UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

PETER IKAI VAN NOPPEN, Individually and On Behalf of All Others Similarly Situated,	)	
Plaintiff,	)	Case No. 1:14-cv-01416 Hon. James F. Holderman
vs.	)	JURY TRIAL DEMANDED
	)	CLASS ACTION
INNERWORKINGS, INC., ERIC D. BELCHER, and JOSEPH M. BUSKY,	)	
Defendants.	)	

AMENDED CLASS ACTION COMPLAINT

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Lead Plaintiff Plymouth County Retirement System ("Plaintiff" or "Plymouth"), by its undersigned attorneys, hereby brings this Amended Class Action Complaint ("Complaint") against InnerWorkings, Inc. ("Innerworkings" or the "Company"), Eric D. Belcher ("Belcher"), and Joseph M. Busky ("Busky"). The allegations herein are based on Plaintiff's personal knowledge as to its own acts and on information and belief as to all other matters, such information and belief having been informed by the investigation conducted by and under the supervision of its counsel, which included interviews of former employees of Innerworkings and other persons with knowledge of the matters alleged herein (some of whom have provided information in confidence, including internal Innerworkings emails and other documents); these confidential witnesses ("CWs") will be identified herein by number (CW1, CW2, etc.)),[1] and review and analysis of publicly available information, including United States Securities and Exchange Commission ("SEC") filings by Innerworkings, as well as regulatory filings and reports, securities analysts' reports and advisories about the Company, press releases and other public statements issued by the Company, media reports about the Company, and consultations with experts. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery. On behalf of itself and the class it seeks to represent, Plaintiff alleges as follows:

I. NATURE OF THE ACTION

1. This action is brought on behalf of a class of purchasers of Innerworkings's securities between February 15, 2012 and November 6, 2013 inclusive (the purchasers being the "Class" and the time frame being the "Class Period"). Plaintiff seeks remedies under the Securities Exchange Act of 1934, 15 U.S.C. §§ 78a et seq. (the "Exchange Act").

[1] All CWs will be described in the masculine to protect their identities. *See* Appendix for a list of all CWs cited herein.

2. Innerworkings is a leader in the business process outsourcing ("BPO") market for print procurement, providing global print management and promotional solutions to corporate clients across a wide range of industries including retail, financial services, hospitality, non-profits, healthcare, food and beverage, broadcasting and cable, education, transportation and utilities. Using its proprietary "PPM4" technology, the Company leverages internal data – including specifications and equipment information for over 10,000 print suppliers – and excess capacity among print suppliers to more efficiently purchase print for its customers. For large clients, Innerworkings guarantees 10%-15% savings and shares in any gains if actual savings are greater.

3. Innerworkings generates revenue by procuring and purchasing printed products from suppliers and selling those products to clients. The Company groups its clients in two categories, enterprise and middle market.[2] With enterprise clients, Innerworkings contracts to provide some or substantially all of their printed products on a recurring basis. The Company provides printed products to middle market clients on an order-by-order, or transactional, basis. During the Class Period, the enterprise segment made up approximately 70-75% of total revenue, with middle market comprising the remainder. At all relevant times, the Company used gross revenue accounting to report its revenues, *i.e.*, when Innerworkings arranged to fill a purchase order with a supplier, it booked the *entire* amount of the purchase order as revenue without subtracting costs, making it difficult for investors to determine from revenue figures alone what the Company was netting. Accordingly, revenue *growth*, rather than revenue, better reflected the Company's performance.

[2] Middle market is also referred to as the "small to medium-sized business market" or "SMB."

4. Analysts reporting on the Company emphasized growth figures, as did the Defendants during their Class Period statements. A March 23, 2013 Crain's Chicago Business article reported that "[Innerworkings's] stock is up 30 percent in the past year, and if Mr. Belcher continues the run, it could surpass the peak of $18.69 a share in late 2007. To do it, *the InnerWorkings CEO will have to deliver on big growth targets he has set for himself this year*. *He's promising 40 to 50 percent higher profit*, about 59 cents per share or $30.6 million, raising the bar higher than Wall Street expected."[3] In both 2012 and 2013, moreover, *fully 40%* of executive bonus pay for Belcher and Busky was based on revenue growth.

5. During the Class Period, Defendants outlined a new growth strategy centered on increasing their middle market business that was meant to complement growth produced by the Company's global mergers and acquisitions of print brokers. As CEO Belcher explained:

> Our M&A practice is a source of talent, which allows us to accelerate the signings on the enterprise contract side. *The small and medium business services segment is a hotbed for us right now* in terms of information about new product categories as an example, food packaging, that we may be able to roll out to our larger corporate clients. It is also a method of bringing in new industry talents, in new talent into the industry, new talent into our Company that ultimately may, for instance, move over and help us with our larger corporate contracts.
>
> So all three working in unison together creates a platform that we believe can continue to *deliver a very high growth rate*, at least similar to what we have done in the past[.]

Middle market growth and international expansion also were specified criteria for executive bonus pay in 2012 and 2013.

6. Throughout the Class Period, Defendants emphasized an expansion of the middle market sales force, including a direct sales (also known as "inside sales") call center occupying a newly leased floor in Innerworkings's headquarters, where sales personnel were to generate

[3] All emphases added unless otherwise stated.

middle market business and cultivate clients through cold calls, handling transactions entirely by phone. Former employees at this call center witnessed Belcher and Busky conducting almost daily "investor tours" for potential investors and clients, during which the employees would pretend to "burn up" the phone lines to give the false impression of rapid business growth. At the same time Defendants were misleading investors about the growth of Innerworkings's middle market business, however, employees described a situation where internal sales targets were almost never met, compounded by the rapid hiring of inexperienced salespeople directly out of college who were unable to sell efficiently even after Company training. Former sales managers confirm that by at least June, 2013 Defendants knew the middle market expansion was a failure.

7. Yet on the August 2013 earnings call, Belcher responded to a direct question regarding the state of the SMB business by misleadingly re-iterating the Company's confidence in the group: "And so, we're as committed as we've ever been to this market…. [A]s we move forward, this group is – it's as switched on as any part of our business is right now and we've got big plans for our SMB Group." By the end of the Class Period, however, the Company had laid off the majority of the direct sales employees it had hired over the preceding two years.

8. The SMB "growth" was supposed to complement growth from the Company's recent mergers and acquisitions. In particular, the Company had expanded into Europe through its 2011 acquisition of Productions Graphics, a French company, for $94.5 million – the Company's largest acquisition to date. Innerworkings structured the Productions Graphics acquisition (as it did similarly in its other acquisitions) with a small amount – only 8% – of the deal's value paid up-front. The Company then set aggressive earnings targets over a four-year time period that would, if met by Productions Graphics, trigger earn-out payments as the remainder of consideration for the acquisition. Investors lauded this approach because it

appeared to weigh the risk of acquisition on the company being acquired. The structure also appeared to encourage "growth" by spurring the acquired company to produce aggressive revenue targets in order to trigger earn-out payments. Finally, the Company promoted this strategy as a way to attract top entrepreneurial "talent" and incentivize them to stay for longer periods post-acquisition. Innerworkings's Productions Graphics deal announcement and Share Purchase Agreement noted that "[a]s part of the acquisition, CEO Christophe Delaune ["Delaune"] has agreed to a long term contract to remain with InnerWorkings."

9. According to the Company, Productions Graphics met its earn-out targets for 2012, contributing more revenue in the second half of the year per its seasonal business. On the August 2012 earnings call, Belcher referred to Delaune as part of a "top notch management team in the EMEA [Europe, Middle East, and Africa] region."

10. Former Productions Graphics employees confirmed that Belcher visited Productions Graphics headquarters in Paris frequently, and that both Delaune and the CFO of Productions Graphics were in constant communication with both Belcher and Innerworkings CFO Busky. On the May, 2013 earnings call Belcher also referred to a week-long visit with the European management team, stating that "*we've got a solid pipeline in Europe*. *I spent the week in Europe with our team* over there and couldn't be more excited about what we have coming up…. We expect some good news coming from Europe before long." Nothing seemed amiss until the end of the Class Period, when Defendants abruptly disclosed that Productions Graphics had not only missed its own internal forecast, it was actively *losing* clients and business – the very opposite of "growth."

11. In reality, however, Defendants knew as early as July, 2012 that Productions Graphics was behind on its internal forecasts. On July 19, 2012, Delaune had informed Belcher

that Productions Graphics would not be able to meet its second quarter forecasts. In response, Belcher told Delaune that Productions Graphics had to meet its 2012 targets "*by any means*," because the market had to be convinced that the Productions Graphics acquisition – Innerworkings's biggest to date and premised on a major global growth expansion – was successful. Belcher told Delaune that "the most important thing… even more than the results, *is the creation of a climate of confidence*."[4]

12. To that end, Belcher proposed a fraudulent scheme, funded by the large earn-outs built into the acquisition, that would enable Productions Graphics to meet its 2012 targets. Belcher told Delaune to think of it as "an investment for the future," and that if Delaune agreed to "improve the results in a fictitious way," Belcher would "return the favor" by giving Delaune enough gross margin volume to enable Productions Graphics to achieve all its acquisition earn-out targets over the years, and thus reap the full acquisition price. Belcher stressed that the scheme needed to be "perfectly documented" such that the fraud would remain undetected by regulatory authorities and auditors.

13. The scheme consisted of creating fake invoices for design work, billing Productions Graphics clients that had previously agreed to participate in the fraud. The clients would pay for the work, but would then be reimbursed the invoiced amount plus a 5-6% commission for agreeing to participate. The reimbursement would be funded by a portion of the 2012 earn-out amount, which would be triggered by the earnings (EBITDA) targets falsely achieved. Innerworkings would pay Delaune the earn-out, and Delaune would then reimburse participating clients through his personal holding company in the United Kingdom ("U.K.").

[4] Innerworkings depends in large part on acquisitions to sustain its growth (acquiring companies along with those companies' enterprise accounts). Innerworkings stock was the *sole* consideration in at least five international acquisitions during the Class Period. Accordingly, maintaining a strong stock price was critical to the Company's continued growth.

14. Busky directed Delaune to "dilute" the false revenue figures "over all of the subsidiaries, so that they were not too visible." Accordingly, fake invoices were set up for companies in France, UK, Canada, Dubai, China, Poland, Germany, the Netherlands, Spain, South Africa, and Belgium. Because it appeared that the clients "paid" the fake invoices, the fraud was documented by these "payments" and auditors would see no obvious red flags that the transactions were fabricated.

15. In October 2012, Busky requested an expansion of the fraud, explaining to Delaune that (1) Etrinsic, Innerworkings's U.K. subsidiary, was falling behind targets and also needed to set aside reserves for a significant tax issue; and (2) Merchandise Mania, a recent acquisition, would not meet its targets either because it had lost its biggest client, Google.

16. Delaune provided Innerworkings's corporate office, based in Chicago, with detailed monthly reports that showed an anomalous surge in Productions Graphics's gross margins during the fraudulent invoicing period – from the 20% range up before the fraudulent invoicing, to 40-70% during the fraud. An internal audit triggered by these internal numbers was immediately quashed by Busky. The fraudulent scheme enabled Productions Graphics to "achieve" its targets and the first earn-out, thus creating the "climate of confidence" Belcher wanted.

17. Delaune learned from an executives' meeting in March, 2013, however, that Innerworkings would lose its biggest client, SuperValu – a $60 million/year account. Shortly after, in early April, 2013 – right before the close of the first quarter – Delaune was asked again to produce artificial revenue through fake invoices for Iconomedia design-work because Innerworkings was not going to reach its publicly stated targets for 1Q 2013. Delaune refused,

as he was still having difficulty distributing reimbursement funds to participating clients from the fake invoices manufactured in 2012. His refusal did not sit well with Belcher and Busky.

18. At this point, Delaune realized that Belcher would never be able to "return the favor" by giving Productions Graphics enough business to legitimately achieve the remainder of its acquisition price, nor did Belcher have enough left to finance any additional fake invoicing through earn-out payments. According to Delaune, the SuperValu loss made it impossible for the Company to achieve its publicly stated 2013 goals. Rather than acknowledge this to the market, Defendants subsequently blamed most of the 2013 shortfall on Productions Graphics, scapegoating Delaune and conducting an "inquiry" into the scheme they had themselves devised.

19. Manipulation of figures at Productions Graphics was made easier by a lack of internal controls. Former employees stated that Productions Graphics's business was not integrated into Innerworkings's PPM4 system, but that sales information was instead transmitted to London, then to Chicago, to be input manually, giving rise to potential error and mishandling of information. This lack of internal controls was not limited to Productions Graphics. Former employees across Innerworkings also described a glaring lack of internal controls. One example included the ability of sales personnel to "open" an imaginary job for a certain amount of expected revenue and leave the job "hanging" indefinitely in the system, with the imaginary revenue counting towards the Company's reported total revenues. Belcher told at least one employee that the Company sometimes had to "fudge the numbers" for the good of the business.

20. At the same time Belcher was "fudging" Company numbers and misleading the market regarding the "growth" presented by middle market and Productions Graphics, he sold 150,000 shares of his Innerworkings stock for net proceeds of over $1.8 million. The Company's artificially inflated stock price also helped Defendants acquire several international

companies during the Class Period, with Innerworkings stock serving as sole consideration for at least five of those acquisitions, thus helping Belcher and Busky achieve bonus targets that were based in part on international expansion.

21. By November, 2013 Defendants could no longer hide the failure of their middle market expansion, nor – with Productions Graphics "expected" to bring in the bulk of its revenue in the second half of the year – could they continue concealing the fact that such revenue was not going to materialize. On November 6, 2013, after the market closed, Defendants issued a press release disclosing that "the performance of Productions Graphics in Europe and the restructuring of our Inside Sales division resulted in lower profitability for the quarter." Specifically, "[a] restructuring and write down charge of $4.3 million, or a $0.05 impact to GAAP diluted earnings per share, was incurred to transition the Inside Sales division to a new customer acquisition strategy," and "[a]pproximately $0.05 of the Non-GAAP diluted earnings per share underperformance is attributable to the Productions Graphics business." Defendants further disclosed that in October 2013, the Company had "removed Christophe Delaune from his role as President of [Productions Graphics]" in October 2013, but that Delaune was asserting his entitlement to "severance and related compensation of approximately 2.1 million Euro."

22. On the 3Q 2013 earnings call the same day, Defendants stated that Innerworkings had "reduced the size of our cold calling staff *by 50%*" and "[t]he inside sales division will lose about $5 million this year." Defendants also elaborated on Productions Graphics, stating that the French subsidiary had "not acquired and retained customers as planned, and as a result, has significantly missed its internal forecast," and that "our revised forecast for this business had a meaningful impact on our Q3 results and Q4 projections." Defendants drastically "reduc[ed] [their] revenue guidance range from $910-940 million to $865-880 million" and "lower[ed]

[their] GAAP diluted earnings per share guidance from a range of $0.45 to $0.50 to a range of $0.16 to $0.20." In response to this abrupt news, Innerworkings's stock price plummeted *over 40%* in a single day on unusually heavy trading volume, with 8,902,700 shares traded compared with an average daily trading volume over the Class Period of 275,949 shares.

II. JURISDICTION AND VENUE

23. The claims asserted herein arise under and pursuant to 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 Securities and Exchange Commission ("SEC") [17 C.F.R. § 240.10b-5].

24. 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].

25. Venue is proper in this District pursuant to Section 27 of the Exchange Act, and 28 U.S.C. § 1391(b).

26. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

III. PARTIES

27. On May 9, 2014, the Court appointed Plymouth to serve as Lead Plaintiff in this securities class action pursuant to the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), Pub. L. 104-67, 109 Stat. 737.

28. Lead Plaintiff Plymouth is an institutional investor that represents more than 9,000 active and retired public employees of Plymouth County, Massachusetts, and manages more than $700 million in assets. As set forth in the certification annexed to Plymouth's Motion for Appointment as Lead Plaintiff, incorporated by reference herein, it purchased

Innerworkings's securities on the open market during the Class Period and suffered damages as a result of the misconduct alleged herein.

29. Additional Plaintiff State-Boston Retirement System ("State-Boston") is a defined-benefit governmental pension plan headquartered in Boston, Massachusetts. As of December 31, 2013, State-Boston managed $5.39 billion in assets on behalf of beneficiaries associated with the City of Boston, the Boston Redevelopment Authority, the Boston Housing Authority, the Boston Water and Sewer Commission, the Boston Public Health Commission, and others. As set forth in the certification attached hereto as Exhibit ("Ex.") 1, it purchased Innerworkings's securities on the open market during the Class Period and suffered damages as a result of the misconduct alleged herein.

30. Defendant Innerworkings was formed in 2001, commenced operations in 2002 and converted from a limited liability company to a Delaware corporation in January 2006, with corporate headquarters in Chicago, Illinois. The Company increased its annual revenue from $5.0 million in 2002 to approximately $800 million during the Class Period, representing a *compound annual growth rate of approximately 60%*. As of December 31, 2013, Innerworkings operated in 70 global office locations, with operations organized into three segments based on geographic regions: North America, Latin America and EMEA. The North America segment includes operations in the United States and Canada; the Latin America segment includes operations in South America and Central America; and the EMEA segment includes operations in the United Kingdom, continental Europe, the Middle East, Africa and Asia. Innerworkings's common stock, at all times relevant here, traded on the NASDAQ under the ticker symbol "INWK."

31. Defendant Belcher is and was at all relevant times the Company's Chief Executive Officer and a member of the Company's Board of Directors. Prior to becoming Chief Executive Officer in January 2009, Belcher had been President since April 2008 and Chief Operating Officer from December 2006 to December 2008. From May 2005 to December 2006, Belcher was the Company's Executive Vice President of Operations. According to Innerworkings's Proxy forms for both 2012 and 2013, as "Chief Executive Officer of the Company, Mr. Belcher brings to the Board the critical link to management's perspective in Board discussions regarding the business and strategic direction of the Company and an extensive understanding of InnerWorkings' business through his [eight/nine] years of service to the Company." During the Class Period, Belcher sold 150,000 shares of his Innerworkings stock for net proceeds of over $1.8 million, in addition to Belcher's total compensation of $2,500,146 for 2012 and $2,581,846 in 2013. Belcher was a direct and substantial participant in the fraud.

32. Defendant Busky has been Innerworkings's Chief Financial Officer since July 2008 and is a certified public accountant. Busky was a direct and substantial participant in the fraud.

33. Defendants Belcher and Busky are collectively referred to as the "Individual Defendants." The Individual Defendants, together with Innerworkings, are collectively referred to as the "Defendants."

IV. <u>CONTROL PERSON ALLEGATIONS</u>

34. The Individual Defendants, because of their positions of control and authority as senior executive officers (and as Director for Belcher), had access to the adverse, undisclosed information about Innerworkings's business through their access to internal corporate documents and information, conversations and associations with other corporate officers and employees,

attendance at management and Board of Directors meetings and committees thereof, and reports and other information provided to them in connection therewith.

35. Each of the above officers of Innerworkings, by virtue of his high-level position with the Company, directly participated in the management of the Company, and was directly involved in the day-to-day operations of the Company at the highest levels. The Individual Defendants participated in drafting, preparing, and/or approving the public statements and communications complained of herein and were aware of, or recklessly disregarded, the material misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Revenue growth was the core metric for Innerworkings's print outsourcing business, including revenue growth from global subsidiaries such as Productions Graphics, which remains the Company's largest acquisition to date, and from the highly touted middle market and inside sales expansion. Accordingly, revenue growth was a fundamental metric that the Individual Defendants followed, tracked, and were aware of, or should have followed, tracked and been aware of, at all times.

36. The Individual Defendants, as senior executive officers of the Company, were able to and did control the content of the various SEC filings, press releases, and other public statements pertaining to the Company during the Class Period. The Individual Defendants were provided with copies of the documents and statements alleged herein to be materially false and misleading prior to or shortly after their issuance or had the ability and opportunity to prevent their issuance or cause them to be corrected. Accordingly, the Individual Defendants are responsible for the accuracy of the public reports, releases, and other statements detailed herein and are primarily liable for the misrepresentations and omissions contained therein.

37. As senior officers and controlling persons of a publicly-held company whose securities were, during the relevant time, registered with the SEC pursuant to the Exchange Act, traded on the NASDAQ, the Individual Defendants each had a duty to promptly disseminate accurate and truthful information with respect to the Company's operations and business, and to correct any previously issued statements that were or had become materially misleading or untrue, so that the market price of the Company's publicly-traded securities would be based upon truthful and accurate information. The Individual Defendants' wrongdoing during the Class Period violated these specific requirements and obligations.

38. Each of the Individual Defendants is liable as a primary participant in a wrongful scheme and course of business that operated as a fraud and deceit on purchasers of Innerworkings's securities during the Class Period, which included the dissemination of materially false and misleading statements (both affirmative statements and statements rendered misleading because of material omission) regarding revenue growth from Productions Graphics and the middle market (also known as the SMB) business. The scheme: (i) deceived the investing public regarding Innerworkings's operations and business, and the true value of Innerworkings's securities; and (ii) caused Plaintiff and other members of the Class to purchase Innerworkings's securities at artificially inflated prices, which fell as the truth concerning Productions Graphics and the SMB business ultimately became known.

39. In making the statements complained of herein, the Individual Defendants, who were senior officers and controlling persons of Innerworkings, were acting on behalf of the Company in the regular course of business. Therefore, each of the statements made by the Individual Defendants is attributable to the Company.

V. SUBSTANTIVE ALLEGATIONS

A. The Company and its Business

40. The print industry includes the following product categories: direct mail and other direct marketing materials; basic business printing (business forms, stationery and business cards); promotional printing (brochures, direct mail and catalogs); promotional products (t-shirts, calendars and advertisements); and multimedia (CDs and DVDs). According to the Company's Class Period Forms 10-K, filed with the SEC, Innerworkings's "business of providing print procurement solutions intersects two large industries, commercial printing and business process outsourcing, or BPO." The Company cited Pira International for the fact that the global commercial print markets have estimated revenue exceeding $500 billion each year. As of December 31, 2012, Innerworkings operated in 48 global office locations, increasing to 70 global locations by December 31, 2013. In 2012, the Company organized operations into two segments based on geographic regions: North America (United States and Canada) and International (United Kingdom, continental Europe, the Middle East, Latin America and Asia); in 2013, operations were organized into three segments based on geographic regions: North America, Latin America and EMEA.

41. Innerworkings procures, manages and delivers printed materials and promotional products to clients in a range of industries. Through a network of more than 10,000 global suppliers, the Company offers print, fulfillment and logistics services in more than 60 different print categories, enabling it to procure printed products on multiple substrates, and using major types of printing including offset sheet-fed, web offset, digital offset, letterpress, screen printing, waterless, flexography and gravure. Its network of suppliers includes printers, graphic designers, paper mills and merchants, digital imaging companies, specialty binders, finishing and engraving firms and fulfillment and distribution centers.

42. The Company also offers a range of fulfillment and logistics services, such as kitting and assembly, inventory management and pre-sorting postage, assembling multi-level direct mailings, insurance benefits packages, and coupons and promotional incentives that are included with credit card and bank statements. In addition, Innerworkings provides creative services including copywriting, graphics and website design, identity work and marketing collateral development, and pre-media services, such as image and print-ready page processing and proofing capabilities. The Company's "eStores" offer clients online ordering, fulfillment, tracking and reporting. Innerworkings's business is subject to some sales seasonality, with the percentage of annual revenue earned during the third and fourth fiscal quarters being historically higher, due partly to a greater number of print orders in anticipation of the year-end holiday season.

43. During the Class Period, Innerworkings described its "proprietary software applications and database," known as PPM4, as a system that "stores, analyzes and tracks the production capabilities of our supplier network, as well as quote and price data for print jobs." The Company stated that it had "one of the largest independent repositories of equipment profiles and price data for print suppliers in the United States" and that it used its technology "to match our print jobs with suppliers that are optimally suited to meet the client's needs at a highly competitive price." Clients were thus "able to reduce overhead costs, redeploy internal resources and obtain favorable pricing and service terms." The PPM4 technology also enabled gathering job specifications, identifying suppliers, establishing pricing, managing print production and coordinating purchase and delivery of the finished product. In addition, Innerworkings "track[ed] individual transactions and provide[d] customized reports detailing print procurement

activity on an enterprise-wide basis," providing "clients with greater visibility and control of their print expenditures."

44. Innerworkings employed "account executives" and "production managers" to liaise between clients and print suppliers. Account executives acted as the primary sales staff to the Company's clients, while production managers used PPM4 to gather print specifications, solicit bids from the optimal suppliers, establish pricing with the client, manage print production and purchase and coordinate the delivery of the finished product. The Company assigned each client an account executive and one or more production managers, who developed contacts with client personnel responsible for authorizing and making print purchases. At Innerworkings's largest clients, production managers worked on-site at the client. As of December 31, 2012, the Company had 682 production managers, including 249 production managers working on-site.

45. The Company generated revenue by procuring and purchasing printed products from its suppliers and selling those products to clients, who fell into two categories – enterprise and middle market, also known as "Small and Medium Business" or "SMB." The production process for each client category was substantially similar. The Company contracted with enterprise clients to provide some or substantially all of their printed products on a recurring basis, generally for a three to five year term with a termination right upon advance notice ranging from 90 days to twelve months. Enterprise clients usually ordered printed products in higher dollar amounts and volume than middle market clients. During the Class Period, enterprise clients were the main revenue growth generator for the Company. For the years ended December 31, 2010, 2011 and 2012, enterprise clients accounted for 71%, 74% and 75% of Innerworkings's revenue, respectively.

46. The Company provided printed products to middle market clients on an order-by-order basis. For the years ended December 31, 2010, 2011 and 2012, middle market clients accounted for 29%, 26% and 25% of revenue, respectively.

B. <u>Revenue Growth was Innerworkings's Core Metric</u>

47. Innerworkings reported revenue on a gross basis, *i.e.*, reported revenue figures consisted of the prices paid by clients for printed products. These prices comprised the amounts charged by suppliers plus the Company's gross profit. Gross profit margin[5] for enterprise clients was usually fixed by contract. In the case of middle market clients, gross profit margin depended on prices negotiated on a job-by-job basis. Revenue from enterprise clients generated lower gross profit margins than revenue from middle market clients, but commission expense associated with enterprise clients was generally lower.

48. Because gross revenue reporting made it difficult for investors to determine the Company's true profitability (for example, a $100,000 print job might yield only $5,000-10,000 net profit after subtracting for supplier, commission, and other costs) revenue *growth* was the most important indicator of the Company's performance.

49. Revenue growth's importance was reflected in how the Company reported its financials, and how analysts reported on the Company's performance. Thus, in Innerworkings's Form 10-K for fiscal year 2012, it reported that "[o]ur annual revenue was $482.2 million, $633.8 million and $797.7 million in 2010, 2011 and 2012, respectively, *reflecting growth rates of 31.4% and 25.9% in 2011 and 2012*, respectively, as compared to the corresponding prior year. The Company also stated that "[o]ur revenue *increased* from $5.0 million in 2002 to $797.7 million in 2012, representing a *compound annual growth rate of 66.1%*. Between

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[5] Although the Company reported gross margins, that metric does not include operating expenses, interest, or taxes.

January 1, 2002 and December 31, 2012, the number of our employees and independent contractors *increased* from 21 to 1,379." Segment reporting was also focused on growth: "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."

50. Similarly, revenue growth was always one of the first metrics reported by analysts following the Company throughout the Class Period. For example, a February 14, 2012 William Blair report stated "[s]olid revenue growth (16% organically) beat our expectations as momentum in the business continues…. Revenue growth accelerated to 34% for the quarter demonstrating another sequential uptick and a 16% organic increase over last year. This builds on strong organic revenue growth of 17% last quarter, and management expects mid-double-digit organic revenue growth next year. We believe this ramp up reflects an inflection point for the company and is indicative of positive execution and greater customer adoption rates." Similarly, a November 12, 2012 Barrington Research report stated that "[g]rowth continues to be driven by strength in the enterprise business (75% of total revenue), which increased revenue 32% YOY and contributed 18 percentage points to total revenue growth," and a July 24, 2013 Feltl and Company report noted that "INWK is a growth company with organic revenue growth of 19% and over 25% total topline growth for the last three years."

51. Belcher also encouraged analysts to track growth through other measures, including the number of on-site employees. On the August 10, 2012 Q2 2012 earnings call, Belcher noted "explosive" growth: "Our growth in contractual enterprise revenue which we encourage you to monitor in part by keeping track of the number of professionals that work full-time on site at our clients' locations has been explosive. We now have 201 employees working

on site, up 41% from this time last year. We expect this number to climb meaningfully in the years ahead."

52. Busky confirmed that Defendants closely tracked the number of on-site personnel at the September 13, 2012 CL King & Associates Best Ideas Conference, and further noted that having on-site employees improved Defendants' visibility into their business growth:

> One of the metrics that we track very closely and report on every quarter is the on-site personnel. As you can imagine, having folks on site on my payroll is a very sticky model. These folks sit on site at our customer locations, they take the orders from the marketing departments of the companies we serve and they just become part of the daily fabric of life at those companies. They are on their e-mail systems, they attend their holiday parties and we like to see this number growing and obviously it has been growing quite a bit over the last several years and will continue to grow as we continue to land large enterprise deals. And also as you can imagine, having new folks on site, as the CFO I have great visibility and clarity into these accounts in terms of their forecasts.

53. At the February 22, 2013 Investor Day, Belcher summarized the Company's "elegant growth strategy" and its main "growth engines," in which he expressed the utmost confidence: (1) its core enterprise business; (2) the inside sales initiative for middle market clients; and (3) acquisitions:

> 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 three 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 the structure of the day as you can see from your agenda is that, we are going to go through these three growth engines. We'll have John Eisel… take us through the enterprise solution, which represents three quarters of our business today and is also represented over the last few years the majority of our growth by far…. So after that Joe is going to take us through our M&A strategy. What we've done historically and where we see it going from here. And then I will spend a little time talking about our small and medium business initiative, the inside sales business that we've been building over the last few years that many of you have heard quite a bit about and today, you will have a chance to actually see, as we head downstairs and take a look at the new facility that we've built out and the team of a couple of hundred people that we've got in there.

C. Defendants Emphasize Growth Opportunity

54. Complementing these "growth engines" was Defendants' emphasis on the purported size of the global print industry and that Innerworkings had plenty of room to expand into the available market space. At the September 13, 2012 CL King & Associates Best Ideas Conference, Busky stated:

> As I said, *the print market is a massive market*. In the US it is about $150 billion in size; globally it is about $500 billion in size. And our TAM in the US is $100 billion and approximately $300 billion globally. So it is – as I said, it is a massive market any way you look at it…. *The print market also is very under penetrated when it comes to the concept of print management*. It is a very wide-open greenfield space in the US. As you can see from the chart, only 2% of the US market runs through a print management efficiency channel like InnerWorkings. *So we are still very much in the infancy of the growth of this concept*. Now you can compare that to Europe where roughly 15% to 20% of the market will run through a print efficiency channel and the only difference being that they are a couple of decades ahead of us. Back in 2001 our founders of our Company actually thought they invented the sport of print management not knowing that it has been going on or had been going on for decades over in Europe. *So there is slightly more competition in Europe but still a very wide open space*.

55. Defendants consistently repeated their message that Innerworkings had only just begun to penetrate the available market. A February 27, 2012 William Blair report stated that "John Eisel, who recently joined InnerWorkings as COO, presented [at the annual Company investor day in New York the previous week] on the company's core enterprise business, which continues to gain momentum in an underpenetrated market. *The company estimates that its share of $144 billion U.S. market opportunity is less than 0.5%, leaving significant opportunity to grow this business*, despite the decline in overall print spending." Similarly, on March 2, 2012 a Jefferies analyst reporting on the investor day presentation stated that "[Management] emphasized that growth in the Enterprise segment will be driven organically, given INWK's *0.5% penetration* of the eligible domestic print market."

56. At the February 22, 2013 investor day, Belcher stated:

> [I]f 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…. 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.

57. At a March 11, 2013 Company presentation, Belcher stated:

> [W]e 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…. 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… *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.

58. Similarly, a March 23, 2013 Crain's Chicago Business article noted that "Mr. Belcher thinks the global printing market is $500 billion, and, with revenue this year expected to hit about $945 million, InnerWorkings has plenty of room for growth."

59. And, at the May 7, 2013 Jefferies Global Technology, Media and Telecom Conference, Busky stated that:

> And as you can see, the market opportunities here, print is very, very large around the world. And these aren't our numbers. These numbers come from an objective third source, Print Industry Research Associates. There's a footnote at the bottom. But roughly, the print market around the world is a $500 billion market. Very large in the US and very large in EMEA. Our addressable market is big. It's bigger than just the brokerage market out there. Most corporations around the world will procure print directly from a manufacturer, and that is our addressable market…. We do think that we are just getting started here. There is a massive market opportunity for us to go after. And it's a very underpenetrated market in terms of print management on an specialty channel like InnerWorkings. And so we will continue to use our data and technology to find those lower prices and land those new deals.

60. Having represented that Innerworkings's business model had only begun to penetrate the immense market opportunity available, Defendants then misled the market regarding two key growth initiatives during the Class Period – the Company's purported middle market growth expansion, and the revenue growth from the Company's largest acquisition to date, its Productions Graphics subsidiary in Europe.

D. Defendants Mislead the Market Regarding <u>Middle Market Growth and the Inside Sales Initiative</u>

61. During the Class Period, Defendants repeatedly represented the inside sales initiative in the Company's middle market segment as a key growth strategy. After a period of successful "testing," the Company announced in early 2012 that the inside sales initiative (basically a telesales initiative) would expand greatly over the next year and add meaningfully to revenue growth. A February 27, 2012 Barrington Research report on the February 24, 2012 Company Investor Day described the inside sales initiative and its "strong" results:

> During the last 18 months, InnerWorkings has been testing and investing in a new inside telesales initiative that targets middle market clients (smaller than the company's typical enterprise customers). *The strong initial results of the inside telesales initiative have given management the confidence to significantly increase investments in this business. InnerWorkings plans to approximately triple the size of its inside telesales force during 2012*. The company ended 2011 with 60 inside sales representatives, a number that is expected to increase to 150-200 by the end of 2012…. In 2013, management expects the inside sales business to become profitable…. The middle market inside sales business is expected to contribute $15-25 million to revenue growth in 2012 (2-4 percentage points of growth).

62. Similarly, a February 27, 2012 Craig-Hallum report noted that "The company's 2012 guidance was encouraging, as it now includes an accelerated investment in building out the middle market (higher margin) business as well." A William Blair analyst reported the same day that "[t]he middle market, or transactional business, continues to grow steadily as recently hired inside sales reps become productive (breakeven period is about one year)…. Management feels

confident the company has developed a successful process for hiring and training new reps and views the 'formula for the ideal candidate' as a trade secret that gives the company a competitive advantage."

63. During the May 3, 2012 1Q 2012 earnings call, Belcher reported on growth from the middle market segment and stated that:

> Now in addition to the strength of our enterprise business, our middle market sales efforts are progressing rapidly and of plan. *This segment of our business grew 15% in the first quarter of 2012*, and keep in mind that as recently as two years ago before we initiated the Inside Sales Division, this market segment was not a growth area for us.
>
> Today we're hiring new sales professionals at a rapid clip, and I couldn't be more proud of the support infrastructure that the leadership team within the Inside Sales Division has built. *The Recruiting Team is finding outstanding candidates. I believe our training program is the best in the industry*, and our Procurement and Production Departments have been built with the strength to support the high volume of transactions that we're beginning to see from this Division. This business will scale nicely in the months and years ahead.

64. On May 7, 2012 a Barrington Research analyst reported that "[r]evenue from the middle market transactional business grew 15% YOY, the sixth consecutive quarter of solid growth, reflecting increased management focus and investment in new growth initiatives" and that:

> Management noted increasing traction of the inside sales force. The company is hiring and extensively training new classes of inside sales representatives monthly. New sales representatives are becoming productive more quickly as the company gains experience with the inside sales initiative.

65. Similarly, a September 25, 2012 William Blair report stated that "In the middle-market business, the investment in the inside salesforce appears to be paying off. The company expects to have nearly 200 inside sales reps by the end of the year (compared with 60 last year) and is seeing good productivity improvement from the new sales reps."

66. As the year progressed, Defendants continued to report positive progress in the inside sales expansion. A December 4, 2012 Sidoti & Company report noted that:

> [The inside sales expansion] helped drive mid-market sales higher at a 17% organic rate in 2011 and 12% pace year-to-date 2012. Given the early success, management plans to boost the company's inside sales force to nearly 200 representatives by year-end 2012 and more than 250 by year-end 2013. The team is maturing and *management claims that refinement to hiring, training and sales processes are generating progressively better results across all key metrics* including gross profit per representative, repeat order rates, and productivity.

67. In 2013, analysts expected the middle market expansion to be profitable as the training acclaimed by management produced full productivity from 2012 hires. A February 25, 2013 Sidoti & Company report on the Company's February 2012 analyst day stated "we forecast that inside sales force revenue more than doubles to $40 million, as new hires in 2012 reach full productivity in 2013" and that "INWK recruited a new head of inside sales in 4Q:12, who successfully built inside sales forces for other organizations." The report also noted that Innerworkings had "consolidated its inside sales force into a new facility in January."

68. At the February 22, 2013 investor day, Belcher touted the middle market growth initiative and also conducted a tour of the new floor housing the expanded inside sales force. Belcher referred to the middle market expansion as "the third engine that we've historically relied upon and going forward couldn't be more excited about" and told investors that "we're back in the middle market business *in a hyper growth mode* with what we're now calling our small and medium business services group." Belcher also stated that "the amount of information that we have are sales force and production managers in our SMB business have at their fingertips real-time while they're talking to a prospect is the difference, it's the answer"; that "over the telephone, we find that we're averaging about 30 to 40 prospecting calls a day and engaging in a number of those prospects with an extended conversation about in our workings.

and so it's extremely efficient and extremely scalable"; and "This year, we expect in revenues that we'll have the equivalent of the top five enterprise account, and it's highly possible… [middle market] will be effectively our largest client at operating margins, which are higher than our Company average." Belcher then offered the tour of the new inside sales floor:

> So what I'd like to do now is help us out, get up and walk down to the sixth floor, and take a look now…. I think after going down, it gave our board, and I think it will with all of you, *a visual impression of what we're doing of what we're building* and why and just to walk through the floor of this team, and look at what they're doing and look on to their screens at their PPM4 and sales force, and we're going to say hello to the gentleman, Brian Simms who runs inside sales…. [W]e just moved into this facility about four weeks ago I think, it's 21,000 square feet.

69. At the May 7, 2013 Jefferies Global Technology, Media and Telecom Conference, Defendants still consistently referred to the middle market area as a growth area, with Brad Moore, the VP of Corporate Development, stating that the inside sales initiative "is going to be the driver for us in [the middle market] segment of the business," and Busky reaffirming that "revenue growth is driven by the three drivers of growth that we just went through -- Enterprise, *Small/Midsize Business*, and M&A."

70. Similarly, on the May 10, 2013 1Q 2013 earnings call, Belcher stated that "[the SMB] group continues to be the primary growth driver of our Middle Market segment, [even though] our revenues fell short of our internal forecast for the first quarter. This sales channel is the first of its kind in our industry, and we continue to develop and improve upon our key performance metrics." Belcher added that "[t]he business grew about 50% in the first quarter over last year. We had expected a higher growth rate, and so we've now readjusted slightly our expectation for the growth rate for the full year, but not by a meaningful amount."

71. At the same time Defendants were emphasizing the importance of the inside sales initiative to middle market growth, however, employees confirm that inside sales targets were

almost never met, and that by at least June, 2013, Defendants knew that the initiative was a failure.

E. Employees Confirm that Inside Sales was a Failure during the Class Period

72. CW1 was a Business Development Consultant at the corporate office from October 2011 to August 2013.[6] CW1 stated that his responsibilities included bringing on new mid-level accounts and growing existing ones over the phone as an inside salesman. According to CW1, the inside sales department was losing customers "left and right" and that during his tenure, he often saw internal reports that projected targets greater than what the team was able to deliver, with inside sales being "nowhere near there." CW1 stated that these reports originated from two Vice Presidents of Sales, Lindsey Campbell ("Campbell") and Mark Holmes ("Holmes"), who replaced Brian Simms ("Simms") as VP of Sales in July 2013, and who reported directly to CEO Eric Belcher. CW1 further stated that he constantly received emails from Campbell and Holmes, especially during the last couple of months of his tenure, saying that inside sales was supposed to be at $x and that they were only at $x-n. Reflecting the poor performance of the group, CW1 was laid-off on August 30th, 2013, along with at least 30 other inside sales employees.

73. CW1 further observed that most of the inside sales representatives were right out of college and had very little sales experience, but the optics of having a major call center was an important sell to clients. CW1 also observed tours of the sales floor similar to the tour Belcher conducted during the February 2013 investor day. According to CW1, during his entire tenure the "C-Level" executives took turns leading weekly "investor tours" of the inside sales/mid-level

[6] The Company's 2013 Brand Delivery Specialist Career Level Guide, which CW1 provided to Lead Counsel, describes three levels of seniority within the SMB group: Brand Delivery Associate; Brand Delivery Specialist; and Senior Brand Delivery Specialist. The Guide also describes SMB clients as those "with a combined annual spend between $10,000 and $2 million."

sales floor for potential investors and potential clients. These tours were led by Belcher, CFO Joseph Busky, Senior Vice President of Business Technology, Rob Burkart, and other C-Level executives. CW1 recalled hearing Belcher, Busky and the other tour guides telling the clients and investors that the inside sales business was growing, and that they would make it sound as if the business were growing faster than it was. *CW1 explained that much of this was an act and a "sham" in which each inside sales person would pretend to be burning up the phone lines while the tour was coming through*.

74. CW2 was employed at Innerworkings's corporate headquarters in Chicago from December 2010 until August 2013, first as an Account Manager, then as a Sales Manager from October 2012. As Sales Manager, CW2 first reported to then-Vice President of Sales, Brian Simms, and then to Simms's replacements, Holmes and Campbell. Throughout his tenure, CW2 and the team of account managers that he supervised sold to mid-level accounts. According to CW2, inside sales in "no way" met the Company's goals for 2012.

75. CW2 observed that clients really wanted the face-to-face and personal interaction that inside sales could not provide by phone, and that many inside sales employees were being hired right out of college with little or no sales experience. CW2 also witnessed large turnover within the inside sales force and in the Vice President of Sales position. CW2 explained that he was laid off in August 2013 due to the lack of sales in the department, and that 40 other inside sales account executives were laid off the following day.

76. According to CW2, middle market account executives had difficulty meeting quotas throughout his tenure, with *no more than 15% meeting their internal targets*, and that the quotas were unrealistically high for inexperienced inside sales personnel. CW2 stated that he used Sales Force as a CRM (customer relationship management) tool to monitor his team's

productivity, and that PPM4 contained all the sales data used to produce reports and record profitability.

77. To support his description of the department's failure to meet overly aggressive sales targets, CW2 described an inside sales report for Q3 2013, that had been generated using PPM4 in August 2013, midway through that quarter. The report includes target numbers for July, August and September, and actual sales numbers for all of July and part of August, organized by sales teams. Transactions completed were labeled "OC" or "operationally complete." The report shows a little over $1 million in revenues invoiced for July; $872,229 for August and September revenues having been invoiced to-date, and $*2.9 million* in sales targets for the remainder of the quarter. Underscoring the huge disparity between unrealistic sales targets and actual revenues, in comparison, CW2 recalled – based on a graph he saw during his tenure – that inside sales probably achieved only $4 million *in all* of 2012. Further, the report shows that across the seven teams within inside sales, the ratio of actual bookings of print jobs to target bookings in July – the only month with complete numbers in the report – ranged from 25% to 61% and averaged only 47%.

78. According to CW2, then-Senior Vice President of Business Technology Rob Burkart was included in the email chain attaching the report. CW2 further stated that Burkart reported directly to Belcher and worked in close proximity to Belcher "on the 8th floor."

79. The $4 million figure that CW2 recalled as the inside sales total for all of 2012 is at odds with the Company's reported financials. In its Form 10-K for fiscal year 2012, filed on February 28, 2013, Innerworkings reported $199,424,718 in middle market revenue. According to a February 19, 2013 Barrington Research report, the inside sales division generated about 10%

of those middle market revenues, or $19.9 million – about *five times* the figure CW2 recalled seeing.

80. CW3 was a former Financial Account Manager from August 2012 to March 2014, reporting most recently to Mike Robinson, Senior Production Manager. CW3 was responsible for analyzing and managing all expenses, purchase orders and credits related to Innerworkings's enterprise account with InterContinental ("IHG"). He explained that there were two types of access to PPM4, "production" and "financial." According to CW3, the accounts receivable department, certain segments of the Company's finance team, and the C-level executives all had financial access to PPM4. Accordingly, Belcher and Busky would have had financial access to the PPM4 reports generated by inside sales.

81. CW4 was a Brand Delivery Associate at Innerworkings from May 2012 through August, 2013 when he was laid-off along with a substantial number of his colleagues in the SMB division. CW4's responsibilities included developing and managing over 40 small to mid-size clients, and performed purchasing department activities such as print sourcing. CW4 reported to several different managers during his time at Innerworkings, all of whom reported to Simms until Simms was let go in July of 2013. According to CW4, each manager tracked their team's projects and all the information related to sales quotas in Innerworkings's CRM tool. CW4 stated that he was able to log-in to the CRM to check his productivity as well as his sales team's productivity. CW4 recalled seeing Belcher walking around his floor, which was devoted exclusively to SMB sales.

82. CW5 was a Sales Manager at Innerworkings from 2012 through January 2014, reporting first to Simms, then to Simms's replacements, Campbell and Holmes. CW5 supervised an inside sales team, also known as a "small-medium business" (SMB) group. According to

CW5, SMB sales managers supervised teams of 10-20 inside sales personnel. CW5 confirmed that Burkhart was the VP in charge of the SMB group, and described Burkart as being actively involved in the day-to-day SMB business. CW5 met with Burkart on a regular basis to discuss the status of his team's sales. CW5 further stated that he also had "direct line access" to Belcher to talk through issues in his group, and would speak with Belcher about "growing pains" in the group, managerial issues and strategy. CW5 also spoke with Busky on occasion.

83. According to CW5, SMB quotas and sales were regularly discussed via email, and CW5 believed that Belcher and Busky had access to that information. CW5 stated that he attended quarterly forecasting meetings with the executives to analyze their "sales funnel" and go over each client. They would then build a commission structure for the inside sales team based on their expected sales for a particular quarter. CW5 stated that the inside sales personnel were not making very much money, given that there was an extended period of time where sales were "bad." CW5 explained that there is a "ramp" or "bell curve" for people to learn the industry, and that although Innerworkings had a 5-6 week long training program, once the inside sales person was in the "trenches" it took a significant amount of time to understand how to sell at Innerworkings. CW5 further explained that the Company's business was "highly-complex [and] multi-faceted" and required a lot of background knowledge to understand how to sell its services/products. According to CW5, Innerworkings made a huge mistake by hiring many fresh out of college "kids" that took longer to train because of their lack of work experience. CW5 stated that the failure of the SMB group was clear by the time Innerworkings let Simms go in July 2013.

84. CW6 was a Business Development Specialist from May 2012 to January 2014. He reported to a series of sales managers during his tenure, each of whom reported in turn to

Holmes and Campbell, or to Simms prior to Holmes and Campbell, or to Simms's predecessor. CW6 recalled that each VP of Sales reported initially to Burkart, and later in his tenure reported directly to Belcher or Busky. CW6's responsibilities included telephonically developing and maintaining both small and mid-level customers. CW6 stated that the Company defined small customer accounts as ones in which the client generated up to $2 million in annual revenues, and mid-level accounts as those where the client generated between $2 million to $500 million annually.

85. CW6 stated that Simms had been terminated in July 2013 because SMB was consistently way below their sales goals, and noted that SMB missed their goals by "millions" of dollars each quarter. CW6 recalled SMB sales goals doubling every month for much of his tenure, but estimated that *only 5%* of the SMB sales representatives made their quotas for any given month. CW6 believed that Belcher must have had awareness as to SMB's performance because Belcher was a big believer and backer of SMB. CW6 recalled Campbell often referred to SMB as "Belcher's babies," meaning that the department existed because of Belcher's vision that the Company could successfully use its enterprise servicing model to capture much of the small and medium markets.

86. CW6 confirmed the investor tours of the SMB sales floor, and recalled one specific investor tour around March 2013, shortly after SMB had moved to the 6th floor in February 2013. According to CW6, it had been announced that a tour of the SMB sales floor would be conducted that particular day, that the tour was for an investor, and that the SMB inside sales personnel had to stay in their seats, or that the seats be made to look like they were filled, until the tour was over. CW6 noted the department was moved back up to the 8th floor later that year after the August terminations.

87. CW7 was an Inside/Outside Sales Executive and Lead Generation Manager at corporate headquarters from September 2011 to December 2012, reporting directly to Central Region Director of Sales, Jamie Walker ("Walker"), and indirectly to Burkart. CW7's responsibilities included generating new leads for large accounts, including enterprise accounts, and stated that he worked closely with Burkart at times.

88. According to CW7, there was a lot of "shady" activity at the Company. He recalled a specific example that had made him particularly upset. CW7 explained that the Company was trying to sign PNC (who he thought may initially have been an investor in the Company) as an enterprise account. According to CW7, it was around May 2012 when PNC representatives came to tour Innerworkings's corporate office. During this tour, CW7 learned that Innerworkings had set-up a false room on the 8th floor, just for the tour, to look like a design studio containing PNC marketing and promotional items. CW7 stated that PNC was told as part of the pitch that Innerworkings had an in-house graphics design department dedicated to PNC, which was a "flat-out lie" because there was no in-house graphic design department at Innerworkings. CW7 further stated that when the PNC tour ended, the fake room was taken down.

89. CW7 told Walker that he felt very uncomfortable about the deception. According to CW7, Walker took him into her office and explained that there had already been a big argument about the situation in a meeting she had attended the month before, involving Belcher and other senior level executives. Walker informed CW7 that some of the Company's marketing personnel had already misled PNC at that point. Walker added that someone described the deception as "fraud" in the meeting, upsetting Belcher. According to CW7, Belcher later signed PNC as an enterprise customer.

90. CW7 stated that PNC was the first enterprise account the Company had managed to sign internally. He explained that every other enterprise account, before and during his tenure, that the Company had obtained had been through the acquisition of subsidiaries that already had the enterprise account, including SuperValu. According to CW7, 90% of the Company's revenue was a result of mergers and acquisitions, not internal growth. He explained that he knew of this 90% figure through conversations that he had with sales managers and other senior level executives.

91. CW7 recalled that: (1) SMB did not make a lot of money; (2) SMB was consistently not meeting revenue goals; (3) by the end of summer 2012, SMB was only at 20% of revenue goals for the year, and only at 40% by the end of that year; and (4) the only reason SMB's sales income increased at all during 2012 was because of the surge in hiring, and not because of any large increase in the amount of business with existing accounts.

92. CW8 was a Senior Sales Manager from January through August 2013, reporting directly to Simms and later, following Simms's firing, to Holmes and Campbell. CW8 was responsible for supervising a team of inside sales personnel or "brokers" in the SMB division. CW8 resigned in August 2013, prior to the mass lay-offs, because it became very clear to him that "the writing was on the wall," and that Innerworkings had given up on its investment in the SMB division. According to CW8, it was apparent by at least June 2013 that the Company had stopped investing in SMB, and CW8 specifically recalled receiving pushback when he asked for certain resources like more personnel. According to CW8, Simms's firing was related to the lack of success in the SMB decision.

93. CW8 also stated that Busky was present at the monthly business meetings (held at corporate headquarters but sometimes also in France) attended by managers from all Innerworkings divisions.

F. Defendants Mislead the Market Regarding Revenue Growth from Productions Graphics

1. Global Expansion as an Enterprise Growth Engine

94. Defendants also touted global expansion as another key growth engine for Innerworkings. At the February 14, 2012 4Q 2011 earnings call, Belcher stated that "We've quickly progressed from a regional startup to a global leader, with more potential for growth today than we've ever had in the past," and noted that:

> At the end of 2011, 180 of our professionals were located on-site in our clients' offices. This is almost double the number we had at the beginning of the year, and our on-site teams can now be found in Europe and Latin America, in addition to the United States; and we expect over time to integrate hundreds and hundreds of additional employees on-site at our clients' offices around the globe. During the year, we won our first-ever BPO-scale enterprise client. In addition, we won our first global contract, which we believe is the first truly global print management contract ever awarded. We began 2011 supporting clients on a regular basis in less than 10 countries. By the end of the year, that number had grown to more than 40, and it has already grown again in 2012[.]

95. Belcher further stated that the global expansion extended to the Company's proprietary PPM4 system: "Today we are internationalizing PPM4 with language, currency, and procurement enhancements. We expect to have our operations in Latin America and Europe fully integrated with our technology platform by the end of 2012."

96. Similarly, the Company's Class Period annual Forms 10-K reported dramatic growth in the international segment and an intent to further expand globally. For example the Form 10-K for fiscal year 2012 stated that:

> Since 2002, we have expanded from a regional focus to a national and now global focus with the acquisitions of CPRO, a leading provider of print solutions in Latin America, and Productions Graphics, a leading print management firm

> with a particular strength in continental Europe, in 2011… We believe the opportunity exists to expand our business into new geographic markets. Our objective is to continue to increase our sales in the major print markets in the United States and internationally.

97. The Form 10-K for fiscal year 2012 further stated that "[r]evenue from our International segment represented 8%, 15% and 19% of total revenue for 2010, 2011 and 2012, respectively. We intend to expand our global footprint"; and "[i]nternational 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."

98. Defendants stated, and analysts reported, that having a global footprint helped the Company fill its order pipeline with multinational deals that included new enterprises and cross-selling opportunities with existing enterprise clients – especially important as Innerworkings's enterprise business made up three quarters of its revenue and historically has been the main growth generator.[7] A December 4, 2012 Sidoti report noted that in June 2011, for example, "MoneyGram International… signed a contract that made it the first customer to utilize Innerworkings's services across six continents." The report also stated that "[a]cquisitions will augment growth," and that "INWK annexed 13 rivals between 2006 and 2008 and expanded again in 2011 with the purchases of CPRO in Latin America and Productions Graphics in Europe. The acquisitions strengthened print category expertise and bolstered print networks and enterprise sales talent in under-represented geographies."

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[7] Defendants also boasted of a 98% enterprise client retention rate throughout the Class Period. For example, at the February 22, 2013 investor day, John Eisel, Innerworkings's COO, stated that enterprise client retention rate was at 98%. Analysts reported on the impressive figure as well. An April 18, 2013 Barrington Research report stated that "InnerWorkings has an enterprise client retention rate of 98%, and to our knowledge has never lost an enterprise client due to performance issues."

99. On the May 3, 2012 1Q 2012 earnings call, Belcher highlighted global expansion and the concept of the "global print management contract":

> We now have 193 of our professionals onsite at our clients' locations, and that's up 43% over this time last year. This group has been carefully selected and trained, and we believe they represent the top tier of professionals in the industry. Today some of these talented onsite employees are working for our clients in Latin America and Europe, *which brings me to another topic that we're really excited about, our international expansion*. Outside the United States *we're leveraging our global platform to expand our enterprise relationships into new regions while we're increasingly advocating a new type of solution in our industry, the global print management contract*.

100. Defendants consistently emphasized the Company's global "success" and the market opportunity worldwide. At the August 10, 2012 2Q 2012 earnings call, Belcher stated:

> The most significant development since our last call with you has been the success we've had with our relatively new global platform. *The statistics on slide 4 highlight how much our business has expanded internationally over the past two years. Today, we're more convinced than ever that the future of our market will see Fortune 500 clients and other large multinationals adopt a global print management model* with corporations employing one provider around the world…. And the benefits to our shareholders include the fact that by opening up new markets around the world, we've effectively quadrupled our addressable market to more than half a trillion dollars a year….*We believe we've got an opportunity to deliver an organic growth spurt in Europe similar to the growth in new enterprise accounts we've realized in the US over the past few years* since the recession impacted the domestic economy.

101. At the March 11, 2013 Credit Suisse Global Services Conference, Belcher confirmed that Europe had been converted to Innerworkings's global technology platform, giving the Company even more of a "data advantage" in its global enterprise business:

> Our original data advantage was real, but it was a fraction of what it is today. Today we are rolling out our technology on a global basis, all currencies, all languages on one platform. We have already converted Latin America last quarter, *Europe this quarter*. And that allows us, when we are supporting global clients, in particular, to provide them consolidated reporting, a lot more visibility into this area of their supply chain than they have ever had in the past. It allows us to source with more intelligence across borders. It allows us to share concepts and designs within a client across their business units come, across their regions, and many, many other advantages, not the least of which would be the data just continues on a daily basis to get richer and richer…. And

> the result is we have got the strongest pipeline we have ever had in our Company's history.

2. The Productions Graphics Acquisition

102. Innerworkings first expanded overseas in 2008, via the acquisition of Etrinsic, a small U.K.-based print management firm. In the 4Q 2011, Innerworkings strengthened its European footprint with the purchase of Productions Graphics, a firm based in Paris, with operations in 12 countries and 2011 sales of $30 million *that were primarily enterprise driven* – and enterprise was the Company's main revenue generator, accounting for 75% of total revenues.

103. At the September 13, 2012 CL King & Associates Best Ideas Conference, Busky described Productions Graphics as "a company in continental Europe that also does about $40 million a year in annual revenue," explaining that Innerworkings acquired the company "because as we started to move upstream in terms of the size of the enterprise customers we were talking to, we found that many global chief marketing officers want to have one solution for multiple regions around the world."

104. Productions Graphics remains the Company's largest acquisition to date, at a deal worth $94.5 million. 92% of the deal value, or $86.9 million, was in the form of an earn-out structure that set aggressive earn-out targets over four years, such that the subsidiary had to perform well enough, as measured by EBITDA goals, to earn the rest of the deal consideration.[8] The company's deal announcement and Share Purchase Agreement noted that "[a]s part of the acquisition, CEO Christophe Delaune has agreed to a long term contract to remain with InnerWorkings."

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[8] *See* October 25, 2011 Form 8-K attaching the Share Purchase Agreement ("SPA").

105. CW9 was the CFO of Productions Graphics from May 2010 to August 2013, and the Director of Operations of Productions Graphics from September 2013 to March 2014. According to CW9, Innerworkings's pre-acquisition due diligence and audit of Productions Graphics was very detailed and thorough, lasting from September to October of 2011. CW9 stated that the due diligence included (but was not limited to) processes, business strategy, sales and financials.

106. On the May 3, 2012 1Q 2012 call, Belcher had only positive statements regarding Productions Graphics, and expressed confidence that the new subsidiary would achieve its "aggressive" earn-out targets:

> Well, it's early in our relationship with Productions Graphics. *I can say there's been a lot of activity and growth even in the short time period that we've been working together*, and we haven't seen the macroeconomic conditions in EMEA having any sort of a material impact on that business. The intention and the plan, the way in which that business will hit those aggressive earn out targets that you mentioned, of course, is through new client acquisition and expanding with a lot of InnerWorkings' accounts in North America, over into Europe, and vice-versa. And we're seeing a lot of good, positive activity on that front already.

107. Busky further attributed a healthy guidance range to Productions Graphics, in particular, as well as SMB:

> So for the full year 2012 we continue to forecast the same 23% to 23.5% gross margin range communicated last year. This full year range will be driven by Productions Graphics, which has a greater percentage of its profit coming during the second half of the year, plus sustained growth in our middle market channel, particularly from our [direct] Sales business.

108. On the same call, Busky explained the seasonality of Productions Graphics's business, leading the market to believe that revenue from Productions Graphics would typically be greater in the second half of the fiscal year:

> [T]he Productions Graphics gross margin is similar to the U.S. margins, but that's on a full year basis. So if you look at the first half versus the second half, *we see much stronger gross margins due to the way their business rolls out in*

> *the second half* versus first half. So full year, yes, it is similar, but there's a difference first half versus second half.

109. Belcher further elaborated that:

> [Productions Graphics's] product mix is focused more toward point of sale than the general mix across all of the rest of Inner[w]orkings, and point of sale materials going into retail locations *which creates that emphasis on the second half of the year*.

110. Similarly, on the May 10, 2013 1Q 2013 earnings call, Busky again stated that:

> And, in addition, you've got that seasonality in the European business – the former Productions Graphics business that we saw last year whether Q1 is the weakest quarter. *Q4 is a particularly strong quarter for them*. So, all that, combined with what Eric said, that gets you to that strong second-half seasonality.

111. Yet it was in November 2013, purportedly the strongest quarter for Productions Graphics's seasonal business, that Defendants disclosed the subsidiary was losing business.

3. Investors Had No Reason to Doubt Productions Graphics's Performance or its Executives

112. Defendants also emphasized that their M&A strategy aimed to retain the "talented" entrepreneurs that led the companies being acquired – including, by definition, Delaune. At the February 22, 2013 investor day, Busky highlighted the growth rates such "entrepreneurs" had brought to the Company:

> One final point on the slide I would like to remind folks is that the M&A strategy although it's a vehicle for growth for us. It's also a very important source of entrepreneurial talent in the company. It is our best source and we've bought in some of our best people in the last five or six years through the acquisitions that we've done…. [W]e've been able to grow on average these companies about 46% their earnings that is grow their earnings about 46% since we've own[ed] them, and we're quite proud of that as well…. [I]t's also in my opinion very impressive that nearly 90% of these former owners of these business have achieved their annual EBITDA targets or performance targets which our EBITDA, and nearly 70% of the enterprise deals that we've signed in the last three years, and somewhere or another have touched these former owners of these businesses. So it's extremely important for us to continue to do this M&A, and not only again to provide growth, but to bring in talented entrepreneurial growth that continue the enterprise growth going forward.

113. Busky continued that "we're able to retain these former owners, even after their earn outs are complete. And these former owners are not just sitting in a part-time role within the Company somewhere; they're actually in key management positions within the Company and running the Company. There are several here and all around the world they are in key management role, so a lot of times these owners, they see not so much this transaction is selling their Company, but more as joining our Company over a three-year process."

114. Similarly, at the March 11, 2013 Credit Suisse Global Services Conference, Belcher stated that:

> M&A has been our primary source of recruiting new talent into our organization over the years…. *We have historically been able to gain the ability to penetrate a new geography* or gain the technical capability to enter into a new product category or service t*hrough recruiting these talented entrepreneurs*…. As you can see, when we talk M&A it is not perhaps the way people traditionally think of acquisition, in that our partnerships generally involve substantially less than half the proceeds down on day one with the balance paid out based on performance, profit performance, over a multi-year period out into the future. And so what does that do for us? *It ultimately allows us to only attract the most confident and capable and growth oriented of entrepreneurs in the marketplace*.

115. At the May 7, 2013 Jefferies Global Technology, Media and Telecom Conference, Brad Moore, VP of Corporate Development, commented on the Company's careful search for the "right" entrepreneurs and its history of successful acquisitions, and emphasized that Innerworkings's earn-out acquisition method was good for shareholders because it placed the risk of the acquisition on the target company:

> [T]he most important thing we typically look for is the right entrepreneur. That person who we think can fit into our leadership team *and close enterprise-like agreements for us*. Importantly, these structures have been very friendly to shareholders. You can see, over the last couple years, we have done 30 deals, average size of around $10 million. And typically, we do an earnout structure – actually, always we do an earnout structure, with 50% down, sometimes less. And the multiples are five to seven times EBITDA. These firms have performed even better for us. So they're accretive from day one, but based on their performance, performing better than when they were performing when we acquired them, we are realizing about four times.

> Now, importantly…87% of the earnout targets have been achieved. 82% of the entrepreneurs have been retained after the earnout period, and nearly 70% of the contracts that we'd land, the enterprise contracts that we'd land, in the last three years have had some form of involvement from an entrepreneur. So not only are they reaching the earnout targets that we set, they're staying with us post-earnout, and they are playing a meaningful role for us post-earnout. And so this has been a terrific source of talent; it's been a terrific source of growth.

116. Before the Company's November 6, 2013 disclosure, Defendants had only positive reports regarding Productions Graphics and its President, Delaune. In keeping with the Company's stated strategy for incorporating entrepreneurial talent, Belcher referred to Delaune on the August 10, 2012 2Q 2012 earnings call as part of a "top-notch" team: "The combination of Yves [Rogivue, EMEA leader] and Simon [Dipple, Managing Director of UK business], *together with Christophe Delaune in France, has created a top-notch management team* in the EMEA region."

117. On the May 10, 2013 1Q 2013 earnings call, Belcher reaffirmed that Productions Graphics would perform well, referring to a recent week spent in Europe with the "great team," and suggested that the weakness in the European economy would actually benefit Innerworkings as clients looked for cost savings:

> *[W]e've got a solid pipeline in Europe*. I spent the week in Europe with our team over there and couldn't be more excited about what we have coming up in – not just Europe, but EMEA and Latin America as well. Asia as well. But, in Europe the softness in their economy clearly creates additional need on the behalf of corporations to find inefficiencies and save money. Particularly in categories of indirect spend. So, it is helping us, *but we've got a great team there that is performing well. We expect some good news coming from Europe before long*.

118. And on the August 8, 2013 2Q 2013 earnings call, the last earnings call before the Company disclosed that Productions Graphics had not only failed to grow revenue, but had lost clients, Busky stated:

> If you recall, the business – our business in Europe is fairly seasonal to the Q4 quarter, and so a large amount of profit that we see from that region comes in

> Q4. And so, our forecasts right now fully support that they're going to achieve the earn out target.

119. Accordingly, the market had no reason to suspect that revenue from Productions Graphics would plummet as the Company disclosed in November 2013.

G. Defendants were in Constant Communication with Productions Graphics Executives

120. In addition to the week that Belcher publicly acknowledged he spent in Europe with the "team" in May 2013, former employees at Productions Graphics and Innerworkings confirmed that Belcher visited Delaune often, and that both the Delaune and the former CFO of Productions Graphics were in constant communication.

121. CW9, the former CFO of Productions Graphics during the Class Period, confirmed that Delaune met with the Innerworkings's executives, and speaking with them, on a regular basis. According to CW9, Belcher visited Productions Graphics many times in France, and to discuss business with Delaune. CW9 recalled specifically that Belcher made several visits in 2012 and that Delaune was his main contact during his visits.

122. CW9, as CFO, similarly received Busky several times during Busky's visits to Productions Graphics, as Busky was the CFO's supervisor. CW9 stated that he exchanged many emails with Busky during his tenure.

123. According to CW9, Productions Graphics's financial tracking and reporting was done by monthly email, as requested, to Innerworkings's London office, which then reported the financials to Chicago corporate headquarters. CW9 further stated that Productions Graphics also used email and phone conversations to exchange and report information to London and Chicago.

124. CW10 was a former Director of Sourcing/Promotional Products at Innerworkings in Chicago from January 2012 to June 2013, reporting to Senior Vice President of Global Sourcing, Ryan Cox, who reported Belcher. CW10 led the promotional product/premium-

incentive division, and also was responsible for product sourcing, negotiating best pricing, and vetting suppliers for production capabilities, product safety and social compliance. CW10's office was directly across from Belcher's and Busky's. CW10 stated that Belcher and Busky had their hands on everything and "ke[pt] their cards close to their vests." CW10 recalled that Belcher regularly traveled to France, and he believed Belcher spoke often with Delaune.

H. Delaune Describes a Class Period False-Invoicing Fraudulent Scheme Directed by Belcher and Busky

1. Delaune Confirms the Importance of Growth to Defendants

125. According to Delaune, he began managing Productions Graphics, then a company of only 2 people, in October 2008. Between 2008 and June 2011, with the establishment of new teams and partners in the UK, Productions Graphics had expanded to cover 12 European countries and had a hundred employees, becoming one of the European leaders in print management. Productions Graphics had also begun preparing to receive capital funding from a French investment fund, Capzanine, to undertake external growth operations in France, planning to double its volume by consolidating its promotional objects division.

126. It was at this point that Innerworkings approached Delaune and Productions Graphics with an acquisition proposal. Delaune stated that "[t]he stakes for INWK were high, as it was a project designed to consolidate, through this acquisition, the possibility of a geographically global offer, with Europe, Africa, the Middle East, and China, which we were in the process of setting up." Delaune further stated that "[f]or INWK, this was the first time that such a large buy-out offer had been made (three to four times greater than the previously completed deals). This acquisition was how INWK was to give itself the means to propose a newly geographically global offer to the entirety of its clients." Delaune noted that "Europe had previously been attempted [by Innerworkings] four years [prior], with the purchase by INWK of

a UK company, 'Etrinsic,' [but that in] 4 years, [Defendants] never managed, from this base, to deploy a network and a European service." Delaune also noted that "[t]he announcement [of the Productions Graphics acquisition] made to the market was very promising and brought [Innerworkings] strong future growth, and thus a strong growth in share price."

127. According to Delaune, the acquisition[9] by "a company that gives consolidated figures to the market every three months [*i.e.*, a public company listed on the stock exchange]":

> obliged us to put ultra-detailed reporting in place, by subsidiary, by salesperson, and by client, each month…and an account statement every trimester [*i.e.*, every three months, or quarterly]. My Financial Director JP Calzolari organized with his team the setting up of all these new processes. He hired several additional staff in order to cope with this additional workload. He began to make his reports to Pam Vandome [InnerWorkings's financial director for Europe in London], based in the UK and placed directly under Joe Busky.

Delaune added that he also emailed the detailed monthly financial reports (in the form of excel spreadsheets) to both Belcher and Busky, and stated that these reports ranged from 80-120 pages long and provided detail for each month's sales including the number of orders, gross profit per order, net income per order, *etc*., for each customer.

128. Delaune stated that during the first quarter of 2012, Productions Graphics's "growth accelerated in terms of geographical deployment, Hong Kong, Moscow and Johannesburg [were] important areas of development," and that "to properly ensure the deployment of the EMEA network…we sought assistance from Chicago [Innerworkings] to support our additional cash flow needs." When "Chicago" immediately denied the request, Delaune stated that "[w]e started to understand that [Innerworkings] had a very limited cash flow capacity."

[9] In addition to the SPA, Delaune (personally and as manager of B'Prod SARL) executed a separate employment agreement with Innerworkings (acting through Etrinsic), attached as Ex. 2 (the "Employment Agreement").

129. In June 2012, however, Productions Graphics fell short of its targets. At a dinner meeting in Paris on July 19, 2012 with Belcher, Delaune informed Belcher that Productions Graphics was falling behind its forecasts. According to Delaune, Belcher "informed me that by the end of the year 2012 we had to meet our targets *by any means necessary*." Delaune was made to understand that "[t]he consequences [were] very significant for [Innerworkings's] share price following the announcement of the acquisition of [Productions Graphics] and the potential that was highlighted to the shareholders for the European, Asian, Middle Eastern and African markets." Delaune further stated that Innerworkings "wanted to obtain[] finance for new acquisitions of external growth and it needed market confidence at any price in order to obtain the necessary financing for these acquisitions, [which was] essential for their growth strategy." Delaune observed that "InnerWorkings realized most of [its financial] results, new results, not by internal growth, but by acquisition."

130. Delaune stated that he replied to Belcher that "our figures only represent a small part of the consolidated results of the Group and that this delay would only have a small impact on the overall result." According to Delaune, *Belcher then* "*clarified that this is a question of the trust of the shareholders* and the financial partners of the Group, the acquisition of [Productions Graphics] vis-à-vis the market must be approved of, and consequently *the results to be announced must be good, and prove that there are significant future prospects* for the global positioning of [Innerworkings] and for its international development."

131. According to Delaune, Belcher further "clarified that this is how he had been managing and leading the INWK Group for several years, facing the shareholders and financial partners. *The most important thing, [Belcher] said, even more than the results, is the creation of a climate of confidence*."

2. Belcher Proposes the Fraudulent Invoicing Scheme

132. To ensure Productions Graphics would "achieve" its 2012 targets, Belcher proposed a scheme to Delaune at the July 19, 2012 dinner, which took place at La Maison de La Truffe in the Place de la Madeleine in Paris:

> Eric [Belcher] specifically told me that if, to achieve this, we have to improve the results in a fictitious way, he would return the favor through our deal (SPA) [*i.e.*, the large earn-outs that had been structured into the Productions Graphics acquisition] that we had for the years to come and would guarantee bringing me a certain volume of MB ["marge brute," or gross margin] that would allow me to reach all the EBITDA stages of the SPA in order that the entirety of the [acquisition] valuation be paid.

133. According to Delaune, "Eric indicated that taking into account the SOX inspections, account audits and inspections carried out pursuant to the 2002 US law known as Sarbane-Oxley and different audits that were in place, it was important that all of this set-up would be perfectly documented so that all of the accounts could be approved without any reserv[ation] whatsoever."

134. Delaune stated that when he asked how the scheme would be funded, Belcher responded that the fraud would rely on the large earn-outs structured into the acquisition, such that when Productions Graphics "achieved" the threshold for the first scheduled earn-out, false invoices for the fictitious revenue would appear to be legitimately "paid for," and Delaune would then be able to "catch up" in the future:

> To the question "how do you pay for this?," Eric answered that I could use a part of my Earn Out, it was an investment for the future knowing that the consolidation of the figures for the following years would allow me to be paid the additional Earn Out, according to him, it was entirely in my interest to go in this direction and consolidate the result which would allow me to reach this target.

3. The Mechanics of the Earn-out Funded Fraudulent-Invoicing Scheme

135. Delaune noted that reaching the trigger revenue for the first earn-out required a "very rapid" increase in gross margins, and described the earn-out funded scheme as follows:

> The only way to increase the profitability and MB [marge brute, or gross margin] of the accounts was the invoicing of fees. At the beginning of 2012, we acquired a design company in France, "Iconomédia," this company possessed a vast library of previously completed designs for clients from previous years. We were thus able to use this work as the basis of our fictitious invoicing. I explained the situation to a few trusted partners with whom we were already working in the UK, South Africa, Asia, Canada, and Belgium. I explained to them what was at stake; that we absolutely had to, for the Americans, meet our 2012 targets, and that I needed their help.
>
> The schema that was set up was thus the following:
>
> –Our partners sent us a request for a design for a client (a design previously selected in the existing database of Iconomédia).
>
> –We sent them a quote for the realization of this design. They sent us a purchase order for the design work. We sent them the design (previously completed) by email.
>
> –We invoiced the design work.
>
> –I paid, via my holding company, a fee invoice allowing the amount of the invoice to be issued by INWK for the design work to be covered, plus a commission of 5% [to the participating clients] for the services rendered.
>
> –They paid INWK the invoice relating to the work delivered and undertaken.

136. Delaune explained that:

> Under this schema, the whole of the process is complete and documented. It allows the achievement of 100% MB (marge brute, or gross margin) with these fee invoices. An important part of this set-up is the return of the payment for the invoices sent, to not have [blatantly] "false invoices" and aged debt at the end of the fiscal year:
>
> –The setting up of a commission of 5 to 6% for the companies who assisted us, and for the management costs incurred.
>
> –The payment via my [personal holding company in the U.K.] of the sums that will be billed to these entities before they themselves pay the INWK design invoices, with the funds received from the Earn Out.

137. According to Delaune, Belcher wanted to generate the false invoices through design work and Iconomédia because such work had less "visibility" and it would be correspondingly harder for regulators to detect the fraud. Delaune stated that Belcher knew the identity of at least some of the participating clients.

138. Delaune further stated that during the period of fraudulent invoicing, he spoke with Belcher "at a minimum" every two weeks, and often more. He also met and dined with Belcher on Belcher's frequent trips to Paris.

4. **Busky Directs the Fraudulent Scheme to Minimize Detection**

139. According to Delaune, the first false invoices were generated at the beginning of September 2012 with Busky's support. Busky recommended that to disguise the concocted figures more effectively (as well as the aberrant gross margin incurred), they needed to water down operations in all subsidiaries of Innerworkings France (a dozen in Europe and Asia):

> Joe clarified over the telephone that it was important that these figures be diluted over all of the subsidiaries, so that they were not too visible. We therefore organized these operations with the following countries: France, UK, Canada, Dubai, China, Poland, Germany, the Netherlands, Spain, South Africa, Belgium.
>
> During a telephone conversation with Joe Busky, I reminded him that in this operational schema, it was imperative that the [2012] Earn Out be quickly paid in February [2013 so] that the design invoices be honored by the third party companies that helped us at the beginning of 2013, with a part of this money (*as suggested by Eric*).
>
> He confirmed to me: "no problem whatsoever."

140. According to Delaune, for Productions Graphics to achieve its 2012 targets as Belcher had instructed, the fake invoices would have to total about €2.3 million. Busky instructed Delaune to split the fraudulent invoices with different participating clients in the different foreign countries at around €400,000 each, explaining to Delaune that this tactic would

help the fraud evade regulatory detection under the Sarbanes-Oxley Act ("SOX") and avoid triggering an audit.

141. Delaune used approximately 4.5 million euros of the 2012 earn-out of 5.9 million euros to settle, through his personal holding company, invoices for fees which had been sent to him by clients who had agreed to participate in the arrangement.

142. According to Delaune, the abnormal jump in gross margin from the false September invoices triggered an internal audit that was immediately quashed by Busky:

> Following the handover of the detailed monthly reportings for September 2012, Pam Vandome, European financial director… asked questions as to the nature of the design invoices that represented significant MB [marge brute, or gross margin] from September; the level of profitability of the company is abnormal over this period.
>
> She had an internal audit carried out by Astrid Elmalhed, who works with JP Calzolari, she was not then aware of the deal that existed between Chicago and Paris.
>
> Joe Busky, her hierarchical superior, confirmed that everything was OK as everything was correctly documented for the SEC, for the SOX audits, Ernst & Young and the auditor of the accounts.

5. Busky Directs an Expansion of the Fraud after Another Innerworkings Subsidiary Loses a Major Client

143. Delaune visited the Company headquarters in Chicago to attend the quarterly "President's Meeting," where the heads of Innerworkings subsidiaries reported on performance, from October 3-5, 2012. At this time, Busky informed him that the subsidiary in the United Kingdom had failed to meet its targets and the company Merchandise Mania, which had just been acquired, had lost Google, a very important client, preventing it from aligning with the Company's forecasts:

> During my trip for the Presidents' Meeting of October 3 to 5, in Chicago, I had a meeting with Joe Busky who reminded me during a private discussion on the premises of INWK Inc, that everything must be done to reach and exceed the 2012 targets for which I was responsible.

> He informed me at this time that the UK subsidiary [Etrinsic] [was] behind on its targets… thus creating a potential imbalance in the European figures, that they had a significant issue with a VAT inspection with Etrinsic in England and that this subsidiary would have to start putting aside reserves.
>
> Furthermore, he told me that the planned acquisition of the company "Merchandise Mania", a promotional objects company in the UK would not meet its targets, because they lost their biggest client, Google.
>
> He therefore asked me to see how we could beat our initial targets of 2.3M€ EBITDA (we would finish the year at 3M€).

144. Delaune noted that his monthly reports to Chicago during this period of false invoicing clearly showed to internal executives the abnormal increase in monthly gross margins (because the false invoices were all engineered to produce 100% gross margins, with the effect of hiking up total margins across all invoices for each month), but that consistent with Defendants' endorsement, no alarm was raised beyond the September internal audit that was immediately halted by Busky:

> From September to December 2012, Chicago had a highlighting in the monthly financial reports on all the transparency of these fictitious operations, with a very significant increase in the gross margin via the design invoices, with represent a rate of 100% MB.
>
> This considerably changed the profitability curve of my areas of responsibility. The average margin increased monthly between 47 and 74% instead of the usual 20% average.

145. Delaune provided the monthly breakdown of figures in an income statement that clearly shows this anomaly, attached as Ex. 3. Before the fraudulent invoicing period, gross margins for most months were in the 20% range. After the fraudulent invoicing period, gross margins surged to *between 37% and 74%*, with the margins in November and December reaching 60% and 74%. Delaune stated that these anomalous figures were far above industry averages of around 20% and would have signaled to internal executives either clear error or

blatant account manipulation.[10] Delaune added that gross profits in such a high range "don't exist" in print management, where usually "when you have 20, 22, 24 [per cent gross profit], you are the king."

146. In December 2012, according to Delaune, Busky notified him that Busky once again wanted to improve Innerworkings's net results by 360,000 euros, and that he wanted to accomplish this by postponing payment of 360,000 euros out of the 600,000 euros provided for in the Employment Agreement to the third quarter of 2013. Delaune described Busky's actions:

> In December 2012, Joe Busky told me that he wanted to improve the result by another 360k€, by offering to modify my Protocol as well as my B'Prod fees… He drafted a backdated amendment to this Protocol that I approved and set up a bonus that would only be accounted for in the third trimester of 2013 (normally, under French accounting rules, this charge should have been included in the fiscal year 2012, at his request the 360k€ bonus would only be attached to the third trimester of 2013, and not before).

Delaune provided an email exchange between himself and Busky documenting these changes. *See* Ex. 4.

147. These fraudulent activities enabled Innerworkings to meet its growth targets for 2012. According to Delaune, Defendants successfully evaded detection by the regulatory authorities:

> December 2012, the closing of the fiscal year 2012 with all of these modifications, internal approval from Chicago from Eric Belcher and Joe Busky, approval from the SEC Audit Committee, approval from the Ernst & Young audit, approval from Deloitte on the SOX procedures, approval of the accounts by the CAC [commissaire aux comptes, or auditor of the accounts].

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[10] According to Delaune, these numbers would not similarly attract audit attention as long as the invoices were properly documented and supported by client payments and tax payments, and Belcher's "perfect documentation" strategy had the desired effect of avoiding auditor scrutiny. Delaune described E&Y's 2012 audit as "normal" and that they examined Productions Graphic's business at a very high level. Delaune also explained that Productions Graphics's French auditor, Ocean, only looked at the business in France and was focused on VAT, salary payments, taxes, registrations, *etc*. According to Delaune, Ocean did not review invoices, as it was not what they were tasked with, and they would not have examined gross margins as part of their audit.

> Chicago congratulated us and thanked us for this help that was essential to their strategy before the markets and their shareholders.

148. Delaune further noted that "[o]n February 13, 2013, the date of the communication of the consolidated Group figures to the market, the share price reached its highest ever listed price" and that "Chicago was very satisfied." Delaune added that he spoke on the phone with both Belcher and Busky. According to Delaune, Belcher "was very happy because the share was [at a] very very high level," and described the call as "a congratulation, it was a congratulation time – thanks a lot for your help and your support."

6. The Loss of Innerworkings's Biggest Client Prompts Defendants to Scapegoat Productions Graphics and Avoid Future Earn-Out Payments

149. Delaune was concerned, however, by the Prescience Point Research Group ("Prescience") analyst report published at the end of February 2013 that, among other things, opined that the Productions Graphics acquisition was overpriced:

> We in France were informed of the publication of the report by an international client; the SEB group; I sent an email to Eric Belcher on this occasion to ask him what it was about. He reassured me by return of email, explaining that in the US this is a common procedure and there is no need to be worried about the matter and its consequences, which according to him would be none at all.

150. Delaune was further concerned when, during the March 19-22 2013 President's meeting, he learned that Innerworkings would lose one of their biggest clients, SuperValu – a loss of $60 million in revenue:

> [T]he consequences would be very significant for the 2013 results, Eric Belcher told me. They already knew at this moment that the year would be catastrophic, but did not announce it to the market in their first trimester communication.

151. Then in early April, before the close of the first quarter 2013 numbers, Delaune received another request for fake design-work invoices because Innerworkings was falling behind publicly stated revenue targets again, and the artificial revenue would "improve the vision

of the first trimester in front of the market and the shareholders." Delaune refused, as he was still in the complex process of distributing reimbursements to clients that had participated in the 2012 false invoicing scheme. Delaune noted that "Chicago did not appreciate my negative reply."

152. According to Delaune, the loss of SuperValu (one of the Company's largest accounts) meant that Belcher and Busky would not have the funds to pay the future earn-outs promised to Delaune under the SPA. Moreover, rather than admit that Innerworkings was unable to recover from the SuperValu loss and could not possibly reach its growth targets (instead, Defendants publicly asserted that they would be able to reach 2013 growth targets when they made the SuperValu announcement to the market in April 2013), Belcher and Busky would pin any failure to meet 2013 growth targets largely on Productions Graphics and Delaune:

> At this time the tipping point was reached, my business partners and associates for the setting up of these operations became my accusers; INWK knew it would [not] reach the targets announced for the whole of the year 2013 over the whole of the Group, and did not tell the market in order to avoid a collapse in the share price.
>
> They would not in fact have the means to honor their debt under our SPA if I had made my 2013 targets.
>
> During a meeting to touch base on business matters, on October 17, 2013 … I was told, without any of the usual conventions, that I was dismissed from my functions as President of [Productions Graphics].

153. According to Delaune, Defendants – feigning ignorance of the scheme they themselves had designed – launched an "inquiry" into the fake invoices and commissioned an audit, "the result of which they knew in advance concerning these same invoices."

I. Productions Graphics's former CFO Signs a Declaration Confirming Delaune's Description of the False-Invoicing Fraud

154. A June 2, 2014 declaration,[11] signed and dated in Marseilles, France, corroborates Delaune's description of the false-invoicing fraud during the Class Period and Belcher and Busky's roles as originators and directors of the scheme.[12] The declaration begins with the statement "I solemnly declare that the following facts are true" and ends with the statement "I am aware that this statement will be used in court and that any false statement may be punished by criminal sanctions."

155. The declaration further states that "[i]n the light of all the facts and discussions I heard, I firmly believe that this scheme *was requested by Eric Belcher and Joe Busky for the sole purpose of improving the results of the group and the stock exchange rating*. Indeed, the share price increased by more than 21% after the results were announced."

156. The declaration also states that "[i]n September 2012, Mr. Delaune informed me that he had reached an agreement with Mr. Belcher and Mr. Busky to set up a scheme in order to improve the 2012 results of the group…. I firmly refused to take part in such a scheme. However, *Mr. Delaune explained to me that the management of the group, which is located in Chicago, had given him instructions* to fire me if I refused to help."

157. The declaration further states that "Mr. Delaune invoiced some design services to some of his clients located in the area he was overseeing. In particular, he invoiced in this way clients located in France, Spain, China, the United Kingdom, South Africa, Poland, Germany and the Netherlands during the months of September, October, November and December 2012."

[11] The declaration was made in support of Delaune's pending action against Innerworkings in the Tribunal de Grande Instance [High Court] in Paris. A certified translation of Delaune's "Note to the Public Prosecution for the Republic," which recounts Belcher's and Busky's roles in the fraudulent-invoicing scheme, is attached as Ex. 5.

[12] A certified translation of the declaration is attached as Ex. 6.

158. The declaration also states that "[t]he group had implemented a specific process to be followed so that invoices would not be questioned during audits: each invoice needed to be documented by a purchase order and a delivery slip" and that Busky telephonically "validated the process" when questions arose internally regarding the sudden improvement in gross margin.

J. Innerworkings Restates Almost Three Years of Financials <u>Because of Productions Graphics</u>

159. In a February 18, 2014 press release, months after the Company disclosed in November 2013 that Productions Graphics had not only failed to grow revenue, but had instead lost business, the Company stated:

> In connection with the previously disclosed potential disputes between the Company and the former owner of Productions Graphics, the Company initiated a review of the former owner's conduct relating to certain transactions impacting earn-out payments under the acquisition agreement. Based on the results of the review, the Company concluded that the former owner of Productions Graphics artificially inflated results to meet earn-out targets and induce the Company to make earn-out payments relating to the Productions Graphics acquisition. *As a result, the Company filed an 8-K today summarizing estimated adjustments to be made to its prior financial statements, which the Company intends to restate in its upcoming 10-K filing.* The estimated aggregate net impact on a GAAP basis of these changes across all affected periods is a net decrease in pre-tax net income of $1.6 million. The net impact on a GAAP basis includes a decrease in pre-tax net income of $0.4 million in 2011; an increase in pre-tax net income of $17.7 million in 2012; and a decrease in pre-tax net income of $18.9 million for the nine months ended September 30, 2013. All financial results included in this release reflect the estimated adjustments included in the 8-K, which are subject to change based on further analysis and review.

160. On April 21, 2014, Innerworkings issued its restated financials, stating in an amended Form 10-K for 2013 that "[t]he Company has restated herein its audited consolidated financial statements as of December 31, 2012 and for the years ended December 31, 2011 and 2012, as well as its unaudited interim consolidated financial statements as of and for the quarters and year to date periods ended March 31, 2013, June 30, 2013 and September 30, 2013, and related 2012 comparative prior quarter and year to date periods…. The aggregate net impact of

the corrections across all affected periods is a net decrease in income before taxes of $2.2 million."

161. In the same filing, Innerworkings acknowledged a material weakness in internal control over financial reporting for the affected periods:

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

K. Lack of Internal Controls During the Class Period Encourages Revenue "Fudging"

162. The former Productions Graphics CFO stated that financial reporting was performed through email and sent to London first, then Chicago, for processing (*i.e.*, Productions Graphics did not use the Company's vaunted PPM4 technology, or even its purported global platform replacement). Delaune stated that Productions Graphics did not use Innerworkings's highly touted PPM4 system because it was "bullshit," and exclusively an "American system." Delaune believed that PPM4 was not used at any other foreign subsidiaries because the system could not account for the tax and regulations in other countries, such as the Value Added Tax ("VAT"). He added that for his entire tenure, Productions Graphics was never integrated into PPM4, and that even Etrinsic, acquired four years prior to Productions Graphics, had not been integrated into PPM4.

163. Even within the U.S., however, which did use PPM4, employees across Innerworkings described a general lack of internal controls over financial reporting.

1. <u>PPM4 was Unreliable and Easily Manipulated</u>

164. CW11 was a Project Manager in the Information Technology ("IT") department from April 2011 to October 2013, most recently reporting to Eric Harke, VP of Product Management, who reported to Burkart, Chief Information Officer. He initially worked out of the corporate offices in Chicago but moved during his tenure to California, where he telecommuted 3 out of 4 weeks per month. For the majority of his tenure, CW11 worked on the migration from PPM4 to Innerworkings's new global platform ERP [Enterprise Resource Planning] system, which was a Microsoft Dynamics application.

165. CW11 explained that PPM4 was unable to handle foreign transactions that involved foreign currency nor could it translate information from any other languages to English. CW11 continued that because PPM4 had these deficiencies, it was not functioning properly. CW11 described PPM4 as being completely "American-centric." According to CW11, in 2012 Innerworkings began the RFP, RFI process to replace PPM4, with the goal of consolidating the data in PPM4 and migrating it to a database that could handle Innerworkings's current business. CW11 stated that during his tenure, InnerWorkings made the transition to the Microsoft Dynamics ERP, but it was "not a smooth implementation."

166. CW11 stated that Productions Graphics entered data from their "local system" into the Company's accounting software, *completely bypassing PPM4*, because PPM4 could not handle foreign language and/or currency transactions. CW11 confirmed that there was "no direct integration between what was happening in Europe and PPM4, and the subsequent accounting system that fed from PPM4." According to CW11, Productions Graphics would have to send

their data to someone in the Chicago corporate offices, who then had to input the data manually into Innerworkings's accounting system.

167. CW11 explained that PPM4 required a level of flexibility because there were "so many manual steps in the process." According to CW11, PPM4 required a person to "push the data" nightly through the accounts receivable system rather than the data transfer being automatic. CW11 described the PPM4 system as "challenging."

168. CW12 was a former Senior Production Manager from October 2011 to December 2012, working with various toy companies including Patch Products, where he worked onsite for part of his tenure. CW12 reported to Andy Snarski, Print Production Manager, and to Steve and Genji LeClaire, who were responsible for developing the customer relationships on CW12's accounts. CW12 created purchase orders to mostly Chinese manufacturers and suppliers to produce toys, games pieces and various toy accessories.

169. CW12 confirmed that PPM4 was easily manipulable. CW12 stated that for a particular print job entered into PPM4, it was commonplace for a PPM4 user to move the supplier payment invoice for that job to another job for the same supplier that was due a few months later. The Company would then pay the later invoice, but the manipulation made the initial print job look "very profitable" because it did not account for the payment to the supplier for that initial job. According to CW12, a product manager could supply product to the purchaser (customer) and pay off the supplier but "kick[] the actual cost down the road," making it appear that the profitability on that job was much better than it was in reality. CW12 stated that he saw "many, many dollars kicked down the road" during his tenure at Innerworkings, which made him uncomfortable.

170. CW12 added that after seeing this happen a number of times, he informed corporate headquarters, speaking with his direct boss, Snarski (who suggested that he speak with human resources), and with in-house auditors about his concerns. According to CW12, corporate just "wanted it all to go away." CW12 was told that this was something that occurred frequently and that the Company was aware of it.

171. CW12 stated that the accounting for individual jobs he was working on did not make sense because of this practice. CW12 explained that he would try to close-out jobs on PPM4 and would be unable to because he "couldn't find where the money had gone." CW12 observed that if you take all your expenses and put them on jobs that would not close out for another 6 months, Innerworkings revenue would look "damn good." CW12 stated that this is exactly what he was seeing and the only reason he could think why so many people at Innerworkings were moving their expenses. CW12 added that he was told on numerous occasions that the moving of expenses was "commonplace" at Innerworkings. CW12 spoke with 35-40 Senior Production Managers, and with Snarski, all of whom confirmed that everyone was moving invoices.

172. CW12 gave another example of how PPM4 could be manipulated. According to CW12, he could access PPM4 and create a fictitious job for any amount of money that was never "executed against," and it would just hang in PPM4 forever. CW12 explained that hypothetically, he could order pieces for a game being made in China and create a job in the system for $100,000. CW12 could assign imaginary dates for the job on PPM4; the *job would then be counted as revenue*, and CW12 would not have to actually "execute" the job. CW12 stated that it was possible to create a job in PPM4 as a "place-marker" and then some time later

call an administrative contact to delete the job, without a sign-off. According to CW12, this practice continued throughout the majority of his tenure at the Company.

173. CW1 witnessed how the Company handled the canceling of fulfillment orders and grew concerned with the way the Company was recognizing the revenue from those orders. CW1 recalled that often, fulfillment orders that were supposed to be printed or manufactured and delivered over *e.g.*, four separate times over a 12 month period would be entered into the system as one complete order at the beginning, when it should have been entered as four separate orders. CW1 explained the need for separate orders because the client could have cancelled portions of the order at any time when the order was spread out in such a fashion. For example, a $100,000 order should have been entered as four separate $25,000 orders because they were going to be printed, manufactured and shipped quarterly over the fiscal year. According to CW1, these kinds of fulfillment orders were often partially canceled. CW1 stated that entering the entire order as a single order in the beginning was misleading and inflating the sales numbers.

174. CW1 also witnessed that in the cases where the balance of the order was canceled, Company reports showed the balance of the order as if it were still expected to be produced as the original order. According to CW1, there was no way to show internally that the balance of the deal was canceled. CW1 further stated that both inside sales and the enterprise group used PPM4, and that this kind of manipulation occurred in the enterprise group "all of the time" based on conversations that he had with enterprise group employees. CW1 also recalled conversations with employees in the billing department about how order cancellations were happening all the time and that "cash flow was not what it was claimed to be."

2. <u>Defendants "Fudged" Numbers</u>

175. CW13 was a former Senior Vice President, Enterprise Group, from February 2008 to March 2012, reporting directly to Belcher. CW13 performed process and workflow

analyses and implementations for the Enterprise Group. CW13 recalled a meeting that he and Belcher attended in early 2011 with then-CEO Craig Herkert ("Herkert") of SuperValu, who became one of the Company's largest enterprise customers during the Class Period. SuperValu was one of CW13's accounts and the meeting was arranged in an effort to increase the amount of business that SuperValu was giving to Innerworkings. In that meeting, Herkert supplied Belcher with invoices from SuperValu's other printing vendors to provide an idea of where Innerworkings's pricing needed to be. According to CW13, Belcher told Herkert that 60% of Innerworkings's business was with grocery retailers, which CW13 recalled being untrue, with the real percentage significantly lower than 60%.

176. After the meeting, CW13 asked Belcher why he had told Herkert that 60% of INWK's business was grocery retail. Belcher responded that the Company sometimes had to "*fudge the numbers*" for the good of the business. Belcher then provided CW13 with the example that the Company changed the numbers on its invoices to customers in order to hide how much profit the Company was actually making off of each print job. As CW13 recalled, Belcher went on to say that, hypothetically, if a particular order was for $100,000, the Company would send the customer showing an invoice for $100,000 with a vendor charge of $90,000 and a $10,000 profit for Innerworkings, when the Company's actual vendor cost was $80,000, leaving the Company with a real profit of $20,000. CW13 stated that while he did not personally handle invoicing, this was how Innerworkings handled customer invoices during his tenure.

177. CW3 worked with many different suppliers during his tenure, and stated that Innerworkings was often delinquent in paying the suppliers that he dealt with. CW3 recalled one particular situation when the account manager found a particular vendor and sourced a lot of work to them around the end of the third quarter 2013, with the fiscal year "rolling" around.

After an unspecified amount of time, the vendor began to complain because the Company was delinquent in paying their invoice(s). CW3 approved all invoices "over six figures" for his account, and began calling the payables department to inquire why the vendor had not been paid, considering CW3 had signed off on the expense as soon as he received the vendor's invoice. After multiple inquires, CW3 was told that Busky would not release the funds because "quarterly earnings reports" were due. CW3 believes that this was not the only time that Busky halted invoices from being paid in a timely manner to make earnings look better.

178. CW14 was a former Senior Account Manager in Atlanta from October 2010 to November 2013, reporting to Danny Watson and Helen Babbe. CW14 managed the Save-A-Lot account (Save-A-Lot was part of the SuperValu chain of stores). According to CW14, vendors were not always paid on time. In particular, CW14 recalled that at the end of each quarter many vendor invoices did not get paid until after the Company's quarterly numbers had been announced.

VI. DEFENDANTS' MATERIALLY FALSE AND MISLEADING STATEMENTS AND OMISSIONS

A. Class Period Financials and Guidance

179. Defendants' failure to disclose (1) their later-acknowledged material weakness in internal controls over financial reporting relating to Productions Graphics; (2) that Productions Graphics was behind its internal forecasts as early as July 2012, prompting Defendants to devise and execute a fraudulent false-invoicing scheme to enable Productions Graphics to "meet" its 2012 targets and appear to be a successful growth acquisition; (3) that the inside sales initiative was a failure; and (4) a lack of internal controls that encouraged "fudging" and the manipulation of the PPM4 system; together with their misleading statements regarding (a) Productions Graphics's business and pipeline; and (b) the inside sales expansion and the productivity of the

inside sales group, as detailed in ¶¶72-93, 120-178, rendered the Company's Class Period financials and guidance false and misleading. Those misleading figures are set forth in the tables below:

INWK Class Period Revenue and Guidance (millions)

2011	**Q1 2011**	**Q2 2011**	**Q3 2011**	**Q4 2011**	**FY 2011**
Revenue				$175.2 (3/7/12 10-K)	$633.8 (3/7/12 10-K)

2012	**Q1 2012**	**Q2 2012**	**Q3 2012**	**Q4 2012**	**FY 2012**
Revenue	$188.5	$201.4	$199.8	$208	$798 (2/13/13 8-K)
Company Guidance					$770-$800 [1] $780-$810 [2]

2013	**Q1 2013**	**Q2 2013**	**Q3 2013**	**Q4 2013**	**FY 2013**
Revenue	$204.3 (5/9/13 8-K)	$211	$232.6		
Company Guidance	$204-$207 [3]				$930-$960 [4] $900-$930 [5] $910-$940 [6]

Source: SEC Filings,
Earnings calls

[1] Investor Day 2/24/12
[2] 8-K 5/3/12, 1Q12 call 5/3/12, 8-K 8/9/12, 8-K 11/8/12, 2Q12 call 8/10/12, 3Q12 call 11/8/12
[3] 8-K 4/16/13
[4] 4Q12 call 2/13/13, 8-K 2/13/13, Investor Day 2/22/13, Credit Suisse Conference 3/11/13
[5] 8-K 4/16/13, 8-K 5/9/13, Jefferies Conference 5/7/13, 1Q13 call 5/10/13
[6] 8-K 8/8/13, 2Q13 call 8/8/13

INWK Class Period Gross Margins and Guidance

2011	Q1 2011	Q2 2011	Q3 2011	Q4 2011	FY 2011
Gross Margin				24.3% (4Q12 call 2/14/12)	23.6% (3/7/12 10-K)

2012	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2012
Gross Margin	22%	23.8%	23.5%	23.7%	23.2%
Company Guidance					23% to 23.5%[1]

2013	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013
Gross Margin	22.50%	22.8%	22.8%		

Source: SEC Filings,
Earnings calls

[1] 1Q12 call 5/3/12, 2Q12 call 8/10/12, 3Q12 call 11/8/12

180. The March 7, 2012 Form 10-K; the 1Q, 2Q, and 3Q 2012 Forms 10-Q; the February 28, 2013 Form 10-K; and the 1Q, 2Q and 3Q 2013 Forms 10-Q included certifications signed by Busky, required under the Sarbanes-Oxley Act of 2002 ("SOX"), representing that the "report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report."

181. The March 7, 2012 Form 10-K included management's assessment of internal control over financial reporting, representing that:

> Management assessed the design and effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework…. Based on management's assessment using those criteria, as of December 31, 2011, management believes that the Company's internal controls over financial reporting are effective.

182. The February 28, 2013 10-K included management's assessment of internal control over financial reporting, representing that:

> Management assessed the design and effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework. Based on management's assessment using those criteria, as of December 31, 2012, management believes that the Company's internal controls over financial reporting are effective.

B. <u>May 3, 2012 1Q 2012 Earnings Call</u>

183. Belcher made the following false and misleading statements regarding the inside sales initiative:

> **Eric Belcher - Innerworkings, Inc. - President and CEO**
>
> Now in addition to the strength of our enterprise business, *our middle market sales efforts are progressing rapidly and of plan*. This segment of our business grew 15% in the first quarter of 2012, and keep in mind that as recently as two years ago before we initiated the Inside Sales Division, this market segment was not a growth area for us.
>
> Today we're hiring new sales professionals at a rapid clip, and I couldn't be more proud of the support infrastructure that the leadership team within the Inside Sales Division has built. *The Recruiting Team is finding outstanding candidates.* I believe our training program is the best in the industry, and our Procurement and Production Departments have been built with the strength to support the high volume of transactions that we're beginning to see from this Division. This business will scale nicely in the months and years ahead.
>
> *******
>
> **Kevin Steinke - Barrington Research - Analyst**
>
> I just wanted to dig a little bit more into the Inside Sales force targeting the middle market opportunity. I believe you ended 2011 with 60 Inside Sales reps, and you're looking to end this year with about 150 to 200. Could you discuss where that number is now and how you perhaps see that sales force ramping throughout the year?
>
> **Eric Belcher - Innerworkings, Inc. - President and CEO**
>
> Well, Kevin, we're not planning on giving out the number of sales reps in that Division on a quarterly basis. What I can say, though, is it's right where you

> would expect it to be for us to finish the year with around 200 or so sales representatives. We're bringing in classes monthly *and putting them through very extensive training programs*. And as they move out and begin focusing on their vertical, their chosen vertical of expertise, *we're seeing these new sales representatives bringing in revenue, much sooner than they were able to do even as recently as three or four months ago*. So the group is very, very large and growing very rapidly. And *the more data we get, the more excited we are about where this Division can go*.

184. These statements regarding the growth prospects, quality of the sales personnel recruited, and financial performance of the inside sales division were false and misleading because Belcher knew that only a fraction of the inside sales division were meeting their quotas, and that SMB was hiring inexperienced graduates straight out of college that were unable to sell efficiently even after training. *See* ¶¶72-93.

185. Analysts focused on the purported growth opportunities from the inside sales expansion and Productions Graphics. A May 4, 2012 Craig-Hallum report stated:

> We see a number of *key areas of growth* opportunities: One of the key attractions to us with this business and the stock is the sheer number of logical ways this business is set up to grow… [T]he company is increasingly being seen as a logical provider of cross-border services for companies based both in the US *and Europe*… [T]he company is *aggressively adding to its inside sales group* which is focused on the middle market account group.

186. Similarly, a May 7, 2012 Barrington Research report stated:

> The middle market transactional business added $4 million YOY (3 percentage points of growth). Contributions from the company's two international acquisitions in 2011 (Latin America and Europe) added revenue growth of $13 million in the first quarter (9 percentage points)…. *This was the sixth consecutive quarter of solid growth for the middle market business, driven by increased management focus and investment in new growth initiatives*…. Management noted increasing traction of the inside sales force. The company is hiring and extensively training new classes of inside sales representatives monthly. *New sales representatives are becoming productive more quickly* as the company gains experience with the inside sales initiative.

C. <u>August 10, 2012 2Q 2012 Earnings Call</u>

187. Belcher and Busky made the following false and misleading statements regarding Productions Graphics and the inside sales initiative:

> **Eric Belcher - InnerWorkings, Inc. - CEO**
>
> Signs of our momentum are everywhere. We see it in our string of large new enterprise wins. We see it in the way we are now expanding around the globe with many of our long-term customers. *We see it in the growing strength and influence of our middle-market business.*
>
> ***
>
> On the good news, across our global platform, extends far beyond Brazil. There have been a number of important developments in the EMEA region. Last month, Yves Rogivue joined InnerWorkings Global Executive Leadership team to lead our business across Europe, Middle East, and Africa…. *The combination of Yves and Simon [Dipple in the U.K.], together with Christophe Delaune in France, has created a top-notch management team in the EMEA region*. I know many of you are concerned about the conditions in Europe. But *we see a big opportunity for our shareholders* within the tough macroeconomic environment that the continent is facing today.
>
> ***
>
> In addition to the strength of our enterprise business, *our middle-market sales efforts are progressing well*. This segment of our business grew 27% second quarter of 2012, representing quite a turnaround from a couple of years ago when this segment was in decline. We continue to hire new sales professionals at a rapid clip and recently leased new space at our Chicago headquarters to *accommodate the huge growth in our inside sales team*.
>
> *Our hard work in recruiting and training is being rewarded with sharply improving sales and productivity metrics*. This business is scaling nicely and we continue to expect 150 to 200 sales reps and 250 to 300 total inside sales employees by the end of the year.
>
> ***
>
> **George Sutton - Craig-Hallum Capital Group - Analyst**
>
> Relative to the contingent consideration [*i.e.*, earn-out payments] you mentioned, that may go up in the back half of the year. *But you were also saying that would be due to success you're seeing is at Production[s] Graphics* for the most part. Is that what you were suggesting in that comment?

Joe Busky - InnerWorkings, Inc. - CFO

Yes, George, the new accounting for this purchase accounting and the associated liability says that we, as a management team, have to estimate what we think the earn-out payments are going to be in the future. And that's the liability that we see on my balance sheet. And so, as long as those liabilities remain on the balance sheet, you can have confidence that *we have confidence that they are going to hit their earn-out payments* or hit their net profit objectives, sorry, and we'll make those earn-out payments. *And if that happens, that's great, because that means we're realizing our objectives in Europe with the Production[s] Graphics acquisition*.

***

Nate Brochmann - William Blair & Company - Analyst

Okay. Fair enough. And then with that middle market, Eric, it really does feel like that's ramping up pretty darn quick for you. I mean, you're seeing some nice results. Is that kind of maybe a little bit ahead of plan in terms of how fast that's kicking in, or is that right in line with kind of what you guys were thinking?

Eric Belcher - InnerWorkings, Inc. - CEO

I would say it's in line with what we're thinking. *We couldn't be more excited about it. We figured out the solution for the middle market*. It's not going to be a regional sales rep working for a small printing company, supplying print to middle market businesses. It will be an efficiency solution like ours, a technology solution like ours. It will be through a phone related, customer service solution like ours. *We couldn't be more excited about how big this group ultimately can be and how important the middle market will be to InnerWorkings going forward*.

But in terms of the pace that we're on right now, it's what we expected. It's rapid, but it's also what we planned for.

188. The statements regarding the "huge" growth prospects, quality of the sales personnel recruited, and "sharply improving sales and productivity metrics" were false and misleading because Belcher knew that only a fraction of the inside sales division were meeting their quotas, that SMB was hiring inexperienced graduates straight out of college that were unable to sell efficiently even after training, and that inside sales personnel were told to feign "burning up the phone lines" during investor tours. *See* ¶¶72-93.

189. The statements regarding contingent consideration and Productions Graphics's purported success in achieving its earn-out target for 2012 were false and misleading because Defendants failed to disclose that Productions Graphics was already falling short of internal forecasts, and also failed to disclose their earn-out funded fraudulent invoicing scheme – devised in July, 2012 – to enable Productions Graphics to meet those targets and appear a successful acquisition. *See* ¶¶120-158.[13]

190. Analysts again focused on the growth prospects of SMB and Productions Graphics. An August 17, 2012 Barrington Research report stated:

> The middle market transactional business added $3 million YOY (two percentage points of growth). Contributions from acquisitions completed within the last year (primarily Productions Graphics in Europe) added revenue growth of $16 million in the second quarter (10 percentage points).

D. <u>September 13, 2012 CL King & Associates Best Ideas Conference</u>

191. Busky made the following false and misleading statements regarding the inside sales initiative and the Company's proprietary PPM4 technology:

> We are actually cold calling small and mid-size customers selling print over the phone and we think this is the perfect balance between high touch feet on the street reps and the low touch self service Internet function. So we have been ramping this up. At the end of 2010 we had 10 people on the phone; end of last year we had 60. So it was about midway through last year, about a year ago *we finally started to see the metrics moving in the right direction and the trends moving in the right direction and we decided that this is something that is going to work and it is going to be successful*. So we decided to ramp up the business in 2012. So we are going to go from 60 reps at the beginning of the year to 200 reps by the end of this year. And so *we are heavily investing here and we think this is going to be huge and it is going to be a great growth driver* going forward in the Company's results.
>
> ***

[13] The Company's stock price closed up 1.7% on August 10, 2012.

Unidentified Audience Member

> Your interaction with the printers really is primarily Web-based (inaudible) an appropriate relationship?

Joe Busky - InnerWorkings, Inc. - CFO

> Yes, it is Web-based. *The bids go out electronically, come back electronically,* so it is all through data and technology.

192. These statements regarding the inside sales expansion and the inside sales initiative as a "great growth driver" were misleading because Busky failed to disclose that the Company was hiring inexperienced, low-productivity sales personnel, and that a large portion of them were failing to reach their quotas. *See* ¶¶72-93. Busky's statement that the Company's bid process was fully electronic was also misleading because he failed to disclose that large global subsidiaries, such as Productions Graphics, could not use PPM4 at all, and instead relied on manual entry of financial data. *See* ¶¶162, 165-66.

193. On September 25, 2012, a William Blair analyst reported positively on discussions with Busky:

> We recently had the opportunity to travel with InnerWorkings CFO Joe Busky, and below we highlight some of the key points discussed…. Momentum in the business is solid. We believe the company is on track to deliver consistent revenue growth of 25% to 30% (15% to 20% organically) through a balanced effort to win additional big contracts *and drive growth in the middle-market business*…. In the middle-market business, *the investment in the inside salesforce appears to be paying off*. The company expects to have nearly 200 inside sales reps by the end of the year (compared with 60 last year) and is *seeing good productivity improvement from the new sales reps*. Management intends to focus on driving profitability in this group in 2013, which we believe could contribute a penny or two of upside to earnings next year…. With the acquisitions of CPRO (South America) and *Production[s] Graphics (EU) over the past two years, we believe the company has built an effective global footprint* to serve all major markets.

E. November 8, 2012 3Q 2012 Earnings Call

194. Belcher and Busky made the following false and misleading statements regarding the inside sales initiative and Productions Graphics:

Eric Belcher - InnerWorkings, Inc. - CEO

Let's switch gears to a few topics that I'm currently very focused on, areas of the business where I believe we can make some meaningful strides in the relatively near term. *Let's start with inside sales. We've landed over 1,000 new middle market clients in just a couple of years through this new growth initiative*. The first orders are the most difficult to secure and on top of that, they're typically smaller than the average order size, making them relatively expensive wins. Today, we're focused on expanding these new client relationships with new orders in new categories and with their larger and more sensitive jobs…. Inside sales continues to be in investment mode for us and for our fellow shareholders. *We believe we're laying the groundwork for a scalable, profitable and powerful growth engine*.

***

From the macro perspective, the big picture, we're probably more excited about what inside sales represents to InnerWorkings and our shareholders over time than we were a year or two years ago. It *really is a huge opportunity*. In the day to day we still are figuring out exactly what the optimal training program looks like and profile of the recruits look like and there is still work going on there. Again, it's something new, never been done before but we feel *very, very good about this business in the long term*.

***

Kevin Steinke - Barrington - Analyst

Joe, I was wondering if contingent consideration in the second half of the year was kind of ramping the way you thought it would given your, I think the purchase accounting for [P]roductions [G]raphics was being finalized. Is that coming in as you had thought it would?

Joe Busky - InnerWorkings, Inc. - CFO

Yes Kevin, you'll see in the release that we recorded approximately $331,000 of contingent consideration expense in the third quarter and there is $800,000 year to date but we're still on track with what I laid out on the second quarter. We are expecting additional expense in the second half as we finalize that purchase accounting in Q4.

***

> **Eric Belcher - InnerWorkings, Inc. - CEO**
>
> Our growth in Latin America *as well as new account growth in Europe has really been strong* and the number of conversations that we have going on right now with existing clients in one region expanding our services into a new region, there is a long list and there are a lot of really exciting discussions.
>
> ***
>
> **Matthew Kempler - Sidoti & Company - Analyst**
>
> With the middle market side, are you seeing at this point any diminishing returns on newer editions? I know we're ramping that up pretty quickly but just getting a sense from you, are you seeing the same returns as you add new salespersons to that team?
>
> **Eric Belcher - InnerWorkings, Inc. - CEO**
>
> It's the opposite. We know so much more today and I think *we're much better at recruiting and training* and so I think as incremental classes join, it's really the opposite. We're seeing an acceleration. We're nowhere near to having, tapping out on what the market opportunity in this space is. There are billions and billions and billions of dollars being spent in just the U.S. alone every day – not every day, every year – in this segment and so *from a recruiting standpoint, there are a lot of talented people that we're talking with* and so no, there are no diminishing returns in this space and I don't think there will be for quite some time.

195. The statements regarding the inside sales expansion and the inside sales initiative as a "powerful growth engine" and the recruiting of "talented people" were false and misleading because Belcher knew that the Company was hiring inexperienced, low-productivity sales personnel, that a large portion of them were failing to reach their quotas, and that there was high turnover in inside sales, including in the VP position. *See* ¶¶72-93.

196. The statements regarding contingent consideration for Productions Graphics being "on track" and "strong" new account growth in Europe were false and misleading because Defendants failed to disclose that Productions Graphics could not legitimately meet its forecasts and achieve the earn-out, and also failed to disclose their earn-out funded fraudulent invoicing

scheme to enable Productions Graphics to meet those targets and appear a successful acquisition. *See* ¶¶120-158.

F. February 13, 2013 4Q 2012 Earnings Call

197. Belcher and Busky made the following false and misleading statements regarding the inside sales initiative and business in Europe:

> **Eric Belcher - InnerWorkings, Inc. - CEO**
>
> Our customer spend was soft in Europe in the second half of the year. *Though we still grew our European top line by 67%, of which almost 13% was organic growth*. Still we expected even more growth and would have realized it if it weren't for the current economic downturn in the region. *But we wouldn't change a thing with respect to our decision to penetrate Europe*. And, of course, we remain in full attack mode in the region.
>
> ***
>
> And moving to inside sales, which targets the SMB market. We grew the business dramatically in 2012, and now have over 150 sales professionals surrounded by a large support team of operations personnel, trainer, procurement staff, sales management, and recruiters. The revenue from inside sales more than doubled in 2012, and *we expect it to more than double again this year becoming the equivalent of a top five customer for us in 2013*.
>
> And we also expect the business to become profitable this year, which will be the first year of profit since we launched in 2010. With this new method of supporting the Middle Market, InnerWorkings is once again blazing a trail in our industry. We are convinced that our solution represents the wave of the future in this market segment, which has been overcharged and underserved for far too long. We added over 300 people in 2012 around the globe. *And I couldn't be more proud of our team. It's our intention that our colleagues be in the top 1% of the talent pool in our industry and we believe we are on track*. To our knowledge, we're also the only Company aggressively bringing new talent into this industry.
>
> ***
>
> **Joe Busky - Innerworkings Inc - CFO**
>
> *While we're in close dialogue with our European clients regarding their 2013 plans, we are optimistic about our future in the region*. Primarily because independent of the cyclical macro environment, we expect to overcome the current headwinds with *our recent wins and growing pipeline*.

***

Matthew Kempler - Sidoti & Company - Analyst

Just to summarize, is it fair to say that Enterprise domestically was in line with expectations but Mid Market and Europe were soft?

Eric Belcher - Innerworkings Inc - CEO

No, Matt, I don't think that's exactly how I would say it. *We are pleased with the Middle Market business as well* and really it's just Europe that we saw a softness…. And so, *from a business development standpoint, our team in Europe is as switched on as they've ever been. I expect some great announcements before this year is over*. So, our revenue has fallen off by that $8 million that Joe mentioned, but that's a small amount in relation to the larger scheme of things in terms of what we are going to be able to do, I believe, *in terms of bringing on new clients*.

***

Eric Belcher - Innerworkings Inc - CEO

So *we actually did achieve the growth targets that we had laid out for inside sales for the year*. The number of reps is also right in the range of the target we laid out at the beginning of the year, which was a 150 to 200 reps by the end of the year.

Matthew Kempler - Sidoti & Company - Analyst

Are we still looking to scale that up in 2013?

Eric Belcher - Innerworkings Inc - CEO

Yes, we'll be bringing on more reps and more support infrastructure in 2013. No doubt about it. *We love what we're seeing with the inside sales business. It's going to be a fantastic contributor to InnerWorkings over the long-term*.

***

Nate Brochmann - William Blair & Company - Analyst

…I wanted you to talk to us just a little bit more on Europe…

Joe Busky - Innerworkings Inc – CFO

…As Eric said, we're optimistic about the region because *we do have a very solid pipeline* and a lot of good things going on there…

***

Eric Belcher - Innerworkings Inc - CEO

We did have a very good fourth quarter with respect to inside sales. We've got new talented sales management in place. Some of the recent classes that we've brought on have been performing at a rate that has been even better than some of the earlier classes that we brought on in previous years. There is an element of some momentum with that inside sales group that's caused us to redo our forecast slightly on the bottom line that would have us actually turning a small profit in 2013.

Kevin Steinke - Barrington Research - Analyst

Are you seeing then the additional training and development for your people that you put in place then yielding kind of higher productivity once they get out on the floor? Do think that is part of the contributing factor?

Eric Belcher - Innerworkings Inc - CEO[14]

Yes, that is absolutely part of what's contributing. There is also some time it takes for an individual to get situated and develop a book of business. We are seeing that dynamic with some of our older reps play out. We've got new experienced sales leadership, experienced in inside sales leadership making huge contributions to the business. *I think we're getting even better at recruiting, at targeting the ideal employee for this group*. So there are really a number of factors that are playing out here. But training, as you mentioned, is certainly one of them.

198. These statements regarding the inside sales division becoming the "equivalent of a top five customer" and "getting even better at recruiting the ideal employee for this group" were false and misleading because Defendants knew that the Company was hiring inexperienced, low-productivity sales personnel right out of college, that a large portion of them were failing to reach their quotas, that there was high turnover in inside sales, and that the Company was pulling back on its investment in the division. *See* ¶¶72-93.

[14] On February 15, 2013 Belcher sold 7,500 shares for proceeds of $99,225, and on February 19, 2013 he sold another 7,500 shares for proceeds of $103,125.

199. The statements regarding the "very solid" and "growing" pipeline" in Europe, as well as statements regarding new client development in Europe, were misleading because Defendants failed to disclose that European revenues were artificially inflated by (1) their fraudulent invoicing scheme; and (2) Busky's fraudulent backdated amendment to Delaune's Employment Agreement. *See* ¶¶120-158.

200. Analysts were enthusiastic about the purported growth opportunity in Europe. A February 14, 2013 Craig-Hallum report stated:

> We also think that Europe will become the big opportunity the US did in 2009 when deal cycles accelerated as companies more aggressively looking for cost savings (which are enabled by the INWK solution). The company has built up a larger bus dev team to address the opportunities in Europe…. We believe Europe is poised for the same dynamic customer growth opportunity and the company has built a sales infrastructure to support that opportunity.

201. A February 14, 2013 Sidoti & Company report based its inside sales estimate on growth in the number of inside sales personnel: "we estimate that inside sales more than doubled to north of $20 million in 2012, as the inside sales force headcount climbed to more than 150 in 4Q:12 from 60 in 4Q:11." Former employees, however, recalled that inside sales contributed only $4 million in all of 2012, far less than the $20 million Defendants had misled the market into believing based on headcount expansion and false statements regarding quality recruits and productivity.

G. <u>February 22, 2013 Investor Day</u>

202. Defendants made the following false and misleading statements regarding the inside sales initiative and enterprise client retention at the Company's annual Investor Day:

> **Eric Belcher - Innerworkings Inc - CEO**
>
> 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 three pillars to our growth strategy [enterprise, inside sales, and M&A], *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.

***

John Eisel - Innerworkings Inc - COO

Further down from there and a detailed reporting that we provide all of our clients to prove to them that we are demonstrating the value that we report to demonstrate and we sign a contract with them and that really drives their desire to stay with us and keep that *98% client retention rate* that you saw in that first slide.

***

Eric Belcher - Innerworkings Inc - CEO

We've resigned every major contract that's come up, really throughout our history.

***

And so now *we're back in the middle market business in a hyper growth mode* with what we're now calling our small and medium business services group… none of this would be possible without the database that we've built up.

We couldn't have launched this in 2011 and have been successful, we didn't have the information. But now we know more in a local market that we've never been to and more by far, we know equipment profiles, we know quality scores of providers, we know historical pricing from those providers and maybe even more importantly on the pricing front, we know pricing across the way in another town.

And so the amount of information that we have are sales force and production managers in our SMB business have at their fingertips real-time while they're talking to a prospect is the difference, it's the answer… *[w]e find that we're averaging about 30 to 40 prospecting calls a day* and engaging in a number of those prospects with an extended conversation about in our workings. and *so it's extremely efficient and extremely scalable*….

Our inside sales business actually show up on the radar screen as a percentage of our overall company. *This year, we expect in revenues that we'll have the equivalent of the top five enterprise account*, and it's highly possible…*[i]t will be effectively our largest client at operating margins*, which are higher than our Company average.

203. These statements regarding the inside sales division becoming the "equivalent of a top five enterprise account" and the "efficiency and scalability" of the inside sales initiative were false and misleading because Defendants knew that the Company was hiring inexperienced, low-productivity sales personnel right out of college, that a large portion of them were failing to reach their quotas, that SMB as a whole was significantly missing targets. *See* ¶¶72-93. Belcher's statement regarding PPM4's advantages were also misleading because he failed to disclose how production managers could easily manipulate PPM4 data. *See* ¶¶164-174. The statements regarding 98% enterprise client retention rate, and that the Company has "resigned every major contract that's come up" were misleading because Defendants knew, but failed to disclose, that 2012 revenues had been adversely affected by the loss of major clients like Google, and had prompted Busky to request an expansion of the fake invoicing scheme. *See* ¶143.[15]

204. Analysts reacted positively. A February 25, 2013 Sidoti & Company report stated:

> In our view, 2013 will validate *our growth thesis for INWK* as the company generates record revenue from large enterprise, *global expansion and middle market penetration*…. We think that INWK maintains a strong competitive advantage when combining this breadth of offering along with the company's purchasing power, global sourcing capabilities, *extensive data and workflow automation*, proven scale and market leading references.
>
> ***
>
> From 2010 to 2012 INWK's inside sales force targeting the middle market ramped from 10 sales representatives to 150, while the respective revenue climbed from $1 million to $19 million and net loss per share widened from $0.01 to $0.03.

205. A February 25, 2013 William Blair report stated:

> InnerWorkings hosted its annual investor day in Chicago. Overall, *we believe the presentations highlighted the strong growth prospects that lie ahead* for the company…. Following significant investment in 2012 to grow the inside

[15] The Company's stock price closed up 6.34% on February 22, 2013.

> salesforce from about 60 agents to 150 agents, medium and small business services revenue is expected to accelerate from $19 million in 2012 to a range of $40 million to $45 million in 2013.

H. <u>March 11, 2013 Credit Suisse Global Services Conference</u>

206. Belcher made the following false and misleading statements regarding the strength of inside sales and the purported global business advantage of Innerworkings's proprietary data technologies:

> Our original data advantage was real, but it was a fraction of what it is today. Today we are rolling out our technology on a global basis, all currencies, all languages on one platform. *We have already converted Latin America last quarter, Europe this quarter*. And that allows us, when we are supporting global clients, in particular, to provide them consolidated reporting, a lot more visibility into this area of their supply chain than they have ever had in the past. It allows us to source with more intelligence across borders. It allows us to share concepts and designs within a client across their business units come, across their regions, and many, many other advantages, not the least of which would be the data just continues on a daily basis to get richer and richer.
>
> ***
>
> And then, finally… the middle market… if you look at this market segment, in addition to tens of billions of dollars being spent every year, it is also the market segment that is paying the highest premium for their materials and receiving on average the least amount of service and support for their brand. The question, though, that we did not know how to solve a few years ago was how to penetrate this segment in a cost effective, affordable way. And we have come up with the solution. It is an Internet lead generation solution with an inside sales outbound call center *that allows us to prospect in an extremely aggressive and very efficient manner*…. You can see now we have with just representatives alone over 150. And then there is trainers and instructors, and there is sales managers and there is recruiters and all sorts of infrastructure built around this brand-new business. We are gaining momentum. We think we have hit an inflection point. We believe this year the business will break even. We will be slightly profitable. *And we expect big things from this segment of our business going forward*.

207. Belcher's statements regarding conversion of Europe to a global system, and the concomitant business advantages, were false and misleading because Productions Graphics – the

Company's largest acquisition in both dollar value and in Europe – was never integrated into an internal system at Innerworkings during the Class Period. *See* ¶¶162, 165-66.

208. Belcher's statements regarding the middle market initiative; the "very efficient" inside sales call center, and the expected contribution of SMB were false and misleading because Defendants knew that the Company was hiring inexperienced, low-productivity sales personnel right out of college, that a large portion of them were failing to reach their quotas, that SMB as a whole was significantly missing targets. *See* ¶¶72-93.

209. On April 16, 2013, the Company was forced to revise full year guidance when it lost one of its largest enterprise clients – undermining its unqualified "98% client retention rate" statement. The press release, issued after the market closed, stated:

> While we are disappointed by the revenue loss from a major client, we understand this risk presents itself when a client undergoes a change in control. We look forward to continuing to deliver excellent service and savings for them, albeit in a new reduced role," said Eric Belcher, Chief Executive Officer of InnerWorkings. "*Importantly, our new business pipeline remains strong and we fully expect to achieve our new business growth targets for the year.*"

210. On this news, Innerworkings's stock price plummeted 25.30% in a single day on unusually heavy trading volume, with 2,820,500 shares traded compared with an average daily trading volume over the Class Period of 275,949 shares.

211. The statement that "we fully expect to achieve our new business growth targets for the year" was also false and misleading because according to Delaune, the loss of SuperValu made it impossible for Innerworkings to meet its earnings targets, even if he had agreed to an extension of the fraudulent invoicing scheme as requested in early April, 2013. *See* ¶¶150-52.

212. An April 17, 2013 Craig-Hallum report focused on the statements regarding growth targets: "The fact that management reiterated its full-year growth target suggests more encouraging results in the 2H."

213. Similarly, an April 18, 2013 Barrington Research report stated: "*Management noted that the company's new business pipeline remains strong, and it expects to achieve its previously established growth targets* for new enterprise business in 2013. Therefore, we have maintained our OUTPERFORM investment rating."

214. On April 30, 2013, Prescience Point Research Group published a report questioning the Company's growth strategies and Defendants' assessment of the Company's market opportunity. The report also unfavorably described Productions Graphics as "a European firm of questionable quality acquired in late 2011, that already is struggling."

215. In response, Innerworkings's stock price dropped 3.17% in a single day on unusually heavy trading volume, with 2,170,100 shares traded compared with an average daily trading volume over the Class Period of 275,949 shares.

I. <u>May 7, 2013 Jefferies Global Technology, Media and Telecom Conference</u>

216. Busky and Brad Moore, VP of Corporate Development, speaking on behalf of the Company, made the following false and misleading statements regarding the enterprise business and the strength of inside sales:

> **Joe Busky - InnerWorkings, Inc. - CFO**
>
> 2012 was a great year for us, for Enterprise. We added over $100 million of new organic revenue related to Enterprise accounts.
>
> ***
>
> **Brad Moore - InnerWorkings, Inc. - VP of Corporate Development**
>
> So we – two years ago, we had about 10 folks on the inside sales team. We moved that to 60 a few years ago. And last year, we doubled it to 120…. But we are very encouraged about what we are seeing here. It's still a relatively small portion of the overall revenue of the Company, and still an overall small portion of the middle-market business for us. *But it is going to be the driver for us in this segment of the business*. And so we are excited about that moving forward.

> ***
>
> **Joe Busky - InnerWorkings, Inc. - CFO**
>
> *But with a 98% retention rate on our enterprise deals*, we do see it's a pretty sticky model as we get our folks on-site there. We think it's a good – again, a good investment for our shareholders.

217. Busky's statement that "2012 was a great year for us, for Enterprise" was misleading because he failed to disclose that 2012 revenues were artificially inflated by the fraudulent-invoicing scheme at Productions Graphics, which the Company had acquired to grow its enterprise business. *See* ¶¶102-03, 120-158. Busky's statement regarding the 98% retention rate was also misleading because he knew, but failed to disclose, that 2012 revenues had been adversely affected by the loss of major clients like Google, and had prompted Busky to request an expansion of the fake invoicing scheme. *See* ¶143.

218. The Company's statements regarding inside sales being a "growth driver" for middle market were false and misleading because Defendants knew that the Company was hiring inexperienced, low-productivity sales personnel right out of college, that a large portion of them were failing to reach their quotas, and that SMB as a whole was significantly missing targets. *See* ¶¶72-93.[16]

J. May 10, 2013 1Q 2013 Earnings Call

219. The May 10, 2013 earnings call contained the following false and misleading statements regarding inside sales, the enterprise business, and Productions Graphics:

> **Eric Belcher - InnerWorkings Inc - President and CEO**
>
> While the revenue loss [from SuperValu] is obviously disappointing, in our view, it is an isolated event and *has no impact on our value proposition and*

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[16] The Company's stock price closed up 2.59% on May 7, 2013. On May 8, 2013 Belcher sold 7,500 shares for proceeds of $76,875, and on May 9, 2013 Belcher sol an additional 7,500 shares for proceeds of $77,400.

growth prospects. We are proud of our 98% retention rate of Enterprise clients.

***

Finally, turning to our inside sales operation, targeting the small- and medium-size business market in the US. While *this group continues to be the primary growth driver of our Middle Market segment*, our revenues fell short of our internal forecast for the first quarter. This sales channel is the first of its kind in our industry, and *we continue to develop and improve upon our key performance metrics*. We are optimistic about this growth area, but we are forecasting a slightly longer investment period, reaching breakeven on a quarterly basis in early 2014 as opposed to the third quarter of 2013.

***

Our business fundamentals and *our new Enterprise pipeline are stronger than ever,* and we are excited about the size and potential of our addressable global market and feel we are the best-positioned Company to capitalize on the opportunity.

***

We are on track with our goals for the year, which is slightly higher delivery of new organic Enterprise revenue growth in 2013. So, we are ahead of schedule. We are ahead of 2012, and we are on schedule.

***

The [inside sales] business grew about 50% in the first quarter over last year. We had expected a higher growth rate, and so we've now readjusted slightly our expectation for the growth rate for the full year, but not by a meaningful amount. In terms of what improvements and changes we are making – look, no one has ever developed a sales force like this to use Internet-lead generation and outbound tele-sales to penetrate the small to middle market. And, there are a lot of learnings going on. No one has done it before, and we are relatively new at it. So, *we continue to learn, improve, and refine and make a lot of adjustments*, and I will say that this is going to be a very difficult business for a competitor to replicate when they do attempt to, as I'm sure they will, *because this is going to be a large and successful business for us, we believe, going forward*.

Nate Brochmann - William Blair & Company – Analyst

Could you give us maybe some examples, or some things in terms of getting a vote of confidence on that second half [of the year] ramp-up in the earnings power?

Eric Belcher - InnerWorkings Inc - President and CEO

But, for the most part, Nate, it is growth coming from new Enterprise accounts landed at the end of last year which are ramping throughout this year….

Joe Busky - InnerWorkings Inc - CFO

And, in addition, you've got that seasonality in the European business – the former Productions Graphics business that we saw last year whether Q1 is the weakest quarter. *Q4 is a particularly strong quarter for them*. So, all that, combined with what Eric said, that gets you to that strong second-half seasonality.

***

Kevin Steinke - Barrington Research – Analyst

Now, on the European pipeline. I know you've talked about the weaker economic environment there perhaps leading to a pickup in the new business pipeline. Are you seeing that? And, is that part of your confidence going forward as well?

Eric Belcher - InnerWorkings Inc - President and CEO

Yes, *we've got a solid pipeline in Europe*. *I spent the week in Europe with our team over there and couldn't be more excited about what we have coming up* in – not just Europe, but EMEA and Latin America as well. Asia as well. But, in Europe the softness in their economy clearly creates additional need on the behalf of corporations to find inefficiencies and save money. Particularly in categories of indirect spend. So, it is helping us, but *we've got a great team there that is performing well*. *We expect some good news coming from Europe before long*.

220. These statements regarding the growth prospects for inside sales and a continuous "improvement" in its "key performance metrics" were false and misleading because Defendants knew that the Company was hiring inexperienced, low-productivity sales personnel right out of college, that a large portion of them were failing to reach their quotas, and that SMB as a whole was significantly missing targets. *See* ¶¶72-93.

221. The statements regarding growth being "on track" and the strength of the new enterprise pipeline, especially in Europe, for the second half of the year, were also false and misleading because Defendants failed to disclose that (1) the loss of SuperValu made it

impossible for Innerworkings to meet its 2013 targets, even if Delaune had agreed to extend the fraudulent invoicing as requested in April 2013; (2) the reference to Productions Graphics's "seasonality" from 2012 was misleading because the ramp in revenue in the second half of 2012 was due to the fraudulent invoicing scheme directed by Belcher and Busky. *See* ¶¶120-158.[17]

222. Analysts concentrated on the enterprise "wins" and an expected bump in revenues from Productions Graphics's "seasonal" strengths in the second half of the year. A May 10, 2013 Sidoti & Company report stated:

> On the conference call, INWK reviewed a list of domestic and international enterprise wins in 2013, reinforcing our view that the company is gaining momentum in the print procurement outsourcing market…. We also think that INWK is in advanced discussions with several large enterprise prospects; our forecast assumes one large enterprise win by 2014, versus three signed in 2012…. *we expect new enterprise wins, global expansion, midmarket penetration* and a focus on margins to fuel long-term share appreciation.

223. A May 13, 2013 Craig-Hallum report stated that:

> Given the open-ended nature of the company's growth opportunity and growing pipeline, we view 14x next year's earnings as too low a multiple…. Second half numbers look optically challenging – here's why it's not… *Productions Graphics has traditionally been much stronger in the second half*, and much of the company's enterprise programs have late Fall and Holiday timing.

224. A May 15, 2013 Barrington Research report stated:

> The company reiterated that the new business pipeline remains strong, and announced the addition and expansion of several enterprise contracts on its conference call. The anticipated ramp of new enterprise accounts, *an expected improvement in profitability across Brazil, China and inside sales, and typical seasonal strength* gives management confidence that EPS will increase significantly in the second half of 2013.

K. <u>August 8, 2013 2Q 2013 Earnings Call</u>

225. The August 8, 2013 earnings call contained the following false and misleading statements regarding inside sales and Productions Graphics:

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[17] The Company's stock price closed up 2.15% on May 10, 2013.

Eric Belcher – InnerWorkings Inc - President & CEO

So first our inside sales operation. While revenues for this group have grown 15% year-to-date, our expectations were even higher. We've recently reorganized the management of the group, which has already made an impact, and we're in discussions with a strategic channel partner that would significantly enhance our client acquisition capability. With both the internal changes we've made and the dialog we're having with a potential channel partner, *we remain very confident about the role this group will play in the long term growth of our business*.

***

The demand for our enterprise solution continues to grow as evidenced by the *new business we're winning with large corporations around the globe*. Our team is as upbeat as ever as we remain focused on profitable long term growth, and our continued penetration of a huge addressable global market.

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We originally had hoped that that [the SMB] business would be 4% of our revenue this year and now we think it will be 2% to 3% of our revenue just to put it into context.

However, we do believe that the SMB market is a beautiful market for our model and we've learned a tremendous amount. We continue to learn a tremendous amount. No one's ever done what we're doing with this group, with this business. We've got some bigger picture strategic ideas for the group as well that will be coming online here later in the year. *And so, we're as committed as we've ever been to this market*. And as you said, we have – we've had some starts and stops. We've had some learnings along the way, which I guess in hindsight would be anticipated, always the case when you try something new and bold like this. But as we move forward, this group is – *it's as switched on as any part of our business is right now and we've got big plans for our SMB Group*.

***

Nate Brochmann - William Blair and Company - Analyst

But Joe, you were talking in terms of your guidance that that assumes that the production[s] graphics business in Europe kind of performs a little bit better, but if it doesn't you kind of have a backstop in terms of contingent liabilities there. But I assume that that's referring to your revenue guidance for the remainder of the year.

Joe Busky - InnerWorkings, Incorporated - CFO

> …If you recall, the business – *our business in Europe is fairly seasonal to the Q4 quarter*, and so a large amount of profit that we see from that region comes in Q4. And so, *our forecasts right now fully support that they're going to achieve the earn out target*. But nonetheless, there's risk there that with that – such a huge, steep jump in the profitability in Q4, I thought it would be prudent just to remind everyone of the structures that we've built into not only that deal, but all of our deals that protect the shareholders in case there is underperformance.

226. These statements regarding the Defendants' commitment to the SMB business and their confidence in its growth were false and misleading because Defendants knew that the Company was hiring inexperienced, low-productivity sales personnel right out of college, that a large portion of them were failing to reach their quotas, that there was high turnover including at the VP level, and that SMB as a whole was significantly missing targets. *See* ¶¶72-93. Defendants further failed to disclose that they were planning a massive layoff of 40 people the same month that they were professing confidence and commitment in the inside sales initiative, and that they had fired Simms in July 2013 because of SMB's underperformance. *See* ¶¶72, 75, 81, 83, 85, 92.

227. The statements regarding expected profitability from Productions Graphics in the 4Q 2013 based on similar 2012 seasonality, and that the Company's internal forecasts "fully support" that Productions Graphics would meet its aggressive earn-out target, were misleading because the ramp in revenue in the second half of 2012 was due entirely to the fraudulent invoicing scheme directed by Belcher and Busky. *See* ¶¶120-158. Moreover, Defendants already knew that (1) Delaune had refused to continue the scheme into 2013; and (2) the loss of SuperValu made it impossible to achieve 2013 growth targets. *See* ¶¶150-52.[18]

[18] The Company's stock price closed up 4.6% on August 9, 2013 (the earnings call occurred after the stock market had closed on August 8, 2013). On August 16, 2013 Belcher sold 7,500 shares for proceeds of $78,750, and on August 19, 2013 Belcher sold another 7,500 shares for proceeds of $77,925.

228. Analysts accepted Defendants' reassurances regarding inside sales and Productions Graphics. An August 8, 2013 William Blair report stated:

> The company continues to experience weaker results in its middle-market business and likely had more commission write-offs. *The business now appears to be on the road to recovery* with new leadership and the possibility of an agreement with a major channel partner.
>
> ***
>
> Investor focus is on second-half results, *but management appears confident it can deliver*. Management has stood by its ability to deliver EPS in the range of $0.45 to $0.55 for 2013, which implies a large jump in second-half results.

229. An August 9, 2013 Craig-Hallum report stated:

> As mentioned above, the inside sales unit has been tracking considerably below expectations through the first half of the year. *Senior leadership of the group has now been turned over and middle management was restructured in an effort to reduce attrition in the group*. The exciting news was the talk of potentially adding a channel partner to provide a funnel of clients to the inside sales unit, as opposed to the current reliance on cold calling. While nothing is official and the details remain to be seen, *we are encouraged by the moves to turn around the unit* and believe a partner relationship could quickly bolster the ailing middlemarket business.

230. An August 20, 2013 Barrington Research report stated:

> 2013 revenue *guidance was increased* to $910-940 million…. Although the newer inside sales initiative addressing small and midsized clients has underperformed, *management is taking steps to get this business on track*. We *expect a significant EPS increase in the second half of 2013* due to the ramp-up of recently signed enterprise clients, *seasonal strength* from clients' holiday-related spending, accretion from already-completed acquisitions, and achievement of profitability in Brazil.

VII. THE TRUTH IS REVEALED

231. Just one quarter after Defendants had raised guidance and expressed confidence in the inside sales division and historically strong late-year performance from Productions Graphics, Innerworkings shocked the market with an about-face. The Company issued a press release and Form 8-K on November 6, 2013 after the market closed:

> "While our core enterprise business continues to drive our growth globally, *the performance of Productions Graphics in Europe and the restructuring of our Inside Sales division resulted in lower profitability for the quarter*," said Eric D. Belcher, Chief Executive Officer of InnerWorkings. "We have already taken action to proactively address these areas of our business. *In Europe, we have installed new leadership* and, with our Inside Sales division, we are pivoting towards a new customer acquisition strategy through a channel partnership."

232. On the 3Q 2013 earnings call the same day, Defendants drastically reduced guidance and disclosed further details, including a drastic 50% reduction in the highly touted (and only recently expanded) inside sales division[19]:

> **Eric Belcher - InnerWorkings, Inc, - President, CEO**
>
> I'll explain the shortfalls and outline the actions we've taken to improve our performance. The first relates to Productions Graphics, the European-based business we acquired in 2011. *This business has not acquired and retained customers as planned, and as a result, has significantly missed its internal forecast*. *In October, we decided to terminate our relationship with the former owner of this business*, which is the first time we've taken such an action before the completion of an earn-out period....
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> ***
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> *Clearly, the acquisition of Productions Graphics has not worked out as we planned*. It represents an outlier among an impressive roster of acquired companies and entrepreneurs who, in the aggregate, have realized approximately 30% growth under our ownership. We're committed to turning the Productions Graphics business around and making it the valuable asset we envisioned it would be.
>
> *The second area that's fallen short of our expectations this year is our inside sales group*. Despite solid topline growth over the last few years, *we haven't determined yet how to acquire customers at an average cost that allows the business to scale profitably*. To date, our client acquisition strategy has relied almost exclusively on cold calling, and we've been exploring more efficient client acquisition methods.
>
> ***

[19] This mass layoff was *in addition to* the previous mass layoff in August 2013, which Defendants did not disclose. *See* ¶¶72, 75, 81. In other words, the division started the year with approximately 150 sales personnel and ended it with a fraction that number.

Joe Busky - InnerWorkings, Inc. – CFO

First was inside sales. So in light of the new strategic direction Eric referenced, we've reduced the size of our cold calling staff by 50% and restructured their comp plans. This resulted in a $4.3 million charge for severance and a write down of the remaining prepaid commissions on our balance sheet. We're also eliminating the future use of prepaid commissions, which will improve our ability to forecast this business going forward. *The inside sales division will lose about $5 million this year*; a disappointing operational miss for sure.

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Moving on to the Productions Graphics business we acquired in 2011, as Eric addressed during his remarks, *with revenues historically weighted towards the second half of the year, our revised forecast for this business had a meaningful impact on our Q3 results and Q4 projections*. While this business's current full-year revenue forecast of $35 million is flat compared to last year, it's down significantly from our original forecast. And in terms of EBITDA, we are currently forecasting about a $5 million loss for this year versus original forecast of $4 million in profit…. We also assessed the fair value of goodwill in the EMEA region and determined that $37.9 million of the $110 million of total EMEA goodwill is impaired. This non-cash charge was recorded in our Q3 results.

***

Total revenue for the quarter was roughly $15 million below our internal expectations, primarily due to the already discussed issues with Productions Graphics and the reduction in forecasted revenue in the US-based permanent displays business we acquired in March of this year…. Non-GAAP diluted earnings per share for the quarter was $0.05 versus $0.10 in the year-earlier period. *And approximately $0.05 of the non-GAAP diluted earnings per share underperformance is attributable to the Productions Graphics business* versus the same period in 2012.

***

When looking at our guidance for 2013, *we are reducing our revenue guidance range from $910 million and $940 million to $865 million to $880 million*, which represents 9% to 10% growth for the year. And we're lowering our GAAP diluted earnings per share guidance from a range of $0.45 to $0.50 to a range of $0.16 to $0.20.

This revised guidance for Q4 contemplates the impact of the Productions Graphics and our US permanent display business issues already discussed, as well as a slower ramp than expected in Q4 of the larger new enterprise deals landed earlier in 2013.

233. Analysts on the call struggled to understand what could have changed so rapidly:

George Sutton - Craig-Hallum Capital Group - Analyst

Relative to Productions Graphics, Eric, I wondered if you could just give us a sense of are we talking about customer losses, are we talking about execution issues, are we talking about just a lack of new customers? I know the expectations going back to when you acquired them were for a significant ramp, and I'm just, *I'm curious what specifically changed*.

Eric Belcher - InnerWorkings, Inc, - President, CEO

George, there's an element of all three of those issues that you mentioned, but the last one, *the absence of the new clients that we anticipated working together in partnership we would bring on board has driven – has had the most significant impact* on the delta between the original forecast and their performance today.

George Sutton - Craig-Hallum Capital Group - Analyst

So in bringing in a new person to run that business, I'm just trying to understand the fixable nature of the problem.

Eric Belcher - InnerWorkings, Inc, - President, CEO

Well, the individual that we removed wasn't performing, and we didn't see that turning around. And so we have known the individual that we brought in to return the business to profitability and growth for some time. She's been a client of ours and she's intimately familiar with our business, and we think a highly capable executive that will, in turn, deliver on the original promise of the infrastructure that Productions Graphics provided InnerWorkings.

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Nate Brochmann - William Blair and Company - Analyst

Wanted to talk, just kind of similar to George's question there a little bit, but in terms of the Productions Graphics, I know that started slipping a little bit in terms of expectations last year, and we talked about just the seasonality and things in Europe getting a little bit soft. And I know that we were kind of missing expectations slightly earlier this year, and I get how it's kind of backend loaded. *But what happened all of a sudden to have what seems like the wheels just kind of completely came off* in terms of some slippage versus completely reformatting that business and taking all the big charges?

Eric Belcher - InnerWorkings, Inc, - President, CEO

And Nate, we believe this forecast. *The business hit its forecast in 2012, as you mentioned, even with the heavy backend loaded nature of their revenue and profit stream*. And *as this year has progressed, we have been increasingly concerned that new clients were not arriving at the pace and size and scale that we originally expected*. And the cost structure, however, continued to build under the former manager and in anticipation of the business which did not materialize. And so the result was *we finally, in the third quarter, decided that that was it and terminated the individual and put in a new team and now we're rebuilding a business*.

Joe Busky - InnerWorkings, Inc. - CFO

Nate, this is Joe. In addition to his inability to land and ramp the new clients, or convert the existing clients into contractual, open book, transparent, full-scope enterprise clients, which we've seen often with previous acquisitions, *he actually started to lose clients*. And these were high-margin, transactional-based clients, but nonetheless, *there were clients that were lost that we expected to generate revenue and gross profit in the second half of the year*.

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Eric Belcher - InnerWorkings, Inc, - President, CEO

Well, *the [inside sales] business has been resized*. And we now have a team of highly talented, really the best of the best in terms of the sales talent that we have in the group. We're able to better support the group, the smaller group that remains in terms of production capabilities, in terms of sales management, and basically in every way possible….

Kevin Steinke - Barrington Research - Analyst

And just in terms of your overall enterprise growth expectations for 2013, aside from the little bit of slower ramp, does the lower than expected PG revenues impact the goal that you had originally targeted for this year?

Joe Busky - InnerWorkings, Inc. - CFO

Yes, that's right, Kevin. So we're at $58 million of new enterprise account growth through the first three quarters. *And if you factor in the guidance that we just updated for Q4, we're going to be short of the $100 million+ of new enterprise growth goal that we put out at the beginning of the year*, but it's driven by the two things that we just mentioned. It's *the Productions Graphics business and that former owner's ability to land and ramp new deals* that we expected to land this year, as well as the slower ramp in the US of a couple of those larger enterprise deals.

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>
> **Matthew Kempler - Sidoti and Company - Analyst**
>
> And then going back to the inside sales force. You reached the determination that their model for scaling the business and acquiring customers through telesales wasn't effective. *But how did it change to that level in 2013 versus 2012 where it seemed like we were getting scale and were effectively acquiring customers*?

234. In response to the November 6, 2013 disclosures, Innerworkings's stock price plummeted *40.57%* in a single day on unusually heavy trading volume, with 8,902,700 shares traded compared with an average daily trading volume over the Class Period of 275,949 shares.

235. Analysts finally lost confidence in Defendants' statements. A November 7, 2013 Craig-Hallum report stated:

> It has been a series of unfortunate circumstances and challenges this year ranging from the SuperValu loss to the Production[s] Graphics shortfall and the more recent pullback in the permanent display business. When combined with the costly attempts made to grow the inside sales effort, *it creates a challenging year from which to derive confidence in the business model*…. Given that we can't yet quantify the timing or significance of these new opportunities, we will move to the sidelines with a Hold rating until we are more comfortable that these issues have been fixed.

VIII. ADDITIONAL SCIENTER ALLEGATIONS

236. During the Class Period, Belcher reaped the rewards of Defendants' fraud while Innerworkings's stock price was artificially inflated. As shown in the tables below, Belcher sold 150,000 shares of his Innerworkings stock for net proceeds of *over $1.8 million*. In comparison, Belcher had *no* proceeds in the comparable time period both before the Class Period, and only $128,000 in proceeds in the comparable time period following.

Pre-Class Period (May 25, 2010 to February 14, 2012)

Filer Name	Direct Indirect	Number of Shares	Transaction Type	Price	Transaction Value	Filing Type	Transaction Date
Belcher (Eric D)	D	-51,580	Acquisition	$0.00	$0.00	4	23-Jun-11
TOTAL					**$0.00**		

Class Period (February 15, 2012 to November 6, 2013)

Filer Name	Direct Indirect	Number of Shares	Transaction Type	Price	Transaction Value	Filing Type	Transaction Date
Belcher (Eric D)	D	-45,952	Acquisition	$0.00	$0.00	4	15-Mar-12
Belcher (Eric D)	D	7,500	Sale	$13.14	$98,550.00	4	14-Dec-12
Belcher (Eric D)	D	-7,500	Conversion	$1.00	-$7,500.00	4	14-Dec-12
Belcher (Eric D)	D	7,500	Sale	$12.95	$97,125.00	4	17-Dec-12
Belcher (Eric D)	D	-788	Conversion	$1.00	-$788.00	4	17-Dec-12
Belcher (Eric D)	D	-7,500	Conversion	$1.00	-$7,500.00	4	17-Dec-12
Belcher (Eric D)	D	-7,500	Conversion	$1.00	-$7,500.00	4	10-Jan-13
Belcher (Eric D)	D	7,500	Sale	$14.34	$107,550.00	4	10-Jan-13
Belcher (Eric D)	D	-7,500	Conversion	$1.00	-$7,500.00	4	11-Jan-13
Belcher (Eric D)	D	7,500	Sale	$14.40	$108,000.00	4	11-Jan-13
Belcher (Eric D)	D	-788	Conversion	$1.00	-$788.00	4	11-Jan-13
Belcher (Eric D)	D	-7,500	Conversion	$1.00	-$7,500.00	4	15-Feb-13
Belcher (Eric D)	D	7,500	Sale	$13.23	$99,225.00	4	15-Feb-13
Belcher (Eric D)	D	7,500	Sale	$13.75	$103,125.00	4	19-Feb-13
Belcher (Eric D)	D	-8,288	Conversion	$1.00	-$8,288.00	4	19-Feb-13
Belcher (Eric D)	D	7,500	Sale	$14.85	$111,375.00	4	7-Mar-13
Belcher (Eric D)	D	-7,500	Conversion	$1.00	-$7,500.00	4	7-Mar-13
Belcher (Eric D)	D	7,500	Sale	$15.08	$113,100.00	4	8-Mar-13
Belcher (Eric D)	D	-8,288	Conversion	$1.00	-$8,288.00	4	8-Mar-13
Belcher (Eric D)	D	-46,512	Acquisition	$0.00	$0.00	4	15-Mar-13
Belcher (Eric D)	D	5,394	Exercise	$15.05	$81,179.70	4	15-Mar-13
Belcher (Eric D)	D	-7,500	Conversion	$1.00	-$7,500.00	4	18-Apr-13
Belcher (Eric D)	D	7,500	Sale	$10.26	$76,950.00	4	18-Apr-13

Filer Name	Direct Indirect	Number of Shares	Transaction Type	Price	Transaction Value	Filing Type	Transaction Date
Belcher (Eric D)	D	-8,288	Conversion	$1.00	-$8,288.00	4	19-Apr-13
Belcher (Eric D)	D	7,500	Sale	$10.69	$80,175.00	4	19-Apr-13
Belcher (Eric D)	D	7,500	Sale	$10.25	$76,875.00	4	8-May-13
Belcher (Eric D)	D	-7,500	Conversion	$1.00	-$7,500.00	4	8-May-13
Belcher (Eric D)	D	-8,288	Conversion	$1.00	-$8,288.00	4	9-May-13
Belcher (Eric D)	D	7,500	Sale	$10.32	$77,400.00	4	9-May-13
Belcher (Eric D)	D	-8,288	Conversion	$1.00	-$8,288.00	4	19-Jun-13
Belcher (Eric D)	D	7,500	Sale	$11.48	$86,100.00	4	19-Jun-13
Belcher (Eric D)	D	-6,791	Conversion	$0.65	-$4,414.15	4	20-Jun-13
Belcher (Eric D)	D	7,500	Sale	$11.24	$84,300.00	4	20-Jun-13
Belcher (Eric D)	D	-709	Conversion	$1.00	-$709.00	4	20-Jun-13
Belcher (Eric D)	D	6,055	Exercise	$11.53	$69,814.15	4	23-Jun-13
Belcher (Eric D)	D	-8,288	Conversion	$0.65	-$5,387.20	4	12-Jul-13
Belcher (Eric D)	D	7,500	Sale	$10.99	$82,425.00	4	12-Jul-13
Belcher (Eric D)	D	7,500	Sale	$10.99	$82,425.00	4	15-Jul-13
Belcher (Eric D)	D	-7,500	Conversion	$0.65	-$4,875.00	4	15-Jul-13
Belcher (Eric D)	D	7,500	Sale	$10.50	$78,750.00	4	16-Aug-13
Belcher (Eric D)	D	-8,288	Conversion	$0.65	-$5,387.20	4	16-Aug-13
Belcher (Eric D)	D	7,500	Sale	$10.39	$77,925.00	4	19-Aug-13
Belcher (Eric D)	D	-7,500	Conversion	$0.65	-$4,875.00	4	19-Aug-13
Belcher (Eric D)	D	7,500	Sale	$11.03	$82,725.00	4	9-Sep-13
Belcher (Eric D)	D	-8,288	Conversion	$0.65	-$5,387.20	4	9-Sep-13
Belcher (Eric D)	D	7,500	Sale	$11.01	$82,575.00	4	10-Sep-13
Belcher (Eric D)	D	-7,500	Conversion	$0.65	-$4,875.00	4	10-Sep-13
TOTAL		**150,000**			**$1,818,743.10**		

Post Class Period (November 7, 2013 to July 1, 2014)

Filer Name	Direct Indirect	Number of Shares	Transaction Type	Price	Transaction Value	Filing Type	Transaction Date
Belcher (Eric D)	D	4,707	Exercise	$8.27	$38,926.89	4	10-Mar-14
Belcher (Eric D)	D	7,479	Exercise	$7.96	$59,532.84	4	15-Mar-14
Belcher (Eric D)	D	4,172	Exercise	$7.07	$29,496.04	4	23-Jun-14
Belcher (Eric D)	D	-83,165	Acquisition	$0.00	$0.00	4	13-Jun-14
TOTAL					**$127,955.77**		

237. Under the Company's stock ownership guidelines, Belcher was required to "hold stock with a value equal to four times annual base salary." Fraudulently inflated stock thus bolstered Belcher's net worth.

238. Belcher and Busky also profited from meeting bonus targets based on the same growth strategies about which they had misled the market: revenue growth, middle market growth, and international expansion.

239. The Company's April 26, 2013 proxy states:

> The 2012 management bonus award opportunities were based on the following criteria: 40% on Adjusted EBITDA performance (100% pay-out based on reaching Adjusted EBITDA of $48.6 million), *40% on revenue growth* (100% pay-out on reaching $780.0 million) and 20% based on qualitative Company performance, which *includes goals such as client retention rate of 98% or higher*, *growing the middle market segment*, *international expansion* and improved ROIC results).
>
> ***
>
> Based on the Compensation Committee's assessment of the qualitative Company performance factors listed above, the Compensation Committee awarded the named executive officers a *payout of approximately 100% of the target established* for the qualitative component of the annual incentive award for the named executive officers of the Company.

240. The Company's April 24, 2014 proxy states:

> The 2013 management bonus award opportunities were based on the following criteria: 40% on Adjusted EBITDA performance (50% to 200% pay-out based on reaching 90% to 110% of target Adjusted EBITDA of $58.3 million), *40% on revenue growth* (50% to 200% pay-out based on reaching 90% to 110% of target revenue of $940 million) and 20% based on qualitative Company performance, which includes goals such as *client retention, middle market growth, international expansion* and improved ROIC results).
>
> ***
>
> Based on the Compensation Committee's assessment of the qualitative Company performance factors listed above, the Compensation Committee awarded the named executive officers a *payout of approximately 100% of the*

> *target established* for the qualitative component of the annual incentive award for the named executive officers of the Company.

241. The Individual Defendants' compensation for 2012 and 2013 is set forth below:

Name and Principal Position	Year	Salary ($)	Non-Equity Incentive Plan Compensation ($)	Option Awards ($)	Stock Awards ($)	All Other Compensation ($)	Total ($)
Eric D. Belcher, CEO and President	2013 2012	700,000 687,500	446,000 675,000	700,000 550,000	700,000 550,000	35,846 37,646	2,581,846 2,500,146
Joseph M. Busky, CFO	2013 2012	450,000 443,750	162,000 215,000	300,000 200,000	300,000 200,000	33,446 35,246	1,245,446 1,093,996

IX. CLASS ACTION ALLEGATIONS

242. Plymouth 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 purchasers of Innerworkings's securities between February 15, 2012 and November 6, 2013 inclusive and who were damaged when the truth about Innerworkings's inside sales business and Productions Graphics subsidiary was disclosed. 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.

243. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Innerworkings had more than 47 million shares of common stock outstanding that 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 hundreds or thousands of members in the proposed Class. 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.

244. 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.

245. Plymouth will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation.

246. 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 (or omissions) by Defendants to the investing public during the Class Period misrepresented (or omitted) to state material facts about Innerworkings's business, in particular the revenue growth prospects of its inside sales initiative and its Productions Graphics subsidiary, which was a main component of its European expansion and core enterprise business, as well as the Company's operations and management;

(c) whether the Defendants made their misstatements or misrepresentations with the required scienter; and

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

247. 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 make 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.

X. APPLICABILITY OF PRESUMPTION OF RELIANCE UNDER THE AFFILIATED UTE DOCTRINE, AND/OR, IN THE ALTERNATIVE, THE FRAUD ON THE MARKET DOCTRINE

248. Plaintiff is entitled to a presumption of reliance under *Affiliated Ute v. United States*, 406 U.S. 128 (1972), because the claims asserted herein against the Defendants are primarily predicated upon omissions of material fact which there was a duty to disclose.

249. Plaintiff is entitled to a presumption of reliance because, as more fully alleged above, the Defendants failed to disclose material information regarding the inside sales expansion and Productions Graphics's performance.

250. Alternatively, Plaintiff is entitled to a presumption of reliance under the fraud on the market doctrine of the Defendants' material misrepresentations and omissions, because at all relevant times, the market for Innerworkings's securities was an efficient market for the following reasons, among others:

(a) Innerworkings's stock 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 was eligible to file SEC Form S-1) and the NASDAQ;

(c) Innerworkings regularly communicated with public investors via established market communication mechanisms, including through regular disseminations 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

(d) Innerworkings was followed by numerous investor research services that published publicly available reports, as well as by several securities analysts (including Kevin M. Steinke, CFA, and Gary Prestopino, CFA, at Barrington Research; George Sutton and Jason Kreyer at Craig Hallum Capital Group; Randy L. Hugen at Feltl and Company; Youssef H. Squali, Naved Khan, and Sachin Khattar, CFA, at Jefferies & Company, Inc.; Bill Sutherland at Northland Capital; Matthew Kempler at Sidoti & Company, LLC; and Nate Brochmann, CFA, Diana Rashkow and Dave Brinkman, CFA, at William Blair & Company, L.L.C.) at major brokerage firms who wrote reports that 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.

251. 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 stock 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.

XI. NO SAFE HARBOR

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

Complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, 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. Further, most of the identified false and misleading statements and omissions herein are not forward looking statements, but are statements of current and historic fact regarding Innerworkings's practices.

253. To the extent that any of the false and misleading statements identified herein are mixed statements of current fact and forward looking projection, the portion of those statements relating to current fact are not protected by the safe harbor.

254. Alternatively, to the extent that the statutory safe harbor does 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 particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Innerworkings who knew that those statements were false when made.

XII. <u>LOSS CAUSATION/ECONOMIC LOSS</u>

255. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the damages suffered by Lead Plaintiff and the Class.

256. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct which artificially inflated the price of Innerworkings's securities by misrepresenting, or failing to disclose that (1) the inside sales expansion was a failure, with poorly qualified and inexperienced recruits and poor financial performance; (2) Defendants knew, or were reckless in not knowing, that a material weakness in

internal controls existed in Productions Graphics's financial reporting; and (3) Defendants conceived and directed an earn-out funded fake-invoicing scheme to artificially inflate Productions Graphics's revenues.

257. The truth about the Company's inside sales division and Productions Graphics subsidiary was fully and finally disclosed in a press release and earnings call after the market closed on November 6, 2013, in which Defendants announced (1) lower than expected revenues due to missed enterprise revenue forecast and underperformance by the Productions Graphics subsidiary, (2) underperformance by inside sales and a 50% reduction in inside sales personnel; and (3) drastically reduced earnings guidance as a result. In response, Innerworkings's stock price plummeted *40.57%* in a single day on unusually heavy trading volume, with 8,902,700 shares traded compared with an average daily trading volume over the Class Period of 275,949 shares.

COUNT I

Violation Of Section 10(b) Of The Exchange Act And Rule 10b-5(b) Promulgated Thereunder Against All Defendants

258. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

259. During the Class Period, 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 regarding Innerworkings's business, operations, management and the intrinsic value of Innerworkings's securities; and (ii) cause Plaintiff and other members of the Class to purchase securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

260. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) 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. All Defendants are sued as primary participants in the wrongful and illegal conduct charged herein.

261. 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 inside sales division and Productions Graphics subsidiary, as specified herein.

262. The 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 omitting to state material facts necessary in order to make the statements made about Innerworkings's business, inside sales division, and Productions Graphics subsidiary in the 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 Innerworkings's securities during the Class Period.

263. Each of the Individual Defendants' primary 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 his responsibilities and activities as a senior officer 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 or recklessly disregarded was materially false and misleading, or failed to disclose material information that made those statements false and misleading.

264. The Defendants had actual knowledge of the misrepresentations and 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. Defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing the true condition of Innerworkings's business, inside sales division, and Productions Graphics subsidiary from the investing public and supporting the artificially inflated price of the Company's securities. As demonstrated by Defendants' misstatements of the Company's business, inside sales division, and Productions Graphics subsidiary throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and 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.

265. As a result of the dissemination of the materially false and misleading information and 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 price of Innerworkings's securities was artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or recklessly disregarded by Defendants but not disclosed in public statements by 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 when the value of their securities declined upon disclosure of the truth about Defendants' false and misleading statements and omissions.

266. At the time of said misrepresentations and 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 Innerworkings's business, inside sales division, and Productions Graphics subsidiary, which were not disclosed by Defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their Innerworkings's 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.

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

268. 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.

COUNT II

Violation Of Section 10(b) Of The Exchange Act And Rule 10b-5(a) and (c) Promulgated Thereunder Against All Defendants

269. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

270. This Count is brought solely and exclusively under the provisions of Rule 10b-5(a) and (c). Accordingly, Plaintiff need not allege in this Count nor prove in this case that any of the Defendants made any misrepresentations or omissions of material fact for which they may also be liable under Rule 10b-5(b) and/or any other provisions of law.

271. During the Class Period, Defendants carried out a common plan, scheme, and unlawful course of conduct that was intended to, and did: (i) deceive the investing public, including Plaintiff and the Class; (ii) artificially inflate the market price of Innerworkings's securities; and (iii) cause Plaintiff to purchase Innerworkings's securities at artificially inflated prices.

272. In furtherance of this unlawful plan, scheme and course of conduct, Defendants employed devices, schemes and artifices to defraud, and knowingly and/or recklessly engaged in acts, transactions, practices, and courses of business that operated as a fraud and deceit upon Plaintiff and the Class in connection with their purchases of Innerworkings's securities, in violation of Section 10(b) of the Exchange Act and Rule 10b-5(a) and (c) promulgated thereunder.

273. Defendants' fraudulent devices, schemes, artifices and deceptive acts, practices, and course of business included the knowing and/or reckless suppression and concealment of information regarding Innerworkings's business, inside sales division, and Productions Graphics subsidiary.

274. Plaintiff and the Class reasonably relied upon the integrity of the market in which Innerworkings's securities traded.

275. During the Class Period, Plaintiff and the Class were unaware of Defendants' fraudulent scheme and unlawful course of conduct. Had Plaintiff and the Class known of Defendants' unlawful scheme and unlawful course of conduct, they would not have purchased Innerworkings's securities, or if they had, would not have done so at the artificially inflated prices paid for such securities.

276. As a direct and proximate result of Defendants' scheme to defraud and such unlawful course of conduct, Plaintiff and the Class suffered damages in connection with their purchases of Innerworkings's securities during the Class Period.

277. By reason of the foregoing, Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5(a) and (c) promulgated thereunder, and are liable to Plaintiff and the Class for damages suffered in connection with their purchases of Innerworkings's securities during the Class Period.

COUNT III

Violation Of Section 20(a) Of The Exchange Act Against the Individual Defendants

278. Lead Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

279. 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 core operations and/or intimate knowledge of the false statements filed by the Company with the SEC and otherwise 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 regarding Innerworkings's business, inside sales division, and Productions Graphics subsidiary 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.

280. In particular, each of the Individual 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.

281. As set forth above, Innerworkings violated Section 10(b) and Rule 10b-5 by its acts and 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 control persons of Innerworkings, the primary violator. As a direct and proximate result of the Individual 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.

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

(a) Determining that this action is a proper class action and certifying Plymouth and State-Boston as class representatives under Rule 23 of the Federal Rules of Civil Procedure and Labaton Sucharow LLP as Lead Counsel;

(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: July 28, 2014

LABATON SUCHAROW LLP

By: *__/s/ Jonathan Gardner________________*
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Liaison Counsel for the Class

CERTIFICATE OF SERVICE

I, Jonathan Gardner, certify that on this 28th day of July, 2014, I electronically filed this Amended Class Action Complaint with the Clerk of the U.S. District Court using the CM/ECF system which will be sent electronically to the registered participants as identified on the Notice of Electronic Filing.

s/ Jonathan Gardner
Jonathan Gardner

Mailing Information for a Case 1:14-cv-01416
Van Noppen v. InnerWorkings, Inc. et al

I. Electronic Mail Notice List

The following are those who are currently on the list to receive e-mail notices for this case.

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II. Manual Notice List

The following is the list of attorneys who are **not** on the list to receive e-mail notices for this case (who therefore require manual noticing). You may wish to use your mouse to select and copy this list into your word processing program in order to create notices or labels for these recipients.

(No manual recipients)