

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) August 11, 2021

INUVO, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation)

001-32442

(Commission File Number)

87-0450450

(IRS Employer Identification No.)

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

(Address of principal executive offices)

72201

(Zip Code)

Registrant's telephone number, including area code

(501) 205-8508

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.001 par value	INUV	NYSE American

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On August 12, 2021, Inuvo, Inc. issued a press release regarding financial performance for Q2 2021 and held a management conference call to discuss the results and the outlook of the Company. A copy of the earnings release is being furnished herewith as Exhibit 99.1.

The information in this Current Report on Form 8-K under this caption and accompanying exhibits are being furnished under Item 2.02 and shall not be deemed to be “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”), or otherwise subject to the liabilities of such section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933 (the “Securities Act”) or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

The Company made reference to non-GAAP financial information in the press release and a reconciliation of these non-GAAP financial measures to the comparable GAAP financial measures is contained in the press

ITEM 5.07 SUBMISSION OF A MATTER TO A VOTE OF SECURITY HOLDERS

On August 11, 2021, Inuvo, Inc. (“Inuvo”) held its 2021 Annual Meeting of Stockholders (the “Annual Meeting”). The record date for stockholders entitled to notice of, and to vote at, the Annual Meeting was June 24, 2021. At the close of business on that date, the Company had 118,516,204 shares of common stock issued and outstanding and entitled to be voted at the Annual Meeting. Of the 118,516,204 shares of common stock issued and outstanding and entitled to be voted at the Annual Meeting, 72,717,971 shares (or 61.4%), constituting a quorum, were represented in person or by proxy at the Annual Meeting. At the Annual Meeting, four proposals were submitted to the Company’s stockholders. The proposals are described in more detail in the Company’s definitive proxy statement filed with the U.S. Securities and Exchange Commission on June 28, 2021. The final voting results were as follows:

Proposal 1

Inuvo’s stockholders elected the following Class I directors each to serve for a term expiring at the 2024 annual meeting of stockholders or until their respective successor has been duly elected and qualified, based upon the voting results set forth below.

	Votes For	Votes Against	Votes Abstained
Richard K. Howe	50,000,017	1,690,359	648,148
Gordon J. Cameron	48,886,545	2,787,042	664,937

Proposal 2

Inuvo's stockholders approved the ratification of the appointment of Mayer Hoffman McCann P.C. as Inuvo's independent registered public accounting firm, based upon the voting results set forth below.

Votes For	Votes Against	Votes Abstained
69,046,508	2,628,905	1,189,981

Proposal 3

Inuvo's stockholders approved an amendment to Inuvo's articles of incorporation increasing the number of authorized shares of common stock, \$0.001 par value per share from 150,000,000 to 200,000,000 (the "Amendment Proposal"), based upon the voting results set forth below.

Votes For	Votes Against	Votes Abstained
65,479,598	7,090,278	295,518

Proposal 4

The proposal to approve an adjournment of the Annual Meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the Amendment Proposal was withdrawn because Inuvo's stockholders approved and adopted the Amendment Proposal, as noted above.

ITEM 7.01 REGULATION FD DISCLOSURE.

On August 12, 2021, the Company held a management conference call to discuss the Company's financial results for Q2 2021, the outlook of the Company and certain other matters.

A copy of the script for the conference call is attached as Exhibit 99.2 and is incorporated by reference into this Current Report on Form 8-K.

The information in this Current Report on Form 8-K and accompanying exhibit is being furnished and shall not be deemed to be "filed" for the purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of such section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits.

Exhibit No. Description

99.1 [Press Release for Q2 2021 financial results.](#)
99.2 [Conference Call Script.](#)

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 hereunto duly authorized.

INUVO, INC.

Date: August 12, 2021

By: /s/ John Pizaris

John Pizaris, General Counsel

EXHIBIT INDEX

- 99.1 Press Release for Q2 2021 financial results
- 99.2 Conference Call Script.



Inuvo Announces Revenue Increase of 66% Year-Over-Year for the Second Quarter Ending June 30, 2021

LITTLE ROCK, Ark., August 12, 2021 (GLOBE NEWSWIRE) -- Inuvo, Inc. (NYSE American: INUV), a leading provider of marketing technology, today announced its financial results for the second quarter and six-month periods ending June 30, 2021.

Richard Howe, CEO of Inuvo, stated, "Revenue for the second quarter was strong across each of the IntentKey and ValidClick product line both year-over-year and sequentially. During Q2 the IntentKey performed 74% better than our clients' goals and its 50% year-over-year and 37% sequential growth are indicative of those results. We expect to see a continuation of double-digit year-over-year growth throughout the second half of 2021 and would expect Adjusted EBITDA to turn positive when monthly revenue run rates exceed \$5.5 million."

Operational Highlights During 2021 to Date:

- A 56% increase in prospect presentations and a 70% improvement in deals won for the IntentKey.
- Launched IntentKey [SaaS](#), with multiple clients now committed and/or already using the solution.
- Delivered results to IntentKey clients that exceeded their goals by 60% and in at least one case delivered in excess of an 88:1 Return on Advertising Spend.
- Renewed our largest ValidClick partner, one of the largest companies in the world, for an additional 2-year term.
- Expanded IntentKey AI platforms for advertising into the Canadian market and signed a first client.
- Signed multiple new clients for the IntentKey platform within private and public sectors and across industries.
- Signed a Casino/Resort company where the entire suite of IntentKey capabilities and channels were leveraged concurrently.
- ValidClick hit an all-time monthly high within the first half by serving Ads into roughly 100 million pageviews.
- Raised \$14.25 million in additional capital resulting in a cash balance at the end of June 2021 of \$17.3 million.
- Continued to successfully deliver cookieless campaigns well ahead of the industry disruption coming in 2023.
- Expanded sales, sales support, and account management to 20 people, including hires in Canada to support the IntentKey's expansion North.

Financial Results for the Second Quarter and Six Month Periods Ended June 30, 2021:

Inuvo experienced higher year-over-year revenue for the three and six months ended June 30, 2021 as compared to the same periods in 2020. Net revenue for the second quarter and first six months ended June 30, 2021 totaled \$12.6 million and \$23.3 million, respectively, an increase of 66.5% and 3.2% as compared to \$7.6 million and \$22.5 million for the same period the prior year. Second through fourth quarter revenue in 2020 was affected by the COVID-19 pandemic, which had a material impact on the advertising industry beginning in April of 2020.



ValidClick revenue, which accounted for 77% of total revenue for the second quarter of 2021, has rebounded and exceeded the revenue of the second quarter of 2020 by 72%. Revenue from the IntentKey platform, which contributed 23% of total revenue for the three months ended June 30, 2021, exceeded the prior year quarter by approximately 50%.

Revenue increased sequentially 19% for the second quarter of 2021 as compared to the first quarter of 2021. IntentKey revenue increased 36.3% sequentially.

Cost of revenue for the second quarter and first six months ended June 30, 2021, totaled \$2.3 million and \$3.7 million as compared to \$1.1 million and \$4.5 million during the same periods the year prior. The increase in the cost of revenue for the three months ended June 30, 2021 was associated with revenue growth. For the six month period, cost of revenue improved by 18%.

Gross profit for the second quarter and first six months ended June 30, 2021, totaled \$10.4 million and \$19.5 million as compared to \$6.5 million and \$18 million during the same periods the year prior. Gross profit margin for the second quarter of 2021 was 82.1% as compared to 86% for the same period the year prior. Gross profit margin for the first six months ending June 30, 2021 were 84% as compared to 80% for the same period the year prior.

Operating expenses totaled \$12.8 million for the second quarter of 2021 as compared to \$7.8 million for the same period the year prior. Operating expenses totaled \$24.5 million for the first six months of 2021 as compared to \$21.8 million for the same period the year prior.

Marketing costs or traffic acquisition costs ("TAC") include those expenses required to attract an audience to the ValidClick platform. The increase in the cost of revenue for the three and six months periods ended June 30, 2021 as compared to the same time periods in 2020 was largely due to the 72% increase in ValidClick revenue discussed above in the Net Revenue section.

Compensation expense was higher for the three and six-months ended June 30, 2021 compared to the same time periods in 2020 due primarily to higher employee salary expense and stock-based compensation. Total employment, both full and part-time, was 76 at June 30, 2021 compared to 70 at June 30, 2020. The higher headcount this year over last year was primarily due to hiring additional sales and sales support personnel for the IntentKey platform.

Selling, general and administrative costs were lower for the three and six-month periods ended June 30, 2021 compared to the same time period in 2020 due was primarily due to lower IT costs, lower facilities, travel and entertainment, corporate expenses and depreciation and amortization expense. For the six month period in 2021, there was other income during the first quarter that included \$420,000 dollars in licensing obligations for the use of ValidClick associated with a contract signed in March of 2020 that ended in March of 2021.

The net loss for the second quarter of 2021 totaled \$2.4 million or \$0.02 per basic and diluted share as compared to the net loss of \$1.4 million or \$0.02 per basic and diluted share for the same period the year prior. The net loss for the first six months period of 2021 totaled \$4.5 million or \$0.04 per basic and diluted share as compared to the net loss of \$4.2 million or \$0.07 per basic and diluted share for the same period the year prior.



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Adjusted EBITDA was a loss of \$965 thousand in the second quarter of 2021.

Liquidity and Capital Resources:

On June 30, 2021, Inuvo had \$17.3 million in cash and cash equivalents, \$15.4 million of working capital, an unused working capital facility of \$5 million and no debt.

As of June 30, 2021, Inuvo had 118,518,445 common shares issued and outstanding.

Conference Call Details:

The Company will host a conference call on Thursday, August 12, 2021 at 8:30 a.m. Eastern Time (ET) to discuss its financial results for the second quarter ended June 30, 2021 and provide a business update.

Conference Call Details:

Date: Thursday, August 12, 2021

Time: 8:30 a.m. Eastern Time

Toll-free Dial-in Number: 1-888-394-8218

International Dial-in Number: 1-323-701-0225

Conference ID: 7678085

Participant Link: https://viaid.webcasts.com/starthere.jsp?ei=1484719&tp_key=0ed96da3ee

A telephone replay will be available through Thursday, August 26, 2021. To access the replay, please dial 1-844-512-2921 (domestic) or 1-412-317-6671 (international). At the system prompt, please enter the code 7678085 followed by the # sign. You will then be prompted for your name, company, and phone number. Playback will then automatically begin.

About Inuvo

Inuvo®, Inc. (NYSE American: INUV) is a market leader in artificial intelligence, aligning and delivering consumer-oriented product & brand messaging strategies based on powerful, anonymous, and proprietary consumer intent data for agencies, advertisers, and partners. To learn more, visit www.inuvo.com.

Safe Harbor / Forward-Looking Statements

This press release contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially, including, without limitation risks detailed from time to time in our filings with the Securities and Exchange Commission (the “SEC”), and represent our views only as of the date they are made and should not be relied upon as representing our views as of any subsequent date. You are urged to carefully review and consider any cautionary statements and other disclosures, including the statements made under the heading “Risk Factors” in Inuvo, Inc.’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020 as filed on February 11, 2021, our Quarterly Reports on Form 10-Q, and our other filings with the SEC. Additionally, forward looking statements are subject to certain risks, trends, and uncertainties including the continued impact of Covid-19 on Inuvo’s business and operations. Inuvo cannot provide assurances that the assumptions upon which these forward-looking statements are based will prove to have been correct. Should one of these risks materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those expressed or implied in any forward-looking statements, and investors are cautioned not to place undue reliance on these forward-looking statements, which are current only as of this date. Inuvo does not intend to update or revise any forward-looking

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statements made herein or any other forward-looking statements as a result of new information, future events or otherwise. Inuvo further expressly disclaims any written or oral statements made by a third party regarding the subject matter of this press release. The information, which appears on our websites and our social media platforms is not part of this press release.

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INUVO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	June 30 2021	June 30 2020	June 30 2021	June 30 2020
Net revenue	\$ 12,635,583	\$ 7,590,187	\$ 23,253,392	\$ 22,523,170
Cost of revenue	2,264,020	1,070,028	3,708,079	4,509,529
Gross profit	10,371,563	6,520,159	19,545,313	18,013,641
Operating expenses				
Marketing costs	8,213,140	3,857,395	15,518,924	13,480,218
Compensation	2,880,217	2,118,311	5,618,084	4,462,546
Selling, general and administrative	1,676,890	1,781,121	3,401,868	3,839,963
Total operating expenses	12,770,247	7,756,827	24,538,876	21,782,727
Operating loss	(2,398,684)	(1,236,668)	(4,993,563)	(3,769,086)
Interest expense, net	(7,991)	(72,681)	(30,380)	(225,192)
Other income (expense) , net	24,548	(49,939)	494,548	(190,246)
Net loss before taxes	(2,382,127)	(1,359,288)	(4,529,395)	(4,184,524)
Net loss	\$ (2,382,127)	\$ (1,359,288)	\$ (4,529,395)	\$ (4,184,524)
Earnings per share, basic and diluted				
Net loss income		(0.02) (0.02)	(0.04)	(0.07)
Weighted average shares outstanding				
Basic	116,497,035	66,023,317	116,497,035	59,835,925
Diluted	116,497,035	66,023,317	116,497,035	59,835,925

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INUVO, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30	December 31,
	2021	2020
Assets		
Cash and cash equivalent	\$ 17,347,012	\$ 7,890,665
Accounts receivable, net	5,678,542	6,227,610
Marketable securities	888,585	-
Prepaid expenses and other current assets	493,527	413,435
Total current assets	<u>24,407,666</u>	<u>14,531,710</u>
Property and equipment, net	1,356,097	1,187,061
Goodwill	9,853,342	9,853,342
Intangible assets, net	7,653,337	8,586,089
Other assets	1,094,894	1,023,369
Total other assets	<u>18,601,573</u>	<u>19,462,800</u>
Total assets	<u>\$ 44,365,336</u>	<u>\$ 35,181,571</u>
Liabilities and Stockholders' Equity		
Accounts payable	\$ 6,469,960	\$ 4,048,260
Accrued expenses and other current liabilities	2,536,833	4,680,912
Total current liabilities	<u>9,006,793</u>	<u>8,729,172</u>
Deferred tax liability	107,000	107,000
Other long-term liabilities	561,527	1,056,285
Total long-term liabilities	<u>668,527</u>	<u>1,163,285</u>
Total stockholders' equity	<u>34,690,016</u>	<u>25,289,114</u>
Total liabilities and stockholders' equity	<u>\$ 44,365,336</u>	<u>\$ 35,181,571</u>

RECONCILIATION OF NET LOSS TO ADJUSTED EBITDA
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30 2021	June 30 2020	June 30 2021	June 30 2020
Net loss	(\$2,382,127)	(\$1,359,288)	(\$4,529,395)	(\$4,184,524)
Interest Expense	7,991	72,681	30,380	225,192
Depreciation	314,106	348,660	619,634	718,033
Amortization	537,530	576,546	1,086,730	1,148,600
EBITDA	(1,522,500)	(361,401)	(2,792,651)	(2,092,699)
Stock-based compensation	557,602	193,288	952,472	402,185
Non-recurring items:				
Adjustment to derivative liability accounts		28,057		168,364
Adjusted EBITDA	(\$964,898)	(\$140,056)	(\$1,840,179)	(\$1,522,150)

Reconciliation of Net Loss to EBITDA and Adjusted EBITDA

We present EBITDA and Adjusted EBITDA as a supplemental measure of our performance. We defined EBITDA as net loss plus (i) interest expense, net, (ii) depreciation, and (iii) amortization. We further define Adjusted EBITDA as EBITDA plus (iv) stock-based compensation and (v) certain identified expenses that are not expected to recur or be representative of future ongoing operation of the business. These adjustments are itemized above. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating EBITDA and Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same or similar to some of the adjustments in the presentation. Our presentation of EBITDA and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items

Operator Comments:

Good afternoon, and welcome to the INUVO's 2021 Second Quarter Conference Call. Today's conference is being recorded. Mr. Valter Pinto of KCSA Strategic Communications. Please go ahead, sir.

Valter Pinto (Investor Relations) Comments:

Thank you, operator and good afternoon.

I'd like to thank everyone for joining us today for the INUVO second quarter 2021 shareholder update call. Today, INUVO's Chief Executive Officer Richard Howe and Chief Financial Officer Wally Ruiz will be your presenters on the call.

We would also like to remind our shareholders that we anticipate filing our 10Q with the Securities and Exchange Commission this evening.

Before we begin, I'm going to review the Company's Safe Harbor statement. The statements in this conference call that are not descriptions of historical facts are forward-looking statements relating to future events and, as such, all forward-looking statements are made pursuant to the Securities Litigation Reform Act of 1995.

These forward-looking statements are subject to risks and uncertainties and actual results may differ materially. When used in this call, the words anticipate, could, enable, estimate, intend, expect, believe, potential, will, should, project, and similar expressions as they relate to INUVO, Inc., are, as such, a forward-looking statement.

Investors are cautioned that all forward-looking statements involve risks and uncertainties which may cause actual results to differ from those anticipated by INUVO at this time. In addition, other risks are more fully described in INUVO's public filings with the US Securities and Exchange Commission, which can be reviewed at www.sec.gov.

With that, I'll now turn the call over to CEO Richard Howe.

Richard Howe (CEO) Comments:

Thank you Valter and thanks everyone for joining us today.

For the three months ended June 30, 2021, we delivered \$12.6 million in Revenue which was up 66% year-over-year and up 19% sequentially.

At our current gross margins, we'd expect to break even on an Adjusted EBITDA basis when monthly revenue run rates exceed \$5.5 million, which we expect to be able to deliver before year-end. Adjusted EBITDA in the second quarter was a loss of \$965,000 which was roughly flat sequentially.

The balance sheet remains strong with no debt, over \$18 million in cash and marketable securities and an unused \$5 million dollar financing facility. The company is not currently in need of additional operating Capital.

Of the \$12.6 million delivered, the ValidClick platform contributed \$9.7 million, which was up year-over-year by 72%. The platforms growth rate has been roughly 8% compounded monthly through June 2021 off the Covid related low in May of 2020.

As we have mentioned previously, ValidClick services have been materially revised post-pandemic and this is most evident in the mix of revenue, where of the three main clients for ValidClick, the largest is now Google. As the most dominant advertising marketplace in the world, we decided in 2020 to re-focus our efforts towards serving the objectives of this client, a strategy we believe offers the best short and long-term benefits. I will remind our shareholders that this client relationship goes back now more than a decade. More on ValidClick later in the conference.

The IntentKey platform contributed roughly \$2.9 million of revenue in the quarter, growing 50% year-over-year and 37% sequentially. The client performance results associated with this product are nothing short of astounding. In the second quarter, we exceeded our client goals on average by 74%. We would expect this product line to continue its double-digit growth rates year-over-year for the foreseeable future.

For the third quarter of 2021, we expect strong continuing year-over-year and sequential revenue growth within both product lines.

Let me now provide some additional insights for both the IntentKey and ValidClick.

As a result of the continuing performance results associated with the IntentKey platform, through the first half of 2021 we have seen a 56% increase in the number of prospective client presentations given and a 70% increase in the number of deals won as compared to the same period in 2020.

We had 18 new campaigns launch within the quarter including a first deal sold by our sales rep in Canada as part of our announced expansion into that market. We had 84 total campaigns running in the second quarter.

In April, we put out a release about a retail client where the IntentKey had delivered a staggering 88:1 return on Ad spend. Results for that client have only improved since then and as a result they are now allocating more budget towards our service.

We also announced recently that we had closed our first Casino client and I'm pleased to report that the client continues to spend media dollars with us as their growth accelerates, having recently surpassed their largest competitor in the state in monthly gaming revenues.

We are currently working on additional proposals for this client and Casino International, a leading publication within the gaming world will be highlighting our technology in a September article.

Within the quarter we added state agencies looking to promote covid and vaccination awareness, a financial services company, a healthcare company, a recreational vehicle company, a large retailer, and some tourism clients. We are in active implementations associated with the SaaS version of the IntentKey and are in discussions with numerous prospects for the same.

Because our solution uses Artificial Intelligence and is therefore not reliant on third-party data, cookies, or IP addresses to make its advertising decisions, we have been experiencing increased interest from prospects resulting from this competitive differentiation as those companies look to select technology providers who can future proof their advertising spend.

We would expect continued interest over the next few years related to this differentiation as brands begin to appreciate the scale of the performance challenges associated with what is fundamentally a change in the very way online advertising is delivered.



Google recently extended their timeline for the deprecation of third-party cookies to allow the market additional time to prepare. Since we are already prepared, this added time gives us the opportunity to be working on the next advancement of our platform while competitors worry about re-engineering their current platforms.

With a growing list of clients and prospects, hiring within the IntentKey to support clients and sales has continued throughout Q2. We now have 20 people in sales, account management and sales support roles. INUVO currently has 78 full and part time employees.

On the development front we made several scalability improvements designed to accommodate our growing client base and our expansion into Canada. We are also rebuilding and streamlining our internal dashboards as an efficiency improvement for client facing personnel and as a way to reduce the ramp-up time associated with new hires as our growth continues.

We also recently started to enhance our web crawler. Within our system, this crawler is akin to a librarian. It continuously pulls content from the internet which it then sends to our Artificial Intelligence for interpretation. In this regard, our AI already has learned from over 6 billion web pages covering most of humanities knowledge. It also interprets millions of new web pages daily.

We are working towards enhancing this crawler in a manner that would allow our AI to understand what the sentiment is related to any individual concept. For example, is the sentiment strong towards a given brand, or a place or a product or a person or a thing. Concurrently, and given the predominance of things like emojis and hashtags, we are updating the crawler so it can understand these new language constructs.



Turning now to ValidClick, where, as I mentioned earlier, we have seen a strong 8% compounded monthly growth since the Covid low in May of 2020.

Increasing scale within ValidClick's competitive market is often about making small enhancements that can improve yield. This was our main development and operational focus this quarter. There were two such enhancements worth noting.

First, we continued to enhance the a/b testing infrastructure we put in place and launched last year. We haven't talked about this before but it's a good example of the power that incremental improvements can have on revenues.

In concert with the needs of our largest client, we ran 17 different individual experiments within the quarter where we made small adjustments on landing pages to things like color, font size, and content spacing. Of these 17 experiments, 11 resulted in positive increases in revenue. While each improvement typically represents around 1-3%, this ability to quickly test in this manner, at scale, can add up over time.

In 2021 so far, we estimate that we've increased ValidClick revenues by about 8-10% using this continuous experimentation capability. This increase enables us to better promote websites, be more competitive in the marketplace, and ultimately serve the needs of our clients while scaling our services to those clients.

The second focus I'd like to highlight this quarter was a set of enhancements to our proprietary media buying tools, a technological update that makes managing advertising campaigns more efficient.

Using these internally developed tools, we were able to *double* the number of campaigns each campaign manager can build each day. This is critical because being effective in

online advertising at scale requires optimization, which is achieved by developing campaigns across a wide variety of topics. A process, without technology, that is manually prohibitive.

One of the ValidClick measures we track that might be interesting to shareholders is the number of web pages into which we served Ads viewed by consumers in any given month. In this regard, ValidClick hit an all-time monthly high within the first half of the year by serving ads into roughly 100 million pageviews.

I would now like to turn the call over to Wally for a more detailed assessment of our financial performance within the quarter.

Ruiz (CFO) Comments:

Thank you, Rich, and good morning everyone. I will recap the financial results of our second quarter of 2021.

As Rich mentioned, Inuvo reported revenue of \$12.6 million for the quarter ended June 30, 2021; this compares to \$7.6 million reported in the second quarter of last year.

Both platforms, ValidClick and IntentKey, exceeded the prior year. ValidClick revenue exceeded the revenue in the second quarter of last year by 72% and the IntentKey revenue for the three months ended June 30, 2021 exceeded the prior year quarter by approximately 50% primarily due to the acquisition of new customers. Revenue in 2020 was affected by the COVID-19 pandemic which had a material impact on advertising budgets beginning in April of 2020.



As the IntentKey platform revenue has become a greater percentage of overall Revenue, the components of our overall cost of revenue has shifted. Cost of revenue in the 2021 period was primarily generated by payments to ad exchanges that provide access to a supply of media inventory where we serve advertisements using information predicted by the IntentKey and to a lesser extent, payments to website publishers and app developers that host advertisements we serve through ValidClick. The majority of ValidClick's costs are traffic acquisition related and therefore reported as a marketing expense.

Last year, cost of revenue was primarily generated by payments to website publishers and app developers that hosted advertisements we served through ValidClick.

Inuvo Gross Margins decreased in the second quarter to 82% compared to 86% in the same quarter last year due primarily to the shift in the cost of revenue mentioned.

The IntentKey gross margins were 42% in the second quarter. Going forward, we expect IntentKey gross margins to increase due to the SaaS version where margins are expected to be significantly higher as a result of the mostly fixed costs associated with operating just the AI, Modeling and Decision components of the platform.

Operating expenses were \$12.8 million in the second quarter of 2021 compared to \$7.8 million the prior year, an increase of \$5 million.

The largest component of operating expense is marketing costs. Marketing costs are predominantly traffic acquisition costs associated with ValidClick. It is the largest expense associated with the ValidClick platform. Marketing costs were \$8.2 million in the second quarter this year compared to \$3.9 million in the same quarter last year. The \$4.3 million higher expense this year compared to last year is primarily due to our reduction of traffic

acquisition activities last year in response to the unusually lower ValidClick revenue associated with the COVID-19 pandemic.

Compensation expense was \$2.9 million in the second quarter this year compared to \$2.1 million in the prior year primarily due to higher stock-based compensation expense and to higher employee salary cost. Our full-time employment was 73 on June 30, 2021, compared to 66 on June 30, 2020.

The majority of the increase in headcount occurred within sales, sales support and account management for the IntentKey. We also hired traffic acquisition professionals within ValidClick to support a strategy to bring that function in-house.

Selling, general and administrative expense decreased \$104 thousand in the second quarter this year compared to the prior year due to lower IT costs where we consolidated our computing facilities to 2 data centers; lower facilities expense, lower corporate expenses, and lower depreciation and amortization expense; these expenses were partially offset by higher professional and public company expense.

Yesterday, August 11th, we held our annual shareholder meeting. All four proposals submitted to the shareholders were approved. The cost of holding the meeting was approximately \$200 thousand, the highest meeting cost in recent memory, part of which caused an offsetting higher expense to the otherwise lower S,G & A.

We believe the higher cost of holding the shareholder meeting is primarily due to brokers surrendering their right to vote uninstructed shares using the discretionary voting authority granted by the NYSE. Of the 119 million shares outstanding, approximately a third of our shares are held by insiders, institutions and large shareholders leaving two thirds held by retail shareholders.

Retail shareholders frequently keep their shares in their brokerage accounts and often are not aware that a vote is pending. Proxies not returned to the broker may be voted by the broker. Since the returns from retail holders is often under 25%, the broker's discretionary vote becomes significant, particularly to small cap companies.

The decline in discretionary voting by brokers is a real concern for many issuers as it is becoming increasingly difficult and expensive to obtain enough votes to reach a quorum and pass specific proposals.

Inuvo incurred the higher expense attempting to reach retail shareholders, by contracting an independent third party, who attempts to identify and phone shareholders to remind them to vote.

Net interest expense was \$8 thousand in the second quarter of 2021 compared to \$73 thousand expense in the same quarter last year.

We had other income of \$25 thousand in the second quarter of this year due to unrealized gains from marketable securities. The other net expense from the second quarter last year was due to the conversion of convertible debt securities.

We reported net loss of \$2.4 million or 2¢ per basic share compared to a \$1.4 million net loss or 2¢ per basic share in the same quarter last year.

The adjusted EBITDA for the quarter ended June 30, 2021, was a \$965 thousand loss compared to a loss of \$140 thousand last year.

On June 30, 2021, we had cash and cash equivalents of \$17.3 million, marketable securities of \$889 thousand and a net working capital of \$15.4 million. In addition, we have a \$5 million working capital line of credit which currently has no outstanding balance. We maintain a simple cap structure with only common stock and employee restricted stock units through an equity incentive plan.

Now, I'd like to turn the call back to Rich for closing remarks.

Richard Howe (CEO) Closing Comments:

Thanks, Wally, we had a very strong second quarter with 66% year-over-year and 19% sequential growth. We would expect the third quarter to be up between 45-55% on a year-over-year basis.

We expect both product lines to show sequential growth in the third quarter. We expect our Adjusted EBITDA will improve within the third quarter. We expect the Intentkey's remarkable client performance to continue alongside a growing pipeline with improving win rates.

At over \$18 million in cash and marketable securities and no debt, our balance sheet is strong and consequently, we see no immediate need for additional operating capital.

I will now turn the call over to the operator for questions.

Richard Howe Final Comments:

I would like to thank everyone who joined us on today's call. We appreciate your continued interest in our company.