 2019, the Company filed a notification on Form 12b-25 with the SEC that it could not timely file its annual report for the year ended December 31, 2018 "because the Company required additional time to prepare and finalize its financial statements for the year ended December 31, 2018 required to be included in the Form 10-K."

53. The same day, InnerWorkings filed its annual report on Form 10-K for the year ended December 31, 2018 (the "2018 10-K"), affirming the previously reported financial results. Regarding sales trends and fluctuations, the report stated, in relevant part:

> ***Our business is subject to seasonal sales fluctuations, which could result in volatility or have an adverse effect on the market price of our common stock.***
>
> Our business is subject to some degree of sales seasonality. Historically, the percentage of our annual revenue earned during the third and fourth fiscal quarters has been higher due, in part, to a greater number of orders for marketing materials in anticipation of the year-end holiday season. If our business continues to experience seasonality, we may incur significant additional expenses during our third and fourth quarters, including additional staffing expenses. Consequently, if we were to experience lower than expected revenue during any future third or fourth quarter, whether from a general decline in economic conditions or other factors beyond our control, our expenses may not be offset, which would have a disproportionate impact on our operating results and financial condition for that year. Such fluctuations in our operating results could result in volatility or have an adverse effect on the market price of our common stock.

54. Regarding revenue and cost of goods sold, the 2018 10-K stated, in relevant part:

> **Revenue**
>
> We generate revenue through the procurement of marketing materials for our clients. Our annual revenue was \$1,121.6 million \$1,138.4 million, and \$1,094.4 million in 2018, 2017, and 2016, respectively, reflecting growth rates of (1.5)% and 4.0% in 2018 and 2017, respectively.
>
> Our revenue consists of the prices paid to us by our clients for marketing materials. These prices, in turn, reflect the amounts charged to us by our suppliers plus our gross profit. Our gross profit margin may be fixed by contract or may depend on prices negotiated on a job-by-job basis. Once the client accepts our pricing terms, the selling price is established and we procure the product for our own account in order to re-sell it to the client. We generally take full title and risk of loss for the product upon shipment. The finished product is typically shipped

directly from our supplier to a destination specified by our client. Upon shipment, our supplier invoices us at our agreed purchase price, and we invoice our client.

Cost of Goods Sold and Gross Profit

Our cost of goods sold consists primarily of the price at which we purchase products from our suppliers. Our selling price, including our gross profit, may be established by contract based on a fixed gross profit as a percentage of revenue, which we refer to as gross margin, or may be determined at the discretion of the account executive or production manager within predetermined parameters. Our gross profit for years ended December 31, 2018, 2017, and 2016 was $255.1 million, $275.5 million, and $262.6 million or 22.7%, 24.2%, and 24.0% of revenue, respectively.

55. More specifically, as to its revenue recognition policy, InnerWorkings stated in the 2018 10-K that:

Revenue is measured based on consideration specified in a contract with a customer and the Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer, which may be at a point in time or over time. Unbilled revenue represents shipments or deliveries that have been made to customers for which the related account receivable has not yet been invoiced.

Shipping and handling costs after control over a product has transferred to a customer are expensed as incurred and are included in cost of goods sold in the condensed consolidated statements of operations.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, we generally report revenue on a gross basis because we typically control the goods or services before transferring to the customer. Under these arrangements, we are primarily responsible for the fulfillment, including the acceptability, of the marketing materials and other products or services. In addition, we have reasonable discretion in establishing the price, and in some transactions, we also have inventory risk and are involved in the determination of the nature or characteristics of the marketing materials and products. In some arrangements, we are not primarily responsible for fulfilling the goods or services. In arrangements of this nature, we do not control the goods or services before they are transferred to the customer and such revenue is reported on a net basis.

A portion of our service revenue, including stand-alone creative and other services, may be earned over time; however, the difference from recognizing that revenue over time compared to a point in time (i.e., when the service is completed and accepted by the customer) is not material. Service revenue has not been material to our overall revenue to date.

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

56. The 2018 10-K stated that the previously disclosed material weaknesses had not been remediated. Specifically, InnerWorkings stated, in relevant part:

> Based on this evaluation, our management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2018 due to the material weaknesses related to revenue recognition and commissions expense, which were previously reported on Item 9A of our Form 10-K for the year ended December 31, 2017 and have not yet been fully remediated.
>
> * * *
>
> With respect to revenue recognition material weakness, the Company's controls were ineffective to: (1) ensure that a contract was appropriately approved and identified prior to revenue being recognized; (2) retain and review customer order documentation, including support for assessing whether the transaction price was determinable; (3) ensure that revenue was recognized subsequent to the transfer of control of the goods or services; and (4) estimate the impact of future credit memos. These deficiencies also contributed to control deficiencies identified in related accounts receivable, unbilled accounts receivable, accrued accounts payable, inventory and cost of sales. With respect to commissions expenses material weakness, the Company's controls were not designed and operating effectively to: (1) ensure the completeness and accuracy of underlying data used for computing the commission expenses and (2) sufficiently review and approve arrangements with respect to commission expenses.

57. On April 30, 2019, InnerWorkings filed a Form 10-K/A with respect to the 2018 10-K to amend its disclosures regarding directors, officers, and their compensation.

58. On May 9, 2019, the Company announced its first quarter 2019 financial results in a press release that stated, in relevant part:

> **Financial and Business Highlights**
>
> - Gross revenue was $267.2 million in the first quarter of 2019, a decrease of 3% compared to $274.5 million in the first quarter of 2018. Excluding currency impacts, first quarter gross revenue increased 1% compared to the same period of last year.
>
> - Gross profit (net revenue) was $61.2 million, or 22.9% of gross revenue in the first quarter of 2019, compared to $66.1 million, or 24.1% of revenue, in the same period of last year. Excluding the impact of write-offs related

to the previous exit of certain client work, first quarter gross margin would have been 23.2%.

- Net loss for the first quarter of 2019 was $(2.5) million, or $(0.05) per diluted share, compared to net loss of $(1.7) million, or $(0.03) per diluted share in the first quarter of 2018. First quarter 2019 net loss included $3.9 million of restructuring charges related to the previously-announced cost reduction plan.

- Non-GAAP diluted earnings per share for the first quarter of 2019 was $0.02, compared to a loss of $(0.02) in the first quarter of 2018.

- Adjusted EBITDA was $6.6 million in the first quarter of 2019, compared to $7.4 million in the first quarter of 2018.

- Additional work from new and existing clients awarded to date in 2019 amounts to approximately $75 million of annual revenue at full run-rate. The latest of these wins include new partnerships with one of the largest producers of consumer discretionary products and a global manufacturer of home improvement products.

"I am encouraged by the progress our teams are making to improve the efficiency of our operations, which is reflected in our sequential reduction in SG&A this quarter," said Don Pearson, Chief Financial Officer. "With the assistance of third-party experts, we are at an advanced planning stage of the second phase of cost reduction initiatives. Implementing these plans is expected to deliver $3 million of cost savings in the second half of 2019 and another $12 million in 2020 and beyond. This is a key step to create an operating platform that will enable sustainable profitable growth."

59. The same day, the Company filed its quarterly report on Form 10-Q with the SEC for the period ended March 31, 2019, affirming the previously reported financial results. Regarding the material weakness in its internal control over financial reporting, InnerWorkings stated, in relevant part:

With respect to revenue recognition material weakness, the Company's controls were ineffective to: (1) ensure that a contract was appropriately approved and identified prior to revenue being recognized; (2) retain and review customer order documentation, including support for assessing whether the transaction price was determinable; (3) ensure that revenue was recognized subsequent to the transfer of control of the goods or services; and (4) estimate the impact of future credit memos. These deficiencies also contributed to control deficiencies identified in related accounts receivable, unbilled accounts receivable, accrued accounts payable, inventory and cost of sales. With respect to commissions expenses material weakness, the Company's controls were not designed and operating effectively to: (1) ensure the completeness and accuracy of underlying data used for computing the commission expenses and (2) sufficiently review and approve arrangements with respect to commission expenses.

60. On August 8, 2019, InnerWorkings announced its second quarter 2019 financial results in a press release that stated, in relevant part:

Financial and Business Highlights

- Gross revenue was $284.1 million in the second quarter of 2019, an increase of 1% compared to $282.0 million in the second quarter of 2018. Excluding currency impact, second quarter gross revenue increased 3% compared to the same period of last year.

- Gross profit (net revenue) was $69.1 million, or 24.3% of gross revenue in the second quarter of 2019, compared to $64.9 million, or 23.0% of gross revenue, in the same period of last year. Second quarter gross profit (net revenue) increased 6% over the prior period and 8% excluding currency impact.

- Net loss for the second quarter of 2019 was $(1.2) million, or $(0.02) per diluted share, compared to net loss of $(0.3) million, or $(0.01) per diluted share in the second quarter of 2018.

- Non-GAAP diluted earnings per share for the second quarter of 2019 was $0.06, compared to $0.01 in the second quarter of 2018. Year-to-date non-GAAP diluted earnings per share was $0.07, compared to a loss of $(0.01) in the same period of 2018.

- Adjusted EBITDA was $13.6 million in the second quarter of 2019, compared to $8.2 million in the second quarter of 2018. Year-to-date adjusted EBITDA was $20.2 million, an increase of 30% compared to the same period of 2018.

- Additional work from new and existing clients awarded to date in 2019 amounts to approximately $135 million of annual revenue at full run-rate. The latest of these wins includes a major expansion of our relationship with a global sportswear company and a new partnership supporting one of the world's leading beverage brands.

- The acquisition of Madden Communications' marketing execution business on August 1, 2019 adds to InnerWorkings' capabilities in logistics and creative services and brings key clients in the beer, wine, and spirits vertical.

> "Our second quarter adjusted EBITDA was more than twice the amount generated in the first quarter, reaching the highest level in almost 2 years," said Don Pearson, Chief Financial Officer. "We expect to show positive momentum in the second half of 2019 as we begin to realize the benefits of our $15 million cost reduction plan announced in March. We expect to realize a minimum of $3 million in cost savings from the annual run rate of at least $9 million in cost savings initiatives being actioned this year, with the balance to be actioned next year. Looking further ahead, we expect the realization of these benefits combined with the high quality revenue of recent client wins to provide significant sustainable profitable growth in 2020 and beyond."

61. On August 9, 2019, the Company filed its quarterly report on Form 10-Q with the SEC for the period ended June 30, 2019, affirming the previously reported financial results. Moreover, regarding material weaknesses in its internal control over financial reporting, InnerWorkings stated, in relevant part:

> With respect to revenue recognition material weakness, the Company's controls were ineffective to: (1) ensure that a contract was appropriately approved and identified prior to revenue being recognized; (2) retain and review customer order documentation, including support for assessing whether the transaction price was determinable; (3) ensure that revenue was recognized subsequent to the transfer of control of the goods or services; and (4) estimate the impact of future credit memos. These deficiencies also contributed to control deficiencies identified in related accounts receivable, unbilled accounts receivable, accrued accounts payable, inventory and cost of sales. With respect to commissions expenses material weakness, the Company's controls were not designed and operating effectively to: (1) ensure the completeness and accuracy of underlying data used for computing the commission expenses and (2) sufficiently review and approve arrangements with respect to commission expenses.

62. On November 7, 2019, InnerWorkings announced its third quarter 2019 financial results in a press release that stated, in relevant part:

> **Financial and Business Highlights**
>
> - Gross revenue was $286.5 million in the third quarter of 2019, an increase of 6% compared to $270.9 million in the third quarter of 2018. Excluding currency impact, third quarter gross revenue increased 7% compared to the same period of last year.
>
> - Gross profit (net revenue) was $68.2 million, or 23.8% of gross revenue in the third quarter of 2019, compared to $64.0 million, or 23.6% of gross revenue, in the same period of last year. Third quarter gross profit (net

revenue) increased 6% over the prior period and 7% excluding currency impact.

- Net loss for the third quarter of 2019 was $(2.2) million, or $(0.04) per diluted share, compared to net loss of $(44.9) million, or $(0.87) per diluted share in the third quarter of 2018.

- Adjusted diluted earnings per share for the third quarter of 2019 was $0.05, compared to $0.04 in the third quarter of 2018. Year-to-date adjusted diluted earnings per share was $0.12, compared to $0.03 in the same period of 2018.

- Adjusted EBITDA was $11.6 million in the third quarter of 2019, compared to $12.2 million in the third quarter of 2018. Year-to-date adjusted EBITDA was $31.8 million, an increase of 15% compared to the same period of 2018.

- Additional work from new and existing clients awarded to date in 2019 amounts to approximately $142 million of annual revenue at full run-rate.

"We have already surpassed 2018's full-year adjusted EBITDA only three quarters into 2019," said Don Pearson, Chief Financial Officer. "We expect this momentum to continue as we finish the year and into 2020 as we continue to realize the benefits of our $15 million cost reduction plan announced in March 2019. We are on track to realize $4 million of these cost savings this year, with most of the remaining $11 million to be realized next year, setting the stage for significant sustainable profitable growth in 2020 and beyond."

63. On November 12, 2019, the Company filed its quarterly report on Form 10-Q with the SEC for the period ended September 30, 2019, affirming the previously reported financial results. Regarding material weaknesses in its internal control over financial reporting, InnerWorkings stated:

With respect to revenue recognition material weakness, the Company's controls were ineffective to: (1) ensure that a contract was appropriately approved and identified prior to revenue being recognized; (2) retain and review customer order documentation, including support for assessing whether the transaction price was determinable; (3) ensure that revenue was recognized subsequent to the transfer of control of the goods or services; and (4) estimate the impact of future credit memos. These deficiencies also contributed to control deficiencies identified in related accounts receivable, unbilled accounts receivable, accrued accounts payable, inventory and cost of sales. With respect to commissions expenses material weakness, the Company's controls were not designed and operating effectively to: (1) ensure the completeness and accuracy of underlying data used

> for computing the commission expenses and (2) sufficiently review and approve arrangements with respect to commission expenses.

64. The above statements identified in ¶¶ 47-48, 50-63 were materially false and/or misleading, and failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) that InnerWorkings experienced significant customer churn, including the loss of a large customer; (2) that the Company did not accurately account for the revenue and corresponding costs in certain periods; (3) that, as a result of the foregoing, the Company's profitability had been overstated in certain periods; (4) that, in connection with correcting these errors, InnerWorkings would implement significant costly changes, including with respect to the contract review process; (5) that, as a result, the Company would be required to write-off certain inventory and incur asset impairment charges; and (6) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects, were materially misleading and/or lacked a reasonable basis.

<u>The Truth Begins to Emerge</u>

65. On March 16, 2020, after the market closed, the Company issued a press release to announce its fourth quarter and full year 2019 financial results. Therein, InnerWorkings disclosed:

> As a result of the material weaknesses previously disclosed, insufficient evidence existed to support the recognition of revenue in arrangements containing bill and hold provisions. Therefore, we deferred the related revenue until product shipped from our warehouse. In connection with the remediation of those material weaknesses, we are now able to support earlier revenue recognition for bill and hold arrangements.

66. The same day, the Company filed a notification on Form 12b-25 with the SEC stating that it could not timely file its annual report "because the Company required additional time to prepare and finalize its financial statements for the year ended December 31, 2019

required to be included in the Form 10-K."

67. On this news, the Company's share price fell $0.36, or nearly 18%, to close at $1.68 per share on March 17, 2020, on unusually heavy trading volume.

68. On March 17, 2020, after the market closed, InnerWorkings filed its annual report on Form 10-K with the SEC, in which it stated that the previously disclosed material weaknesses had been remediated. Specifically, the Company stated, in relevant part:

> With oversight from the Audit Committee, we took significant steps to remediate our internal control deficiencies in the revenue recognition and commission expense processes by redesigning our controls. Our efforts consisted of implementing new policies over the operational processes supporting revenue recognition to ensure revenue was recorded at the appropriate transaction price in the proper period; adding resources to train process owners and monitor compliance with the Company's policies; and improving related operational processes and enhancing our management review controls in these areas. The remediation actions included:
>
> Revenue Recognition
>
> - Designing and implementing enhanced controls over contract review, including the approval of contract terms and whether the terms were appropriately accounted for under ASC 606
> - Re-designing our management review controls and enhancing the precision of its controls over the review of unbilled revenue
>
> Commissions Expense
>
> - Designing and implementing controls ensure that the underlying data used within the system that calculates commissions is complete and accurate and reflects approved compensation arrangements
> - Standardizing commission agreements and improving the review and approval process over non-standard commission agreements
> - Improving the review process over commissions expense and the related balance sheet accounts
> - Evaluating the completeness and accuracy of reports and underlying data that support the commissions process
>
> In addition, the applicable controls in place have operated for a sufficient period of time and management has concluded, through testing, that these are controls are operating effectively.

CLASS ACTION ALLEGATIONS

69. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class, consisting of all persons and entities that purchased or otherwise acquired InnerWorkings securities between February 26, 2018 and March 16, 2020, inclusive, and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors, or assigns, and any entity in which Defendants have or had a controlling interest.

70. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, InnerWorkings's common shares actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are at least hundreds or thousands of members in the proposed Class. Millions of InnerWorkings common stock were traded publicly during the Class Period on the NASDAQ. Record owners and other members of the Class may be identified from records maintained by InnerWorkings or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

71. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

72. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

73. Common questions of law and fact exist as to all members of the Class and

predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period omitted and/or misrepresented material facts about the business, operations, and prospects of InnerWorkings; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

74. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation makes it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

UNDISCLOSED ADVERSE FACTS

75. The market for InnerWorkings's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and/or misleading statements, and/or failures to disclose, InnerWorkings's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired InnerWorkings's securities relying upon the integrity of the market price of the Company's securities and market information relating to InnerWorkings, and have been damaged thereby.

76. During the Class Period, Defendants materially misled the investing public,

thereby inflating the price of InnerWorkings's securities, by publicly issuing false and/or misleading statements and/or omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and/or misleading. The statements and omissions were materially false and/or misleading because they failed to disclose material adverse information and/or misrepresented the truth about InnerWorkings's business, operations, and prospects as alleged herein.

77. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about InnerWorkings's financial well-being and prospects. These material misstatements and/or omissions had the cause and effect of creating in the market an unrealistically positive assessment of the Company and its financial well-being and prospects, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein when the truth was revealed.

LOSS CAUSATION

78. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

79. During the Class Period, Plaintiff and the Class purchased InnerWorkings's securities at artificially inflated prices and were damaged thereby. The price of the Company's

securities significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

SCIENTER ALLEGATIONS

80. As alleged herein, Defendants acted with scienter since Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and/or misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, the Individual Defendants, by virtue of their receipt of information reflecting the true facts regarding InnerWorkings, their control over, and/or receipt and/or modification of InnerWorkings's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning InnerWorkings, participated in the fraudulent scheme alleged herein.

APPLICABILITY OF PRESUMPTION OF RELIANCE (FRAUD-ON-THE-MARKET DOCTRINE)

81. The market for InnerWorkings's securities was open, well-developed and efficient at all relevant times. As a result of the materially false and/or misleading statements and/or failures to disclose, InnerWorkings's securities traded at artificially inflated prices during the Class Period. On April 20, 2018, the Company's share price closed at a Class Period high of $10.25 per share. Plaintiff and other members of the Class purchased or otherwise acquired the Company's securities relying upon the integrity of the market price of InnerWorkings's securities and market information relating to InnerWorkings, and have been damaged thereby.

82. During the Class Period, the artificial inflation of InnerWorkings's shares was caused by the material misrepresentations and/or omissions particularized in this Complaint causing the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about InnerWorkings's business, prospects, and operations. These material misstatements and/or omissions created an unrealistically positive assessment of InnerWorkings and its business, operations, and prospects, thus causing the price of the Company's securities to be artificially inflated at all relevant times, and when disclosed, negatively affected the value of the Company shares. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at such artificially inflated prices, and each of them has been damaged as a result.

83. At all relevant times, the market for InnerWorkings's securities was an efficient market for the following reasons, among others:

(a) InnerWorkings shares met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) As a regulated issuer, InnerWorkings filed periodic public reports with the SEC and/or the NASDAQ;

(c) InnerWorkings regularly communicated with public investors via established market communication mechanisms, including through regular dissemination of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and/or

(d) InnerWorkings was followed by securities analysts employed by brokerage firms who wrote reports about the Company, and these reports were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

84. As a result of the foregoing, the market for InnerWorkings's securities promptly digested current information regarding InnerWorkings from all publicly available sources and reflected such information in InnerWorkings's share price. Under these circumstances, all purchasers of InnerWorkings's securities during the Class Period suffered similar injury through their purchase of InnerWorkings's securities at artificially inflated prices and a presumption of reliance applies.

85. A Class-wide presumption of reliance is also appropriate in this action under the Supreme Court's holding in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972), because the Class's claims are, in large part, grounded on Defendants' material misstatements and/or omissions. Because this action involves Defendants' failure to disclose material adverse information regarding the Company's business operations and financial prospects—information that Defendants were obligated to disclose—positive proof of reliance is not a prerequisite to recovery. All that is necessary is that the facts withheld be material in the sense that a reasonable investor might have considered them important in making investment decisions. Given the importance of the Class Period material misstatements and omissions set forth above, that requirement is satisfied here.

NO SAFE HARBOR

86. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint.

The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as "forward-looking statements" when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of InnerWorkings who knew that the statement was false when made.

<u>FIRST CLAIM</u>
Violation of Section 10(b) of The Exchange Act
and Rule 10b-5 Promulgated Thereunder
<u>(Against All Defendants)</u>

87. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

88. During the Class Period, the Company and the Individual Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase InnerWorkings's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, the Company and the Individual Defendants, and each of them, took the actions set forth herein.

89. The Company and the Individual Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for InnerWorkings's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. The Company and the Individual Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

90. The Company and the Individual Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about InnerWorkings's financial well-being and prospects, as specified herein.

91. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of InnerWorkings's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made about InnerWorkings and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities during the Class Period.

92. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of their responsibilities and activities as a senior officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of, and had access to, other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew and/or recklessly disregarded was materially false and misleading.

93. The Company and the Individual Defendants had actual knowledge of the misrepresentations and/or omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing InnerWorkings's financial well-being and prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by the Company and the Individual Defendants' overstatements and/or misstatements of the Company's business, operations, financial well-being, and prospects throughout the Class Period, these defendants, if they did not have actual knowledge of the misrepresentations and/or omissions alleged, were reckless in failing to obtain

such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

94. As a result of the dissemination of the materially false and/or misleading information and/or failure to disclose material facts, as set forth above, the market price of InnerWorkings's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of the Company's securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by the Company and the Individual Defendants, or upon the integrity of the market in which the securities trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by the Company and the Individual Defendants, but not disclosed in public statements by these defendants during the Class Period, Plaintiff and the other members of the Class acquired InnerWorkings's securities during the Class Period at artificially high prices and were damaged thereby.

95. At the time of said misrepresentations and/or omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that InnerWorkings was experiencing, which were not disclosed by the Company and the Individual Defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their InnerWorkings securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

96. By virtue of the foregoing, the Company and the Individual Defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

97. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

SECOND CLAIM
Violation of Section 20(a) of the Exchange Act
(Against the Individual Defendants)

98. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

99. The Individual Defendants acted as controlling persons of InnerWorkings within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

100. In particular, each of these Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

101. As set forth above, InnerWorkings and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and/or omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;

(b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: _______, 2020

By: ________________

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