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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2017

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, Inc.

(Exact name of registrant as specified in its charter)

Nevada	**87-0450450**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 President Clinton Ave., Suite 300 Little Rock, AR	**72201**
(Address of principal executive offices)	(Zip Code)

(501) 205-8508

Registrant's telephone number, including area code

not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 the filing requirements for at least the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” "accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by checkmark if the registrant has not elected to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 7(a)(2)(B) of the Securities Act: ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Class	**October 27, 2017**
Common Stock	28,480,659

TABLE OF CONTENTS

		Page No.
Part I		
Item 1.	Financial Statements.	4
	Consolidated Balance Sheets	4
	Consolidated Statements of Operations	5
	Consolidated Statements of Cash Flows	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	19
Item 4.	Controls and Procedures.	19
Part II		
Item 1.	Legal Proceedings.	19
Item 1A.	Risk Factors.	19
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	21
Item 3.	Defaults upon Senior Securities.	21
Item 4.	Mine Safety and Disclosures.	21
Item 5.	Other Information.	21
Item 6.	Exhibits.	22
Signatures		23

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!, Google and OpenX;
- dependence on relationships with distribution partners, and on the introduction of new products and services, which require significant investment;
- dependence on our financing arrangements with Western Alliance Bank, which is collateralized by our assets;
- dependence on our ability to effectively market and attract traffic;
- need to keep pace with technology changes;
- fluctuations of quarterly financial results and the trading price of our common stock;
- vulnerability to interruptions of services;
- dependence on key personnel;
- vulnerability to regulatory and legal uncertainties and our ability to comply with applicable laws and regulations;
- need to protect our intellectual property;
- vulnerability to publishers who could fabricate clicks;
- vulnerability to a downturn and to uncertainty in global economic conditions;
- integration of our recent NetSeer asset acquisition;
- requirement to adhere to the covenants and restrictions in our grant agreement with the state of Arkansas;
- the dilutive impact to our stockholders from outstanding restricted stock grants, warrants and options; and
- the 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 Part II, Item 1A. Risk Factors appearing in this report, together with those appearing in Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2016 and our subsequent filings with the Securities and Exchange Commission.

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, "third quarter 2017" means for the three months ended September 30, 2017, "third quarter 2016" means for the three months ended September 30, 2016, "2016" means the fiscal year ended December 31, 2016 and "2017" means the fiscal year ending December 31, 2017. The information which appears on our corporate web site at www.inuvo.com is not part of this report.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INUVO, INC.
CONSOLIDATED BALANCE SHEETS
September 30, 2017 (Unaudited) and December 31, 2016

	2017	2016
Assets		
Current assets		
Cash	$ 2,901,965	$ 3,946,804
Accounts receivable, net of allowance for doubtful accounts of $161,789 and $23,000, respectively.	9,976,903	7,586,129
Prepaid expenses and other current assets	347,707	293,113
Total current assets	13,226,575	11,826,046
Property and equipment, net	2,233,183	1,615,223
Other assets		
Goodwill	9,773,842	5,760,808
Intangible assets, net of accumulated amortization	11,319,044	8,343,876
Other assets	96,070	15,186
Total other assets	21,188,956	14,119,870
Total assets	$ 36,648,714	$ 27,561,139
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 11,761,983	$ 9,280,779
Accrued expenses and other current liabilities	2,936,116	2,689,640
Revolving credit line - current portion	5,000,000	—
Total current liabilities	19,698,099	11,970,419
Long-term liabilities		
Deferred tax liability	3,738,500	3,738,500
Other long-term liabilities	485,405	326,428
Total long-term liabilities	4,223,905	4,064,928
Stockholders' equity		
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 28,989,416 and 25,300,189, respectively; outstanding shares 28,664,354 and 24,923,662, respectively	29,042	25,300
Additional paid-in capital	135,596,357	130,418,413
Accumulated deficit	(121,582,959)	(117,521,362)
Treasury stock, at cost - 325,062 and 376,527 shares, respectively	(1,315,730)	(1,396,559)
Total stockholders' equity	12,726,710	11,525,792
Total liabilities and stockholders' equity	$ 36,648,714	$ 27,561,139

See accompanying notes to the consolidated financial statements.

INUVO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2017 and 2016
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net revenue	$ 20,311,502	$ 17,485,087	$ 55,798,545	$ 51,864,448
Cost of revenue	9,649,295	5,136,242	25,161,761	13,392,598
Gross profit	10,662,207	12,348,845	30,636,784	38,471,850
Operating expenses				
Marketing costs	7,161,905	9,921,395	21,122,489	30,395,472
Compensation	2,363,901	1,650,474	7,053,308	4,973,192
Selling, general and administrative	2,025,254	1,229,177	6,308,552	3,759,225
Total operating expenses	11,551,060	12,801,046	34,484,349	39,127,889
Operating loss	(888,853)	(452,201)	(3,847,565)	(656,039)
Interest expense, net	(97,318)	(25,729)	(212,922)	(71,784)
Loss from continuing operations before taxes	(986,171)	(477,930)	(4,060,487)	(727,823)
Income tax expense	—	43,013	—	91,999
Net loss from continuing operations	(986,171)	(434,917)	(4,060,487)	(635,824)
Net income (loss) from discontinued operations	—	171,844	(1,109)	172,197
Net loss	(986,171)	(263,073)	(4,061,596)	(463,627)
Per common share data				
Basic and diluted:				
Net loss from continuing operations	$ (0.03)	$ (0.02)	$ (0.14)	$ (0.03)
Net income from discontinued operations	—	0.01	—	0.01
Net loss	$ (0.03)	$ (0.01)	$ (0.14)	$ (0.02)
Weighted average shares				
Basic	28,553,055	24,694,566	28,030,902	24,571,271
Diluted	28,553,055	24,694,566	28,030,902	24,571,271

See accompanying notes to the consolidated financial statements.

INUVO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended September 30, 2017	For the Nine Months Ended September 30, 2016
Operating activities:		
Net loss	$ (4,061,596)	$ (463,627)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,239,498	1,658,352
Stock based compensation	923,072	1,002,044
Provision of doubtful accounts	138,789	5,800
Amortization of financing fees	19,200	19,200
Adjustment of European liabilities related to discontinued operations	1,109	(176,988)
Change in operating assets and liabilities:		
Prepaid expenses and other assets	81,485	143,485
Accounts payable	(1,099,692)	(2,030,096)
Accrued expenses and other liabilities	(967,553)	(349,869)
Accounts receivable	(237,078)	680,281
Net cash (used in) provided by operating activities	(2,962,766)	488,582
Investing activities:		
Net cash received from NetSeer asset acquisition	235,763	—
Purchases of equipment and capitalized development costs	(1,062,811)	(929,380)
Net cash used in investing activities	(827,048)	(929,380)
Financing activities:		
Net proceeds on revolving credit line	5,000,000	—
Payoff of NetSeer debt acquired	(2,015,577)	—
Net taxes paid on RSU grants exercised	(97,376)	(140,742)
Payments on capital leases	(97,300)	(37,553)
Treasury stock repurchase	(44,772)	—
Net cash provided by (used in) financing activities	2,744,975	(178,295)
Net change – cash	(1,044,839)	(619,093)
Cash, beginning of year	3,946,804	4,257,204
Cash, end of period	$ 2,901,965	$ 3,638,111
Supplemental information:		
Interest paid	$ 180,796	$ 55,085
Income taxes paid	$ —	$ 26,000
Non cash investing and financing activities:		
NetSeer stock issuance (See Note 13)	$ 4,459,244	$ —
Purchase of property and equipment under capital lease	$ 523,518	$ —
Stock issuance for partial settlement of contingent liability	$ —	$ 300,001
Write-down of domain names and corresponding contingent liability	$ 222,477	$ 46,367

See accompanying notes to the consolidated financial statements.

Inuvo, Inc.
Notes to Consolidated Financial Statements

Note 1 – Organization and Business

Company Overview

We develop technology that connects advertisers with consumers through interactions with Inuvo ad-units on websites and apps across devices. The Inuvo MarketPlace provides the means to interact with tens of thousands of advertisers (Demand) and tens of thousands of online publishers (Supply). We interact with Demand/Supply constituents directly and indirectly. We serve ads within content, video and slideshows. We target ads to consumers using our proprietary IntentKey machine learning technology that includes a database of 580 million machine profiles, of which 180 million are updated each week. We earn revenue when consumers view and click on our ads. We touch 80% of all US households weekly. Our business scales as we add Demand and Supply relationships with many barriers to entry including the ability to process hundreds of thousands of transactions per second.

Our intellectual property is protected by eleven issued and eight pending patents. We count among our many contractual relationships, three clients who collectively manage over 50% of all US digital advertising budgets. Included within our Supply portfolio is a collection of owned websites such as alot.com and earnspendlive.com, where we create content in health, finance, travel, careers, auto, education and living categories. These sites provide the means to test ad-tech, while also delivering high quality consumers to advertisers through interaction with proprietary content in the form of images, videos, slideshows and the written word.

In February 2017, we entered into an Asset Purchase Agreement with NetSeer, Inc. ("NetSeer") which allowed us to advance our technology strategy while increasing both the number of advertisers and publishers within the Inuvo MarketPlace. We exchanged 3,529,000 shares of Inuvo common stock and assumed approximately $6.8 million of specified liabilities in this business combination (See Note 13).

We are focused on growth and expect to generate a positive cash flow in the long term. We expect to continue to make strategic investments principally in these areas: marketing technology that helps drive traffic to our owned websites; ad-units that perform better for publishers; demand technology that optimizes advertiser choices; supply technology that optimizes publisher yield; and audience targeting technology that improves the alignment of advertising with consumer and yield.

Liquidity

On March 27, 2017, we amended our Business Financing Agreement with Western Alliance Bank ("Western Alliance Bank"), the parent company of Bridge Bank, N.A., our original lender (see Note 5). The amendment, while providing continued access to the revolving line of credit up to $10 million through September 2018, included the collateral acquired in the NetSeer asset acquisition and modified certain financial covenants. On July 31, 2017, we entered into the Ninth Business Financing Modification Agreement with Western Alliance Bank. The amendment changed certain financial ratios, definitions, the advance rate, the finance charge and the non-formula availability. As of September 30, 2017, the balance of the revolving line of credit was $5.0 million and had approximately $3.6 million of available credit. Though the revolving line of credit and cash generated by operations is expected to 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.

During the third quarter of 2017, 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.

During September 2017, 45,900 shares of our common stock were repurchased in the open market at an average price of $.97 per shares under the Company’s current share repurchase program, which was announced on December 9, 2016 and authorizes the repurchase of the Company’s common stock totaling $500,000. Under the authorization, the Company may purchase shares from time to time in the open market or in privately negotiated transactions in compliance with the applicable rules and regulations of the SEC.

Customer concentration

In 2017, we generated the majority of our revenue from three Demand side customers, Yahoo!, Google, and OpenX as noted below:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Yahoo!	62.1%	67.3%	68.5%	64.0%
OpenX	12.9%	—%	7.4%	—%
Google	8.9%	31.3%	10.8%	34.2%
Total	83.9%	98.6%	86.7%	98.2%

At September 30, 2017, these three customers accounted for 77.1% of our gross accounts receivable balance. As of December 31, 2016, Yahoo! and Google accounted for 98.6% of our gross accounts receive balance. The reduction in the Yahoo! and Google concentration is the result of additional sources of Demand, primarily due to the asset acquisition in February 2017.

Though the Yahoo! and Google concentration is declining as a percentage of overall revenue, we still source the majority of our Demand through these relationships where we have access to advertiser budgets indirectly. While this strategy creates a concentration risk, we believe that it also provides upside opportunities including; access to hundreds of thousands of advertisers across geographies; the ability to scale our business across verticals; an avoidance of the sales costs associated with a large direct to advertisers' sales force; access to innovation; overall media budget market insights; attractive payment terms; and low risk on receivables.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements presented are for Inuvo, Inc. and its consolidated subsidiaries. The accompanying unaudited consolidated financial statements have been prepared based upon SEC rules that permit reduced disclosure for interim periods. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The accompanying consolidated balance sheet as of December 31, 2016, was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States ("GAAP"). In our opinion, these consolidated financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year. For a more complete discussion of significant accounting policies and certain other information, this report should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on February 16, 2017.

Use of estimates

The preparation of financial statements, in accordance with 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 doubtful accounts, accrued sales reserve, 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.

Revenue Recognition

We recognize revenue in accordance with Accounting Standards Codification ("ASC") 605-10 *Revenue Recognition*. 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 we serve 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.

We also generate a portion of our revenue from advertisers and exchanges on a CPM (cost per thousand impressions) basis. Using the Inuvo technology to reach targeted audiences, we serve ads to publisher inventory that is available from our proprietary network, owned websites and lastly, through exchanges. Publishers use our technology to monetize their inventory. We generally recognize CPM revenue upon fulfilling all or part of our contractual obligations, subject to satisfying all other revenue recognition criteria, including (i) persuasive evidence of an existing arrangement, (ii) delivery having occurred or services having been rendered, (iii) the fees being fixed or determinable, and (iv) collectability being reasonably assured. We generally bill and collect the full purchase price of impressions from advertisers.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, "*Revenue from Contracts with Customers*," which supersedes the revenue recognition requirements in Topic 605, "*Revenue Recognition*" and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers by one year the effective date of ASU 2014-09. Accordingly, this guidance is effective for interim and annual periods beginning after December 15, 2017. The Company plans to adopt this guidance on January 1, 2018. The Company has identified its population of contracts and has begun its assessment of performance obligations and calculation of transaction price for each contract. The Company is in the process of evaluating the quantitative and qualitative impact the adoption will have on its accounting policies and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* This standard will require all leases with durations greater than twelve months to be recognized on the balance sheet and is effective for interim and annual reporting periods beginning after December 15, 2018, although early adoption is permitted. Although we have not completed our assessment, we do not expect the adoption to change the recognition, measurement or presentation of lease expenses within the consolidated balance sheets, consolidated financial position or results of operations.

In January 2017, ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* was issued by the FASB. The new guidance simplifies the accounting for goodwill impairments by eliminating Step 2 from the goodwill impairment test. The guidance requires, among other things, recognition of an impairment loss when the carrying value of a reporting unit exceeds its fair value. The loss recognized is limited to the total amount of goodwill allocated to that reporting unit. The guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of this guidance to have a material effect on its financial statements.

Note 3– Property and Equipment

The net carrying value of property and equipment was as follows as of:

	September 30, 2017	December 31, 2016
Furniture and fixtures	$ 288,536	$ 241,876
Equipment	1,468,776	811,948
Capitalized internal use and purchased software	7,131,442	6,132,626
Leasehold improvements	444,507	441,382
Subtotal	9,333,261	7,627,832
Less: accumulated depreciation and amortization	(7,100,078)	(6,012,609)
Total	$ 2,233,183	$ 1,615,223

During the three and nine months ended September 30, 2017 depreciation expense was $406,014 and $1,077,143, respectively. During the three and nine months ended September 30, 2016, depreciation expense was $325,236 and $958,704, respectively.

Note 4 – Other Intangible Assets and Goodwill

The following is a schedule of intangible assets as of September 30, 2017:

	Term	Carrying Value	Accumulated Amortization and Impairment	Net Carrying Value	Year-to-date Amortization
Customer list, Google	20 years	$ 8,820,000	$ (2,462,250)	$ 6,357,750	$ 330,750
Technology, NetSeer	5 years	3,600,000	(480,000)	3,120,000	480,000
Customer list, all other	10 years	1,610,000	(898,939)	711,061	120,753
Trade names, ALOT	5 years	960,000	(960,000)	—	32,000
Customer relationships, NetSeer	20 years	570,000	(19,000)	551,000	19,000
Domain websites (2)	5 years	447,030	(321,130)	125,900	53,185
Trade names, web properties (1)	-	390,000	—	390,000	—
Brand, NetSeer	1 year	121,000	(80,667)	40,333	80,667
Non-competition agreements, NetSeer	1 year	69,000	(46,000)	23,000	46,000
Intangible assets classified as long-term		$ 16,587,030	$ (5,267,986)	$ 11,319,044	$ 1,162,355
Goodwill, total	-	$ 9,773,842	$ —	$ 9,773,842	$ —

(1) The trade names related to our web properties have an indefinite life, and as such are not amortized.

(2) On May 8, 2015, we purchased two domain websites with a fair value of $715,874. In May 2016, the carrying value was adjusted by approximately $46 thousand to reflect the lower price paid as compared to the contingent liability recorded as a result of the change in the price of Inuvo stock from the date of acquisition to the first contingent release of shares. In March 2017, we determined that the seller would not meet the specific performance target for the second year and therefore, we adjusted the carrying value of the intangible asset by $222,477.

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

2017	$ 398,617
2018	1,420,301
2019	1,404,468
2020	1,354,985
2021	1,350,504
Thereafter	5,000,169
Total	$ 10,929,044

Note 5 - Revolving credit line

The following table summarizes our revolving credit line balances as of:

	September 30, 2017	December 31, 2016
Revolving credit line - 5.0 percent at September 30, 2017 (prime plus 0.75 percent), due September 29, 2018 - current portion	$ 5,000,000	$ —
Total	$ 5,000,000	$ —

On March 1, 2012, we entered into a Business Financing Agreement with Bridge Bank, which is now owned by Western Alliance Bank. The agreement provided us with a revolving credit line of up to $10 million which we use to help satisfy our working capital needs. We have provided Western Alliance 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 85% of eligible accounts receivable balances plus $500,000, 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 invoice. We had approximately $3.6 million available under the revolving credit line as of September 30, 2017.

On March 27, 2017, the Company entered into the Eighth Business Financing Modification Agreement with Western Alliance Bank, the parent company of Bridge Bank, our original lender, that modified the existing Agreement. The modified terms require a monthly quick ratio of not less than .65 to 1.00 from February 1, 2017 through December 31, 2017; and a monthly quick ratio of not less than .75 to 1.00 on and after January 1, 2018; and quarterly consolidated Adjusted EBITDA shall not negatively deviate more than $300,000 from projections for the quarter ending March 31, 2017, by more than $400,000 for the quarters ending June 30, 2017, September 30, 2017, and December 31, 2017, or with respect to any quarter in 2018 and beyond, by more than 25% from projections. On July 31, 2017, the Company entered into the Ninth Business Financing Modification Agreement with Western Alliance Bank. The modified terms require a monthly quick ratio of not less than .60 to 1.00 from June 1, 2017 through December 31, 2017; and a monthly quick ratio of not less than .70 to 1.00 on and after January 1, 2018; and quarterly consolidated Adjusted EBITDA of not less than 25% of the projections provided to the bank for the quarter ending June 30, 2017 and each quarter thereafter; the advance rate increases to 85%; and the non-formula availability decreases to $500,000 immediately, to $250,000 after October 15, 2017 and to zero at December 31, 2017. In addition, the finance charge for outstanding advances increases by 25 basis points and by 75 basis points for outstanding advances on the non-formula availability until the Company reports two consecutive months of positive Adjusted EBITDA. The revolving line of credit is effective to September 2018. While we periodically utilize our line of credit for operating needs, as of September 30, 2017, the balance of the revolving line of credit was $5.0 million. We were in compliance with all bank covenants as of September 30, 2017.

Note 6 – Accrued Expenses and Other Current Liabilities

The accrued expenses and other current liabilities consist of the following as of:

	September 30, 2017	December 31, 2016
Accrued marketing costs	$ 1,518,998	$ 1,622,737
Accrued expenses and other	575,544	289,435
Accrued sales allowance	250,000	250,000
Accrued payroll and commission liabilities	217,598	250,000
Capital leases, current portion	212,692	31,210
Contingent stock due for acquired domains, current portion (see Note 7)	147,029	222,477
Accrued taxes	8,643	10,313
Deferred Arkansas grant, current portion	5,612	13,468
Total	$ 2,936,116	$ 2,689,640

Note 7 – Other Long-Term Liabilities

Other long-term liabilities consist of the following as of:

	September 30, 2017	December 31, 2016
Capital leases, less current portion	$ 333,311	$ —
Deferred rent	138,331	163,165
Accrued taxes, less current portion	13,763	13,763
Contingent stock due for acquired domains, less current portion	—	147,029
Deferred Arkansas grant, less current portion	—	2,471
Total	$ 485,405	$ 326,428

On May 8, 2015, we purchased two domain websites with a fair value of $715,874 (see Note 4). The purchase consideration was our common stock and is contingent upon the seller attaining specific performance targets over three years. On May 8, 2016, the seller achieved the specific performance target for the first year and as a result, we issued 166,667 shares of common stock. The accrued contingent liability and the related intangible asset, domain websites, were adjusted by approximately $46 thousand to reflect the lower price paid as compared to the contingent liability recorded as a result of the change in the price of Inuvo stock from the date of acquisition to the first contingent release of shares. In March 2017, we determined that the seller would not meet the specific performance target for the second year and therefore, we adjusted the carrying value of the related intangible asset and contingent liability by $222,477.

Note 8 – Income Taxes

We have a deferred tax liability of $3,738,500 as of September 30, 2017, related to intangible assets acquired in March 2012.

We also have a net deferred tax asset of approximately $31,331,248. 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 September 30, 2017.

Note 9 - 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”) and 2017 Equity Compensation Plan ("2017 ECP"). Option and RSUs vesting periods are generally up to three years.

Compensation Expense

For the three and nine months ended September 30, 2017, we recorded stock-based compensation expense for all equity incentive plans of $336,913 and $923,072, respectively. For the three and nine months ended September 30, 2016, we recorded stock-based compensation expense for all equity incentive plans of $315,596 and $1,002,044. Total compensation cost not yet recognized at September 30, 2017 was $1,580,437 to be recognized over a weighted-average recognition period of 1.0 years.

Significant Grants and Cancellations

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 of $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. On July 27, 2017, August 4, 2017, and August 11, 2017, the second measurement period targets were achieved and the number of shares issued totaled 294,152 with a weighted average fair value of $1.00.

On February 7, 2017, we granted former NetSeer employees service RSUs totaling 186,828 shares with a weighted average fair value of $1.65 per share which vest annually over a three year period.

On February 15, 2017, we granted a former NetSeer employee 20,520 RSUs with a weighted average fair value of $1.62 which fully vested on August 7, 2017.

On April 1, 2017, we granted members of our board of directors a total of 116,280 RSUs with a weighted average fair value of $1.29 a share which fully vest on March 31, 2018.

On June 19, 2017, we granted an employee service and performance RSUs totaling 125,000 RSUs with a weighted average fair value of $1.04 per share. The service RSUs vest annually over a three year period. The awarding of the performance RSUs is contingent upon achieving certain revenue and profit targets and vest annually over a three year period.

On June 19, 2017, we granted certain former NetSeer employees service and performance RSUs totaling 400,000 shares with a weighted average fair value of $1.04 per share. The service RSUs vest annually over a three year period. 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.

On July 7, 2017, we granted an employee 20,000 RSUs with a weighted average fair value of $1.02 which vest annually over a three year period.

The following table summarizes the stock grants outstanding under our 2005 Long-Term Incentive Plan ("2005 LTIP"), the 2010 ECP and the 2017 ECP as of September 30, 2017:

	Options Outstanding	RSUs Outstanding	Options and RSUs Exercised	Available Shares	Total
2017 ECP	—	125,000	—	1,875,000	2,000,000
2010 ECP	250,498	1,046,761	2,780,740	504,019	4,582,018
2005 LTIP (*)	13,748	—	950,085	—	963,833
Total	264,246	1,171,761	3,730,825	2,379,019	7,545,851

(*) Expired June 2015

Note 10 – Discontinued Operations

Certain of our subsidiaries previously operated in the European Union ("EU"). Though our operations ceased in 2009, statutory requirements required 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.

In the third quarter of 2016, our petition with the UK (United Kingdom) Companies House to strike off and dissolve our remaining subsidiary in the EU was approved. As a result, for the nine months ended September 30, 2017, we recorded a net loss of $1,109 due to a charge from a service provider. For the three and nine months end September 30, 2016, we recorded a net income of $171,844 and $172,197, respectively, which were due to adjustments of certain accrued liabilities.

Note 11 - Earnings per Share

During the three and nine month periods ended September 30, 2017 and September 30, 2016, we generated a net loss from continuing operations and as a result, all of our shares are anti-dilutive.

Note 12 - 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 $109,701 and $346,717 for the three and nine months ended September 30, 2017 and $42,248 and $135,635 for the three and nine months ended September 30, 2016, respectively.

Minimum future lease payments under non-cancelable operating leases as of September 30, 2017 are:

2017	$ 116,235
2018	466,329
2019	473,851
2020	402,138
2021	239,090
2022	162,706
Total	$ 1,860,349

In June 2017, we entered into an agreement with Dell Financial Services to lease computer equipment for our data centers. The lease has a term of three years and will cost approximately $173,000 over the life of the lease.

As part of the NetSeer asset acquisition, Inuvo assumed the office space lease that served as NetSeer's headquarters in Sunnyvale, CA. The lease was for 15,717 square feet and cost approximately $95,000 for the remaining term of the lease which expired in July 2017. In June 2017, we entered into an agreement to lease 4,801 square feet of office space in San Jose, CA commencing on July 17, 2017. The lease has a term of five years and will cost approximately $216,000 during its first year. After the first year, the lease payment will increase by 3% per annum.

Note 13 - NetSeer Acquisition

On February 6, 2017, we entered into an Asset Purchase Agreement to acquire the assets of NetSeer, Inc. Under the terms of the agreement, we acquired substantially all of the assets of NetSeer, and assumed certain liabilities and personnel obligations, in exchange for 3,529,000 shares of our common stock. Of this amount, 529,350 shares were deposited into escrow with our counsel under the terms of an escrow agreement pending possible post-closing adjustments in the purchase price related to working capital and audited financial statement adjustments, as well as in connection with possible indemnification claims post-closing. The operating results of this acquisition have been included in the consolidated statements of operations since the acquisition date. As a result of the business acquisition, the Company recognized goodwill in the amount of $4,013,034. The factors contributing to the recognition of the amount of goodwill are based on strategic benefits that are expected to be realized from acquiring NetSeer's assembled workforce in addition to other synergies gained from integrating NetSeer's operations into the Company’s consolidated structure. The Company incurred approximately $350,000 in acquisition related costs, which are recorded in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Total consideration paid in common stock (with marketability discount applied)	$ 4,459,244
Fair value of assets acquired:	
Accounts receivable, net	(2,292,485)
Prepaid expenses and other current assets	(236,163)
Property and equipment, net	(119,101)
Goodwill	(4,013,034)
Intangible assets	(4,360,000)
Fair value of liabilities assumed:	
Accounts payable	$ 3,579,787
Accrued expenses and other current liabilities	1,152,789
Other long-term liabilities	49,149
Debt	2,015,577
Cash received in acquisition	$ 235,763

In accordance with ASC guidance related to business combinations, net consideration was first allocated to the fair value of assets acquired, including specifically identifiable intangible assets and liabilities assumed, with the excess being recorded as goodwill. Goodwill related to this acquisition is not deductible for tax purposes and is not amortized, but instead is subject to periodic impairment tests.

The purchase includes the assumption of gross customer accounts receivable totaling $2,292,485. The Company estimates that most of these receivables will be collected. Therefore, the receivables are recorded at the estimated fair value, which equals the gross contractual amount. Specifically identifiable intangible assets consist of $4,360,000 and are amortized on a straight-line basis over the estimated useful life. Additionally, NetSeer revenue totaling approximately $10.0 million since the acquisition date is included in the consolidated statements of operations.

Note 14 - Segments

In accordance with ASC 280 - *Segment reporting*, segment information reported is built on the basis of internal management data used for performance analysis of businesses and for the allocation of resources. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker, its chief executive officer, reviews financial information presented on a consolidated basis and no expense or operating income is evaluated at a segment level. Given the consolidated level of review by the Company's chief executive officer, the Company operates as one reportable segment. Most net revenue is earned in the United States and all long-lived assets are located in the United States.

Through December 31, 2016, we reported our business as two segments. Both business segments recognize revenue identically. Virtually all the revenue generated within digital publishing comes from our advertising technology. Operationally, these websites are no different from any other website we serve ads to and in this regard, have always been managed internally as an additional source of supply for our ad serving technology. As a result, starting in the first quarter of 2017, we began reporting as a single segment. We believe this will bring more clarity to shareholders.

Note 15 - Related Party Transactions

For the three and nine months ended September 30, 2017, the Company received a total of $27,576 and $91,718, respectively, and for the three and nine months ended September 30, 2016, $27,141 and $77,453, respectively, from First Orion Corp., which is partially owned by two directors and shareholders of Inuvo, for providing IT services.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Company Overview

We develop technology that connects advertisers with consumers through interactions with Inuvo ad-units on websites and apps across devices. The Inuvo MarketPlace provides the means to interact with tens of thousands of advertisers (Demand) and tens of thousands of online publishers (Supply). We interact with Demand/Supply constituents directly and indirectly. We serve ads within content, video and slideshows. We target ads to consumers using our proprietary IntentKey machine learning technology that includes a database of 580 million machine profiles, of which 180 million are updated each week. We earn revenue when consumers view and click on our ads. We touch 80% of all US households weekly. Our business scales as we add Demand and Supply relationships with many barriers to entry including the ability to process hundreds of thousands of transactions per second.

In February 2017, we acquired the assets of NetSeer which allowed us to advance our technology strategy while increasing both the number of advertisers and publishers within the Inuvo MarketPlace. We exchanged 3,529,000 shares of Inuvo common stock and assumed approximately $6.8 million of specified liabilities to acquire the assets. Of this amount, 529,350 shares were deposited into escrow with our counsel under the terms of an escrow agreement pending possible post-closing adjustments in the purchase price related to working capital and audited financial statement adjustments, as well as in connection with possible indemnification claims post-closing (See Note 13 to the unaudited consolidated financial statements appearing elsewhere in this report).

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with 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 unaudited consolidated financial statements appearing earlier in this report.

Results of Operations

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2017	2016	Change	% Change	2017	2016	Change	% Change
Net Revenue	$ 20,311,502	$ 17,485,087	$ 2,826,415	16.2%	$ 55,798,545	$ 51,864,448	$ 3,934,097	7.6 %
Cost of Revenue	9,649,295	5,136,242	4,513,053	87.9%	25,161,761	13,392,598	11,769,163	87.9 %
Gross Profit	$ 10,662,207	$ 12,348,845	(1,686,638)	(13.7%)	$ 30,636,784	$ 38,471,850	$ (7,835,066)	(20.4)%

Net Revenue

Net revenue for the third quarter 2017 was $2.8 million higher than the same quarter last year and $3.9 million higher than the first nine months of 2017 compared to the same period last year. The revenue increases are attributable to the direct media and image based advertising operations from the business acquired in February 2017. These sources provided $4.8 million and $10.0 million in the third quarter and first nine months of 2017, respectively, partially offset by a planned lower revenue from owned web properties. We expect to grow direct media and image based advertising revenues faster than revenue from owned web properties which we anticipate will improve operating results.

Cost of Revenue

Cost of revenue is primarily generated by payments to website publishers and app developers that host advertisements we serve and to ad exchanges that provide access to supply inventory where we serve advertisements. The increase in the cost of revenue in the third quarter 2017 and the first nine months of 2017 compared to the same periods in 2016 is due in large part to higher revenue in the 2017 periods and to a change in revenue mix with lower revenue in the 2017 periods from owned websites which have virtually no cost of revenue. This trend is expected to continue for the remainder of the fiscal year.

Operating Expenses

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2017	**2016**	**Change**	**% Change**	**2017**	**2016**	**Change**	**% Change**
Marketing costs	$ 7,161,905	$ 9,921,395	$ (2,759,490)	(27.8%)	$ 21,122,489	$ 30,395,472	$ (9,272,983)	(30.5)%
Compensation	2,363,901	1,650,474	713,427	43.2%	7,053,308	4,973,192	$ 2,080,116	41.8 %
Selling, general and administrative	2,025,254	1,229,177	796,077	64.8%	6,308,552	3,759,225	$ 2,549,327	67.8 %
Operating expenses	$ 11,551,060	$ 12,801,046	$ (1,249,986)	(9.8%)	$ 34,484,349	$ 39,127,889	$ (4,643,540)	(11.9)%

Overall, our operating expenses for the three and nine months ended September 30, 2017, decreased compared to the same periods in 2016.

Marketing costs include those expenses required to attract traffic to our owned web properties. The decrease in marketing costs in the three and nine months ended September 30, 2017 compared to the same periods in the prior year was due to a reduction in costs associated with driving traffic to owned web properties in favor of an increased focus on either direct or indirect supply side traffic relationships with publishers.

Compensation expense increased $713,427 and $2,080,116 for the three and nine month periods ended September 30, 2017, respectively, as compared to the same periods in 2016, due primarily to an increase in the number of employees. Our total employment, both full-time and part-time, was 90 at September 30, 2017 compared to 70 at the same time last year. The increase is primarily due to the addition of 18 employees from the Netseer asset acquisition in February 2017. We expect compensation expense to increase, though moderately, in the coming quarters as we hire additional developers and sales personnel to support the anticipated growth.

Selling, general and administrative expenses increased $796,078 and $2,549,327 for the three and nine month periods ended September 30, 2017, respectively, as compared to the same periods in 2016. The increase in the three month period ended September 30, 2017 compared to the same three month period last year was primarily due additional operating expenses of the NetSeer asset acquisition including $403,000 in IT costs, $352,000 in depreciation and amortization expense, and $64,000 in travel and entertainment expense. The higher selling, general and administrative expense in the nine months period ended September 30, 2017 compared to the same nine month period last year was primarily due to the additional operating expense of the NetSeer asset acquisition in February 2017 and to the $350,000 in transaction cost. In 2018, we expect quarterly selling, general and administrative expense to be relatively flat.

Interest expense, net

Interest expense, net, which represents interest expense on the bank credit facility, increased in the periods of 2017 compared to the same periods in 2016 because of a higher average outstanding revolving credit line balance and higher interest rates this year compared to last year.

Income from discontinued operations

In the third quarter of 2016, our petition with the UK (United Kingdom) Companies House to strike off and dissolve our remaining subsidiary in the EU was approved. As a result, for the nine months ended September 30, 2017, we recorded a net loss of $1,109 due to a charge from a service provider. For the three and nine months ended September 30, 2016, we recorded net income of $171,844 and $172,197, respectively, which were due to adjustments of certain accrued liabilities.

Liquidity and Capital Resources

On March 27, 2017, we amended our Business Financing Agreement with Western Alliance Bank, the parent company of Bridge Bank, our original lender (see Note 5). The amendment provided for the collateral of the assets acquired from NetSeer and modified a number of financial covenants. On July 31, 2017, we entered into the Ninth Business Financing Modification Agreement with Western Alliance Bank. The amendment changed certain financial ratios, definitions, the advance rate, the finance charge and the non-formula availability. As of September 30, 2017, the outstanding balance of the revolving line of credit was $5.0 million and had approximately $3.6 million in additional availability. The $5 million draw-down of the revolving line of credit was necessary to pay off the acquired NetSeer debt of approximately $2 million and to fund working capital needs of the acquired business.

During the third quarter of 2017, 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.

During September 2017, 45,900 shares of our common stock were repurchased at an average price of $.97 per shares under the Company's current share repurchase program, which was announced on December 9, 2016 and authorizes the repurchase of the Company's common stock totaling $500,000. Under the authorization, the Company may purchase shares from time to time in the open market or in privately negotiated transactions in compliance with the applicable rules and regulations of the SEC.

Cash Flows - Operating

Net cash used in operating activities was $2,962,766 during the nine months ended September 30, 2017. We reported a net loss of $4,061,596, which included non-cash expenses; depreciation and amortization expense of $2,239,498 and stock-based compensation expense of $923,072. The change in operating assets and liabilities during the nine months ended September 30, 2017 was a net use of cash of $2,222,838 primarily due to a change in the accounts payable balance of $1,099,692 and the accounts receivable balance of $237,078 largely due to the working capital needs of the business related to the NetSeer asset acquisition closed in February 2017. Our terms are such that we generally collect receivables prior to paying trade payables, however with the NetSeer acquisition, we have a higher percentage of media sales that typically have payment terms greater than the terms of related payables. We expect to grow the media sales business and therefore, expect to have a greater need for working capital funding. We believe the current revolving line of credit facility is adequate to fund working capital needs for the next twelve months.

During the comparable period in 2016, cash provided by operating activities was $488,582 from a net loss of $463,627, which included several non-cash expenses; depreciation and amortization of $1,658,352, stock-based compensation of $1,002,044.

Cash Flows - Investing

Net cash used in investing activities was $827,048 and $929,380 for the nine months ended September 30, 2017 and 2016, respectively. Cash used in investing activities during both periods primarily consisted of capitalized internal development costs.

Cash Flows - Financing

Net cash provided by financing activities was $2,744,975 during 2017 which largely consisted of proceeds from the revolving credit facility used to pay off the debt acquired in the NetSeer asset acquisition. In 2016, net cash used in financing activities was $178,295.

Off Balance Sheet Arrangements

As of September 30, 2017, 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to a smaller reporting company.

ITEM 4. 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 September 30, 2017, 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.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the period ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

We desire to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

Accordingly, we incorporate by reference the risk factors disclosed in Part I, Item 1A of our Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on February 16, 2017 subject to the new or modified risk factors appearing below that should be read in conjunction with the risk factors disclosed in such Form 10-K.

We rely on three customers for a significant portion of our revenues. We are reliant upon Yahoo!, Google and OpenX for most of our revenue. During the third quarter of 2017, Yahoo! accounted for 62.1% , Google accounted for 8.9% and OpenX account for 12.9% of our revenues and during the same period 2016 Yahoo! and Google accounted for 67.3% and 31.3%, respectively. For the nine month period ended September 30, 2017, Yahoo! accounted for 68.5%, Google accounted for 10.8% and OpenX accounted for 7.4% and during the same period 2016 Yahoo! and Google accounted for 64.0% and 34.2%, respectively. Since our acquisition of the NetSeer assets in February 2017 which allowed us to advance our technology strategy while increasing both the number of advertisers and publishers within the Inuvo MarketPlace, we have begun generating a significant portion of our net revenues through OpenX. 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 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 any 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.

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 Western Alliance Bank, the parent company of Bridge Bank, N.A. our original lender, under which we had $5.0 million in debt outstanding and $3.6 million of available credit as of September 30, 2017. 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.

The failure to integrate successfully the businesses of NetSeer in the expected timeframe could adversely affect our future results following the completion of the acquisition. The success of the acquisition of NetSeer will depend, in large part, on the ability of the combined company following the completion of the acquisition to realize the anticipated benefits from combining the businesses. The failure to integrate successfully and to manage successfully the challenges presented by the integration process may result in our failure to achieve some or all of the anticipated benefits of the acquisition. Additionally, if the acquired business is unable to achieve its expected results, there is risk of an impairment of the assets acquired, which in turn could have an adverse effect on our results of operations. Potential difficulties that may be encountered in the integration process include the following:

- using the combined company's cash and other assets efficiently to develop the business of the combined company;
- appropriately managing the liabilities of the combined company;
- potential unknown or currently unquantifiable liabilities associated with the merger and the operations of the combined company; and
- performance shortfalls at one or both of the companies as a result of the diversion of management's attention caused by completing the acquisition and integrating the companies' operations.

There are no assurances that all of the expected benefits of the acquisition of NetSeer will be realized.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY AND DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

During September 2017, we repurchased 45,900 shares of our common stock in the open market at an average price of $.97 per shares under our current share repurchase program, which was announced on December 9, 2016 and authorizes the repurchase of our common stock totaling $500,000. Under the authorization, we may purchase shares from time to time in the open market or in privately negotiated transactions in compliance with the applicable rules and regulations of the SEC.

ITEM 6. EXHIBITS.

Exhibit No.	Description of Exhibit
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 *
101.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 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.

November 1, 2017	By:	*/s/ Richard K. Howe*
		Richard K. Howe, Chief Executive Officer, principal executive officer
November 1, 2017	By:	/s/ *Wallace D. Ruiz*
		Wallace D. Ruiz, Chief Financial Officer, principal financial and accounting officer

EXHIBIT 31.1

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: November 1, 2017

/s/ Richard K. Howe
Richard K. Howe
Chief Executive Officer, principal executive officer

EXHIBIT 31.2

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: November 1, 2017

/s/ Wallace D. Ruiz
Wallace D. Ruiz
Chief Financial Officer, principal financial and accounting officer

EXHIBIT 32.1

Section 1350 Certification

In connection with the Annual Report of Inuvo, Inc. (the “Company”) on Form 10-K for the year ended September 30, 2017 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: November 1, 2017

/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.

EXHIBIT 32.2

Section 1350 Certification

In connection with the Annual Report of Inuvo, Inc. (the "Company") on Form 10-K for the year ended September 30, 2017 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: November 1, 2017

/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.