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 June 30, 2020

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock	INUV	NYSE American

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 every Interactive Data File required to be submitted 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, a smaller reporting company or an emerging growth company.

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	August 11, 2020
Common Stock	97,598,977

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 risks associated with:

- our history of losses, declining revenues and working capital deficit;
- the on-going impact of the COVID-19 pandemic on our company;
- our reliance on revenues from a limited number of customers;
- seasonality of our business which impacts our financial results and cash availability;
- dependence on our supply partners;
- our ability to acquire traffic in a profitable manner;
- failure to keep pace with technology changes;
- impact of possible interruption in our network infrastructure;
- dependence on our key personnel;
- regulatory and legal uncertainties;
- failure to comply with privacy and data security laws and regulations;
- third party infringement claims;
- publishers who could fabricate fraudulent clicks;
- the impact of quarterly results on our common stock price; and
- dilution to our stockholders upon the exercise of outstanding common stock options and restricted stock unit grants

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, 2019 as filed with the Securities and Exchange Commission ("SEC") on May 12, 2020, and our subsequent filings with the SEC.

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, "second quarter 2020" means for the three months ended June 30, 2020, "second quarter 2019" means for the three months ended June 30, 2019, “2019” means the fiscal year ended December 31, 2019 and "2020" means the fiscal year ending December 31, 2020. The information which appears on our corporate web site at www.inuvo.com and our various social media platforms are not part of this report.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INUVO, INC.
CONSOLIDATED BALANCE SHEETS
June 30, 2020 (Unaudited) and December 31, 2019

	June 30, 2020	December 31, 2019
Assets		
Current assets		
Cash	$ 4,181,214	$ 372,989
Accounts receivable, net of allowance for doubtful accounts of $269,000 and $225,000, respectively.	3,256,697	7,529,785
Prepaid expenses and other current assets	243,137	243,888
Total current assets	7,681,048	8,146,662
Property and equipment, net	1,213,937	1,374,152
Other assets		
Intangible assets, net of accumulated amortization	9,518,841	10,451,593
Goodwill	9,853,342	9,853,342
Right of use assets - operating lease	535,870	756,115
Right of use assets - finance lease	518,747	88,178
Other assets	20,884	20,886
Total other assets	20,447,684	21,170,114
Total assets	$ 29,342,669	$ 30,690,928
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 3,674,697	$ 7,520,567
Accrued expenses and other current liabilities	2,574,580	3,614,433
Lease liability - operating lease	240,580	362,130
Lease liability - finance lease	230,197	80,777
Line of credit	2,158,443	—
Financed receivables	—	3,381,364
Convertible promissory note	—	536,806
Derivative liability	—	182,250
Total current liabilities	8,878,497	15,678,327
Long-term liabilities		
Deferred tax liability	107,000	107,000
Lease liability - operating lease	295,528	394,889
Lease liability - finance lease	196,267	—
Other long-term liabilities	1,790,845	57,162
Total long-term liabilities	2,389,640	559,051
Stockholders' equity		
Preferred stock, $0.001 par value:		
Authorized shares 500,000, none issued and outstanding	—	—
Common stock, $0.001 par value:		
Authorized shares 100,000,000; issued shares 76,152,193 and 52,222,538, respectively; outstanding shares 75,775,666 and 51,846,011, respectively	76,153	52,223
Additional paid-in capital	152,625,263	144,843,687
Accumulated deficit	(133,230,325)	(129,045,801)
Treasury stock, at cost - 376,527 shares	(1,396,559)	(1,396,559)
Total stockholders' equity	18,074,532	14,453,550
Total liabilities and stockholders' equity	$ 29,342,669	$ 30,690,928

See accompanying notes to the consolidated financial statements.

INUVO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Net revenue	$ 7,590,187	$ 14,047,907	$ 22,523,170	$ 29,512,476
Cost of revenue	1,070,028	5,674,360	4,509,529	12,354,988
Gross profit	6,520,159	8,373,547	18,013,641	17,157,488
Operating expenses				
Marketing costs (traffic acquisition costs or TAC)	3,857,395	6,528,336	13,480,218	13,072,345
Compensation	2,118,311	1,735,489	4,462,546	3,544,045
Selling, general and administrative	1,781,121	2,213,507	3,839,963	4,590,568
Total operating expenses	7,756,827	10,477,332	21,782,727	21,206,958
Operating loss	(1,236,668)	(2,103,785)	(3,769,086)	(4,049,470)
Interest (expense) income, net	(72,681)	148,792	(225,192)	(367,916)
Other expense, net	(49,939)	—	(190,246)	—
Net loss	$ (1,359,288)	$ (1,954,993)	(4,184,524)	(4,417,386)
Per common share data				
Basic and diluted:				
Net loss	$ (0.02)	$ (0.06)	$ (0.07)	$ (0.14)
Weighted average shares				
Basic	66,023,317	32,570,866	59,835,925	32,484,878
Diluted	66,023,317	32,570,866	59,835,925	32,484,878

See accompanying notes to the consolidated financial statements.

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

	For the Six Months Ended June 30,			
	2020		2019	
Operating activities:				
Net loss	$	(4,184,524)	$	(4,417,386)
Adjustments to reconcile net loss to net cash used in operating activities:				
Contract Cancellation		(1,260,978)		—
Depreciation and amortization		1,650,785		1,548,678
Depreciation-Right of Use Assets		215,847		291,676
Amortization of financing fees		11,092		27,247
Amortization of debt discount		18,286		—
Amortization of original issue discount on convertible promissory notes		13,167		—
Stock based compensation		402,185		146,693
Mark to market fair value of derivative		102,664		—
Loss on extinguishment of convertible debt		65,700		—
Provision of doubtful accounts		44,000		36,273
Change in operating assets and liabilities:				
Accounts receivable		4,229,088		1,623,632
Prepaid expenses, unbilled revenue and other current assets		(5,402)		41,074
Accrued expenses and other liabilities		(1,053,047)		170,713
Accounts payable		(2,584,892)		(178,446)
Net cash used in operating activities		(2,336,029)		(709,846)
Investing activities:				
Purchases of equipment and capitalized development costs		(557,818)		(581,839)
Net cash used in investing activities		(557,818)		(581,839)
Financing activities:				
Proceeds from sale of common stock, net		6,500,695		—
Prepaid financing fees		—		(24,529)
Proceeds from ValidClick licensing agreement		500,000		—
Proceeds from convertible promissory notes		—		1,200,000
Net payments on line of credit		(1,222,921)		—
Net proceeds from financed receivables		—		996,575
Payments on finance lease obligations		(313,418)		(104,805)
Proceeds from PPP and SBA loans		1,258,900		—
Net taxes paid on restricted stock unit grants exercised		(21,184)		(9,045)
Net cash provided by financing activities		6,702,072		2,058,196
Net change – cash		3,808,225		766,511
Cash, beginning of year		372,989		228,956
Cash, end of period	$	4,181,214	$	995,467
Supplemental information:				
Interest paid	$	178,938	$	230,900
Non cash investing and financing activities:				
Adoption of ASC 842	$	—	$	1,437,526
Conversion of Debt and derecognition of derivative and discounts to common stock	$	923,810	$	—
Assets purchased under finance lease obligations	$	495,071	$	—

See accompanying notes to the consolidated financial statements.

INUVO, INC.
CONSOLIDATED STATEMENTS of STOCKHOLDERS' EQUITY
(unaudited)
For the Six Months Ended June 30,

2020

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	**Stock**				
Balance as of December 31, 2019	51,846,011	$52,223	$ 144,843,687	$ (129,045,801)	$ (1,396,559)	$ 14,453,550
Net Loss				$ (2,825,236)		(2,825,236)
Stock-based compensation			$ 208,897			208,897
Stock issued for vested restricted stock awards	260,719	261	$ (261)			—
Shares withheld for taxes on vested restricted stock			$ (21,184)			(21,184)
Convertible Note Conversion	1,200,000	1,200	$ 467,467			468,667
Sale of common stock, net	7,046,429	$7,046	$ 1,199,742			1,206,788
Balance as of March 31, 2020	60,353,159	$60,730	$ 146,698,348	$ (131,871,037)	$ (1,396,559)	13,491,482
Net loss				(1,359,288)		(1,359,288)
Stock-based compensation			193,288			193,288
Convertible Note Conversion	1,800,000	1,800	453,343			455,143
Sale of common stock, net	13,622,507	13,623	5,280,284			5,293,907
Balance as of June 30, 2020	75,775,666	$ 76,153	$ 152,625,263	$ (133,230,325)	$ (1,396,559)	$ 18,074,532

2019

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	**Stock**				
Balance as of December 31, 2018	32,381,290	$32,759	$ 138,867,509	$ (124,557,694)	$ (1,396,559)	$ 12,946,015
Net loss				(2,462,393)		(2,462,393)
Stock-based compensation			96,871			96,871
Stock issued for vested restricted stock awards	186,031	186	(186)			—
Balance as of March 31, 2019	32,567,321	$ 32,945	$ 138,964,194	$ (127,020,087)	$ (1,396,559)	$ 10,580,493
Net loss				(1,954,993)	—	(1,954,993)
Stock-based compensation			49,822			49,822
Stock issued for vested restricted stock awards	47,213	47	(47)			—
Shares withheld for taxes on vested restricted stock			(9,045)			(9,045)
Balance as of June 30, 2019	32,614,534	$ 32,992	$ 139,004,924	$ (128,975,080)	$ (1,396,559)	$ 8,666,277

Inuvo, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 – Organization and Business

Company Overview

Inuvo is a technology company that develops and sells information technology solutions for marketing. These platforms predictively identify and message online audiences for any product or service across devices, channels and formats, including video, mobile, connected TV, display, social and native. These capabilities allow Inuvo's clients to engage with their customers and prospects in a manner that drives engagement from the first contact with the consumer. Inuvo facilitates the delivery of hundreds of millions of marketing messages to consumers every single month and counts among its clients numerous world-renowned names in industries that have included retail, automotive, insurance, health care, technology, telecommunications and finance.

Inuvo's solution incorporates a proprietary form of artificial intelligence, or AI, branded the IntentKey. This sophisticated machine learning technology uses interactions with Internet content as a source of information from which to predict consumer intent. The AI includes a continually updated database of over 500 million machine profiles which Inuvo utilizes to deliver highly aligned online audiences to its clients. Inuvo earns revenue when consumers view or click on its client's messages. Inuvo's business scales through account management activity with existing clients and by adding new clients through sales activity.

As part of Inuvo's technology strategy, it owns a collection of websites including alot.com and earnspendlive.com, where Inuvo creates content in health, finance, travel, careers, auto, education and living categories. These sites provide the means to test Inuvo's technologies, while also delivering high quality consumers to clients through the interaction with proprietary content in the form of images, videos, slideshows and articles.

There are many barriers to entry associated with Inuvo's business model, including a proficiency in large scale information processing, predictive software development, marketing data products, analytics, artificial intelligence, integration to the internet of things (IOT), and the relationships required to execute within the IOT. Inuvo's intellectual property is protected by 17 issued and eight pending patents.

Mergers Termination

On June 20, 2019, Inuvo entered into an Agreement and Plan of Merger Termination Agreement (the "Merger Termination Agreement") with ConversionPoint Technologies Inc., a Delaware corporation ("CPT"), ConversionPoint Holdings, Inc., a Delaware corporation ("Parent"), CPT Merger Sub, Inc., a Delaware corporation, ("CPT Merger Sub"), and CPT Cigar Merger Sub, Inc., a Nevada corporation ("Inuvo Merger Sub"), which, among other things, (1) terminated the Agreement and Plan of Merger, dated November 2, 2018, by and among Inuvo, CPT, Parent, CPT Merger Sub, and Inuvo Merger Sub, as amended (the "Merger Agreement"), pursuant to which Inuvo would have merged with and into Inuvo Merger Sub and become a wholly-owned subsidiary of Parent, and CPT would have merged with and into CPT Merger Sub and become a wholly-owned subsidiary of Parent (the "Mergers"), and (2) terminated each of the Support Agreements that were entered into by certain officers and directors of Inuvo and the parties to the Merger Agreement. The Merger Agreement was terminated as a result of Parent's inability to fulfill the closing condition of the Mergers that Parent raise $36,000,000 in gross proceeds from an equity, debt, or equity-linked offering of its securities which no longer obligated Inuvo to consummate the Mergers contemplated by the Merger Agreement.

Concurrently with the execution of the Merger Termination Agreement, CPT Investments, LLC, a California limited liability company and an affiliate of CPT ("CPT Investments"), and Inuvo entered into a certain Inuvo Note Termination Agreement (the "Note Termination Agreement") and agreed to (1) terminate and cancel the 10% Senior Unsecured Subordinated Convertible Promissory Note, dated November 1, 2018, executed by Inuvo in favor of CPT Investments (the "CPTI Note"), which as of June 20, 2019, had $1,063,288 in accrued principal and interest outstanding (the "Outstanding Indebtedness") by July 20, 2019, (2) effective immediately, terminate all conversion rights under the CPTI Note to convert amounts outstanding into shares of Inuvo's common stock, (3) terminate the Securities Purchase Agreement, dated November 1, 2018, by and between Inuvo and CPTI (the "Securities Purchase Agreement"), and (4) terminate the Registration Rights Agreement, dated November 1, 2018, by and between Inuvo and CPTI.

The Merger Termination Agreement provided that the termination fee of $2,800,000 to be paid to Inuvo (the "Termination Fee") for failure to fulfill the Financing Condition would be satisfied as follows:

(1) $1,063,288 of the Termination Fee (the “Indebtedness Satisfaction Amount”) was satisfied in consideration of the termination and cancellation of the Outstanding Indebtedness pursuant to the CPTI Note Termination Agreement that was approved by CPT’s senior lenders Montage Capital II, L.P. and Partners for Growth IV, L.P. (the “Senior Lenders”) of CPT’s issuance of a replacement note to CPT Investments that was entered into in July 2019;

(2) $1,611,712 of the Termination Fee (the “ReTargeter Satisfaction Amount”) was satisfied by CPT transferring all of the assets related to CPT’s programmatic and RTB advertising solutions business conducted through managed services and a proprietary SaaS solution (the “ReTargeter Business”), free and clear of all liabilities, encumbrances, or liens, to Inuvo (the “ReTargeter Asset Transfer”). The enterprise valuation of the ReTargeter Business was determined to be $2.57 million; and

(3) CPT paid $125,000 to Inuvo on September 15, 2019 to be contributed to the settlement of ongoing litigation with respect to the Mergers (the “Litigation Fee”).

On September 30, 2019, Inuvo paid its obligation of $250,000 under a confidential settlement agreement that it entered into on June 20, 2019 resolving certain outstanding litigation related to the Mergers. Under the Merger Termination Agreement, CPT and Inuvo agreed to mutually release all claims that each party had against the other, as well as certain affiliated entities of each. Inuvo, however, will be able to pursue any claims against CPT and its affiliates for breaches of the Merger Termination Agreement.

Liquidity

For the six months ended June 30, 2020 our revenues declined 23.7% from the same period in the prior year. The lower revenue in the six-month period of 2020 is principally responsible for our approximately $4.2 million net loss. Of the loss, approximately $2.3 million were the non-cash expenses of depreciation, amortization and stock-based compensation. We do not know when, if ever, our revenues will return to historic levels or if we will be able to replace those lost revenues with revenues from other sources. Our principal sources of liquidity are our borrowings under our credit facility which is described in Note 5, the sale of our common stock and borrowings from non-bank financial institutions (see Note 7).). During the quarter ended June 30, 2020, we renegotiated the payment terms and conditions with ValidClick marketing partners resulting in an overall credit in the quarter of $1.3 million reducing our cost of revenue and marketing costs expenses and our accounts payable obligations.

On March 20, 2020, we closed a Loan and Security Agreement (the “Loan and Security Agreement”) dated February 28, 2020 by and between our company and our subsidiaries and Hitachi Capital America Corp. (“Hitachi”) replacing the previous credit facility with Western Alliance Bank. Under the terms of the Loan and Security Agreement Hitachi has provided us with a $5,000,000 line of credit commitment. We are permitted to borrow (i) 90% of the aggregate Eligible Accounts Receivable, plus (i) the lesser of 75% of the aggregate Unbilled Accounts Receivable (as those terms are defined in the Loan and Security Agreement) or 50% of the amount available to borrow under (i), up to the maximum credit commitment. On March 12, 2020 we drew $5,000,000 under this agreement, using $2,959,573 of these proceeds to satisfy our obligations to Western Alliance Bank under our credit agreement with it and the balance is being used for working capital. Following the satisfaction of our obligations to Western Alliance Bank, all agreements with that entity have been terminated.

On March 20, 2020, we sold an aggregate of 3,931,428 shares of our common stock at a purchase price of $0.175 per share to the five members of our Board of Directors in a private placement exempt from registration under Section 4(a)(2) and Rule 506(b) of Regulation D under the Securities Act of 1933, as amended. We received proceeds of $688,000 in this offering.

On March 27, 2020, we closed on the first tranche of a registered direct offering in which we sold 3,115,001 shares of our common stock at a price of $0.175 per share for gross proceeds of $545,125.

On April 2, 2020, we closed on a second tranche of the registered direct offering in which we sold 1,400,285 shares of our common stock at a price of $0.175 per share for gross proceeds of $245,050.

On April 10, 2020, we obtained an unsecured $1.1 million loan through Relyance Bank N.A. under the Paycheck Protection Program (the “PPP Loan”) pursuant to the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and which is administered by the United States Small Business Administration. In accordance with the requirements of the CARES Act, proceeds from the PPP Loan were used for payroll costs.

On June 8, 2020, we closed an additional registered direct offering of an aggregate of 12,222,222 shares of our common stock at a price of $0.45 per share, for gross proceeds of $5,500,000.

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On July 27, 2020, we closed a firm commitment underwritten follow on public offering of an aggregate of 21,500,000 shares of our common stock at a price of $0.50 per share, for gross proceeds of $10,750,000.

We have pooled our resources behind a plan to grow our AI technology, the IntentKey, where we have a technology advantage and higher margins. If we are successful in implementing our plan, we expect to return to a positive cash flow from operations. However, there is no assurance that we will be able to achieve this objective.

Though we believe our current cash position, operating cash flows and credit facility will be sufficient to sustain operations for the next twelve months, if our plan to grow the IntentKey business is unsuccessful, we may need to fund operations through private or public sales of securities, debt financings or partnering/licensing transactions.

Recently, it came to our attention that the effectiveness of the amendment to our articles of incorporation to increase the number of our authorized shares of common stock from 60,000,000 to 100,000,000 may not have complied with certain requirements of our articles of incorporation and/or by-laws as well as Nevada Revised Statutes. See Note 16 - Subsequent Events for additional information.

Customer concentration

We generated the majority of our revenue from two customers, Yahoo! and Google as noted below:

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Yahoo!	36.7%	69.7 %	46.5 %	71.8 %
Google	25.0%	11.3 %	20.6 %	11.5 %
Total	61.7%	81.0 %	67.1 %	83.3 %

As of June 30, 2020, Yahoo! and Google accounted for 34.1% of our gross accounts receivable balance. As of December 31, 2019, the same two customers accounted for 60.2% of our gross accounts receivable balance.

We still source the majority of our revenue 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. As our IntentKey business continues to grow and become a larger proportion of our overall revenue, the percentage of Yahoo! and Google revenue to the total revenue is expected to continue to decrease.

Impact of COVID-19 Pandemic

First identified in late 2019 and known now as COVID-19, the outbreak has impacted millions of individuals and businesses worldwide. In response, many countries have implemented measures to combat the outbreak which has had an unprecedented economic consequence. We did not experience an impact from COVID-19 through the end of fiscal year 2019 and had only minor impact from COVID-19 in the first quarter of 2020. Because we operate in the digital advertising industry, unlike a brick and mortar-based company, predicting the impact of the coronavirus pandemic on our company is difficult. Beginning in late April 2020, we have experienced a significant reduction in marketing budgets for some IntentKey clients, a decrease in the number of supply partners and quantity of Internet traffic from supply partners within ValidClick, and a decrease in overall monetization rates in ValidClick, the combination of which has resulted in a significant reduction in our revenue run rate.

In response to COVID-19, we have curtailed expenses, including compensation and travel, and we have issued a work from home policy to protect our employees and their families from virus transmission associated with co-workers. Additionally, in April 2020, we obtained an unsecured Paycheck Protection Program loan under the Coronavirus Aid, Relief and Economic Security Act of $1.1 million which we are using primarily for payroll costs.

Beginning mid-June 2020, we began to experience an improvement in daily revenue, but because of the impact of COVID-19 on our business, we are unable at this time to predict with any certainty how the second half of the year will materialize and whether our revenue run rate will continue to improve. As a result of this uncertainty we are focusing our resources on areas we believe have immediate revenue potential and attempting to reduce expenses where necessary with as little disruption on our daily operations as possible. Should revenues continue to turn downwards or fail to return to historical levels, we may not be able to offset expenses quickly enough.

Our net working capital was negative $1.2 million as of June 30, 2020. During the second quarter, we raised approximately $5.7 million, before expenses, through the sale of our securities and in April 2020, we obtained the PPP Loan of $1.1 million. In July 2020, we raised approximately $10.8 million, before expenses, through the sale of our securities. With the reduction in our revenue run rate there is an increased need for working capital to fund our operations. There is no assurance that we will be successful in obtaining additional funding to continue operations, particularly in light of the current impact of COVID-19 on the U.S. capital markets, but believe we have sufficient capital to operate during the next twelve months.

Revisions of Previously Issued Consolidated Financial Statements

During the second quarter of 2020, the Company identified an error in the accounting for deferred tax asset valuation allowance originating in 2012 and continuing in its previously issued 2019 annual consolidated financial statements and the first quarter of 2020. Although the Company assessed the materiality of the error and concluded that the error was not material to the previously issued annual or interim financial statements, the Company is revising its previously issued 2019 annual balance sheet to correct for the error in connection with the filing of its Quarterly Reports on Form 10-Q as of June 30, 2020. Additionally, in connection with the filing of this Quarterly Report on Form 10-Q, the Company has disclosed the impact of the revision to the consolidated balance sheet to correct for the impact of the error. See Note 17, "Revisions of Previously Issued Consolidated Year-end Financial Statements" for reconciliations between as reported and as revised amounts as of and for the periods ended December 31, 2019.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements presented are for Inuvo 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, 2019, 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, 2019, which was filed with the SEC on May 12, 2020, as amended on Form 10-K/A filed with the SEC on June 22, 2020.

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, goodwill and purchased intangible asset valuations, valuation of long-lived assets and derivative liability. 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

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. Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We also recognize revenue from serving impressions when we complete all or a part of an order from an advertiser. The revenue is recognized in the period that the impression is served.

The below table is the proportion of revenue that is generated through advertisements on our ValidClick and IntentKey platforms:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2020		2019		2020		2019	
ValidClick Platform	$ 5,649,725	74.4 %	$ 12,077,922	86.0 %	$ 18,726,715	83.1 %	$ 26,265,946	89.0 %
IntentKey Platform	1,940,462	25.6 %	1,969,985	14.0 %	3,796,455	16.9 %	3,246,530	11.0 %
Total	$ 7,590,187	100.0 %	$ 14,047,907	100.0 %	$ 22,523,170	100.0 %	$ 29,512,476	100.0 %

The following table presents our revenue disaggregated by channel:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Mobile	$ 2,751,044	$ 8,823,577	$ 10,426,026	$ 19,370,199
Desktop	4,610,097	4,935,654	11,497,340	9,530,276
Other	229,046	288,676	599,804	612,001
Total	$ 7,590,187	$ 14,047,907	$ 22,523,170	$ 29,512,476

Leases

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) (ASU 2016-02), as amended, which generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. We adopted the new standard effective January 1, 2019 on a modified retrospective basis and did not restate comparative periods. We elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classification, our assessment on whether a contract is or contains a lease, and our initial direct costs for any leases that exist prior to adoption of the new standard. We also elected to combine lease and non-lease components and to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the consolidated statements of income on a straight-line basis over the lease term. Based on the present value of the lease payments for the remaining lease term of the Company's existing leases, the Company recognized right-of-use assets and lease liabilities for operating leases of approximately $1.2 million and finance leases of approximately $265,000, respectively, on January 1, 2019.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, (FASB) issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with a forward-looking expected credit loss model which will result in earlier recognition of credit losses. On November 15, 2019, the FASB delayed the effective date certain small public companies and other private companies. As amended, the effective date of ASC Topic 326 was delayed until fiscal years beginning after December 15, 2022 for SEC filers that are eligible to be smaller reporting companies under the SEC’s definition, as well as private companies and not-for-profit entities.

Note 3– Property and Equipment

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

	June 30, 2020	December 31, 2019
Furniture and fixtures	$ 293,152	$ 293,152
Equipment	1,042,200	1,025,357
Capitalized internal use and purchased software	10,850,273	10,309,298
Leasehold improvements	421,016	421,016
Subtotal	12,606,641	12,048,823
Less: accumulated depreciation and amortization	(11,392,704)	(10,674,671)
Total	$ 1,213,937	$ 1,374,152

During the three and six months ended June 30, 2020 depreciation expense was $348,661 and $718,033, respectively. During the three and six months ended June 30, 2019, depreciation expense was $431,585 and $873,426, respectively.

Note 4 – Other Intangible Assets and Goodwill

The following is a schedule of intangible assets and goodwill as of June 30, 2020:

	Term	Carrying Value	Accumulated Amortization and Impairment	Net Carrying Value	Year-to-date Amortization
Customer list, Google	20 years	$ 8,820,000	$ (3,675,000)	$ 5,145,000	$ 220,500
Technology	5 years	3,600,000	(2,460,000)	1,140,000	360,000
Customer list, ReTargeter (2)	5 years	1,931,250	(354,063)	1,577,187	193,125
Customer list, all other	10 years	1,610,000	(1,341,700)	268,300	80,502
Brand name, ReTargeter (2)	5 years	643,750	(118,021)	525,729	64,375
Customer relationships	20 years	570,000	(97,375)	472,625	14,250
Trade names, web properties (1)	-	390,000	—	390,000	—
Intangible assets classified as long-term		$ 17,565,000	$ (8,046,159)	$ 9,518,841	$ 932,752
Goodwill, total	-	$ 9,853,342	$ —	$ 9,853,342	$ —

1. The trade names related to our web properties have an indefinite life, and as such are not amortized.
2. We recorded $2.57 million in intangible assets from the CPT Merger Termination Agreement. An independent valuation of the assets was performed to determine the carrying value of the assets listed above. See Note 1 - Organization and Business.

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

2020	$ 932,752
2021	1,865,504
2022	1,071,294
2023	984,500
2024	769,917
Thereafter	3,504,874
Total	$ 9,128,841

Note 5 - Bank Debt

The following table summarizes our bank debt as of:

	June 30, 2020	December 31, 2019
Line of credit - 6.75 percent at June 30, 2020	$ 2,158,443	$ —
Financed receivables - 5.75 percent at December 31, 2019 (prime plus1 percent) on invoiced receivables; 6.75 percent December 31, 2019 (prime plus 2 percent) on uninvoiced receivables	$ —	$ 3,381,364
Total	$ 2,158,443	$ 3,381,364

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 used to help satisfy our working capital needs. On October 11, 2018, we entered into the Amended and Restated Financing Agreement with Western Alliance Bank which superseded the Business Financing Agreement, as amended. The material terms of the Amended and Restated Financing Agreement included financing eligible invoiced receivables at an advance rate of 85% and an interest rate of prime plus1% and a sub-limit of up to $2.5 million of uninvoiced eligible receivables at an advance rate of 75% and an interest rate of prime plus2%. The sub-limit provision expired at the end of April 2019. The Amended and Restated Financing Agreement included certain fees; a facility fee of $11,765 due at closing; an annual facility fee of0.25% of the account balance due beginning on April 20, 2019; a monthly maintenance fee of 0.125% of the ending daily account balance; a $30,000 fee in lieu of a warrant; and $80,000 due upon termination of the agreement or repayment of our obligations under the agreement. The Amended and Restated Financing Agreement was secured by all of our assets. On April 30, 2019, under the terms of the Second Amendment, Western Alliance Bank agreed to extend the $2.5 million sub-limit provision of uninvoiced eligible receivables until the earlier of May 31, 2019 orthree days after the closing of the Mergers, among other terms.

On June 6, 2019, we entered into the Third Amendment to the Amended and Restated Financing. The Third Amendment provided that with respect to the eligible unbilled receivable sublimit of $2,500,000, which expired May 31, 2019 under the Amended and Restated Financing Agreement, that: (i) lender had no obligation to finance unbilled receivables but may do so in its discretion; and (ii) lender may terminate financing of unbilled receivables upon written notice. The Third Amendment also imposed an amendment fee of $2,000. At June 30, 2020 there wereno outstanding balances due under the Amended and Restated Financing Agreement.

On March 12, 2020, we closed on the Loan and Security Agreement dated February 28, 2020 with Hitachi. Under the terms of the Loan and Security Agreement, Hitachi has provided us with a $5,000,000 line of credit commitment. We are permitted to borrow (i) 90% of the aggregate Eligible Accounts Receivable, plus (i) the lesser of75% of the aggregate Unbilled Accounts Receivable or 50% of the amount available to borrow under (i), up to the maximum credit commitment. On March 12, 2020 we drew $5,000,000 under this agreement, using $2,959,573 of these proceeds to satisfy our obligations to Western Alliance Bank under our credit agreement with it and the balance is being used for working capital. Following the satisfaction of our obligations to Western Alliance Bank, all agreements with that entity have been terminated. We pay Hitachi a monthly interest at the rate of 2% in excess of the Wall Street Journal Prime Rate, with a minimum rate of6.75% per annum, on outstanding amounts. The principal and all accrued but unpaid interest are due on demand.

We agreed to pay Hitachi a commitment fee of $50,000, with one half due upon the execution of the agreement and the balance duesix months thereafter. Thereafter, we are obligated to pay Hitachi a commitment fee of $15,000 annually. We are also obligated to pay Hitachi a quarterly service fee of 0.30% on the monthly unused amount of the maximum credit line. In addition to a $2,000 document fee we have paid to Hitachi, if we should repay the amounts due under the Loan and Security Agreement before March 1, 2022, we are obligated to pay Hitachi an exit fee of $50,000. At June 30, 2020 there was an outstanding balances due under the Loan and Security Agreement of $2,158,443.

Note 6 – Accrued Expenses and Other Current Liabilities

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

	June 30, 2020	December 31, 2019
Accrued marketing costs (TAC)	$ 1,612,548	$ 2,200,014
Accrued expenses and other	428,460	1,152,267
Accrued payroll and commission liabilities	403,455	115,707
Arkansas grant contingency	70,000	85,000
Accrued sales allowance	50,000	50,000
Accrued taxes	10,117	11,445
Total	$ 2,574,580	$ 3,614,433

Note 7 - Convertible Promissory Notes

On March 1, 2019, Inuvo entered into a Securities Purchase Agreement withthree accredited investors for the purchase and sale of an aggregate of $1,440,000 of principal of Original Issue Discount Unsecured Subordinated Convertible Notes due September 1, 2020 (the "Calvary Notes") to fund working capital and additional expenses resulting from the delay in closing of the Mergers associated with the government shut down. The initial conversion price of the Calvary Notes was $1.08 per share which would have made the Calvary Notes then convertible into 1,333,333 unregistered shares of Inuvo's common stock upon conversion. The Calvary Notes were issued in a private placement and the shares of common stock issuable upon conversion are restricted, subject to resale under Rule 144. The proceeds to Inuvo from the offering were $1,200,000. Inuvo did not pay any commissions or finders fees in connection with the sale of the Calvary Notes and Inuvo utilized the proceeds for working capital. The Calvary Notes are reported net of unamortized original issue discounts and initial value attributed to the bifurcated embedded conversion feature. The balance as of June 30, 2020 was $0.

Effective April 20, 2020, the Company and the holder of the remaining Calvary Notes due September 1, 2020 in the principal amount of $315,000 as modified under that certain Note Modification and Release Agreement effective November 11, 2019, agreed to amend the note to extend the maturity date to December 31, 2020 and reduce the conversion price to $0.175 per share. On April 21,2020, the noteholder converted $200,000 principal amount due under the note into1,142,857 shares of our common stock. On May 5, 2020, the noteholder converted the final $115,000 principal amount due under the note into657,143 shares of our common stock, thereby satisfying the note in full.

Consideration of Down Round price adjustment

The Calvary Notes contained certain triggers that created adjustments to the conversion ratio, which provided down round protection to the holders. Because the conversion feature has been bifurcated as an embedded derivative and is marked to fair value at each reporting period, the actual occurrence of a trigger and the resulting adjustment to the conversion rate did not require any additional accounting treatment at the time of the price adjustment. Rather, the next fair value computation reflects the new terms of the conversion feature.

On July 15, 2019, we closed on an underwritten public offering of13,750,000 shares at an offering price of $0.30 per share. As a result, this triggered a corresponding adjustment to the conversion ratio in the Calvary Notes to $0.30. The fair value of the embedded derivative reflected these terms at December 31, 2019.

Modifications/Extinguishment

On November 11, 2019 we entered into Note Modification and Release Agreements with the holders of $1,080,000 principal amount of the Calvary Notes. Under the terms of the Note Modification and Release Agreement, the parties agreed that in consideration of such noteholder's agreement to convert a minimum of 50% of the outstanding amount of the note (the "First Conversion Amount") that the conversion price for the First Conversion Amount would be $0.265 per share and that the conversion price for any remaining amount due under the note would be $0.30 per share, subject to future adjustments under the terms of the note including dilutive issuances at a price below $0.30 per share, subject to a floor of $0.23 per share. The agreement contains mutual general releases. These holders converted an aggregate of $765,000 due under the Calvary Notes into 2,886,792 shares of our common stock. Immediately prior to the conversion, the carrying value of the derivative was marked-to-market. Upon converting, the issued shares were recorded at their fair value of $0.29 per share. This resulted in a loss on extinguishment. Both the loss due to the marking to market and the loss on extinguishment totaling approximately $193,000 were recorded to other income, net.

In January 2020, a noteholder of a $360,000 principal amount Calvary note converted the note into1,200,000 shares of our common stock. The carrying value of the bifurcated derivative was marked-to-market immediately prior to the conversion. Upon conversion, the issued shares were recorded at their fair value. Both the loss due to the marked-to-market and loss on extinguishment of approximately $69,000 were recorded to other income, net.

Upon the April 2020 conversion, we relieved a proportional amount ($200,000 of $315,000 or 63.49%) of the adjusted carrying values of bifurcated conversion option and the debt host, and recorded the issued shares at their fair value of $0.22 per share. This resulted in a gain on extinguishment of $9,258 and was recorded to other income, net.

Upon the May 2020 conversion, we relieved the remaining amount ($115,000 of $115,000 or 100%) of the adjusted carrying values of bifurcated conversion option and the debt host, and recorded the issued shares at their fair value of $0.31 per share. This resulted in a loss on extinguishment of $6,201 other income, net.

Note 8 - Derivative Liability

The derivative liability reported in the financial statements represents the embedded conversion feature in the convertible promissory notes described in Note 7, which has been bifurcated for accounting purposes. The derivative is marked-to-market each reporting period at fair value under ASC 820 using significant observable and unobservable inputs, with changes in fair value recorded in the statement of operations. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3—Inputs that are both significant to the fair value measurement and unobservable.

At December 31, 2019, we recorded a derivative liability of $182,250 related to the bifurcated embedded conversion feature of the Calvary Notes discussed in Note 7 - Convertible Promissory Note. In accordance with the guidance above, the fair value of the derivative liability is considered "Level 3."

Note 9 – Other Long-Term Liabilities

The lease liabilities and other long-term liabilities consist of the following as of:

	June 30, 2020	December 31, 2019
PPP and SBA loans	$ 1,258,900	$ —
Deferred revenue	498,763	—
Deferred rent	33,182	57,162
Total	$ 1,790,845	$ 57,162

On April 10, 2020, we obtained an unsecured $1.1 million PPP loan under the CARES Act and proceeds from the PPP Loan were used for payroll costs. The interest rate of the loan is 1% and has a maturity date of two years. In July 2020, we applied for loan forgiveness in accordance with the CARES Act.

Note 10 - Commitments

In March 2020, we entered into an agreement to allow a third party to license and use ValidClick technology. The agreement required a nonrefundable fee of $500,000 in March with subsequent fees as earned in later quarters. The $500,000 fee was recognized as deferred revenue in March 2020. We are committed to paying a monthly development royalty and marketing services fee when certain adjusted gross profit targets are achieved. As of June 30, 2020, no activity has been recorded.

Note 11 – Income Taxes

We have a deferred tax asset of $33,987,850. 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 of $32,075,650 for the deferred tax assets that may not be realized as of June 30, 2020 and December 31, 2019. We also have a deferred tax liability totaling $2,019,200 as of June 30, 2020 and December 31, 2019, related to intangible assets acquired in March 2012. These balances are presented as a net deferred tax liability of $107,000 composed of indefinite lived intangible assets.

Note 12 - 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. During the 2020 and 2019 periods we granted options and restricted stock units ("RSUs") from the 2010 Equity Compensation Plan (“2010 ECP”) and the 2017 Equity Compensation Plan (“2017 ECP”). The 2010 ECP expired by its terms in April 2020. Option and RSUs vesting periods are generally up to three years and/or achieving certain financial targets.

On August 14, 2019, the Inuvo Nominating, Corporate Governance and Compensation Committee approved modifications to the outstanding RSU grants under the 2010 ECP and 2017 ECP. The modifications include deeming the performance criteria for the performance based RSU grants with a measurement period based on June 30, 2019 as met and vested. In addition, any remaining RSU grants outstanding were modified to vest in three equal parts on August 19, 2019, January 1, 2020 and July 1, 2020 as long as the grantee is employed by Inuvo on the vesting date.

On August 21, 2019 our board of directors adopted, subject to stockholder approval, an amendment to our 2017 ECP to increase in the number of shares reserved for issuance upon grants made under the plan by an additional 6,800,000 shares of our common stock. The stockholders approved the amendment to our 2017 ECP at the annual stockholders meeting on October 4, 2019.

On January 1, 2020, in accordance with the plan provisions, the number of shares available for issuance under the 2017 and 2010 ECP plans were increased by 150,000 and 250,000 shares, respectively.

Compensation Expense

For the three and six months ended June 30, 2020, we recorded stock-based compensation expense for all equity incentive plans of $193,288 and $402,185, respectively. For the three and six months ended June 30, 2019, we recorded stock-based compensation expense for all equity incentive plans of $49,823 and $146,693, respectively. Total compensation cost not yet recognized at June 30, 2020 was $486,627 to be recognized over a weighted-average recognition period of less than one year.

The following table summarizes the stock grants outstanding under our 2005 Long-Term Incentive Plan ("2005 LTIP"), the 2010 ECP and the 2017 ECP for the six months ended June 30, 2020:

	Options Outstanding	RSUs Outstanding	Options and RSUs Exercised	Available Shares	Total
2017 ECP	—	1,752,582	728,346	6,769,072	9,250,000
2010 ECP (**)	14,498	1,072,171	3,969,590	—	5,056,259
2005 LTIP (*)	—	—	953,835	—	953,835
Total	14,498	2,824,753	5,651,771	6,769,072	15,260,094

(*) Expired June 2015
(**) Expired April 2020

The following table summarizes the activities of stock option awards under the 2005 LTIP and the 2010 ECP for the six months ended June 30, 2020:

	Shares Subject to Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance as of December 31, 2019	18,248	$ 1.74	1.8	$ 2,019
Stock options canceled	3,750	$ 3.7	—	—
Balance as of June 30, 2020	14,498	$ 1.23	1.39	$ 2,019
Stock options exercisable as of June 30, 2020	14,498	$ 1.23	1.39	$ 2,019

The following table summarizes the activities for our unvested RSUs for the six months ended June 30, 2020:

	Unvested RSUs	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2019	2,568,951	$ 0.79
Granted	587,103	$ 0.44
Vested	331,301	$ 0.21
Forfeited	—	$ —
Unvested as of June 30, 2020	2,824,753	$ 0.31

Note 13 - Earnings per Share

During the three and six month period ended June 30, 2020 and June 30, 2019, we generated a net loss from continuing operations and as a result, all of our shares are anti-dilutive.

Note 14 - Leases

The Company has entered into operating and finance leases primarily for real estate and equipment rental. These leases have terms which range from two to four years, and often include one or more options to renew or in the case of equipment rental, to purchase the equipment. These operating and finance leases are listed as separate line items on the Company's June 30, 2020 consolidated balance sheet and represent the Company’s right to use the underlying asset for the lease term. The Company’s obligation to make lease payments are also listed as separate line items on the Company's June 30, 2020, consolidated balance sheet. Based on the present value of the lease payments for the remaining lease term of the Company's existing leases, the Company recognized right-of-use assets and lease liabilities for operating leases of approximately $1.2 million and finance leases of approximately $265,000, respectively, on January 1, 2019. Operating lease right-of-use assets and liabilities commencing after January 1, 2019 are recognized at commencement date based on the present value of lease payments over the lease term. As of June 30, 2020 and December 31, 2019, total operating and financed right-of-use assets were $535,870 and $518,747, and $756,115 and $88,178, respectively. The Company has entered into a short-term finance lease for equipment with a remaining term of twelve months or less and is included in the "Accrued expenses and other current liabilities" section of the consolidated balance sheet. All operating lease expense is recognized on a straight-line basis over the lease term.

As of June 30, 2020, the Company recorded $215,874 in amortization expense related to finance leases.

Because the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate to determine the present value of the lease payments.

Information related to the Company's operating lease liabilities are as follows:

		For the Six Months Ended June 30,
Cash paid for operating lease liabilities	$	116,726
Weighted-average remaining lease term		1.9 years
Weighted-average discount rate		6.25 %

Minimum future lease payments ended June 30, 2020		
2020		166,179
2021		242,558
2022		163,284
		572,021
Less imputed interest		(35,913)
Total lease liabilities	$	536,108

Information related to the Company's financed lease liabilities are as follows:

		For the Six Months Ended June 30,
Cash paid for finance lease liabilities	$	313,418
Weighted-average remaining lease term		2.4 years
Weighted-average discount rate		6.25 %

Minimum future lease payments ended June 30, 2020		
2020	$	125,166
2021		250,331
2022		55,956
2023		23,315
		454,768
Less imputed interest		(28,304)
Total lease liabilities	$	426,464

Note 15 - Related Party Transactions

On March 20, 2020, we sold an aggregate of 3,931,428 shares of our common stock at a purchase price of $0.175 per share to the five members of our Board of Directors in a private placement exempt from registration under Section 4(a)(2) and Rule 506(b) of Regulation D under the Securities Act of 1933, as amended. We received proceeds of $688,000 in this offering. The purchase price of the shares of our common stock sold in the offering exceeded the closing market price of our common stock on March 19, 2020, the trading day immediately preceding the day the binding Insider Subscription Agreements were executed by the purchasers. The purchasers were all accredited investors. We did not pay any commissions or finder’s fees, and we are using the proceeds for general working capital.

In June 2019, the Company entered into an agreement with First Orion Corp., which is partially owned by two directors and shareholders of Inuvo, to provide office space. The lease is for eight-months commencing on July 1, 2019 and cost $80,000 which was prepaid in June 2019.

Note 16 - Subsequent Events

On July 27, 2020, we closed a firm commitment underwritten follow on public offering of an aggregate of 21,500,000 shares of our common stock, at a price of $0.50 per share, for gross proceeds of $10,750,000, before deducting underwriting discounts and commission and other offering expenses.

Recently, it came to our attention that the effectiveness of the amendment to our articles of incorporation to increase the number of our authorized shares of common stock, par value $0.001 per share (the “Common Stock”), that we may issue from60,000,000 to 100,000,000 (the "Share Increase Amendment") could be called into question as the authorization of the Share Increase Amendment may not have complied with certain requirements of our articles of incorporation and/or by-laws as well as Chapter 78 of the Nevada Revised Statutes (“NRS”), as related thereto. Our Board has determined that it is in the best interests of the Company and our stockholders to ratify and validate the filing and effectiveness of the Share Increase Amendment pursuant to Section 78.0296 of the NRS to eliminate any uncertainty related to the effectiveness of the Share Increase Amendment and any subsequent issuances of shares of our Common Stock (the “Ratification Proposal”). If the Ratification Proposal is approved by our stockholders and becomes effective, the Share Increase Amendment will be retroactive to October 31, 2019, which was the date of the filing of the Share Increase Amendment with the Nevada Secretary of State. If the Ratification Proposal is not approved by the requisite vote of our stockholders, the Share Increase Amendment may not be deemed effective which could result in (a) our not having sufficient authorized but unissued shares of Common Stock to permit future sales and issuances of Common Stock, including pursuant to outstanding warrants and stock options, (b) certain of our past issuances of Common Stock being deemed to not be valid, and (c) an inability to validate our total outstanding shares of Common Stock in connection with any strategic transaction. Any inability to issue Common Stock in the future and any invalidity of past issuances of Common Stock could expose us to significant claims and have a material adverse effect on our liquidity.

Note 17 - Revisions of Previously Issued Consolidated Year-End Financial Statements

As described in Note 1, "Organization and Business," the following table sets forth the impact of an error correction on the Company’s consolidated financial statements as of and for the period ended December 31, 2019 by financial statement line item. Most of the deferred tax liabilities arose from the acquisition in 2012. The tax assets with definite lives should have been netted against the tax liabilities with definite lives as required by ASC 740 when evaluating the valuation allowance. Instead, both the tax assets and liabilities were maintained on a gross basis on the balance sheet and the tax assets were entirely offset with a valuation allowance. The effect of the error was deemed immaterial.

	December 31, 2019		
Consolidated Balance Sheet Line Item	**As Previously Reported**	**Adjustments**	**As Revised**
Deferred tax liability	$ 2,019,200	$ 1,912,200	$ 107,000
Accumulated deficit	$ 130,958,001	$ (1,912,200)	$ 129,045,801

	December 31, 2018		
Consolidated Balance Sheet Line Item	**As Previously Reported**	**Adjustments**	**As Revised**
Accumulated deficit	$ 126,469,894	$ (1,912,200)	$ 124,557,694

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

Company Overview

Inuvo is a technology company that develops and sells information technology solutions for marketing. These platforms predictively identify and message online audiences for any product or service across devices, channels and formats, including video, mobile, connected TV, display, social and native. These capabilities allow Inuvo’s clients to engage with their customers and prospects in a manner that drives engagement from the first contact with the consumer. Inuvo facilitates the delivery of hundreds of millions of marketing messages to consumers every single month and counts among its clients numerous world-renowned names in industries that have included retail, automotive, insurance, health care, technology, telecommunications and finance.

Inuvo's solution incorporates a proprietary form of artificial intelligence, or AI, branded the IntentKey. This sophisticated machine learning technology uses interactions with Internet content as a source of information from which to predict consumer intent. The AI includes a continually updated database of over 500 million machine profiles which Inuvo utilizes to deliver highly aligned online audiences to its clients. Inuvo earns revenue when consumers view or click on its client's messages. Inuvo's business scales through account management activity with existing clients and by adding new clients through sales activity.

As part of Inuvo's technology strategy, it owns a collection of websites including alot.com and earnspendlive.com, where Inuvo creates content in health, finance, travel, careers, auto, education and living categories. These sites provide the means to test Inuvo's technologies, while also delivering high quality consumers to clients through the interaction with proprietary content in the form of images, videos, slideshows and articles.

There are many barriers to entry associated with Inuvo's business model, including a proficiency in large scale information processing, predictive software development, marketing data products, analytics, artificial intelligence, integration to the internet of things (IOT), and the relationships required to execute within the IOT. Inuvo's intellectual property is protected by 17 issued and eight pending patents.

Our net working capital was negative $1.2 million as of June 30, 2020. During the second quarter, we raised approximately $5.7 million, before expenses, through the sale of our securities and in April 2020, we obtained the PPP Loan of $1.1 million. In July 2020, we raised approximately $10.8 million, before expenses, through the sale of our securities. With the reduction in our revenue run rate there is an increased need for working capital to fund our operations. There is no assurance that we will be successful in obtaining additional funding to continue operations, particularly in light of the current impact of COVID-19 on the U.S. capital markets, but believe we have sufficient capital to operate during the next twelve months.

Impact of COVID-19 Pandemic

First identified in late 2019 and known now as COVID-19, the outbreak has impacted millions of individuals and businesses worldwide. In response, many countries have implemented measures to combat the outbreak which has had an unprecedented economic consequence. We did not experience an impact from COVID-19 through the end of fiscal year 2019 and had only minor impact from COVID-19 in the first quarter of 2020. Because we operate in the digital advertising industry, unlike a brick and mortar-based company, predicting the impact of the coronavirus pandemic on our company is difficult. Beginning in late April 2020, we have experienced a significant reduction in marketing budgets for some IntentKey clients, a decrease in the number of supply partners and quantity of Internet traffic from supply partners within ValidClick, and a decrease in overall monetization rates in ValidClick, the combination of which has resulted in a significant reduction in our revenue run rate.

In response to COVID-19, we have curtailed expenses, including compensation and travel, and we have issued a work from home policy to protect our employees and their families from virus transmission associated with co-workers. Additionally, in April 2020, we obtained an unsecured Paycheck Protection Program loan under the Coronavirus Aid, Relief and Economic Security Act of $1.1 million which we are using primarily for payroll costs.

Beginning mid-June 2020, we began to experience an improvement in daily revenue, but because of the impact of COVID-19 on our business, we are unable at this time to predict with any certainty how the second half of the year will materialize and whether our revenue run rate will continue to improve. As a result of this uncertainty we are focusing our resources on areas we believe have immediate revenue potential and attempting to reduce expenses where necessary with as little disruption on our daily operations as possible. Should revenues continue to turn downwards or fail to return to historical levels, we may not be able to offset expenses quickly enough.

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 audited consolidated financial statements for 2019 appearing in our Annual Report on Form 10-K for the year ended December 31, 2019 as filed with the SEC on May 12, 2020, as amended. The estimates and assumptions that management makes affect the reported amounts of assets, liabilities, net revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions that management makes affect the reported amounts of assets, liabilities, net revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used 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, goodwill and purchased intangible asset valuations, and valuation of long-lived assets and derivative liability. Actual results may differ from the estimates and assumptions used in preparing the accompanying consolidated financial statements, and such differences could be material.

Results of Operations

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2020	**2019**	**Change**	**% Change**	**2020**	**2019**	**Change**	**% Change**
Net Revenue	$ 7,590,187	$ 14,047,907	$ (6,457,720)	(46.0)%	$ 22,523,170	$ 29,512,476	$ (6,989,306)	(23.7)%
Cost of Revenue	1,070,028	5,674,360	(4,604,332)	(81.1)%	4,509,529	12,354,988	(7,845,459)	(63.5)%
Gross Profit	$ 6,520,159	$ 8,373,547	(1,853,388)	(22.1)%	$ 18,013,641	$ 17,157,488	$ 856,153	5.0 %

Net Revenue

We experienced lower year over year revenue for the three months ended June 30, 2020 and the first half of 2020 as compared to the same periods in 2019 due to lower advertiser budgets associated with Covid-19. Most of the decline in revenue was experienced by the ValidClick business. The lower ValidClick revenue was partially offset by higher revenue in owned and operated sites. The IntentKey business revenue was approximately flat for the three months ended June 30, 2020 and 16% higher for the first half of 2020 as compared to the same periods in 2019.

Cost of Revenue

Cost of revenue is primarily generated by payments to website publishers and app developers that host advertisements we serve through ValidClick and to ad exchanges that provide access to a supply of advertising inventory where we serve advertisements using information predicted by the IntentKey. The decrease in the cost of revenue in the three and six month periods ended June 30, 2020 compared to the same time periods in 2019 is due primarily to the decline in revenue as described in the *Net Revenue* section and in part due to the renegotiation of payment terms and conditions with a ValidClick marketing partner in the quarter ended June 30, 2020.

Operating Expenses

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2020	**2019**	**Change**	**% Change**	**2020**	**2019**	**Change**	**% Change**
Marketing costs (TAC)	$ 3,857,395	$ 6,528,336	$ (2,670,941)	(40.9 %)	$ 13,480,218	$ 13,072,345	$ 407,873	3.1 %
Compensation	2,118,311	1,735,489	382,822	22.1 %	4,462,546	3,544,045	$ 918,501	25.9 %
Selling, general and administrative	1,781,121	2,213,507	(432,386)	(19.5 %)	3,839,963	4,590,568	$ (750,605)	(16.4)%
Operating expenses	$ 7,756,827	$ 10,477,332	$ (2,720,505)	(26.0 %)	$ 21,782,727	$ 21,206,958	$ 575,769	2.7 %

Marketing costs or traffic acquisition costs ("TAC") include those expenses required to attract an audience to the ValidClick owned and operated web properties. The increase in marketing costs in the six-month period ended June 30, 2020 compared to the same time period in 2019 is associated with higher ValidClick revenue from owned and operated sites. The decrease in marketing costs for the three month period ended June 30, 2020 compared to the same period in 2019 is due primarily to the decline in revenue as described in the *Net Revenue* section in addition to reduced TAC due to renegotiating payment terms and conditions with a ValidClick marketing partner.

Compensation expense was higher for the three and six months ended June 30, 2020 compared to the same time periods in 2019 due to primarily to higher employee benefits expense, accrued commissions, stock-based compensation and accrued incentive pay. Our total employment, both full and part-time, was 70 at June 30, 2020 compared to 62 at June 30, 2019. In spite of a higher headcount in this year’s quarter, the payroll for the quarter ended June 30, 2020 was lower than the same quarter last year due to temporarily lowering the compensation for senior officers and employees with salaries in excess of $100,000 per year.

Selling, general and administrative costs were lower for the three and six months ended June 30, 2020 compared to the same time periods in 2019 due to $887 thousand primarily in legal and professional fees related to the terminated Mergers in 2019.

Interest expense, net

Interest expense, net, for the three months ended June 30, 2020, was approximately $73,000 and represents interest expense on financed receivables, capital lease obligations and the PPP Loan. Interest expense, net, for the six months ended June 30, 2020 was approximately $225 thousand due primarily to the change of the derivative liability associated with the Calvary Notes.

Other income, net

Other expense, net, was approximately $190,000 for the six months ended June 30, 2020 and is related to the conversion of the Calvary notes.

Liquidity and Capital Resources

Our principal sources of liquidity are the sale of our common stock, our borrowings under our credit facility with Hitachi, described in Note 5, and borrowings from non-bank financial institutions (see Note 7). During March 2020 and April 2020, we raised $1,478,175 in gross proceeds through sales of our common stock and in April 2020 we received a $1.1 million PPP Loan. On June 8, 2020, we raised an additional $5,500,000 in gross proceeds through sales of our common stock and on July 27, 2020, we raised an additional $10,750,000 in gross proceeds through sales of our common stock.

We have pooled our resources behind a plan to grow our AI technology, the IntentKey, where we have a technology advantage and higher margins. If we are successful in implementing our plan, we expect to return to a positive cash flow from operations. However, there is no assurance that we will be able to achieve this objective.

Though we believe our current cash position, operating cash flows and credit facility will be sufficient to sustain operations for the next twelve months, if our plan to grow the IntentKey business is unsuccessful, we may need to fund operations through private or public sales of securities, debt financings or partnering/licensing transactions.

In April of 2020, the Company experienced a significant reduction in advertiser marketing budgets across both the ValidClick and IntentKey platforms as a direct consequence of COVID-19. These reductions have adversely impacted our revenue in the second quarter of 2020 and may also adversely impact revenue beyond the second quarter, although we are unable at this time to quantify the ultimate impact on our company. As a result, in May 2020 and June 2020 we implemented a temporary compensation change for senior officers and employees. Certain employees with salaries in excess of $100,000 per year had forgone a percentage of their salary. We have curtailed expenses, including compensation and travel, and we have issued a work from home policy to protect our employees and their families from virus transmission associated with co-workers. As a result of this uncertainty we are focusing our resources on areas we believe have immediate revenue potential and attempting to reduce expenses where necessary with as little disruption on our daily operations as possible. Should revenues continue to turn downwards or fail to return to historical levels, we may not be able to offset expenses quickly enough.

Our credit facility is dependent upon receivables, and since we do not know when, if ever, our revenues will return to historic levels or if we will be able to replace those lost revenues with revenues from other sources, the combination of lower credit availability and negative cash flows generated from operating activities introduces potential risk to operation without interruption.

Cash Flows

The table below sets forth a summary of our cash flows for the six months ended June 30, 2020 and 2019:

	For the six months ended June 30,	
	2020	2019
	(in thousands)	
Net cash used in operating activities	$(2,336)	$(710)
Net cash used in investing activities	(558)	(582)
Net cash provided by financing activities	6,702	2,058

Cash Flows - Operating

Net cash used in operating activities was $2,336,029 during the six months ended June 30, 2020. We reported a net loss of $4,184,524, which included non-cash expenses; depreciation and amortization expense of $1,650,785, depreciation expense from right of use assets $215,847 and stock-based compensation expense of $402,185. The change in operating assets and liabilities during the six months ended June 30, 2020 was a use of cash of $585,747 primarily due to a decrease in the accounts payable balance of $2,584,892, a decrease of accrued expenses and other current liabilities of $1,053,047 partially offset by a decrease in the accounts receivable balance by $4,229,088. Our terms are such that we generally collect receivables prior to paying trade payables. Media sales typically have slower payment terms than the terms of related payables.

During the comparable period in 2019, cash used in operating activities was $709,846 from a net loss of $4,417,386, which included several non-cash expenses; depreciation and amortization of $1,548,678 and stock-based compensation of $146,693.

Cash Flows - Investing

Net cash used in investing activities was $557,818 and $581,839 for the six months ended June 30, 2020 and June 30, 2019, respectively, and primarily consisted of capitalized internal development costs.

Cash Flows - Financing

Net cash provided by financing activities was $6,702,072 during the six months ended June 30, 2020 primarily from proceeds from the sale of common stock.

Net cash provided by financing activities was $2,058,196 during the six months ended June 30, 2019 primarily from the proceeds of the Calvary Note.

Off Balance Sheet Arrangements

As of June 30, 2020, 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 June 30, 2020, 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.

In connection with the preparation of the consolidated financial statements appearing in this report, the Company identified an error in the accounting for deferred tax asset valuation allowance originating in 2012 and continuing in its previously issued 2019 annual consolidated financial statements and the consolidated financial statements for the first quarter of 2020. This identified error resulted from management's failure to perform a review of the four sources of taxable income listed in ASC 740-10-30-18 that may be available under the tax law to realize the deferred tax assets: (a) future reversal of existing taxable temporary differences; (b) future taxable income exclusive of reversing temporary differences and carryforwards; (c) taxable income in prior year(s) if carryback is permitted under the tax law; and (d) tax planning strategies when evaluating the valuation allowance which caused the valuation allowance to be overstated. As set forth in Note 17 to the unaudited consolidated financial statements appearing in this report, the correction of this error resulted in a decrease in our deferred tax liability and a decrease in our accumulated deficit. Although the Company assessed the materiality of the error and concluded that the error was not material to the previously issued annual or interim financial statements, the Company revised its previously issued 2019 annual balance sheet to correct for the error in connection with the filing of this Quarterly Report on Form 10-Q for the period ended June 30, 2020.

As a result of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that we did not maintain disclosure controls and procedures that were 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 as a result of this identified material weakness in our internal control over financial reporting. Subsequent to June 30, 2020, we have begun to undertake certain remedial actions to ensure that any future change to the income tax laws or the Company's tax provision is properly accounted for in accordance with ASC 740.

Changes in Internal Control over Financial Reporting

Except for the remediation procedures described above, there were no changes in our internal control over financial reporting during the period ended June 30, 2020 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-UPDATE

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, 2019, filed with the Securities and Exchange Commission on May 12, 2020, and our subsequent filings with the SEC, 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 and our subsequent filings. We expect that these risks will continue to be exacerbated by the impact of the Covid-19 pandemic on our company and any worsening of the economic environment.

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 the second quarter of 2020, Yahoo! accounted for 36.7% and Google accounted for 25.0% of our revenues, respectively, and during the same period in 2019,69.7% and 11.3%, 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 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.

Our stockholders may not approve and adopt a special meeting proposal to ratify and validate the amendment to our articles of incorporation to increase the number of authorized shares of our common stock, $0.001 par value per share, that we may issue from 60,000,000 to 100,000,000, which may have an adverse effect on our Company. Recently, it came to our attention that the effectiveness of the amendment to our articles of incorporation to increase the number of our authorized shares of common stock, par value $0.001 per share (the “Common Stock”), that we may issue from 60,000,000 to 100,000,000 (the "Share Increase Amendment") could be called into question as the authorization of the Share Increase Amendment may not have complied with certain requirements of our articles of incorporation and/or by-laws as well as Chapter 78 of the Nevada Revised Statutes (“NRS”), as related thereto. Our Board has determined that it is in the best interests of the Company and our stockholders to ratify and validate the filing and effectiveness of the Share Increase Amendment pursuant to Section 78.0296 of the NRS to eliminate any uncertainty related to the effectiveness of the Share Increase Amendment and any subsequent issuances of shares of our Common Stock (the “Ratification Proposal”). If the Ratification Proposal is approved by our stockholders and becomes effective, the Share Increase Amendment will be retroactive to October 31, 2019, which was the date of the filing of the Share Increase Amendment with the Nevada Secretary of State. If the Ratification Proposal is not approved by the requisite vote of our stockholders, the Share Increase Amendment may not be deemed effective which could result in (a) our not having sufficient authorized but unissued shares of Common Stock to permit future sales and issuances of Common Stock, including pursuant to outstanding warrants and stock options, (b) certain of our past issuances of Common Stock being deemed to not be valid, and (c) an inability to validate our total outstanding shares of Common Stock in connection with any strategic transaction. Any inability to issue Common Stock in the future and any invalidity of past issuances of Common Stock could expose us to significant claims and have a material adverse effect on our liquidity.

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.

None.

ITEM 6. EXHIBITS-UPDATE

No.	Exhibit Description	Form	Date Filed	Number	Filed or Furnished Herewith
1.1	Placement Agency Agreement dated June 4, 2020 between Inuvo, Inc. and A.G.P./Alliance Global Partners	8-K	6/4/20	1.1	
1.2	Form of Underwriting Agreement dated July 23, 2020 between Inuvo, Inc. and A.G.P./Alliance Global Partners	8-K	7/23/20	10.1	
3(i).1	Articles of Incorporation, as amended	10-KSB	3/1/04	4	
3(i).2	Amended to Articles of Incorporation filed March 14, 2005	10-KSB	3/31/06	3.2	
3(i).3	Articles of Merger between Inuvo, Inc. and Kowabunga! Inc.	8-K	7/24/09	3.4	
3(i).4	Certificate of Change Filed Pursuant to NRS 78.209	8-K	12/10/10	3/1/2004	
3(i).5	Certificate of Merger as filed with the Secretary of State of Nevada on February 29, 2012	10-K	3/29/12	3(i).5	
3(i).6	Articles of Amendment to Amended Articles of Incorporation as filed on February 29, 2012	10-K	3/29/12	3(i).6	
3(i).7	Articles of Amendment to Amended Articles of Incorporation as filed on October 31, 2019	10-Q	5/15/20	3(i)7	
3(ii).1	Amended and Restated By-Laws	10-K	3/31/10	3(ii).4	
3(ii).2	Bylaw amendment adopted February 29, 2012	8-K	3/6/12	3(ii).1	
10.1	Form of Securities Purchase Agreement dated June 4, 2020 by and between Inuvo, Inc. and the purchasers listed therein	8-K	6/04/20	10.1	
31.1	Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer				Filed
31.2	Rule 13a-14(a)/15d-14(a) certification of Chief Financial Rule 13a-14(a)/15d-14(a) certification of Chief Financial Officer				Filed
32.1	Section 1350 certification of Chief Executive Officer				Filed
32.2	Section 1350 certification of Chief Financial Officer				Filed
101.INS	XBRL Instance Document				Filed
101.SCH	XBRL Taxonomy Extension Schema Document				Filed
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				Filed
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				Filed
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				Filed
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				Filed
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				Filed

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.	
August 14, 2020	By:	*/s/ Richard K. Howe*
		Richard K. Howe,
		Chief Executive Officer, principal executive officer
August 14, 2020	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: August 14, 2020

/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: August 14, 2020

/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 June 30, 2020 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: August 14, 2020

/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 June 30, 2020 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: August 14, 2020

/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.