

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-32442

**inuvo**

**INUVO, INC.**

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

87-0450450

(I.R.S. Employer Identification No.)

500 President Clinton Ave., Suite 300, Little Rock, AR

(Address of principal executive offices)

72201

(Zip Code)

Registrant's telephone number, including area code (501) 205-8508

Securities registered under Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock

NYSE MKT

Securities registered under Section 12(g) of the Act:

None  
(Title of class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of the outstanding common stock, other than shares held by persons who may be deemed affiliates of the registrant, computed by reference to the closing sales price for the registrant's common stock on June 30, 2015 (the last business day of the registrant's most recently completed second quarter), as reported on the NYSE MKT, was approximately \$62.9 million.

As of January 29, 2016, there were 24,375,881 shares of common stock of the registrant outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement for the 2016 Annual Meeting of Stockholders, to be filed within 120 days of the year ended December 31, 2015, are hereby incorporated by reference in Part III of this Annual Report on Form 10-K.

## TABLE OF CONTENTS

|                                                                                                                       | <u>Page No.</u>    |
|-----------------------------------------------------------------------------------------------------------------------|--------------------|
| <b>Part I</b>                                                                                                         |                    |
| Item 1. Business.                                                                                                     | <a href="#">4</a>  |
| Item 1A. Risk Factors.                                                                                                | <a href="#">7</a>  |
| Item 1B. Unresolved Staff Comments.                                                                                   | <a href="#">11</a> |
| Item 2. Properties.                                                                                                   | <a href="#">11</a> |
| Item 3. Legal Proceedings.                                                                                            | <a href="#">11</a> |
| Item 4. Mine Safety Disclosures.                                                                                      | <a href="#">12</a> |
| <b>Part II</b>                                                                                                        |                    |
| Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities. | <a href="#">12</a> |
| Item 6. Selected Financial Data.                                                                                      | <a href="#">12</a> |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.                         | <a href="#">13</a> |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk.                                                  | <a href="#">17</a> |
| Item 8. Financial Statements and Supplementary Data.                                                                  | <a href="#">17</a> |
| Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.                         | <a href="#">17</a> |
| Item 9A. Controls and Procedures.                                                                                     | <a href="#">17</a> |
| Item 9B. Other Information.                                                                                           | <a href="#">18</a> |
| <b>Part III</b>                                                                                                       |                    |
| Item 10. Directors, Executive Officers and Corporate Governance.                                                      | <a href="#">19</a> |
| Item 11. Executive Compensation.                                                                                      | <a href="#">19</a> |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.              | <a href="#">19</a> |
| Item 13. Certain Relationships and Related Transactions, and Director Independence.                                   | <a href="#">19</a> |
| Item 14. Principal Accounting Fees and Services.                                                                      | <a href="#">19</a> |
| <b>Part IV</b>                                                                                                        |                    |
| Item 15. Exhibits, Financial Statement Schedules.                                                                     | <a href="#">20</a> |

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "will," "should," "intend," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue," or the negative of such terms or other comparable terminology. This report includes, among others, statements regarding our:

- material dependence on our relationships with Yahoo! and Google;
- dependence on our financing arrangements with Bridge Bank, N.A. which is collateralized by our assets;
- covenants and restrictions in our grant agreement with the state of Arkansas;
- dependence of our Partner Network segment on relationships with distribution partners, and on the introduction of new products and services, which require significant investment;
- dependence of our Owned and Operated Network segment on our ability to effectively market and attract traffic;
- ability to acquire traffic through other search engines;
- lack of control over content and functionality of advertisements we display from third-party networks;
- need to keep pace with technology changes;
- fluctuations of quarterly earnings and the trading price of our common stock;
- vulnerability to interruptions of services;
- dependence on third-party providers;
- dependence on key personnel;
- vulnerability to regulatory and legal uncertainties;
- need to protect our intellectual property;
- vulnerability to publishers who could fabricate clicks;
- history of losses;
- dilutive impact to our stockholders from outstanding restricted stock grants, warrants and options; and
- seasonality of our business.

These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this report in its entirety, including the risks described in Item 1A - Risk Factors appearing in this report.

Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

## OTHER PERTINENT INFORMATION

Unless specifically set forth to the contrary, when used in this report the terms "Inuvo," the "Company," "we," "us," "our" and similar terms refer to Inuvo, Inc., a Nevada corporation, and its subsidiaries. When used in this report, "2014" means the fiscal year ended December 31, 2014, "2015" means the fiscal year ended December 31, 2015, and "2016" means the fiscal year ending December 31, 2016. The information which appears on our corporate web site at [www.inuvo.com](http://www.inuvo.com) is not part of this report.

## PART I

### ITEM 1. BUSINESS.

#### Company Overview

Inuvo, Inc. is an internet advertising technology and digital publishing company incorporated in the state of Nevada. Our corporate office is located in Little Rock, Arkansas. Our common stock is listed on the NYSE MKT under the symbol "INUV."

We develop technology to deliver content and targeted advertisements over the internet. We generate revenue when an end user clicks on the advertisements we delivered. We manage our business as two segments, the Partner Network and the Owned and Operated Network. In 2015 and 2014, Partner Network represented 43% and 52% of our revenue and the Owned and Operated Network 57% and 48%, respectively.

The Partner Network delivers advertisements to our partners' owned or managed websites and applications on desktop, tablet and mobile devices. We generate revenue in this segment when an advertisement we serve is clicked. At that time, we share a portion of the revenue we collect from the advertiser with the publishing partner where the click originated. Our proprietary technology platform allows for targeted distribution of advertisements at a scale that measures in the hundreds of millions of advertisements delivered monthly.

The Owned and Operated Network designs, builds and markets consumer websites and applications. This segment consists of our mobile-ready ALOT websites and acquired web properties. The focus is on providing engaging content to our users. The majority of revenue generated by this segment is derived from clicks on advertisements delivered through web searches and advertisements displayed on the websites.

We have taken several significant steps to position our business for long-term success including investments in ad serving technology, the development of adaptive, native advertising technology, the creation of proprietary content, the expansion of publishers within the Partner Network, the continued expansion of direct relationships with advertisers, and the optimization of overhead and operational costs all of which we expect will improve revenue and profitability. Our ALOT-branded websites and applications have a broad appeal focusing on popular topics such as health, local search, finance, careers, travel, living and education. These sites are content rich, searchable, mobile-ready web properties. We plan to continue the expansion of our website and mobile application business by expanding the ALOT brand and acquiring websites. In 2015, we launched our proprietary native advertising solution for web publishers and application developers, "SearchLinks"<sup>®</sup>. This is our entry product in the fast growing native advertising marketplace where ad copy seamlessly integrates with the content of the host website or application. SearchLinks was made available to the marketplace in the third quarter of 2015. We expect it to be a contributor to growth in 2016.

#### Products and Services

We deliver content and targeted advertisements to internet users, described as follows.

##### *Partner Network*

The Partner Network provides advertising services to businesses and owners of websites and applications interested in an advertising revenue stream for their desktop, tablet or mobile properties.

- ValidClick: A proprietary software as a service platform that helps owners of websites and mobile applications monetize their properties. It offers a pay-per-click solution where advertisements are targeted to consumers based on content and behaviors. We are able to provide ValidClick users with access to hundreds of thousands of advertisers.
- MYAP: A proprietary online affiliate management solution that provides advertisers with the ability to sign up, manage and track the activities of publishers through a privately-branded platform with full data transparency. Typically, each advertising customer is supported by a customized software implementation.

##### *Owned and Operated Network*

We own and operate consumer-facing internet sites and apps under the ALOT brand as well as under other brands we acquire. During 2012, we launched a local directory listing service at local.alot.com. During 2013, 2014, and 2015, we expanded our portfolio by launching content-rich, mobile-ready sites at health.alot.com, finance.alot.com careers.alot.com, travel.alot.com,

living.alot.com, education.alot.com, search.alot.com and re-launching the alot.com home site. We generate revenue on these sites from advertising.

## **Key Relationships**

We maintain long-standing relationships with Yahoo! and Google that provide access to hundreds of thousands of advertisers from which the revenue we generate originates. When an advertisement within either our Partner Network or Owned and Operated Network is clicked, we effectively sell that click to these partners who then sell it to the advertisers. We maintain multi-year service contracts with both companies. We renewed the Google agreement effective February 1, 2015 and the Yahoo! agreement, which was automatically renewed in April 2015 for a one year term, was extended until July 2016. In 2015, these two customers accounted for 98.0% of our total revenue.

Because our primary customers have significant influence in the marketplace, they will from time to time implement policy changes that impact our ability to display ads within our networks. Such changes may cause significant volatility in our revenue and earnings. The loss of either of these customers would have a material adverse effect on our business.

In addition to our key customer relationships, in the Partner Network we maintain important distribution relationships with owners and publishers of websites and mobile applications. Through our relationship with Yahoo! we provide these partners with advertisements through which they monetize their websites and mobile applications. We continuously monitor our partners' traffic with a variety of proprietary and patent protected software tools that can determine the quality of the traffic that is viewing and clicking on served advertisements.

## **Strategy**

We believe we have a competitive advantage due to owning three essential components of the end-to-end digital advertising ecosystem. *Content:* Virtually all the content we display on our sites is owned and developed by us. Our in-house team of writers and marketers develop material that attracts traffic to our internet properties. *Marketing:* The marketing of web properties is a sophisticated, data-driven, statistical endeavor that requires expert analysts and statisticians as well as experienced marketing professionals. We believe our team is among the best in the industry. *Technology:* We have state-of-the-art ad serving technology developed over the past ten years by our expert team of IT professionals. The technology assures instant ad serving of targeted ads which we believe yields high returns on investment, or ROIs, for publishers and more sales for advertisers. Owning these three assets gives us better control over our business and higher margins as we do not have the expense of outsourcing.

Our Partner Network strategy has been to develop new advertising technology and expand our network of partners while maintaining the highest quality ad-clicks in the industry. We plan to continue this strategy into 2016 with a principal focus around the mobile channel. We plan to achieve our objectives by offering innovative ad units that we first develop on our Owned and Operated Network and then make available to our partners. We believe our ad units provide competitive monetization and superior targeting, particularly our native ad solution, SearchLinks.

During 2015, we continued to expand our Owned and Operated Network, launching new ALOT-branded websites and significantly expanding the quantity and quality of content. We expanded our content team that generates our proprietary content that can be utilized and reused in a number of owned properties and applications. We plan to continue this strategy into 2016. These websites are all mobile ready and designed to deliver engaging content to our users. We also acquired two websites that further expanded our growth strategy within the Owned and Operated segment.

## **Sales and Marketing**

We drive general awareness of our brands through various marketing channels including our websites, social media, blogs, public relations, trade shows, conferences and similar means. Marketing for our products differs by segment.

The Partner Network employs sales professionals that build and maintain relationships with advertisers and partners. Owners and publishers of websites and mobile applications are recruited into our network, serving as a delivery vehicle for the advertisements within this segment.

The Owned and Operated Network uses various marketing and optimization techniques to drive traffic and build awareness for the sites, engaging with various direct and indirect advertisers whose offers are placed on the sites and within the apps.

## **Competition**

We face significant competition in our industry. Competitors are increasing their suite of offerings across marketing channels as a means to better compete for total advertising dollars.

A significant number of our competitors in both segments have greater name recognition and are better capitalized than we are. Our ability to remain competitive in our market segment depends upon our ability to be innovative and to efficiently provide unique solutions to our customers and vendors. There are no assurances we will be able to remain competitive in our markets in the future.

### *Partner Network*

Success in the Partner Network is dependent on recruiting and retaining owners and publishers of websites and mobile applications who display our advertisements. We believe our proprietary software platform, the ability to quickly implement and provide new services, and the access to thousands of advertisements are significant advantages for us in building our partner base. Our competitors include companies with direct access to advertisers, such as Yahoo! and Google, Criteo SA, Blucora, Inc. and a number of companies like ours with access to advertisers. Our partners face few barriers to switching advertising technology providers, so to compete effectively we must offer a better service than our competitors with a competitive rate of return for our partners.

### *Owned and Operated Network*

Consumers have many choices in online content, and we believe that our success in the Owned and Operated Network is directly tied to our ability to provide easy access to valuable content and market it effectively. Our experience in search engine marketing and the creation of proprietary content helps us compete in this segment. We have many direct competitors, including Google, Yahoo!, WebMD LLC, Internet Brands, Inc., Demand Media, Inc. and others, all of which offer online media or entertainment through websites, mobile apps or software products.

## **Technology Platforms**

Our proprietary applications are constructed from established, readily available technologies. Some of the basic components our products are built on components from leading software and hardware providers such as Oracle, Microsoft, Sun, Dell, EMC, and Cisco, while some components are constructed from leading Open Source software projects such as Apache Web Server, MySQL, Java, Perl, and Linux. By seeking to strike the proper balance between using commercially available software and Open Source software, our technology expenditures are directed toward maintaining our technology platforms while minimizing third-party technology supplier costs.

We strive to build high-performance, availability and reliability into our product offerings. We safeguard against the potential for service interruptions at our third-party technology vendors by engineering controls into our critical components. We deliver our hosted solutions from facilities, geographically disbursed throughout the United States. Our applications are monitored 24 hours a day, 365 days a year by specialized monitoring systems that aggregate alarms to a human-staffed network operations center. If a problem occurs, appropriate engineers are notified and corrective action is taken.

## **Intellectual Property Rights**

We currently rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Our success depends on the protection of the proprietary aspects of our technology as well as our ability to operate without infringing on the proprietary rights of others. We also enter into proprietary information and confidentiality agreements with our employees, consultants and commercial partners and control access to, and distribution of, our software documentation and other proprietary information. We have registered a number of trademarks including ValidClick®, ValidClick AdExchange®, MyAP®, Second Bite®, KowalBunga®, Inuvo®, Zubican™, LocalXML™, Yellowwise™ and trade and service registrations related to our products or services, including U.S. Federal Registration for ALOT® in the United States.

As of the date of this report we own two patents issued by the United States Patent and Trademark Office and have applied for a provisional patent to protect the technology that drives the SearchLinks process and algorithms.

"System and Method for Enabling Information Associations" which was issued on April 1, 2008, and the expiration date of which as determined based on patent term adjustment as calculated by the U.S. Patent and Trademark Office ("USPTO") is

September 11, 2021. "Method for Preventing Real Time Click Fraud Detection, Prevention and Reporting for Online Advertising" which was issued on November 27, 2012, and the expiration date of which is January 22, 2030, as determined based on patent term adjustment as calculated by the USPTO. The applied for SearchLinks provisional patent relates to pairing relevant advertisements with established web page content and more particularly to processing page content and retrieving relevant advertisements based on optimal comparisons and scoring criteria.

Although patents are only one component of the protection of intellectual property rights, if our patent applications are challenged, it may result in increased competition and the development of products substantially similar to our own. In addition, it is difficult to monitor unauthorized use of technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States, and our competitors may independently develop technology similar to our own. We will continue to assess appropriate occasions for seeking patent and other intellectual property protections for those aspects of our technology that we believe constitute innovations providing significant competitive advantages.

In addition to [www.inuvo.com](http://www.inuvo.com), we own multiple domain names that we may or may not operate in the future. However, as with phone numbers, we do not have and cannot acquire any property rights in an Internet address. The regulation of domain names in the United States and in other countries is also subject to change. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we might not be able to maintain our domain names or obtain comparable domain names, which could harm our business.

### **Employees**

As of January 31, 2016, we had 52 full-time employees, none of which are covered by a collective bargaining agreement.

### **Seasonality**

Our future results of operations may be subject to fluctuation as a result of seasonality. Historically, in the later part of the fourth quarter and the earlier part of the first quarter we experience lower Revenue Per Click ("RPC") due to a decline in demand for inventory on websites and apps and the recalibrating of advertiser's marketing budgets after the holiday selling season. If we are not able to appropriately adjust to seasonal or other factors, it could have a material adverse effect on our financial results.

### **History**

We were incorporated under the laws of the state of Nevada in October 1987 and operated within the oil and gas industry. This endeavor was not profitable, and from 1993 to 1997 we had essentially no operations. In 1997 we reorganized and through 2006 we acquired a number of companies involved in advertising and internet marketing. In 2009, following the weakness in the economy, a new team was called in to assess the array of businesses that had been acquired in the preceding years and as a result between 2009 and 2011, we sold or retired eleven businesses.

In March 2012, we acquired Vertro, Inc. ("Vertro"), which owns and operates the ALOT product portfolio. This acquisition included the ALOT brand and the Appbar product, as well as a long-standing relationship with Google.

### **More Information**

Our web site address is [www.inuvo.com](http://www.inuvo.com). We file with, or furnish to, the Securities and Exchange Commission (the "SEC") annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, as well as various other information. This information can be found on the SEC website at [www.sec.gov](http://www.sec.gov). In addition, we make available free of charge through the Investor Relations page of our web site our annual reports, quarterly reports, and current reports, and all amendments to any of those reports, as soon as reasonably practicable after providing such reports to the SEC.

### **ITEM 1A. RISK FACTORS.**

An investment in our common stock involves a significant degree of risk. You should not invest in our common stock unless you can afford to lose your entire investment. You should consider carefully the following risk factors and other information in this report before deciding to invest in our common stock. If any of the following risks and uncertainties develops into actual events, our business, financial condition or results of operations could be materially adversely affected and you could lose your entire investment in our company.

***We rely on two customers for a significant portion of our revenues.*** We are reliant upon Yahoo! and Google for most of our revenue. During 2015 they accounted for 64.8% and 33.2% of our revenues, respectively, and during 2014 they accounted for 53.5% and 43.8%, respectively. The amount of revenue we receive from these customers is dependent on a number of factors outside of our control, including the amount they charge for advertisements, the depth of advertisements available from them, and their ability to display relevant ads in response to our end-user queries.

We would likely experience a significant decline in revenue and our business operations could be significantly harmed if these customers do not approve our new websites and applications, or if we violate their guidelines or they change their guidelines. In addition, if any of these preceding circumstances were to occur, we may not be able to find a suitable alternate paid search results provider or otherwise replace the lost revenues. The loss of either of these customers or a material change in the revenue or gross profit they generate would have a material adverse impact on our business, results of operations and financial condition in future periods.

***We are dependent upon relationships with and the success of our distribution partners.*** Our distribution partners are very important to the success of the Partner Network segment. We must recruit and maintain partners who are able to drive traffic successfully to their websites and mobile applications, resulting in clicks on advertisements we have delivered. These partners may experience difficulty in attracting and maintaining users for a number of reasons, including competition, rapidly changing markets and technology, industry consolidation and changing consumer preferences. Further, we may not be able to further develop and maintain relationships with distribution partners. They may be able to make their own deals directly with advertisers, may view us as competitors or may find our competitors offerings more desirable. Any of these potential events could have a material adverse effect on our business, financial position and results of operations.

***The success of our Owned and Operated Network business is dependent on our ability to acquire traffic in a profitable manner.*** The Owned and Operated Network operates our ALOT-branded websites. This segment is dependent on our ability to attract traffic to our sites in a profitable manner. We use a predictive model to calculate the rate of return for marketing campaigns, which includes estimates and assumptions. If these estimates and assumptions are not accurate, we may not be able to effectively manage our marketing decisions and could acquire traffic in an unprofitable manner. In addition, we may not be able to maintain and grow our traffic for a number of reasons, including, but not limited to, acceptance of our websites by consumers, the availability of advertising to promote our websites, competition, and sufficiency of capital to purchase advertising. If we are unable to maintain and grow traffic to our sites in a profitable manner, it could have a material adverse effect on our business, financial condition, and results of operations.

***A significant portion of the traffic to our websites is acquired from other search engines, and the loss of the ability to acquire traffic could have a material adverse effect on our financial results.*** We advertise on search engine websites to drive traffic to our owned and operated websites. Our keyword advertising is done primarily with Google, but also with Yahoo! and Bing. If we are unable to advertise on these websites, or the cost to advertise on these websites increases, our financial results will suffer.

***We frequently introduce new products and services requiring significant investment, and such initiatives may not meet expectations in terms of viability, success or profitability.*** Initiatives such as our current initiative to launch new ALOT-branded owned and operated websites require significant financial investment. These investments include key personnel, technology infrastructure, marketing costs and others. We cannot assure you these initiatives will generate significant revenue or be profitable. If our initiatives do not meet our expectations, it could have a material adverse effect on our financial position and results of operations.

***We deliver advertisements to users from third-party ad networks which exposes our users to content and functionality over which we do not have ultimate control.*** We display pay-per-click, banner, cost per acquisition, and other forms of advertisements to users that come from third-party ad networks. We do not control the content and functionality of such third-party advertisements and, while we provide guidelines as to what types of advertisements are acceptable, there can be no assurance that such advertisements will not contain content or functionality that is harmful to users. Our inability to monitor and control what types of advertisements get displayed to users could have a material adverse effect on our business, financial condition and results of operations.

***Our business must keep pace with rapid technological change to remain competitive.*** Our business operates in a market characterized by rapidly changing technology, evolving industry standards, frequent new product and service announcements, enhancements, and changing customer demands. We must adapt to rapidly changing technologies and industry standards and continually improve the speed, performance, features, ease of use and reliability of our services. This includes making our products and services compatible and maintaining compatibility with multiple operating systems, desktop and mobile devices, and evolving network infrastructure. If we fail to do this, our results of operations and financial position could be adversely

affected.

***Our quarterly operating results can be difficult to predict and can fluctuate substantially, which could result in volatility in the price of our common stock.*** Our quarterly revenues and other operating results have varied in the past and are likely to continue to vary significantly from quarter to quarter. Our agreements with distribution partners and key customers do not require minimum levels of usage or payments, and our revenues therefore fluctuate based on the actual usage of our service each quarter by existing and new distribution partners. Quarterly fluctuations in our operating results also might be due to numerous other factors, including:

- our ability to attract new distribution partners, including the length of our sales cycles, or to sell increased usage of our service to existing distribution partners;
- technical difficulties or interruptions in our services;
- changes in privacy protection and other governmental regulations applicable to the our industry;
- changes in our pricing policies or the pricing policies of our competitors;
- the financial condition and business success of our distribution partners;
- purchasing and budgeting cycles of our distribution partners;
- acquisitions of businesses and products by us or our competitors;
- competition, including entry into the market by new competitors or new offerings by existing competitors;
- discounts offered to advertisers by upstream advertising networks;
- our history of litigation;
- our ability to hire, train and retain sufficient sales, client management and other personnel;
- timing of development, introduction and market acceptance of new services or service enhancements by us or our competitors;
- concentration of marketing expenses for activities such as trade shows and advertising campaigns;
- expenses related to any new or expanded data centers;
- and
- general economic and financial market conditions.

***Our services may be interrupted if we experience problems with our network infrastructure.*** The performance of our network infrastructure is critical to our business and reputation. Because our services are delivered solely through the internet, our network infrastructure could be disrupted by a number of factors, including, but not limited to:

- unexpected increases in usage of our services;
- computer viruses and other security issues;
- interruption or other loss of connectivity provided by third-party internet service providers;
- natural disasters or other catastrophic events;
- and
- server failures or other hardware problems.

While we have data centers in multiple, geographically dispersed locations and active back-up and disaster recovery plans, we cannot assure you that serious interruptions will not occur in the future. If our services were to be interrupted, it could cause loss of users, customers and business partners, which could have a material adverse effect on our results of operations and financial position.

***Failure to comply with the covenants and restrictions in our credit facility could impact our ability to access capital as needed.*** We have a credit facility with Bridge Bank, N.A. ("Bridge Bank") under which we had zero in debt outstanding as of December 31, 2015. The credit facility contains a number of covenants that requires us and certain of our subsidiaries to, among other things,;

- pay fees to the lender associated with the credit facility;
- meet prescribed financial covenants;
- maintain our corporate existence in good standing;
- grant the lender a security interest in our assets;
- provide financial information to the lender;

and

- refrain from any transfer of any of our business or property, subject to customary exceptions.

We have historically had difficulties meeting the financial covenants set forth in our credit agreement. Our lender has given us waivers in the past and reset our financial covenants several times. In the event of a breach of our covenants we cannot provide any assurance that our lender would provide a waiver or reset our covenants. A breach in our covenants could result in a default under the credit facility, and in such event Bridge Bank could elect to declare all borrowings outstanding, if any, to be due and payable. If this occurs and we have outstanding obligations and are not able to repay, Bridge Bank could require us to apply all

of our available cash to repay the debt amounts and could then proceed against the underlying collateral. Should this occur, we cannot assure you that our assets would be sufficient to repay our debt in full, we would be able to borrow sufficient funds to refinance the debt, or that we would be able to obtain a waiver to cure any such default. In such an event, our ability to conduct our business as it is currently conducted would be in jeopardy.

***Failure to comply with the covenants and restrictions in our grant agreement with the State of Arkansas could result in the repayment of a portion of the grant, which we may not be able to repay or finance on favorable terms.*** In January 2013, we entered into an agreement with the State of Arkansas whereby we were granted \$1,750,000 for the relocation of the Company to Arkansas and for the purchase of equipment. The grant was contingent upon us having at least 50 full-time equivalent permanent positions within four years, maintaining at least 50 full-time equivalent permanent positions for the following six years and paying those positions an average total compensation of \$90,000 per year. As of December 31, 2015, the grant required we have 42 employees located in Arkansas and on December 31, 2015 we had 45 employees located in Arkansas.

If we fail to meet the requirements of the grant after the initial four year period, we may be required to repay a portion of the grant, up to but not to exceed the full amount of the grant. Should this occur, we cannot assure you that our assets would be sufficient to repay our grant in full, we would be able to borrow sufficient funds to refinance the grant, or that we would be able to obtain a waiver to cure any such default. In such an event, our ability to conduct our business as it is currently conducted would be in jeopardy.

***We depend on key personnel, the loss of whom could harm our business.*** Our success depends in part on the retention of personnel critical to our business operations. Loss of key personnel may result in disruption of operations, loss of key business relationships or expertise, additional recruiting and training costs, and diminished anticipated benefits of acquisitions. Our future success is substantially dependent on the continued service of our key senior management. We have experienced difficulty from time to time in attracting or retaining the personnel necessary to support the growth of our business, and we may experience similar difficulties in the future.

***Regulatory and legal uncertainties could harm our business.*** While there are currently relatively few laws or regulations directly applicable to internet-based commerce or commercial search activity, there is increasing awareness of such activity and interest from state and federal lawmakers in regulating these services. New regulation of activities in which we are involved or the extension of existing laws and regulations to internet-based services could have a material adverse effect on our business, results of operations and financial position.

***Failure to comply with federal, state and international privacy laws and regulations, or the expansion of current or the enactment of new privacy laws or regulations, could adversely affect our business.*** A variety of federal, state and international laws and regulations govern the collection, use, retention, sharing and security of consumer data. The existing privacy-related laws and regulations are evolving and subject to potentially differing interpretations. In addition, various federal, state and foreign legislative and regulatory bodies may expand current or enact new laws regarding privacy matters. For example, recently there have been Congressional hearings and increased attention to the capture and use of location-based information relating to users of smartphones and other mobile devices. We have posted privacy policies and practices concerning the collection, use and disclosure of subscriber data on our websites and applications. Several Internet companies have incurred penalties for failing to abide by the representations made in their privacy policies and practices. In addition, several states have adopted legislation that requires businesses to implement and maintain reasonable security procedures and practices to protect sensitive personal information and to provide notice to consumers in the event of a security breach. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, FTC requirements or orders or other federal, state or international privacy or consumer protection-related laws, regulations or industry self-regulatory principles could result in claims, proceedings or actions against us by governmental entities or others or other liabilities, which could adversely affect our business.

***We may face third party intellectual property infringement claims that could be costly to defend and result in the loss of significant rights.*** From time to time third parties have asserted infringement claims against us including copyright, trademark and patent infringement, among other things. While we believe that we have defenses to these types of claims under appropriate trademark laws, we may not prevail in our defenses to any intellectual property infringement claims. In addition, we may not be adequately insured for any judgments awarded in connection with any litigation. Any such claims and resulting litigation could subject us to significant liability for damages or result in the invalidation of our proprietary rights, which would have a material adverse effect on our business, financial condition, and results of operations. Even if we were to prevail, these claims could be time-consuming, expensive to defend, and could result in the diversion of management's time and attention.

***We are subject to risks from publishers who could fabricate clicks either manually or technologically.*** Our business involves the establishment of relationships with website owners and publishers. In exchange for their consumer traffic, we provide an advertising placement service and share a portion of the revenue we collect with that website publisher. Although we have click

fraud detection software in place, we cannot guarantee that we will identify all fraudulent clicks or be able to recover funds distributed for fabricated clicks. This risk could materially impact our ability to borrow, our cash flow and the stability of our business.

***We have a history of losses and there are no assurances that we can consistently generate net income.*** Although we generated net income in 2015 and 2014, we have a history of net losses that have resulted in an accumulated deficit of \$116,748,778 as of December 31, 2015. We cannot provide assurance that we can consistently generate a net income.

***Significant dilution will occur if outstanding warrants and options are exercised or restricted stock unit grants vest.*** As of December 31, 2015, we had warrants and stock options outstanding to purchase a total of 1,099,620 shares with exercise prices ranging from \$0.56 to \$16.01 per share, with a weighted average exercise price of \$2.74. We also had 1,229,769 restricted stock units outstanding. If outstanding warrants and stock options are exercised or restricted stock units vest, dilution will occur to our stockholders, which may be significant. See Note 2 to the financial statements for more details.

***Our business is seasonal and our financial results may vary significantly from period to period.*** Our future results of operations may vary significantly from quarter to quarter and year to year because of numerous factors, including seasonality. Historically, in the later part of the fourth quarter and the earlier part of the first quarter we experience lower Revenue Per Click (“RPC”) due to a decline in demand for inventory on website and app space and the recalibrating of advertiser’s marketing budgets after the holiday selling season. If we are not able to appropriately adjust to seasonal or other factors, it could have a material adverse effect on our financial results.

***A downturn or uncertainty in global economic conditions may have a significant negative effect on our access to credit and our ability to raise capital and may impact our business, operating results or financial condition.*** A future downturn or uncertainty in global economic conditions, may result in significant reductions in, and heightened credit quality standards for, available capital and liquidity from banks and other providers of credit and substantial reductions and/or fluctuations in equity and currency values worldwide, which may make it difficult for us to raise additional capital or obtain additional credit, when needed, on acceptable terms or at all. Moreover, deteriorated economic conditions, or the threat of a prolonged recessionary period, may cause disruptions and volatility in global financial markets, increased rates of default and bankruptcy and have a negative impact on the levels of consumer spending. These macroeconomic developments could negatively affect our business, operating results or financial condition in a number of ways. For example, current or potential customers, such as advertisers, may delay or decrease spending with us or may not pay us or may delay paying us for previously performed services. In addition, if consumer spending decreases, this may result in fewer clicks on our advertisers’ ads displayed on our Owned and Operated Network websites or our Partner Network websites.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

Not applicable to a smaller reporting company.

#### **ITEM 2. PROPERTIES.**

In November 2015, we relocated our corporate headquarters from Conway, Arkansas to Little Rock, Arkansas entering into a five year agreement to lease office space in Little Rock, Arkansas commencing October 1, 2015, to serve as our headquarters. The new lease is for 12,245 square feet and will cost approximately \$171,000 during its first year. Thereafter, the lease payment will increase by 2%. We vacated the Conway, Arkansas premises November 30, 2015. Leases for our former offices in Conway, Arkansas and New York, New York expired in November 2015 and January 2016, respectively.

In addition to our office space, we maintain data center operations in third-party collocation facilities in Little Rock, AR and San Jose, CA.

#### **ITEM 3. LEGAL PROCEEDINGS.**

From time to time we may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. In addition, we are currently involved in the following litigation which is not incidental to its business:

*Oltean, et al. v. Think Partnership, Inc.; Edmonton, Alberta CA.* On March 6, 2008, Kelly Oltean, Mike Baldock and Terry Schultz, former employees, filed a breach of employment claim against Inuvo in The Court of Queen's Bench of Alberta, Judicial District of Edmonton, Canada, claiming damages for wrongful dismissal in the amount of \$200,000 for each of Kelly Oltean and Terry Schultz and \$187,500 for Mike Baldock. On March 6, 2008, the same three plaintiffs filed a similar statement of claim against Vintacom Acquisition Company, ULC, a subsidiary of Inuvo, again for wrongful dismissal and claiming the

same damages. In October 2009, the two actions were consolidated. The case is in the discovery stage and there has not been any progress in the litigation since April 2013 and Inuvo has been holding this matter in abeyance pending the Plaintiffs taking the next step in the litigation process.

**ITEM 4. Mine Safety Disclosures.**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Our common stock is listed on the NYSE MKT under the symbol "INUV." The following table sets forth the reported high and low last sale prices for our common stock for the following periods.

|                                      | <u>High</u> | <u>Low</u> |
|--------------------------------------|-------------|------------|
| <i>Year Ended December 31, 2015:</i> |             |            |
| First Quarter                        | \$ 2.14     | \$ 1.04    |
| Second Quarter                       | \$ 3.57     | \$ 1.81    |
| Third Quarter                        | \$ 3.29     | \$ 2.19    |
| Fourth Quarter                       | \$ 3.25     | \$ 2.55    |
| <i>Year Ended December 31, 2014</i>  |             |            |
| First Quarter                        | \$ 1.63     | \$ 0.75    |
| Second Quarter                       | \$ 1.03     | \$ 0.63    |
| Third Quarter                        | \$ 1.76     | \$ 0.81    |
| Fourth Quarter                       | \$ 1.60     | \$ 1.12    |

As of January 29, 2016, the last reported sale price of the common stock on NYSE MKT was \$2.35 and there were approximately 403 stockholders of record of our common stock.

**Dividends**

We have not declared or paid cash dividends on our common stock since our inception. Under Nevada law, we are prohibited from paying dividends if the distribution would result in our company not being able to pay its debts as they become due in the normal course of business if our total assets would be less than the sum of our total liabilities plus the amount that would be needed to pay the dividends, or if we were to be dissolved at the time of distribution to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution. Our board of directors has complete discretion on whether to pay dividends. Even if our board of directors decides to pay dividends, the form, the frequency, and the amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. While our board of directors will make any future decisions regarding dividends, as circumstances surrounding us change, it currently does not anticipate that we will pay any cash dividends in the foreseeable future.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

**Recent Sales of Unregistered Securities**

None.

**ITEM 6. SELECTED FINANCIAL DATA.**

Not applicable to a smaller reporting company.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Company Overview**

Inuvo, Inc. is an internet advertising technology and digital publishing company.

We develop technology to deliver content and targeted advertisements over the internet. We generate revenue when an end user clicks on the advertisements we delivered. We manage our business as two segments, the Partner Network and the Owned and Operated Network.

The Partner Network delivers advertisements to our partners' owned or managed websites and applications on desktop, tablet and mobile devices. We generate revenue in this segment when an advertisement we serve is clicked. At that time, we share a portion of the revenue we collect from the advertiser with the publishing partner where the click originated. Our proprietary technology platform allows for targeted distribution of advertisements at a scale that measures in the hundreds of millions of advertisements delivered monthly.

The Owned and Operated Network designs, builds and markets consumer websites and applications. This segment consists of our mobile-ready ALOT websites and acquired web properties. The focus is on providing engaging content to our users. The majority of revenue generated by this segment is derived from clicks on advertisements delivered through web searches and advertisements displayed on the websites.

We have taken several significant steps to position our business for long-term success including investments in ad serving technology, the development of adaptive, native advertising technology, the creation of proprietary content, the expansion of publishers within the Partner Network, the continued expansion of direct relationships with advertisers, and the optimization of overhead and operational costs all of which we expect will improve revenue and profitability. Our ALOT-branded websites and applications have a broad appeal focusing on popular topics such as health, local search, finance, careers, travel, living and education. These sites are content rich, searchable, mobile-ready web properties. We plan to continue the expansion of our website and mobile application business by expanding the ALOT brand and acquiring websites. In 2015, we launched our proprietary native advertising solution for web publishers and application developers, "SearchLinks"®. This is our entry product in the fast growing native advertising marketplace where ad copy seamlessly integrates with the content of the host website or application. SearchLinks was made available to the marketplace in the third quarter of 2015. We expect it to be a contributor to growth in 2016.

### **2015 Overview**

2015 was a year of very significant growth for Inuvo. Over the prior year, revenue grew 42%, net income grew 11%, and all bank debt was extinguished at December 31, 2015. Among the steps we have taken are:

- launching a native advertising solution, SearchLinks,
- acquiring two additional websites,
- expanding the ALOT.com brand introducing an education site,
- renewing agreements with both Google and Yahoo!, and
- relocating to larger, more centrally located corporate facilities in Little Rock.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reported periods. The more critical accounting estimates include estimates related to revenue recognition and accounts receivable allowances. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results, which are described in Note 2 to our audited financial statements for 2015 and 2014 appearing elsewhere in this report.

## Results of Operations

### Net Revenue

|                            | For the Years Ended December 31, |               |               |          |
|----------------------------|----------------------------------|---------------|---------------|----------|
|                            | 2015                             | 2014          | Change        | % Change |
| Partner Network            | \$ 30,298,532                    | \$ 25,686,241 | \$ 4,612,291  | 18.0%    |
| Owned and Operated Network | 40,139,584                       | 23,913,245    | 16,226,339    | 67.9%    |
| Total net revenue          | \$ 70,438,116                    | \$ 49,599,486 | \$ 20,838,630 | 42.0%    |

Net revenue increased 42% in the year ended December 31, 2015 to \$70.4 million compared to \$50 million in the year ended December 31, 2014. Both segments saw an increase with the Partner Network increasing 18% to \$30.3 million and the Owned and Operated Network increasing 68% to \$40.1 million.

The Partner Network, which represents 43% of our total net revenue, delivers advertisements to our partners' websites and applications. Revenue in this segment is both a function of the total number of transactions processed through the ValidClick platform and the revenue we receive per transaction. The higher revenue in this segment is from increased advertisements delivered to desktop and mobile devices as well as the deployment of new advertising solutions, such as SearchLinks. The higher revenue is partially offset by revenue from sites acquired by the Company from a partner in the first half of 2015 and is now accounted for in the Owned and Operated Network. We intend to continue to monetize our Partner Network by growing our network of partner websites and applications and continued deployment and improvement of our current products, including SearchLinks.

The Owned and Operated Network represents 57% of our total net revenue, generating revenue through our consumer-facing ALOT branded websites and applications and through acquired websites. Our ALOT web properties include ALOT Health, ALOT Finance, ALOT Careers, ALOT Local, ALOT Travel, ALOT Living and ALOT Education. These websites are content-rich and optimized for mobile and desktop devices, and are designed to capitalize on a growing consumer demand for content, delivered both on the desktop and on mobile devices. The increased revenue in this segment is from additional advertisements served to a growing user base of our owned and operated web properties. The increase in advertisements served and users was due in part to (i) increased marketing of our owned and operated web properties, (ii) expanded verticals and content, and (iii) beginning in March 2015, the acquisition of a former Partner Network site. We intend to continue to expand our Owned and Operated Network by enhancing our current websites and mobile applications, launching additional mobile applications under the ALOT brand, expanding the content of the ALOT sites and acquiring additional websites.

### Cost of Revenue

|                            | For the Year Ended December 31, |               |              |          |
|----------------------------|---------------------------------|---------------|--------------|----------|
|                            | 2015                            | 2014          | Change       | % Change |
| Partner Network            | \$ 23,652,942                   | \$ 20,231,340 | \$ 3,421,602 | 16.9%    |
| Owned and Operated Network | 69,054                          | 193,221       | (124,167)    | (64.3%)  |
| Cost of revenue            | \$ 23,721,996                   | \$ 20,424,561 | \$ 3,297,435 | 16.1%    |

Cost of revenue in the Partner Network is generated by payments to website and application publishers who host our advertisements. The increase in cost of revenue is directly associated with higher contractual payments to publishers.

The decrease in cost of revenue in the Owned and Operated Network was driven primarily by the transition away from the ALOT Appbar product. Other cost of revenue in this segment consists of charges for web searches and content acquisition.

## Operating Expenses

|                                     | For the Year Ended December 31, |               |               |          |
|-------------------------------------|---------------------------------|---------------|---------------|----------|
|                                     | 2015                            | 2014          | Change        | % Change |
| Marketing costs                     | \$ 34,324,646                   | \$ 17,450,199 | \$ 16,874,447 | 96.7%    |
| Compensation                        | 5,598,804                       | 4,830,505     | 768,299       | 15.9%    |
| Selling, general and administrative | 4,645,697                       | 4,397,212     | 248,485       | 5.7%     |
| Operating expenses                  | \$ 44,569,147                   | \$ 26,677,916 | \$ 17,891,231 | 67.1%    |

Operating expenses increased in the twelve months ended December 31, 2015 as compared to the same period of the prior year as a result of higher marketing costs to launch and promote the new ALOT web properties, compensation expense and selling, general and administrative expenses.

Marketing costs include those expenses required to attract traffic to our owned and operated websites. Marketing costs increased in the twelve months ended December 31, 2015 as a result of the growth within the owned and operated website and application business. We expect marketing costs to continue to increase proportionally as we expand the ALOT branded websites and mobile applications and acquired sites.

Compensation expense increased 15.9 % in the twelve months ended December 31, 2015 to \$5.6 million as compared to the same period of 2014 due primarily to an increase in the number of employees. Our total employment, both full-time and part-time was 63 at December 31, 2015 compared to 53 at December 31, 2014. We expect compensation expense to increase in 2016 as we hire additional developers and sales personnel to support the SearchLinks product.

Selling, general and administrative costs were \$4.6 million, an increase of 5.7% over 2014. The primary reasons for the higher cost in the twelve months ended December 31, 2015 compared to the same period last year are approximately \$241,000 higher facilities cost; \$188,000 higher professional fees; \$66,000 higher travel and entertainment costs; \$58,000 higher amortization and depreciation expense; partially offset by \$281,000 lower corporate expenses. We expect selling, general and administrative costs to remain relatively flat in 2016.

## Interest Expense, net

Interest expense, net was \$141,311 and \$351,225 for the years ended December 31, 2015 and 2014, respectively. This is interest expense on the bank credit facility where average outstanding loan balances were significantly lower in 2015 compared to 2014.

## Income tax benefit

We recognized a tax benefit of approximately \$300,000 in 2015 compared to no tax expense or benefit in 2014. The net benefit in 2015 is due to settling a disputed income tax claim with the State of New Jersey in February 2015. The claim related to the 2007-2009 tax years and was settled for \$100,000. As a result, the remaining long-term taxes payable liability was adjusted and resulted in a one-time \$406,000 income tax benefit. The tax benefit in 2015 is partially offset by expense of approximately \$106,000 for state income tax.

## Income (loss) from Discontinued Operations

Certain of our subsidiaries previously operated in the European Union ("EU"). Though operations ceased in 2009, statutory requirements require a continued presence in the EU for varying terms until November 2015. Profits and losses generated from the remaining assets and liabilities are accounted for as discontinued operations.

Income (loss) from discontinued operations includes activity related to the remaining assets and liabilities of discontinued operations in the European Union. For the twelve months ended December 31, 2015, we recognized income from discontinued operations of \$33,969 due primarily to the adjustment of certain accrued liabilities originating in 2009 and earlier. For the twelve months ended December 31, 2014, we recognized a net loss of \$40,670, due primarily to an audit adjustment to accrue a

liability in the event that the UK Inland Revenue does not accept our method of transfer pricing within the affiliated companies partially offset by an adjustment of certain accrued liabilities originating in 2009 and earlier.

### **Liquidity and Capital Resources**

On September 29, 2014, we renewed our Business Financing Agreement with Bridge Bank, N.A. ("Bridge Bank") (see Note 6, "Notes Payable"). The renewal provided continued access to the revolving line of credit up to \$10 million through September 2016 and a new term loan of \$2 million through September 2017. As of December 31, 2015, the revolving line of credit had no outstanding balance and had approximately \$6.5 million in availability. As of December 31, 2015, the term loan had no outstanding balance.

In May 2015, we acquired websites from a publisher that had previously been a client on our ValidClick network. The purchase was structured as an earn-out payable in up to 500,000 shares of our common stock over a three year period dependent upon achieving certain minimum levels of volume. The fair value of the transaction was determined to be \$715,874. The transaction was recorded as an intangible asset on our balance sheet offset by a contingent liability of the same amount.

During the first quarter of 2014, we filed an S-3 registration statement with the Securities and Exchange Commission ("SEC") to replace the existing, expiring S-3 "shelf" registration statement, which permits us to offer and sell up to \$15 million of our securities from time to time in one or more offerings. To date, we have not taken down any sales from this shelf registration statement. Though we believe the revolving line of credit and cash generated by operations will provide sufficient cash for operations over the next twelve months, we may still elect to sell securities to the public or to selected investors, or borrow under the current or any replacement line of credit or other debt instruments in order to fund the development of our technologies, make acquisitions, pursue new business opportunities or grow existing businesses.

#### *Cash Flows - Operating*

Net cash provided by operating activities was \$6,106,272 during 2015. We produced net income of \$2,339,774, which included the non-cash expenses of depreciation and amortization of \$1,807,350 and stock-based compensation of \$707,544, partially offset by a reduction of an accrued state income tax liability of \$406,453. The change in operating assets and liabilities was a net provision of \$1,470,560 as a result of working capital management increasing accounts payable by \$4,545,906 partially offset by a \$2,001,613 increase in accounts receivable and unbilled revenue. Our terms are such that we generally collect receivables prior to paying trade payables. The increase in the accounts receivable balance was due to greater revenue in 2015 over 2014. The increase in the accounts payable balance in 2015 over 2014 was due to higher traffic acquisition costs in 2015.

During 2014, we generated cash from operating activities of \$3,943,793 and a net income of \$2,105,114, which included the non-cash expenses of depreciation and amortization of \$1,749,538 and stock-based compensation expenses of \$991,948. This provision of cash was partially offset by the change in operating assets and liabilities which was a use of cash of \$953,053. Accounts receivable and accounts payable were both affected by the higher revenue and related payouts in December 2014 as compared to December 2013.

#### *Cash Flows - Investing*

Net cash used in investing activities was \$1,525,888 and \$839,867 for 2015 and 2014, respectively. Cash used in investing activities in both years has primarily consisted of capitalized internal development costs.

#### *Cash Flows - Financing*

Net cash used in financing activities was \$4,037,705, during 2015. We had sufficient cash at December 31, 2015 to pay off the outstanding balance of the bank term loan and pay down the revolving credit facility to zero.

During 2014, we used \$2,526,554 net in financing activities primarily to pay down the outstanding balance on the bank credit facility.

## **Off Balance Sheet Arrangements**

As of December 31, 2015, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable to a smaller reporting company.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

Our consolidated financial statements begin on page F-1 at the end of this annual report.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES.**

### **Evaluation of Disclosure Controls and Procedures**

We maintain "disclosure controls and procedures" as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this report, is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and regulations, and to reasonably assure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management does not expect that our disclosure controls will prevent all errors and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of December 31, 2015, the end of the period covered by this report, our management concluded their evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. As of the evaluation date, our Chief Executive Officer and Chief Financial Officer concluded that we maintain disclosure controls and procedures that are effective in providing reasonable assurance that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and regulations, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

## Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Securities Exchange Act of 1934 Rule 13a-15(f). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*. Based upon this assessment, our management concluded that as of December 31, 2015 our internal control over financial reporting was effective.

### Changes in Internal Control over Financial Reporting

In May 2013, COSO issued an updated framework (the "2013 COSO Framework"). We have integrated the changes prescribed by the 2013 COSO Framework into our internal controls over financial reporting during 2014.

Except for these prescribed changes, there were no changes in our internal control over financial reporting identified in connection with our evaluation that occurred during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION.

### Compensatory Arrangements of Certain Executive Officers

On February 9, 2016, the Nominating, Corporate Governance and Compensation Committee of the Board of Directors, adopted the 2016 Management Incentive Program. The program established a cash incentive pool which may be awarded to executive officers and our employees, including our Chief Executive Officer Richard K. Howe, based on achieving certain revenue and net income levels as determined by our 2016 financial results. The program provides that the total incentive pool which may be available for distribution will be divided between our executive officers (75% in the aggregate) and other employees (25% in the aggregate), subject to their continued employment with our company. The percentage of pool participation by each of our individual executive officers is fixed by the program and the amount of individual awards to our employees, other than our executive officers, will be determined by Mr. Howe.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The information required by this Item will be contained in our proxy statement for our 2016 Annual Meeting of Shareholders to be filed on or prior to April 30, 2016 (the "Proxy Statement") and is incorporated herein by this reference or is included in Part I under "Executive Officers of the Company."

#### **ITEM 11. EXECUTIVE COMPENSATION.**

The information required by this item will be contained in our Proxy Statement and is incorporated herein by this reference.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information required by this item will be contained in our Proxy Statement and is incorporated herein by this reference.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

The information required by this item will be contained in our Proxy Statement and is incorporated herein by this reference.

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information required by this item will be contained in our Proxy Statement and is incorporated herein by this reference.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

#### 1. Financial Statements

The consolidated financial statements and Report of Independent Registered Accounting Firm are listed in the “Index to Financial Statements and Schedules” beginning on page F-1 and included on pages F-2 through F-20.

#### 2. Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the SEC are either not required under the related instructions, are not applicable (and therefore have been omitted), or the required disclosures are contained in the consolidated financial statements herein.

#### 3. Exhibits (including those incorporated by reference).

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>                                                                                                                                                                                                                                                              |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1                | Agreement and Plan of Merger dated June 5, 2009 between Inuvo, Inc. and Kowabunga! Inc. (Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2009.)                             |
| 2.2                | Agreement and Plan of Merger dated October 16, 2011 between Inuvo, Inc., Anhinga Merger Subsidiary, Inc. and Vertro, Inc. (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on October 17, 2011.)                                                         |
| 3(i).1             | Articles of Incorporation, as amended)Incorporated by reference and filed as an exhibit to the Registrant's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 1, 2004.)                                                                              |
| 3(i).2             | Amended to Articles of Incorporation filed March 14, 2005 (Incorporated by reference and filed as an exhibit to the Registrant's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2006.)                                                        |
| 3(i).3             | Articles of Merger between Inuvo, Inc. and Kowabunga! Inc. (Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2009.)                                                          |
| 3(i).4             | Certificate of Change Filed Pursuant to NRS 78.209 (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on September 30, 2010.)                                                                                                                              |
| 3(i).5             | Certificate of Merger as filed with the Secretary of State of Nevada on February 29, 2012 (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)                                                                                           |
| 3(i).6             | Articles of Amendment to Amended Articles of Incorporation as filed on February 29, 2012 (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)                                                                                            |
| 3(ii).1            | Amended and Restated By-Laws (Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2010.)                                                                                                               |
| 3(ii).2            | Bylaw amendment adopted February 29, 2012 (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)                                                                                                                                            |
| 4.1                | Form of warrant to purchase shares of Registrant for 2011 offering. (Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 22, 2011.)                                                 |
| 4.2                | Form of warrant to purchase 40,000 shares of common stock issued to Alliance Advisors, LLC (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)                                                                                          |
| 4.3                | Form of warrant to purchase 10,000 shares of common stock issued to Alliance Advisors, LLC (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)                                                                                          |
| 4.4                | Form of warrant to purchase 51,724 shares pursuant to the Second Business Financing Modification Agreement with Bridge Bank, National Association, dated October 11, 2012. (Incorporated by reference to Form 10-Q filed with the Securities and Exchange Commission on November 8, 2012.) |
| 10.1               | 2005 Long-Term Incentive Plan (Incorporated by reference to the Current Report on Form 8-K as filed on December 10, 2010.)                                                                                                                                                                 |
| 10.2               | 2015 Long Term Equity Incentive Program (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on July 29, 2015.)                                                                                                                                           |

- 10.3 Lease dated February 29, 2000 by and between Alot, Inc. (formerly Comet Systems, Inc.) and The Rector, Church-Wardens and Vestrymen of Trinity Church in New York, a religious corporation in the State of New York, including the previous amendment dated August 8, 2000. (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
- 10.4 Lease Modification and Extension Agreement by and between Alot, Inc.(formerly known as MIVA Direct, Inc.) and The Rector, Church-Wardens and Vestrymen of Trinity Church in New York, dated February 23, 2006. (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
- 10.5 Consent to Sublease with Trinity Church effective April 12, 2013 regarding the Company's New York office. (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on May 9, 2013).
- 10.6 Third Business Financing Modification Agreement, dated March 29, 2013, effective May 1, 2013, with Bridge Bank, National Association. (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on May 9, 2013).
- 10.7 Lease with First Orion Corp. effective March 1, 2013 regarding the Company's Conway, AR office. (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on May 9, 2013).
- 10.8 Amendment No. 8 to Yahoo! Publisher Network Contract effective as of September 1, 2013, executed and delivered October 10, 2013. (Incorporated by reference to Registrant's Amendment No. 1 to Quarterly Report on Form 10-Q as filed on January 17, 2014).
- 10.9 2010 Equity Compensation Plan (Incorporated by reference to the Registrant's definitive proxy statement on Schedule 14A as filed on April 30, 2010.)
- 10.10 Lease Agreement, dated April 8, 2015, with Arkansas Democrat-Gazette, Inc. (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on April 29, 2015.)
- 10.11 First Business Financing Modification Agreement with Bridge Bank, National Association, dated June 29, 2012. (Incorporated by reference to Form 10-Q filed with the Securities and Exchange Commission on August 9, 2012.)
- 10.12 Employment Agreement dated March 1, 2012 between Inuvo, Inc. and Richard K. Howe (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
- 10.13 Second Business Financing Modification Agreement with Bridge Bank, National Association, dated October 11, 2012. (Incorporated by reference to Form 10-Q filed with the Securities and Exchange Commission on November 8, 2012.)
- 10.14 Employment Agreement dated March 1, 2012 between Inuvo, Inc. and Wallace D. Ruiz (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
- 10.15 Employment Agreement dated March 1, 2012 between Inuvo, Inc. and John B. Pizaris (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
- 10.16 Amendment dated February 29, 2012 to 2010 Equity Compensation Plan (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
- 10.17 Business Financing Agreement, dated March 1, 2012, with Bridge Bank, National Association (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
- 10.18 Intellectual Property Security Agreement, dated March 1, 2012, between Inuvo, Inc. and Bridge Bank, National Association (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
- 10.19 Intellectual Property Security Agreement, dated March 1, 2012, between subsidiaries and Bridge Bank, National Association (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
- 10.20 Release Agreement dated December 19, 2012 by and between Peter A. Corrao and Inuvo, Inc. (Incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on December 19, 2012.)
- 10.21 Quick Action Closing Fund Grant Agreement, dated January 25, 2013, with the Arkansas Economic Development Commission. (Incorporated by reference to Form 10-K filed with the Securities and Exchange Commission on March 13, 2013).
- 10.22 Grant Reimbursement Agreement, dated January 25, 2013, with the Arkansas Economic Development Commission. (Incorporated by reference to Form 10-K filed with the Securities and Exchange Commission on March 13, 2013).
- 10.23 Google Services Agreement, effective February 1, 2015, with Google, Inc. (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on April 29, 2015.)
- 10.24 Amendment #11 to Yahoo! Publisher Network Contract, effective January 15, 2016, executed and delivered January 26, 2015.\*

|          |                                                                                                                                                                                                                      |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.25    | Yahoo! Publisher Network Contract, dated April 4, 2009, as amended. (Incorporated by reference to Amendment No. 1 to Form 10-Q filed with the Securities and Exchange Commission on December 28, 2012).              |
| 10.26    | Fourth Business Financing Modification Agreement, dated March 6th, 2014, with Bridge Bank, National Association. (Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2013). |
| 10.27    | Business Financing Modification Agreement, dated September 29, 2014 with Bridge Bank N.A. (Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended September 30, 2014)                   |
| 10.28    | Bridge Bank BFA Modification, dated October 9, 2014 (Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended September 30, 2014)                                                         |
| 21.1     | Subsidiaries of the Registrant (Incorporated by reference to Form 10-K filed with the Securities and Exchange Commission on March 13, 2013).*                                                                        |
| 23.1     | Consent of Mayer Hoffman McCann P.C.*                                                                                                                                                                                |
| 31.1     | Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer *                                                                                                                                                  |
| 31.2     | Rule 13a-14(a)/15d-14(a) certification of Chief Financial Officer *                                                                                                                                                  |
| 32.1     | Section 1350 certification of Chief Executive Officer *                                                                                                                                                              |
| 32.2     | Section 1350 certification of Chief Financial Officer *                                                                                                                                                              |
| 101.INS  | XBRL Instance Document *                                                                                                                                                                                             |
| 101.SCH  | XBRL Taxonomy Extension Schema Document                                                                                                                                                                              |
| 1010.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                |
| 101.DEF  | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                 |
| 101.LAB  | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                      |
| 101.PRE  | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                               |

\* filed herewith

## SIGNATURES

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

### Inuvo, Inc.

February 12, 2016

By: /s/ Wallace D. Ruiz  
Chief Financial Officer

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

| <u>Signature</u>                                  | <u>Title</u>                                                                                 | <u>Date</u>       |
|---------------------------------------------------|----------------------------------------------------------------------------------------------|-------------------|
| <u>/s/ Richard K. Howe</u><br>Richard K. Howe     | Chairman of the Board of Directors, Chief Executive Officer, and principal executive officer | February 12, 2016 |
| <u>/s/ Wallace D. Ruiz</u><br>Wallace D. Ruiz     | Chief Financial Officer, principal financial and accounting officer                          | February 12, 2016 |
| <u>/s/ William F. Conner</u><br>William F. Conner | Director                                                                                     | February 12, 2016 |
| <u>/s/ Charles D. Morgan</u><br>Charles D. Morgan | Director                                                                                     | February 12, 2016 |
| <u>/s/ Charles L. Pope</u><br>Charles L. Pope     | Director                                                                                     | February 12, 2016 |
| <u>/s/ Patrick Terrell</u><br>Patrick Terrell     | Director                                                                                     | February 12, 2016 |

**INUVO, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**  
**INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

|                                                         | <u>CONTENTS</u>     |
|---------------------------------------------------------|---------------------|
| Report of Independent Registered Public Accounting Firm | <a href="#">F-2</a> |
| Consolidated Financial Statements:                      |                     |
| Consolidated Balance Sheets                             | <a href="#">F-3</a> |
| Consolidated Statements of Income                       | <a href="#">F-4</a> |
| Consolidated Statements of Stockholders' Equity         | <a href="#">F-5</a> |
| Consolidated Statements of Cash Flows                   | <a href="#">F-6</a> |
| Notes to Consolidated Financial Statements              | <a href="#">F-7</a> |

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and  
Stockholders of Inuvo, Inc.

We have audited the accompanying consolidated balance sheets of Inuvo, Inc. (the "Company") as of December 31, 2015 and 2014 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2015. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on the test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inuvo, Inc. as of December 31, 2015 and 2014 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

/s/ Mayer Hoffman McCann P.C.

Clearwater, Florida

February 9, 2016

**Inuvo, Inc.**  
**Consolidated Balance Sheets**  
**For the Years Ended December 31,**

|                                                                                                                                                | <b>2015</b>          | <b>2014</b>          |
|------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>Assets</b>                                                                                                                                  |                      |                      |
| <b>Current assets</b>                                                                                                                          |                      |                      |
| Cash                                                                                                                                           | \$ 4,257,204         | \$ 3,714,525         |
| Accounts receivable, net of allowance for doubtful accounts of \$17,200 and \$86,722, respectively                                             | 7,001,337            | 5,106,300            |
| Unbilled revenue                                                                                                                               | 16,154               | 23,541               |
| Prepaid expenses and other current assets                                                                                                      | 345,752              | 299,873              |
| <b>Total current assets</b>                                                                                                                    | <b>11,620,447</b>    | <b>9,144,239</b>     |
| Property and equipment, net                                                                                                                    | 1,805,561            | 959,475              |
| <b>Other assets</b>                                                                                                                            |                      |                      |
| Goodwill                                                                                                                                       | 5,760,808            | 5,760,808            |
| Intangible assets, net of accumulated amortization                                                                                             | 9,320,951            | 9,530,322            |
| Other assets                                                                                                                                   | 224,759              | 211,833              |
| <b>Total other assets</b>                                                                                                                      | <b>15,306,518</b>    | <b>15,502,963</b>    |
| <b>Total assets</b>                                                                                                                            | <b>\$ 28,732,526</b> | <b>\$ 25,606,677</b> |
| <b>Liabilities and Stockholders' Equity</b>                                                                                                    |                      |                      |
| <b>Current liabilities</b>                                                                                                                     |                      |                      |
| Accounts payable                                                                                                                               | 10,080,315           | 5,714,158            |
| Accrued expenses and other current liabilities                                                                                                 | 3,169,445            | 3,704,464            |
| Term and credit notes payable - current portion                                                                                                | —                    | 959,942              |
| <b>Total current liabilities</b>                                                                                                               | <b>13,249,760</b>    | <b>10,378,564</b>    |
| <b>Long-term liabilities</b>                                                                                                                   |                      |                      |
| Deferred tax liability                                                                                                                         | 3,799,600            | 3,552,500            |
| Term and credit notes payable - long term                                                                                                      | —                    | 2,666,667            |
| Other long-term liabilities                                                                                                                    | 722,722              | 735,211              |
| <b>Total long-term liabilities</b>                                                                                                             | <b>4,522,322</b>     | <b>6,954,378</b>     |
| <b>Stockholders' equity</b>                                                                                                                    |                      |                      |
| Preferred stock, \$.001 par value:                                                                                                             |                      |                      |
| Authorized shares 500,000, none issued and outstanding                                                                                         | —                    | —                    |
| Common stock, \$.001 par value:                                                                                                                |                      |                      |
| Authorized shares 40,000,000; issued shares 24,752,408 and 24,087,627 respectively; outstanding shares 24,375,881 and 23,711,100, respectively | 24,752               | 24,087               |
| Additional paid-in capital                                                                                                                     | 129,081,029          | 128,734,759          |
| Accumulated deficit                                                                                                                            | (116,748,778)        | (119,088,552)        |
| Treasury stock, at cost - 376,527 shares                                                                                                       | (1,396,559)          | (1,396,559)          |
| <b>Total stockholders' equity</b>                                                                                                              | <b>10,960,444</b>    | <b>8,273,735</b>     |
| <b>Total liabilities and stockholders' equity</b>                                                                                              | <b>\$ 28,732,526</b> | <b>\$ 25,606,677</b> |

See accompanying report of independent registered public accounting firm and notes to the consolidated financial statements.

**Inuvo, Inc.**  
**Consolidated Statements of Income**

|                                                | <b>For the Years Ended December 31,</b> |               |
|------------------------------------------------|-----------------------------------------|---------------|
|                                                | <b>2015</b>                             | <b>2014</b>   |
| Net revenue                                    | \$ 70,438,116                           | \$ 49,599,486 |
| Cost of revenue                                | 23,721,996                              | 20,424,561    |
| Gross profit                                   | 46,716,120                              | 29,174,925    |
| Operating expenses                             |                                         |               |
| Marketing costs                                | 34,324,646                              | 17,450,199    |
| Compensation                                   | 5,598,804                               | 4,830,505     |
| Selling, general and administrative            | 4,645,697                               | 4,397,212     |
| Total operating expenses                       | 44,569,147                              | 26,677,916    |
| Operating income                               | 2,146,973                               | 2,497,009     |
| Interest expense, net                          | (141,311)                               | (351,225)     |
| Income from continuing operations before taxes | 2,005,662                               | 2,145,784     |
| Income tax benefit                             | 300,143                                 | —             |
| Net income from continuing operations          | 2,305,805                               | 2,145,784     |
| Net income (loss) from discontinued operations | 33,969                                  | (40,670)      |
| Net income                                     | 2,339,774                               | 2,105,114     |
| <b>Per common share data</b>                   |                                         |               |
| Basic and diluted                              |                                         |               |
| Net income from continuing operations          | \$ 0.10                                 | \$ 0.09       |
| Net income from discontinued operations        | —                                       | —             |
| Net income                                     | \$ 0.10                                 | \$ 0.09       |
| <b>Weighted average shares</b>                 |                                         |               |
| Basic                                          | 24,249,852                              | 23,527,872    |
| Diluted                                        | 24,539,555                              | 24,145,823    |

See accompanying report of independent registered public accounting firm and notes to the consolidated financial statements.

**Inuvo, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**For the Years Ended December 31, 2015 and 2014**

|                                                 | Common Stock |           | Additional Paid in<br>Capital | Accumulated<br>Deficit | Treasury Stock | Total         |
|-------------------------------------------------|--------------|-----------|-------------------------------|------------------------|----------------|---------------|
|                                                 | Shares       | Stock     |                               |                        |                |               |
| Balances as of December 31, 2013                | 23,386,780   | \$ 23,763 | \$ 127,908,328                | \$ (121,193,666)       | \$ (1,396,559) | \$ 5,341,866  |
| Net income                                      | —            | —         | —                             | 2,105,114              | —              | 2,105,114     |
| Stock-based compensation                        | —            | —         | 991,948                       | —                      | —              | 991,948       |
| Stock issued for vested restricted stock awards | 324,320      | 324       | (324)                         | —                      | —              | —             |
| Taxes withheld on vested restricted stock       | —            | —         | (165,193)                     | —                      | —              | (165,193)     |
| Balances as of December 31, 2014                | 23,711,100   | \$ 24,087 | \$ 128,734,759                | \$ (119,088,552)       | \$ (1,396,559) | \$ 8,273,735  |
| Net income                                      | —            | —         | —                             | 2,339,774              | —              | 2,339,774     |
| Stock-based compensation                        | —            | —         | 707,544                       | —                      | —              | 707,544       |
| Stock issued for vested restricted stock awards | 664,781      | 665       | (110,192)                     | —                      | —              | (109,527)     |
| Taxes withheld on vested restricted stock       | —            | —         | (251,082)                     | —                      | —              | (251,082)     |
| Balances as of December 31, 2015                | 24,375,881   | \$ 24,752 | \$ 129,081,029                | \$ (116,748,778)       | \$ (1,396,559) | \$ 10,960,444 |

See accompanying report of independent registered public accounting firm and notes to the consolidated financial statements.

**Inuvo, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2015 and 2014**

|                                                                                          | <b>2015</b>         | <b>2014</b>         |
|------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Operating activities:</b>                                                             |                     |                     |
| Net income                                                                               | \$ 2,339,774        | \$ 2,105,114        |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                     |                     |
| Depreciation and amortization                                                            | 1,807,350           | 1,749,538           |
| Stock based compensation                                                                 | 707,544             | 991,948             |
| Deferred income taxes                                                                    | 233,480             | —                   |
| Amortization of financing fees                                                           | 19,804              | 28,863              |
| Settlement of tax liability                                                              | (406,453)           | —                   |
| Adjustment of European liabilities related to discontinued operations                    | (59,751)            | (2,494)             |
| Provision (Recovery) for doubtful accounts                                               | (6,036)             | 23,877              |
| <b>Change in operating assets and liabilities:</b>                                       |                     |                     |
| Accounts receivable and unbilled revenue                                                 | (2,001,613)         | (1,519,421)         |
| Prepaid expenses and other assets                                                        | (19,370)            | 306,017             |
| Accounts payable                                                                         | 4,545,906           | (518,881)           |
| Accrued expenses and other liabilities                                                   | (1,054,363)         | 944,425             |
| Other                                                                                    | —                   | (165,193)           |
| <b>Net cash provided by operating activities</b>                                         | <b>6,106,272</b>    | <b>3,943,793</b>    |
| <b>Investing activities:</b>                                                             |                     |                     |
| Purchases of equipment and capitalized development costs                                 | (1,525,888)         | (839,867)           |
| <b>Net cash used in investing activities</b>                                             | <b>(1,525,888)</b>  | <b>(839,867)</b>    |
| <b>Financing activities:</b>                                                             |                     |                     |
| Net taxes paid on RSU grants exercised                                                   | (360,608)           | —                   |
| Proceeds from term note                                                                  | —                   | 2,000,000           |
| Proceeds from revolving line of credit                                                   | 4,000,000           | 2,550,000           |
| Prepaid financing fees                                                                   | 25,600              | 43,895              |
| Payments on revolving line of credit                                                     | (5,793,275)         | (4,011,469)         |
| Payments on term note payable and capital leases                                         | (1,909,422)         | (3,108,980)         |
| <b>Net cash used in financing activities</b>                                             | <b>(4,037,705)</b>  | <b>(2,526,554)</b>  |
| <b>Net change – cash</b>                                                                 | <b>542,679</b>      | <b>577,372</b>      |
| <b>Cash, beginning of year</b>                                                           | <b>3,714,525</b>    | <b>3,137,153</b>    |
| <b>Cash, end of year</b>                                                                 | <b>\$ 4,257,204</b> | <b>\$ 3,714,525</b> |
| <b>Supplemental information:</b>                                                         |                     |                     |
| Interest paid                                                                            | \$ 122,136          | \$ 290,244          |
| Income taxes paid, net of refund                                                         | \$ 280,453          | \$ —                |
| Cash received from construction allowance                                                | \$ 200,000          | \$ —                |
| <b>Non-cash investing activities:</b>                                                    |                     |                     |
| Purchase of property and equipment under capital lease                                   | \$ 103,609          | \$ —                |
| Purchase of intangible assets through a contingent liability                             | \$ 715,874          | \$ —                |

See accompanying report of independent registered public accounting firm and notes to the consolidated financial statements.

**Inuvo, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2015 and 2014**

**Note 1 – Organization and Business**

**Company Overview**

Inuvo, Inc. is an internet advertising technology and digital publishing company.

We develop technology to deliver content and targeted advertisements over the internet. We generate revenue when an end user clicks on the advertisements we delivered. We manage our business as two segments, the Partner Network and the Owned and Operated Network.

The Partner Network delivers advertisements to our partners' owned or managed websites and applications on desktop, tablet and mobile devices. We generate revenue in this segment when an advertisement we serve is clicked. At that time, we share a portion of the revenue we collect from the advertiser with the publishing partner where the click originated. Our proprietary technology platform allows for targeted distribution of advertisements at a scale that measures in the hundreds of millions of advertisements delivered monthly.

The Owned and Operated Network designs, builds and markets consumer websites and applications. This segment consists of our mobile-ready ALOT websites and acquired web properties. The focus is on providing engaging content to our users. The majority of revenue generated by this segment is derived from clicks on advertisements delivered through web searches and advertisements displayed on the websites.

We have taken several significant steps to position our business for long-term success including investments in ad serving technology, the development of adaptive, native advertising technology, the creation of proprietary content, the expansion of publishers within the Partner Network, the continued expansion of direct relationships with advertisers, and the optimization of overhead and operational costs all of which we expect will improve revenue and profitability. Our ALOT-branded websites and applications have a broad appeal focusing on popular topics such as health, local search, finance, careers, travel, living and education. These sites are content rich, searchable, mobile-ready web properties. We plan to continue the expansion of our website and mobile application business by expanding the ALOT brand and acquiring websites. In 2015, we launched our proprietary native advertising solution for web publishers and application developers, "SearchLinks"®. This is our entry product in the fast growing native advertising marketplace where ad copy seamlessly integrates with the content of the host website or application. SearchLinks was made available to the marketplace in the third quarter of 2015. We expect it to be a contributor to growth in 2016.

*Liquidity*

On September 29, 2014, we renewed our Business Financing Agreement with Bridge Bank, N.A. ("Bridge Bank") (see Note 6, "Notes Payable"). The renewal provided continued access to the revolving line of credit up to \$10 million through September 2016 and a new term loan of \$2 million through September 2017. As of December 31, 2015, the balance of both the term loan and the revolving line of credit was zero. The revolving line of credit had approximately \$6.5 million in availability at December 31, 2015. During the first quarter of 2014, we filed an S-3 registration statement with the Securities and Exchange Commission ("SEC") to replace the existing, expiring S-3 "shelf" registration statement. Though we believe the revolving line of credit and cash generated by operations will provide sufficient cash for operations over the next twelve months, we may still elect to sell stock to the public or to selected investors, or borrow under the current or any replacement line of credit or other debt instruments in order to fund the development of our technologies, make acquisitions, pursue new business opportunities or grow existing businesses.

**Note 2 – Summary of Significant Accounting Policies**

**Basis of presentation** - The consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

**Cash and cash equivalents** - Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

Revenue recognition - We recognize revenue in accordance with *Accounting Standards Codification ("ASC") ASC 605-10 Revenue Recognition-General*. We recognize revenue when the following criteria have been met: persuasive evidence of an arrangement exists, the fees are fixed and determinable, no significant obligations remain and collection of the related receivable is reasonably assured.

Most of our revenue is generated through clicks on advertisements presented on our properties or those of our partners. We recognize revenue from clicks in the period in which the click occurs. Payments to partners who display advertisements on our behalf are recognized as cost of revenue. Revenue from data sales and commissions is recognized in the period in which the transaction occurs and the other revenue recognition criteria are met.

Accounts receivable - Accounts receivable consists of trade receivables from customers. We record accounts receivable at its net realizable value, recognizing an allowance for doubtful accounts based on our best estimate of probable credit losses on our existing accounts receivable. Balances are written off against the allowance after all means of collection have been exhausted and the possibility of recovery is considered remote.

Marketing costs - Marketing costs include the purchase of sponsored listings from search engines and is our primary method of attracting consumers to our owned and operated applications and websites. We expense these costs as incurred and present them as a separate line item in operating expenses on the consolidated statements of income.

Property and equipment - Property and equipment are stated at cost, net of accumulated depreciation and amortization. Major renewals and improvements are capitalized while maintenance and repairs which do not improve or extend the life of the respective assets are expensed as incurred. Costs of assets sold or retired and the related accumulated depreciation are eliminated from accounts and the net gain or loss is reflected as an operating expense in the statements of income.

Property and equipment are depreciated on a straight-line basis over three years for equipment, five to seven years for furniture and fixtures and two to three years for software. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining term of the lease. Depreciation expense was \$882,105 and \$955,534, respectively, for the years ended December 31, 2015 and 2014.

Capitalized Software Costs - We capitalize certain costs related to internally developed software and amortize these costs using the straight-line method over the estimated useful life of the software, generally two years. We do not sell internally developed software. Certain development costs not meeting the criteria for capitalization, in accordance with *ASC 350-40 Internal-Use Software*, are expensed as incurred.

Goodwill - Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. In accordance with *ASC 350, Goodwill and Other Intangible Assets ("ASC 350")*, we test goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis or more frequently if we believe indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying value, including goodwill.

We generally determine the fair value of our reporting units using the income approach methodology of valuation that includes the undiscounted cash flow method as well as other generally accepted valuation methodologies. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill (See Note 5).

During 2015 and 2014, we elected to proceed directly to the two-step testing process. We determined there was no impairment of goodwill during 2015 and 2014.

See Note 5, Intangible Assets and Goodwill, for more information.

Intangible Assets - We allocate a portion of the purchase price of acquisitions to identifiable intangible assets and we amortize definite-lived assets over their estimated useful lives. We consider our indefinite-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

We amortize our identifiable intangible assets, which result from acquisitions accounted for under the purchase method of accounting, using the straight-line method over their estimated useful lives. Trade names are not amortized as they are believed to have an indefinite life. Trade names are reviewed annually for impairment under ASC 350.

As a result of our acquisition of Vertro, Inc. ("Vertro") in March 2012, we recognized an asset for the customer relationship with Google of \$8,820,000 and assigned it a useful life of 20 years. A primary reason for acquiring Vertro was its relationship with Google. Up to the time of the acquisition, we principally had access to the Yahoo! inventory of advertisements. Among the many valuable assets acquired in the Vertro transaction was this Google relationship and the access it provided to an enormous inventory of advertisements. In addition, we acquired the ALOT brand, whose products are monetized through Google and has historically produced a better margin than monetization through Yahoo!. In determining the useful life of this asset, we considered the strategic importance of Vertro's strong relationship with Google. Vertro and its predecessor company had contracts and successful renewals with Google that date back to 2006. The most recent renewal was February 1, 2015. We expect the relationship with Google to continue through the 20 year amortization period and beyond.

At the time of the Vertro acquisition, we engaged a third party valuation service to determine the fair value of the acquired assets. At the close of the 2015 and 2014 fiscal years, we again engaged a third party valuation service to reassess the fair value of the acquired assets.

From time to time, both search marketplaces, Google and Yahoo!, may implement policy or marketplace changes. In January 2013 Google requested changes to our agreement that impacted marketing programs for one of our ALOT products, the Appbar, the result of which was a decline in the number of product installs. Since acquiring the ALOT brand in the Vertro acquisition, we have materially expanded the brand into a number of additional owned and operated websites and applications. We expect products within the brand to ebb and flow as customer preferences change and Google adjusts its marketplace policies. At the close of 2013, we considered the Google change and decided to transition out of the Appbar product and replace it with web properties that we develop. At the close of 2014, we determined that the asset continued to be recoverable despite the impact to the Appbar product and our decision to transition away from it. We made this determination in part because during 2014 we completely replaced the revenue and margin from the Appbar product with other ALOT-branded and Google monetized products. Between websites and applications, we have launched more than 20 new ALOT-branded products in 2013, 2014 and 2015 and we expect to continue aggressively building out our Owned and Operated Network segment into the future.

In May 2015, we purchased two domain websites and recorded the purchase at \$715,874.

We recorded no impairment of intangible assets during 2015 or 2014.

See Note 5, Intangible Assets and Goodwill, for more information.

Income taxes - We utilize the liability method of accounting for income taxes as set forth in *ASC 740, Income Taxes* ("ASC 740"). Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, we must project future levels of taxable income, which requires significant judgment. We examine evidence related to the history of taxable losses or income, the economic conditions in which we operate, organizational characteristics, our forecasts and projections, as well as factors affecting liquidity. We believe it is more likely than not that essentially none of our deferred tax assets will be realized, and we have recorded a valuation allowance for the net deferred tax assets that may not be realized as of December 31, 2015 and 2014.

We have adopted certain provisions of ASC 740. This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. ASC 740 prescribes a recognition threshold of more likely than not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order to be recognized in the financial statements.

Impairment of long-lived assets - In accordance with *ASC 360, Property, Plant and Equipment*, long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the asset is measured by comparison of the carrying amount to future undiscounted cash flows the asset is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds the fair value.

Stock-based compensation - We value stock compensation based on the fair value recognition provisions *ASC 718, Compensation – Stock Compensation*, which establishes accounting for stock-based awards exchanged for employee services and requires companies to expense the estimated grant date fair value of stock awards over the requisite employee service period.

The fair value of restricted stock awards is based on the market price of our common stock on the date of the grant. To value stock option awards, we use the Black-Scholes-Merton option pricing model. This model involves assumptions including the expected life of the option, stock price volatility, risk-free interest rate, dividend yield and exercise price. We recognize compensation expense in earnings over the requisite service period, applying a forfeiture rate to account for expected forfeitures of awards.

See Note 10, Stock-Based Compensation, for further details on our stock awards.

Government Grant- During the first quarter of 2013, we received a grant from the state of Arkansas to relocate our corporate headquarters to Conway, AR. We recognize the grant funds into income as a reduction of the related expense in the period in which those expenses are recognized. We defer grant funds related to capitalized costs and classify them as current or long-term liabilities on the balance sheet according to the classification of the associated asset. Grant funds received are presented on the consolidated statements of cash flows as operating or investing cash flows depending on the classification of the underlying spend.

Treasury Stock - The cost method was used in recording the purchase of the treasury stock. Treasury stock changes as a result of common stock we acquire in the market.

Earnings per share - During the periods presented, we had securities that could potentially dilute basic earnings per share in the future.

For the year ended December 31, 2015, options to purchase 312,331 shares with a weighted average exercise price of \$4.51 per share and warrants to purchase 656,112 shares with a weighted average exercise price of \$2.45 per share were excluded from the diluted shares calculation for 2015 because their exercise price was higher than the average stock price for the period. In addition, restricted stock units totaling 971,055 shares with a weighted average grant date price of \$3.41 were also excluded because the effect of their inclusion would have been anti-dilutive.

For the year ended December 31, 2014, options to purchase 356,877 shares with a weighted average exercise price of \$6.06 per share and warrants to purchase 725,000 shares with a weighted average exercise price of \$2.15 per share were excluded from the diluted shares calculation for 2014 because their exercise price was higher than the average stock price for the period. In addition, restricted stock units totaling 409,029 shares with a weighted average grant date price of \$2.71 were also excluded because the effect of their inclusion would have been anti-dilutive.

Operating segments - *ASC 280, Segment Reporting*, requires disclosures of certain information about operating segments, products and services, geographic areas in which we operate, and their major customers. We have evaluated the effect of this standard and have determined that we currently operate in two segments, the Partner Network and the Owned and Operated Network. See Note 16 for additional segment information.

Concentration of credit risk - We are exposed to concentrations of risk primarily in cash and cash equivalents and accounts receivable, which are generally not collateralized. Our policy is to place our cash and cash equivalents with high credit quality financial institutions in order to limit the amount of credit exposure. We do not require collateral from our customers, but our credit extension and collection policies include monitoring payments and aggressively pursuing delinquent accounts. We maintain allowances for potential credit losses. At times, deposits may exceed FDIC limits.

Customer concentrations - At December 31, 2015, we had two individual customers with accounts receivable balances greater than 10% of the gross accounts receivable from continuing operations. These customers combined owed approximately 98.6% and 94.8% of our gross accounts receivable balance as of December 31, 2015 and 2014, respectively. The same two customers accounted for 98.0% and 97.3% of our revenue for the years ended December 31, 2015 and 2014, respectively.

Use of estimates - The preparation of financial statements, in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's regular evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements. We regularly evaluate estimates and assumptions related to allowances for returns and redemptions, allowances for doubtful accounts, goodwill and purchased intangible asset valuations, lives of intangible assets, deferred income tax asset valuation allowances, contingent liabilities, including the Arkansas grant contingency, and stock compensation. Actual results may differ from the estimates and assumptions used in preparing the accompanying consolidated financial statements, and such differences could be material.

**Litigation and settlement costs** - From time to time, we are involved in disputes, litigation and other legal actions. In accordance with ASC 450, *Contingencies*, we record a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred as of the date of the consolidated financial statements and (ii) the range of loss can be reasonably estimated. See Note 15 for additional information.

**Recent accounting pronouncements not yet adopted**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires management to recognize revenue when a customer obtains control rather than when we have transferred substantially all risks and rewards of a good or service and requires expanded disclosures. ASU 2014-09, as amended, is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted as of annual periods beginning after December 15, 2016. The adoption of ASU 2014-09 is not expected to have an impact on the Company's consolidated financial position or results of operations.

In November 2015, FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, to simplify the presentation of deferred income taxes. The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. The amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The adoption of ASU 2015-17 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

**Note 3 – Allowance for Doubtful Accounts**

The activity in the allowance for doubtful accounts was as follows during the years ended December 31, 2015 and 2014:

|                                      | <b>2015</b>      | <b>2014</b>      |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | \$ 86,722        | \$ 62,845        |
| Provision for bad debts              | (6,036)          | 34,000           |
| Charge-offs                          | (67,126)         | (10,123)         |
| Recoveries                           | 3,640            | —                |
| Balance at the end of the year       | <u>\$ 17,200</u> | <u>\$ 86,722</u> |

**Note 4– Property and Equipment**

The net carrying value of property and equipment at December 31, 2015 and 2014 was as follows:

|                                                 | <b>2015</b>          | <b>2014</b>          |
|-------------------------------------------------|----------------------|----------------------|
| Furniture and fixtures                          | \$ 230,637           | \$ 67,341            |
| Equipment                                       | 2,815,748            | 2,585,659            |
| Software                                        | 9,856,947            | 8,822,310            |
| Leasehold improvements                          | 436,311              | 66,903               |
| Subtotal                                        | <u>\$ 13,339,643</u> | <u>\$ 11,542,213</u> |
| Less: accumulated depreciation and amortization | (11,534,082)         | (10,582,738)         |
| Total                                           | <u>\$ 1,805,561</u>  | <u>\$ 959,475</u>    |

**Note 5 – Intangible Assets and Goodwill**

During 2015 and 2014, we evaluated our intangible assets and goodwill for impairment at the reporting unit level. We elected to omit the qualitative assessment of impairment factors and proceed directly to impairment testing with the assistance of a third-party valuation firm. No indication of impairment was noted.

The following is a schedule of intangible assets and goodwill from continuing operations as of December 31, 2015:

|                                           | Term       | Carrying Value | Accumulated Amortization and Impairment | Net Carrying Value | 2015 Amortization |
|-------------------------------------------|------------|----------------|-----------------------------------------|--------------------|-------------------|
| Names database (1)                        | 9 months   | \$ 17,417,397  | \$ (17,417,397)                         | \$ —               | \$ —              |
| Bundled downloads (1)                     | 4.5 months | 2,447,075      | (2,447,075)                             | —                  | —                 |
| Intangible assets classified as current   |            | \$ 19,864,472  | \$ (19,864,472)                         | \$ —               | \$ —              |
| Customer list, Google                     | 20 years   | \$ 8,820,000   | \$ (1,690,500)                          | \$ 7,129,500       | \$ 441,000        |
| Customer list, all other                  | 10 years   | 1,610,000      | (617,182)                               | 992,818            | 161,004           |
| Exclusivity agreement                     | 1 year     | 120,000        | (120,000)                               | —                  | —                 |
| Trade names, ALOT (2)                     | 5 years    | 960,000        | (736,000)                               | 224,000            | 192,000           |
| Domain websites (3)                       | 5 years    | 715,874        | (131,241)                               | 584,633            | 131,241           |
| Trade names, web properties (2)           | -          | 390,000        | —                                       | 390,000            | —                 |
| Intangible assets classified as long-term |            | \$ 12,615,874  | \$ (3,294,923)                          | \$ 9,320,951       | \$ 925,245        |
| Goodwill, Partner Network                 |            | \$ 1,776,544   | \$ —                                    | \$ 1,776,544       | \$ —              |
| Goodwill, Owned and Operated Network      |            | 3,984,264      | —                                       | 3,984,264          | —                 |
| Goodwill, total                           |            | \$ 5,760,808   | \$ —                                    | \$ 5,760,808       | \$ —              |

The following is a schedule of intangible assets and goodwill from continuing operations as of December 31, 2014:

|                                           | Term       | Carrying Value | Accumulated Amortization and Impairment | Net Carrying Value | 2014 Amortization |
|-------------------------------------------|------------|----------------|-----------------------------------------|--------------------|-------------------|
| Names database (1)                        | 9 months   | \$ 17,417,397  | \$ (17,417,397)                         | \$ —               | \$ —              |
| Bundled downloads (1)                     | 4.5 months | 2,447,075      | (2,447,075)                             | —                  | —                 |
| Intangible assets classified as current   |            | 19,864,472     | (19,864,472)                            | —                  | —                 |
| Customer list, Google                     | 20 years   | \$ 8,820,000   | \$ (1,249,500)                          | \$ 7,570,500       | \$ 441,000        |
| Customer list, all other                  | 10 years   | 1,610,000      | (456,178)                               | 1,153,822          | 161,004           |
| Exclusivity agreement                     | 1 year     | 120,000        | (120,000)                               | —                  | —                 |
| Trade names, ALOT (2)                     | 5 years    | 960,000        | (544,000)                               | 416,000            | 192,000           |
| Tradenames, web properties (2)            | -          | 390,000        | —                                       | 390,000            | —                 |
| Intangible assets classified as long-term |            | \$ 11,900,000  | \$ (2,369,678)                          | \$ 9,530,322       | \$ 794,004        |
| Goodwill, Partner Network                 |            | \$ 1,776,544   | \$ —                                    | \$ 1,776,544       | \$ —              |
| Goodwill, Owned and Operated Network      |            | 3,984,264      | —                                       | 3,984,264          | —                 |
| Goodwill, total                           |            | \$ 5,760,808   | \$ —                                    | \$ 5,760,808       | \$ —              |

- (1) The amortization of the names database and bundled downloads assets are included in cost of revenue.
- (2) We have determined ALOT trade name should be amortized over five years and the trade names related to our web properties have an indefinite life and as such are not amortized.
- (3) On May 8, 2015, we purchased two domain websites with a fair value of \$715,874. We determined they should be amortized over 5 years (see Note 8).

Our amortization expense over the next five years and thereafter is as follows:

|            |              |
|------------|--------------|
| 2016       | \$ 937,176   |
| 2017       | 777,176      |
| 2018       | 745,176      |
| 2019       | 745,176      |
| 2020       | 613,949      |
| Thereafter | \$ 5,112,298 |
| Total      | \$ 8,930,951 |

#### Note 6 - Notes Payable

The following table summarizes our notes payable balances as of December 31, 2015 and 2014:

|                                                                                                            | 2015 | 2014         |
|------------------------------------------------------------------------------------------------------------|------|--------------|
| Term note payable - 4.25 percent at December 31, 2015 (prime plus 1 percent), due September 10, 2017       | \$ — | \$ 1,833,334 |
| Revolving credit line - 3.75 percent at December 31, 2015 (prime plus 0.5 percent), due September 29, 2016 | —    | 1,793,275    |
| Total                                                                                                      | \$ — | \$ 3,626,609 |
| Less: current portion                                                                                      | —    | (959,942)    |
| Term and revolving credit line - long term portion                                                         | \$ — | \$ 2,666,667 |

On March 1, 2012 we entered into a Business Financing Agreement with Bridge Bank. The agreement provided us with a \$5 million term loan and access to a revolving credit line of up to \$10 million which we use to help satisfy our working capital needs. We have provided Bridge Bank with a first priority perfected security interest in all of our accounts and personal property as collateral for the credit facility. Available funds under the revolving credit line are 80% of eligible accounts

receivable balances plus \$1 million up to a limit of \$10 million. Eligible accounts receivable is generally defined as those from United States based customers that are not more than 90 days from the date of the invoice. We had approximately \$6.5 million as of December 31, 2015.

In September 2014, the Company entered into the Fifth Business Financing Modification Agreement with Bridge Bank that renewed the existing Agreement and modified some terms. The renewed agreement extended the revolving line of credit to September 2016 and provided for a new term loan of \$2 million through September 2017. As of December 31, 2015, we reduced the balance of the term loan and the revolving line of credit to zero. On October 9, 2014, the Agreement was amended to clarify the definition of the financial covenants. The financial covenants are Debt Service Coverage Ratio, measured monthly on a trailing three months basis, of not less than 1.75 to 1.0 for the August 2014 measuring period, and each monthly measuring period thereafter and an Asset Coverage Ratio, measured monthly, of not less than 1.25 to 1.0 for the month ended August 31, 2014 and September 30, 2014; 1.15 to 1.0 for the month ended October 31, 2014, November 30, 2014 and December 31, 2014, and 1.25 to 1.0 for the month ending January 31, 2015 and each month thereafter. We were in compliance with all bank covenants as of December 31, 2015.

#### Note 7 – Accrued Expenses and Other Current Liabilities

The accrued expenses and other current liabilities consist of the following at December 31, 2015 and 2014:

|                                                              | 2015                | 2014                |
|--------------------------------------------------------------|---------------------|---------------------|
| Accrued marketing costs                                      | \$ 1,404,488        | \$ 1,744,143        |
| Accrued payroll and commission liabilities                   | 643,908             | 5,236               |
| Accrued sales allowance                                      | 500,000             | 567,517             |
| Accrued expenses and other                                   | 294,629             | 552,288             |
| Contingent stock due for acquired domains, current portion   | 238,625             | —                   |
| Capital leases, current portion                              | 46,313              | 34,381              |
| Deferred Arkansas grant, current portion and accrued reserve | 27,679              | 224,994             |
| Accrued taxes                                                | 13,803              | 267,905             |
| Loss contingency (1)                                         | —                   | 308,000             |
| Total                                                        | <u>\$ 3,169,445</u> | <u>\$ 3,704,464</u> |

(1) On November 20th, we settled a legal dispute for \$100,000, resulting in the adjustment of the loss contingency to zero.

#### Note 8 – Other Long-Term Liabilities

Other long-term liabilities consist of the following at December 31, 2015 and 2014:

|                                                                 | 2015              | 2014              |
|-----------------------------------------------------------------|-------------------|-------------------|
| Contingent stock due for acquired domains, less current portion | \$ 477,249        | \$ —              |
| Deferred rent                                                   | 198,323           | 70,861            |
| Capital leases, less current portion                            | 31,210            | 15,621            |
| Deferred Arkansas grant, less current portion                   | 15,940            | 142,276           |
| Taxes payable                                                   | —                 | 506,453           |
| Total                                                           | <u>\$ 722,722</u> | <u>\$ 735,211</u> |

In February 2015, we settled a disputed income tax claim with the State of New Jersey. The claim related to the 2007-2009 tax years and was settled for \$100,000. As a result, the long-term taxes payable liability of \$506,453 was adjusted to zero.

On May 8, 2015, we purchased two domain websites with a fair value of \$715,874 (see Note 5). The purchase consideration is our common stock and is contingent upon the seller attaining specific performance targets over three years.

#### Note 9 – Income Taxes

The provision for income taxes consists of the following:

|                          | <b>2015</b>         | <b>2014</b> |
|--------------------------|---------------------|-------------|
| Current tax provision    | \$ 4,081            | \$ 236,403  |
| Deferred tax benefit     | (304,224)           | (236,403)   |
| <b>Total tax benefit</b> | <b>\$ (300,143)</b> | <b>\$ —</b> |

A reconciliation of the expected Federal statutory rate to our actual rate as reported for each of the periods presented is as follows:

|                                               | <b>2015</b>  | <b>2014</b> |
|-----------------------------------------------|--------------|-------------|
| Federal statutory rate                        | 34%          | 34%         |
| State income tax rate, net of federal benefit | —%           | 8%          |
| Permanent differences                         | 1%           | —%          |
| Temporary differences                         | 4%           | —%          |
| New Jersey tax settlement and other           | 11%          | —%          |
| Net operating loss adjustment                 | —%           | (30%)       |
| Change in valuation allowance                 | (65%)        | (12%)       |
|                                               | <b>(15%)</b> | <b>—%</b>   |

#### *Deferred Income Taxes*

Deferred income taxes are the result of temporary differences between book and tax basis of certain assets and liabilities, timing of income and expense recognition of certain items and net operating loss carry-forwards.

We assess temporary differences resulting from different treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded in the consolidated balance sheets. We evaluate the realizability of our deferred tax assets on a regular basis, an exercise that requires significant judgment. In the course of this evaluation we considered our recent history of tax losses, the economic conditions in which we operate, recent organizational changes and our forecasts and projections. We believe it is more likely than not that essentially none of our deferred tax assets will be realized, and we have recorded a valuation allowance for the net deferred tax assets that may not be realized as of December 31, 2015 and 2014.

The following is a schedule of the deferred tax assets and liabilities as of December 31, 2015 and 2014:

|                                         | <u>2015</u>           | <u>2014</u>           |
|-----------------------------------------|-----------------------|-----------------------|
| <b>Deferred tax assets:</b>             |                       |                       |
| Net operating loss carry forward        | \$ 34,164,267         | \$ 34,176,741         |
| Intangible assets                       | 3,909,300             | 4,435,700             |
| Deferred rent                           | 2,200                 | 46,300                |
| Depreciation                            | —                     | 164,100               |
| Allowance for doubtful accounts         | 6,900                 | 48,800                |
| Accrued expense                         | 552,500               | 746,700               |
| Stock based expenses                    | 1,201,800             | 1,493,100             |
| Other                                   | 15,000                | 24,200                |
| Subtotal                                | <u>39,851,967</u>     | <u>41,135,641</u>     |
| Less valuation allowance                | <u>(39,838,347)</u>   | <u>(41,135,641)</u>   |
| Total                                   | 13,620                | —                     |
| <b>Deferred tax liabilities:</b>        |                       |                       |
| Intangibles                             | 3,435,700             | 3,523,000             |
| Other                                   | 363,900               | 29,500                |
| Total                                   | <u>3,799,600</u>      | <u>3,552,500</u>      |
| Total deferred tax assets (liabilities) | <u>\$ (3,785,980)</u> | <u>\$ (3,552,500)</u> |

The net operating losses amounted to approximately \$77,854,000 and expire beginning 2021 through 2033. Pursuant to Internal Revenue Service Code Section 382, the use of certain of the Company's net operating loss carry forwards are limited due to a cumulative change in ownership.

We are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2012 through 2014. Our state income tax returns are open to audit under the statute of limitations for the same periods.

We recognize interest and penalties related to income taxes in income tax expense. We have incurred no penalties and interest for the years ended December 31, 2015 and 2014.

#### **Note 10 - Stock-Based Compensation**

We maintain a stock-based compensation program intended to attract, retain and provide incentives for talented employees and directors and align stockholder and employee interests. Currently, we grant options and restricted stock units ("RSUs") from the 2010 Equity Compensation Plan ("2010 ECP"). Option and restricted stock unit vesting periods are generally up to three years.

##### *Compensation Expense*

We recorded stock-based compensation expense for all equity incentive plans of approximately \$707,544 and \$991,948 for the years ended December 31, 2015 and 2014, respectively. Total compensation cost not yet recognized at December 31, 2015 was \$2,763,214 to be recognized over a weighted-average recognition period of 1.6 years.

##### *Significant Grants and Cancellations*

###### 2015

On April 20, 2015, we granted members of our board of directors a total of 51,948 RSUs with a weighted average fair value of \$2.31 a share which fully vest on March 31, 2016.

On July 27, 2015 and August 4, 2015, we granted certain employees service and performance RSUs totaling 965,500 shares with a weighted average fair value \$3.03 per share. The service RSUs vest annually over a three year period, commencing in July 2016, at the rate of 25% of the grant in year one and year two and the remaining 50% of the grant vesting on the third anniversary of the grant date. The awarding of the performance RSUs is contingent upon achieving certain revenue and profit targets and vest annually, one-third upon each anniversary of the grant date.

###### 2014

On April 1, 2014, we granted certain employees a total of 82,000 RSUs with a weighted average fair value of \$0.80 per share which vest annually over three years. On April 22, 2014, we also granted employees a performance RSU contingent upon achieving 2014 profit targets. On January 21, 2015, the number of RSUs vested under the April 22, 2014 performance grant was 697,853 shares with a weighted average fair value of \$1.13 per share.

On April 29, 2014, we granted members of our board of directors a total of 102,560 RSUs with a weighted average fair value of \$0.78 a share which were fully vested at March 31, 2015. In September 2014, 20,073 RSUs were granted to a new director with a weighted average fair value of \$1.53 per share which were fully vested at March 31, 2015.

#### *Award Information and Activity*

The following table summarizes the stock grants outstanding under our 2005 Long-Term Incentive Plan ("2005 LTIP") and 2010 ECP plans as of December 31, 2015:

|               | <b>Options<br/>Outstanding</b> | <b>RSUs<br/>Outstanding</b> | <b>Options and<br/>RSUs Exercised</b> | <b>Available Shares</b> | <b>Total</b>     |
|---------------|--------------------------------|-----------------------------|---------------------------------------|-------------------------|------------------|
| 2010 ECP      | 250,498                        | 1,089,796                   | 1,965,734                             | 529,917                 | 3,835,945        |
| 2005 LTIP (*) | 33,748                         | 139,973                     | 810,112                               | —                       | 983,833          |
| <b>Total</b>  | <b>284,246</b>                 | <b>1,229,769</b>            | <b>2,775,846</b>                      | <b>529,917</b>          | <b>4,819,778</b> |

(\*) Expired June 2015

The fair value of restricted stock units is determined using market value of the common stock on the date of the grant. The fair value of stock options is determined using the Black-Scholes-Merton valuation model. The use of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, exercise price, and forfeiture rate. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. The forfeiture rate, which is estimated at a weighted average of 0% of unvested options outstanding, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

At December 31, 2015, the 2005 LTIP and 2010 ECP plans had outstanding options of 284,246 options and all were exercisable with an aggregate intrinsic value of \$0, a weighted average exercise price of \$2.78 and a weighted average remaining contractual term of 4.8 years.

The total fair value of options vested during 2015 and 2014 was approximately \$0 and \$66,000, respectively.

The following table summarizes our stock option activity under the 2005 LTIP and 2010 ECP plans during 2015:

|                                 | <b>Options</b> | <b>Weighted Average<br/>Exercise Price</b> |
|---------------------------------|----------------|--------------------------------------------|
| Outstanding, beginning of year  | 284,246        | \$ 2.78                                    |
| Granted                         | —              | \$ —                                       |
| Forfeited, expired or cancelled | —              | \$ —                                       |
| Exercised                       | —              | \$ —                                       |
| <b>Outstanding, end of year</b> | <b>284,246</b> | <b>\$ 2.78</b>                             |
| <b>Exercisable, end of year</b> | <b>284,246</b> | <b>\$ 2.78</b>                             |

We also have a separate plan which we acquired from Vertro. This plan is not authorized to issue any additional shares. During 2015, options in the amount of 43,481 shares with a weighted average exercise price of \$17.42 expired. At December 31, 2015 we had 38,650 options outstanding and exercisable under this plan with a weighted average exercise price of \$16.01. The weighted average fair value of these options is \$0, and their aggregate intrinsic value is also \$0. The weighted average remaining contractual life of the outstanding and exercisable options is less than 1.0 year. The exercise price of these options is \$16.01.

The following table summarizes information about stock options outstanding as of December 31, 2015:

| Range of Exercise Price | Shares  | Weighted Average Remaining Contractual Life ( Years) | Weighted Average Exercise Price |
|-------------------------|---------|------------------------------------------------------|---------------------------------|
| \$0.00 – \$16.01        | 284,246 | 4.8                                                  | \$ 2.78                         |

No options were granted during 2015 or 2014.

Expected volatility is based on the historical volatility of our common stock over the period commensurate with or longer than the expected life of the options. The expected life of the options is based on the vesting schedule of the option in relation to the overall term of the option. The risk free interest rate is based on the market yield of the U.S. Treasury Bill with a term equal to the expected term of the option awarded. We do not anticipate paying any dividends so the dividend yield in the model is zero.

The following table summarizes our restricted stock activity for 2015:

|                                | Restricted Stock | Weighted Average Fair Value |
|--------------------------------|------------------|-----------------------------|
| Outstanding, beginning of year | 1,177,298        | \$ 1.02                     |
| Granted                        | 1,030,435        | \$ 2.99                     |
| Exercised                      | (924,182)        | \$ 0.89                     |
| Forfeited                      | (53,782)         | \$ 2.70                     |
| Outstanding, end of year       | 1,229,769        | \$ 2.69                     |

#### Note 11 – Stockholders Equity

As of December 31, 2015, we have outstanding warrants for the potential issuance of 776,724 shares of common stock. Exercise price for these warrants ranges from \$0.87 to \$2.20. These warrants were primarily issued in connection with acquisitions, private placements and debt issuances. The weighted average remaining contractual life of the warrants outstanding at December 31, 2015 was less than 1.0 year and the weighted average exercise price was \$2.07.

#### *Authorized Preferred Stock and Authorized Common Stock*

On March 1, 2012, the Secretary of State of the State of Nevada approved an amendment to the Company's Certificate of Incorporation allowing the Company to increase the number of shares of common stock outstanding from 20,000,000 shares to 40,000,000.

#### Note 12 – Discontinued Operations

Certain of our subsidiaries previously operated in the European Union ("EU"). Though operations ceased in 2009, statutory requirements require a continued presence in the EU for varying terms until November 2015. Profits and losses generated from the remaining assets and liabilities are accounted for as discontinued operations.

Income (loss) from discontinued operations includes activity related to the remaining assets and liabilities of discontinued operations in the European Union. For the twelve months ended December 31, 2015, we recognized income from discontinued operations of \$33,969 due primarily to the adjustment of certain accrued liabilities originating in 2009 and earlier. For the twelve months ended December 31, 2014, we recognized a net loss of \$40,670, due primarily to an audit adjustment to accrue a liability in the event that the UK Inland Revenue does not accept our method of transfer pricing within the affiliated companies partially offset by an adjustment of certain accrued liabilities originating in 2009 and earlier.

#### Note 13 – Retirement Plan Costs

We provide a 401(k) plan to help our employees prepare for retirement. We match each employee's contributions to the plan up to the first four percent of the employee's annual salary. The matching contribution for the years ended December 31, 2015 and 2014 was \$109,029 and \$67,401, respectively.

#### Note 14 - Leases

We lease certain office space and equipment. As leases expire, it can be expected that they will be renewed or replaced in the normal course of business. Rent expense from continuing operations was approximately \$105,446 for the year ended December 31, 2015 and for the year ended December 31, 2014, was a net rent income \$51,605.

Minimum lease payments under non-cancelable operating leases as of December 31, 2015 are:

|              | <b>Lease<br/>Payments</b> | <b>Sublease<br/>income</b> |
|--------------|---------------------------|----------------------------|
| 2016         | \$ 231,560                | \$ 50,753                  |
| 2017         | 177,656                   | —                          |
| 2018         | 181,209                   | —                          |
| 2019         | 184,852                   | —                          |
| 2020         | 140,749                   | —                          |
| <b>Total</b> | <b>\$ 916,026</b>         | <b>\$ 50,753</b>           |

In 2013, we entered into an agreement to lease office space in Conway, Arkansas for two years in the total amount of \$193,200 which was prepaid. The lease terminated in February 2015 and continued on a month to month basis through November 2015. First Orion Corp., the lessor of this space, is partially owned by a director and shareholder of Inuvo.

In April 2015, we entered into a five year agreement to lease office space in Little Rock, Arkansas commencing October 1, 2015, to serve as our headquarters. The new lease is for 12,245 square feet and will cost approximately \$171,000 during its first year. Thereafter, the lease payment will increase by 2%. We vacated the Conway, Arkansas premises November 30, 2015.

#### Note 15 - Commitments and Contingencies

From time to time we may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. In addition, we are currently involved in the following litigation which is not incidental to its business:

*Oltean, et al. v. Think Partnership, Inc.; Edmonton, Alberta CA.* On March 6, 2008, Kelly Oltean, Mike Baldock and Terry Schultz, former employees, filed a breach of employment claim against Inuvo in The Court of Queen's Bench of Alberta, Judicial District of Edmonton, Canada, claiming damages for wrongful dismissal in the amount of \$200,000 for each of Kelly Oltean and Terry Schultz and \$187,500 for Mike Baldock. On March 6, 2008, the same three plaintiffs filed a similar statement of claim against Vintacom Acquisition Company, ULC, a subsidiary of Inuvo, again for wrongful dismissal and claiming the same damages. In October 2009, the two actions were consolidated. The case is in the discovery stage and there has not been any progress in the litigation since April 2013 and Inuvo has been holding this matter in abeyance pending the Plaintiffs taking the next step in the litigation process.

#### Note 16 - Segments

We operate our business as two segments, Partner Network and Owned and Operated Network, which are described in Note 1.

Listed below is a presentation of net revenue and gross profit for all reportable segments for the years ended December 31, 2015 and 2014. We currently only track certain assets at the segment level and therefore assets by segment are not presented below.

##### *Revenue by Segment*

|                            | <b>2015</b>       |                     | <b>2014</b>       |                     |
|----------------------------|-------------------|---------------------|-------------------|---------------------|
|                            | <b>\$</b>         | <b>% of Revenue</b> | <b>\$</b>         | <b>% of Revenue</b> |
| Partner Network            | 30,298,532        | 43.0%               | 25,686,241        | 51.8%               |
| Owned and Operated Network | 40,139,584        | 57.0%               | 23,913,245        | 48.2%               |
| <b>Total net revenue</b>   | <b>70,438,116</b> | <b>100.0%</b>       | <b>49,599,486</b> | <b>100.0%</b>       |

*Gross Profit by Segment*

|                            | 2015       |                | 2014       |                |
|----------------------------|------------|----------------|------------|----------------|
|                            | \$         | Gross Profit % | \$         | Gross Profit % |
| Partner Network            | 6,645,590  | 21.9%          | 5,454,901  | 21.2%          |
| Owned and Operated Network | 40,070,530 | 99.8%          | 23,720,024 | 99.2%          |
| Total gross profit         | 46,716,120 | 66.3%          | 29,174,925 | 58.8%          |

**Note 17 - Subsequent Events**

On February 9, 2016, the Nominating, Corporate Governance and Compensation Committee of the Board of Directors, adopted the 2016 Management Incentive Program. The program established a cash incentive pool which may be awarded to executive officers and our employees, including our Chief Executive Officer Richard K. Howe, based on achieving certain revenue and net income levels as determined by our 2016 financial results. The program provides that the total incentive pool which may be available for distribution will be divided between our executive officers (75% in the aggregate) and other employees (25% in the aggregate), subject to their continued employment with our company. The percentage of pool participation by each of our individual executive officers is fixed by the program and the amount of individual awards to our employees, other than our executive officers, will be determined by Mr. Howe.

**Amendment #11**  
**to the Yahoo! Publisher Network Contract #1-19868214**  
**Effective Date: April 24, 2009, as amended (the "Original Agreement")**

THIS AMENDMENT #11 to the Original Agreement ("Amendment #11") is effective as of January 15, 2016 ("Amendment #11 Effective Date") by and between Inuvo, Inc. ("Publisher"), on the one hand, and Yahoo! Inc., Yahoo! Singapore Digital Marketing Pte. Ltd. and Yahoo! EMEA Limited, on the other hand. All capitalized terms not defined herein shall have the meanings assigned to them in the Original Agreement.

In consideration of mutual covenants and conditions, the receipt and sufficiency of which are hereby acknowledged, Publisher and Yahoo hereby agree as follows:

1. Section 2 of Amendment #8 to the Original Agreement is hereby deleted, and the End Date on the first page of the Service Order to the Original Agreement is hereby deleted and replaced with "July 24, 2016".
2. The Affiliate Agreement (as defined in Amendment #8 to the Original Agreement) expired as of April 24, 2015. For the avoidance of doubt, and for purposes of clarity, notwithstanding the expiration of the Affiliate Agreement, the parties agree that the automatic termination provision set forth in Section 2(b) of Amendment #8 to the Original Agreement was not triggered by the expiration of the Affiliate Agreement, and the Original Agreement was and remains in full force and effect from the Start Date through and including the date hereof.
3. Except as expressly set forth herein, the Original Agreement will remain in full force and effect in accordance with its terms.
4. In the event of a conflict between any of the terms and conditions of the Original Agreement and the terms and conditions of this Amendment #11, the terms and conditions of this Amendment #11 shall govern.
5. This Amendment #11 may be executed in one or more counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same instrument.

[Signatures on next page]

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to enter into this Amendment #11 effective as of the Amendment #11 Effective Date.

**INUVO, INC.**

By: /s/ Don W. Barrett, III

Name: Don W. Barrett, III

Title: COO

Date: 1/18/16

**YAHOO! INC.**

By: /s/ Ian Weingarten

Name: Ian Weingarten

Title: SVP, Corporate Development & Partnerships

Date: January 22<sup>nd</sup>, 2016

**YAHOO! EMEA LIMITED**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**EXHIBIT 21.1-SUBSIDIARIES OF THE  
REGISTRANT**

|                               |                                    |
|-------------------------------|------------------------------------|
| Inuvo, Inc.                   | Nevada Corporation                 |
|                               |                                    |
| ValidClick                    | Missouri Corporation               |
|                               |                                    |
| Vintacom Florida, Inc.        | Florida Corporation                |
|                               |                                    |
| iLead Media, LLC              | Delaware Limited Liability Company |
|                               |                                    |
| Kowabunga Marketing, Inc.     | Michigan Corporation               |
|                               |                                    |
| Vertro, Inc.                  | Delaware Corporation               |
|                               |                                    |
| ALOT, Inc.                    | Delaware Corporation               |
|                               |                                    |
| Varick & Spring I, Inc.       | Delaware Corporation               |
|                               |                                    |
| Who Midco Corporation         | Delaware Corporation               |
|                               |                                    |
| Varick and Spring II, Inc.    | Delaware Corporation               |
|                               |                                    |
| Varick and Spring UK, Limited | United Kingdom                     |
|                               |                                    |

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our report dated February 9, 2016 on the 2015 and 2014 consolidated financial statements included in the Annual Report of Inuvo, Inc. on Form 10-K for each of the years in the two-year period ended December 31, 2015. We hereby consent to the incorporation by reference of said report in the Registration Statements of Inuvo, Inc. on Forms S-3 (File No. 333-194798 effective April 15, 2014, File No. 333-175682, effective July 26, 2011, and File No. 333-172571, effective April 4, 2011) and on Forms S-8 (File No. 333-137666, effective September 29, 2006, File No. 333-169158, effective September 2, 2010, File No. 333-179790, effective February 29, 2012, and File No. 333-203732 effective April 29, 2015).

*Major Hoffman McCann P.C.*

February 9, 2016  
Clearwater, Florida

**Rule 13a-14(a)/15d-14(a) Certification**

I, Richard K. Howe, certify that:

1. I have reviewed this annual report on Form 10-K of Inuvo, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a 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;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2016

/s/ Richard K. Howe

Richard K. Howe

Chief Executive Officer, principal executive officer

**Rule 13a-14(a)/15d-14(a) Certification**

I, Wallace D. Ruiz, certify that:

1. I have reviewed this annual report on Form 10-K of Inuvo, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a 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;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2016

/s/ Wallace D. Ruiz

Wallace D. Ruiz

Chief Financial Officer, principal financial and accounting officer

**Section 1350 Certification**

In connection with the Annual Report of Inuvo, Inc. (the "Company") on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission (the "Report"), I, Richard K. Howe, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial conditions and results of operations of the Company.

Date: February 12, 2016

/s/ Richard K. Howe

Richard K. Howe

Chief Executive Officer, principal executive officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Section 1350 Certification**

In connection with the Annual Report of Inuvo, Inc. (the "Company") on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission (the "Report"), I, Wallace D. Ruiz, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial conditions and results of operations of the Company.

Date: February 12, 2016

/s/ Wallace D. Ruiz

Wallace D. Ruiz

Chief Financial Officer, principal financial and accounting officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.