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

# FORM 10-K

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

For the fiscal year ended December 31, 2010

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.) |
| **15550 Lightwave Drive, Suite 300, Clearwater, FL** | **33760** |
| (Address of principal executive offices) | (Zip Code) |

**(727) 324-0046**
(Registrant's telephone number, including area code)

**N/A**
(Former name, former address and former fiscal year, if changed since last report)

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Common Stock** | **NYSE Amex** |

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

**None**
(Title of class)

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

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☑ |

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

The aggregate market value of the outstanding common stock, other than shares held by persons who may be deemed affiliates of the registrant, computed by reference to the closing sales price for the registrant's common stock on June 30, 2010 (the last business day of the registrant's most recently completed second quarter), as reported on the NYSE Amex, was approximately $14.5 million. As of March 28, 2011, there were 8,605,599 shares of common stock of the registrant outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2011 Annual Meeting of Stockholders, to be filed within 120 days of the year ended December 31, 2010, are hereby incorporated by reference in Part III of this Annual Report on Form 10-K.

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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. 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. These factors include, but are not limited to,

- our history of losses,
- risks frequently encountered by Internet marketing and advertising companies,
- The adverse effect of search engine industry consolidation and alliances,
- our ability to expand our relationships with other Internet media content, advertising and product providers,
- the terms of our bank loan agreements,
- our dependence upon a significant portion of our revenues from a single customer,
- our ability to effectively compete,
- the impact of increasing government regulations and consumer protection laws on our business model,
- our need to keep pace with changes in technology,
- the possible interruption of our services and our reliance on third-party providers,
- our dependence on credit card processing companies and the risks of increasing fees,
- the risks related to credit card fraud,
- our history of litigation,
- liabilities associated with information we retrieve from our websites,
- the impact of natural disasters on our ability to operate,
- any failure on our part to adequately protect personal information,
- possible security breaches and computer viruses,
- our reliance on our executive officers and key personnel,
- discounts offered to advertisers by upstream advertising networks,
- the impact of “spam,” and
- the impact of our quarterly operating results on our stock price.

Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this report in its entirety, including the risks described in Item 1A. - Risk Factors appear in this report. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

**OTHER PERTINENT INFORMATION**

Unless specifically set forth to the contrary, when used in this report the terms the “Company,” "we," "us," "ours," and similar terms refers to Inuvo, Inc., a Nevada corporation and our subsidiaries.

When used in this report, “2009” means the fiscal year ended December 31, 2009, “2010” means the fiscal year ended December 31, 2010 and “2011” means the fiscal year ending December 31, 2011.

All share and per share information contained in this report gives effect to the 1:10 reverse stock split of our outstanding common stock effective December 10, 2010.

The information which appears on our web site at www.inuvo.com is not part of this report.

## PART I

### ITEM 1. BUSINESS.

**Company Overview**

Inuvo®, Inc. develops software and analytics technology that is accessible over the internet for use by online advertisers and website publishers. The online advertisers agree to pay us when a consumer action, including a click, a lead or a sale, is initiated from within the platforms, and online publishers agree to generate consumer actions for a fee.

Our platforms provide a mechanism for the advertisers and publishers to easily and openly connect, thus facilitating the execution of marketing programs. Our Exchange segment consists of the technology and analytics platforms that support online marketing. Our Direct segment consists of the various websites the Company owns and operates where we make money from the sale of advertising, data or product.

**Industry Overview**

The dollars spent on online advertising, as a function of total advertising spend, has continued to grow in the United States, and research supports the assumption that this will continue. According to The Wall Street Journal, "This year [2010], for the first time, advertisers will have spent more on Internet ads than on print newspaper ads, according to new estimates from eMarketer. The digital-marketing research firm says U.S. spending on online ads will hit $25.8 billion [in 2010]..." As marketers evaluate their marketing spend across channels, they are likely to allocate increasingly larger percentages of overall budgets to online channels where return on investment ("ROI") is more directly measurable and controllable. As the amount of time individual consumers spend online as a percentage of their total time spent across all media continues to grow, it is believed that advertising spend will increase in those higher trafficked marketing channels. We believe our online business is well-positioned to benefit from these market and consumer trends.

During the fourth quarter of 2010, we experienced a reduction in search marketing revenue resulting from the migration to the recently launched Yahoo!-Bing platform. The integration of these two platforms caused both an unexpected disruption in search traffic purchased through the Yahoo!-Bing platform and lower revenue-per-click received from the Yahoo!-Bing platform. We have been making adjustments to adapt to this new marketplace, and have seen incremental improvements in revenue as a result. However, volatility may continue over the ensuing months.

**Our Strategy and Differentiators**

In online advertising, an advertising network typically provides advertisers with access to consumer traffic through associations developed with multiple website publishers. The network then acts as an intermediary between an advertiser and publisher. In contrast, an online technology provider, such as our company, builds, implements and operates solutions that allow advertisers and publishers to work directly with each other. The platforms provide all the individual management functions the parties need so they may run, track and adapt their various online advertising campaigns.

While we have and continue to generate revenue and profit from advertising network operations, our core strategy today is focused on building out the data, technology and analytics that support the Inuvo Platform. The platform technology set is designed to be extensible, meaning Inuvo can technologically adapt more quickly to market trends by rapidly building platform extensions. With this capability, Inuvo can execute on both an innovation and fast follower strategy as it relates to the sales of online marketing solutions across marketing channels. Concurrently, we believe that as publishers begin to adopt the Inuvo Platform, we will be in a position to provide them with additional value-added services that both retain and monetize their website traffic. This will be the key to successfully attracting new publishers to the Inuvo Platform and increasing the distribution of the Inuvo advertising inventory.

One of our key differentiators in this highly competitive market will be the utilization of anonymous behavioral targeting information and analytics. Our various businesses currently interact with tens of millions of anonymous consumers monthly, providing a significant sample set of interactions on which sophisticated purchase behavior analytics may be constructed. We remain focused on a strategy where data and analytics are key components to every solution delivered.

Additionally, we believe in our www.babytobee.com website and lead generation business, that we have a valuable asset, in excess of 200,000 pre-natal leads monthly. Our strategy is to develop new eCommerce opportunities that leverage this asset.

Further, with the recent launch of a white labeled version of www.BargainMatch.com, we have developed what we believe to be a very powerful customer loyalty solution. It is our strategy to distribute this service to publishers looking to build loyalty in their customer base by providing their users an online shopping experience that rewards loyalty through cash back payments on purchases.

**Operations**

We operate as two business segments, Exchange and Direct. The Exchange and Direct segments represented approximately 85.2% and approximately 14.8%, respectively, of our total net revenue for 2010. In 2009, the Exchange and Direct segment represented approximately 72.5% and 27.5%, respectively, of our total net revenues from continuing operations.

***Exchange Segment***

The Exchange segment designs, builds, implements, manages and sells the various technology platforms and services we offer. For the last 12 months, the Exchange segment has been executing a technology strategy to consolidate the disparate technologies and platforms we acquired between 2002 and 2008 into the Inuvo Platform. The Inuvo Platform is an open, fraud filtering, lead generation marketplace designed to allow advertisers and publishers to manage their transactions in an automated and transparent environment. In addition to the core Inuvo Platform for advertisers and publishers, which launched in beta in October 2009, we continue to sell several legacy platforms, services or directories within the Exchange segment, also included below:

- The ValidClick® service at www.validclick.com. ValidClick is a fraud filtering, pay-per-click (PPC) marketplace where publishers can integrate dynamically-generated advertisements within their websites based on the demographics and natural search behaviors of the consumer. ValidClick provides publishers with access to tens of thousands of advertisers in an easy-to-use XML-based implementation, giving the publisher greater control over content and integration than other competitive offerings.

- The MyAP® Affiliate Platform at www.myap.com. MyAP is a complete affiliate tracking and management software solution providing advertisers the ability to sign up, manage and track the activities of their publishers through a reliable, easy-to-use, and privately-branded platform with full data transparency. Where the Inuvo Platform is an open platform where many advertisers and publishers interact, the MyAp platform is designed specifically to allow merchants to build private affiliate networks. Each advertising customer of MyAp is supported by a unique implementation of the software, customized to suit their individual needs and populated by publishers who use the platform exclusively for that advertiser. Today, MyAp supports hundreds of customers.

- The LocalXML service at www.localxml.com. LocalXML is a service which will allow publishers to make real-time calls to the LocalXML database. These calls answer the simple questions “what” and “where”. For example, “what” equals “steaks” and “where” equals “Tampa”, from which the LocalXML database returns a complete listing of all local businesses in Tampa that meet this criteria. Publishers may customize how the data appears on their site, and include user reviews of the businesses searched. The LocalXML service is designed to be bundled with the ValidClick service described above.

- The Yellowise.com™ directory search web site at www.yellowise.com. Yellowise.com is a local search and review site powered by the LocalXML service. Users may search by category and location, and receive requested search results. Users may also post reviews of their favorite and not-so-favorite businesses making the reviews available to all other users of the site. Yellowise.com is the in-market website we use to ensure the LocalXML service performs in accordance with market needs.

- The Zubican business-to-business directory search website at www.zubican.com. Zubican is a business directory, powered by LocalXML, which connects business-to-business buyers and sellers. Business profiles provide a mechanism for describing ones business along with a means for contact and customer experience testimonials. Each company is encouraged to take control of its profile. Users are encouraged to create personal profiles, either directly in Zubican or by pointing to existing personal profiles in social networking sites like Facebook, LinkedIn® or Plaxo.

- The BargainMatch service at www.BargainMatch.com. BargainMatch is a service which allows publishers to offer their visitors an online shopping experienced branded around their site with rewards to consumers coming in the form of cash back on every online purchase made through the publisher. The service has been designed and positioned as a consumer loyalty solution.

***Direct Segment***

Our Direct segment designs, builds and implements unique offers and/or websites that generate revenue from the sale of products, services, data and advertising. The Direct segment manages owned and operated properties across verticals that include professional recertification and baby products. The segment uses a number of online tactics for lead generation that includes search and affiliate and email marketing campaigns designed to drive traffic to the sites. In the future, a majority of such tactics will be deployed and/or tracked via the Inuvo Platform.

In 2011, we expect to launch a new channel to monetize the thousands of monthly opt-in prenatal leads we collect through our BabytoBee web property. We will offer targeted consumers on the telephone, a credit line and the ability to purchase brand name baby products on Kidzadu, a website we own and operate. We expect to act as a sales facilitator with one of our partners responsible for managing and funding the consumer credit line and another partner being responsible for product inventory, fulfillment and returns. This business model requires no additional overhead, inventory, and capital. We expect to launch Kidzadu in the second quarter of 2011.

**Competitive Analysis**

Our business experiences competitive pressure along the three principal categories of search syndication, affiliate marketing and direct competitors for each web property we own and operate. Additionally, the complexity and maturity of online marketing has created an environment where niche providers, agencies, systems integrators, campaign management vendors and networks are all increasing their suite of offerings across marketing channels, as a means to better compete for total advertising dollars.

Within search, our competitors include LookSmart, InfoSpace, Miva, Google and Ask. Our affiliate competitors include Commission Junction, Linkshare and DigitalRiver. The websites we own that are listed above within the Direct segment all have individual competitors based on their respective vertical markets.

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

**Sales and Marketing**

We utilize multiple sales and marketing strategies to drive business. On the sales side, we employ sales professionals whose job it is to build both advertiser and publisher relationships. On the marketing side, we use marketing channels that include our website, email campaigns, social media, blogs, public relations, trade shows, seminars, conferences, partner programs and search to build awareness for the suite of products and services. The Direct segment uses search engine optimization (“SEO”) and search engine marketing (“SEM”) as well as affiliate marketing tactics and the Inuvo Platform to drive leads for the various offers we promote.

In 2010, the Direct segment’s BabytoBee owned and operated website operations made a number of marketing improvements including the launch of a redesigned website and the elimination of our offshore call center operations. We outsourced these services with a Florida-based call center which located its operations in our Clearwater headquarters. This call center provides outbound and inbound lead nurturing and qualification services to nearly one million BabytoBee pre- and post-natal customers each year.

**Technology Platforms**

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

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

**Principal Customers**

We are not dependent upon revenues from any limited number of customers in our Direct segment. In our Exchange segment, during 2010 and 2009 one customer represented approximately 80.3% and approximately 66.5%, respectively, of our net revenues. The loss of such customer would have a material adverse effect on our business. This increase is directly attributable to our increased search spend in 2010 driving revenues to our owned and operated websites.

**Intellectual Property Rights**

We currently rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Our success depends on the protection of the proprietary aspects of our technology as well as our ability to operate without infringing on the proprietary rights of others. We also enter into proprietary information and confidentiality agreements with our employees, consultants and commercial partners and control access to, and distribution of, our software documentation and other proprietary information. We have registered the trademarks ValidClick®, ValidClick AdExchange®, MyAp®, Second Bite®, Kowa!Bunga®, Inuvo®, Zubican™, LocalXML™, and Yellowise™ in the United States.

We currently have two pending U.S. patent applications. We have applied for U.S. patents on FeedPatrol, our click fraud technology that filters suspicious clicks in real-time, and Second Bite, a shopping cart abandonment sales recovery technology. We do not know if our current patent applications will result in a patent being issued within the scope of the claims we seek, if at all, or whether any patents we may receive will be challenged or invalidated. Although patents are only one component of the protection of intellectual property rights, if our patent applications are denied, it may result in increased competition and the development of products substantially similar to our own. In addition, it is difficult to monitor unauthorized use of technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States, and our competitors may independently develop technology similar to our own. We will continue to assess appropriate occasions for seeking patent and other intellectual property protections for those aspects of our technology that we believe constitute innovations providing significant competitive advantages.

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

## Software Development

Our software development costs are associated with the development of our Inuvo Platform and our owned and operated web sites. During 2010 and 2009, we capitalized approximately $600,000 in each year on costs associated with its development.

## Discontinued Operations

In 2009, our management reassessed the array of businesses that had been acquired in the preceding years and developed a strategy to focus on two core businesses; the Exchange segment and the Direct segment. Throughout 2009 and 2010, eleven businesses were either sold or retired.

The following is a summary of the significant business units currently or historically included in our discontinued operations:

- Cherish, Inc. ("Cherish") and Vintacom, Inc. ("Vintacom") offered a variety of online dating communities designed to allow individuals to search for friends, partners and future spouses using interactive websites. We completed the sale of Cherish in February 2009. The sale included a $750,000 cash payment at closing and a potential one-time earn out payment based on 2009 annual net subscription revenue from the divested business. We paid a $120,000 fee on this transaction. Under the terms and conditions of this earn out, we were entitled to receive a payment in 2010 equal to 50% of all net subscription revenue generated by the divested business in the 2009 calendar year that is above $2.0 million dollars. The cash proceeds of the sale were used to partially offset the term note with Wachovia Bank, N.A. Based upon the 2009 net subscription revenue, we will not receive an earnout from this divestiture. In the fourth quarter of 2009, we discontinued the operations of Vintacom.

- In March 2010, we determined due to market and strategic reasons to exit the negative-option marketing programs which became part of our Direct segment following the iLead Media, Inc. acquisition in 2006. In doing so, in 2009 we impaired approximately $850,000 of intangible assets and goodwill related to this business.

- During the second quarter of 2008, the Company made a decision to divest its Market Smart Advertising, Inc. ("MSA") operations and accounted for its operations as discontinued. In 2010, we sold the assets of MSA and its related companies Rightstuff, Inc. and Checkup Marketing, Inc., all North Carolina corporations which were our wholly-owned subsidiaries. The purchase price of the assets was $766,636, of which $247,147 was paid at closing and the balance was paid in three equal monthly installments of $173,163 each during the 90 days following the closing. Under the terms of the agreement, the purchaser also assumed certain liabilities related to the purchased assets. To ensure orderly transition of the business, we agreed to provide the purchaser with hosting services at no cost for 90 days following the closing. The agreement contains customary indemnification, non-disclosure and non-solicitation provisions. All the proceeds received from the sale of MSA were used to reduce our term note with Wachovia Bank, N.A. Additionally, we reported a non-cash charge loss on the sale of MSA of approximately $1.5 million for the year ended December 31, 2010 in discontinued operations.

- In December 2010, we closed the sale of the assets of our Real Estate School Online, Inc. ("RESO") subsidiary to DF Institute, Inc. under the terms of an Asset Purchase Agreement between the parties. The purchase price of the assets was $750,000, of which all was paid at closing less $31,716 working capital adjustment and $50,000 held in escrow for a period of one year. Earlier in 2010, we announced our intention to sell the business and we have accounted for the subsidiary as a discontinued operation since that time. To ensure an orderly transition of the business, we agreed to provide transitional services until April 15, 2011 and will receive a fee of $107,204 paid in five equal monthly installments. The Asset Purchase Agreement contains customary indemnification, non-disclosure and non-solicitation provisions. All the proceeds from the sale were used to reduce a term note with Wachovia Bank, N.A. In addition, we reported a gain on the sale of RESO in discontinued operations of approximately $500,000.

## Employees

As of March 28, 2011, we employed 46 full-time employees. None of these employees are covered by a collective bargaining agreement.

**Executive Officers of the Company**

The following sets forth the names and ages of each of our executive officers as of December 31, 2010 and the positions they hold:

| Name | Age | Positions |
| --- | --- | --- |
| Richard K. Howe | 48 | President, Chief Executive Officer |
| Wallace D. Ruiz | 59 | Chief Financial Officer, Secretary |

Each of our executive officers holds office for such term as may be determined by our board of directors. Set forth below is a brief description of the business experience of our executive officers:

- ***Richard K. Howe.*** Mr. Howe has been a member of our Board of Directors and has served as our President and Chief Executive Officer since November 2008. Previously Mr. Howe served as Chief Marketing/Business Strategy and M&A Officer at Axciom Corporation (NasdaqGS: ACXM), a provider of management information solutions, which he joined in 2004. From 2001 to 2004, he was with Fair Isaac & Company, where he most recently served as general manager of that company's Global Marketing Services (GMS) unit. Mr. Howe earned a bachelor's degree with distinction in structural engineering from Concordia University, Canada, and he earned his master's degree in engineering from McGill University, Canada.

- ***Wallace D. Ruiz.*** Mr. Ruiz has served as our Chief Financial Officer since June 2010. From 2005 until April 2009, Mr. Ruiz was Chief Financial Officer and Treasurer of SRI Surgical Express, Inc. (NasdaqGM: STRC), a Tampa, Florida provider of central processing and supply chain management services. From 1995 until 2004 he was Chief Financial Officer of Novadigm, Inc., a Nasdaq-listed developer and worldwide marketer of enterprise infrastructure and software services that was acquired by Hewlett-Packard Company in 2004. Mr. Ruiz received a B.S. in Computer Science from St. John's University and a M.B.A. in Accounting and Finance from Columbia University. Mr. Ruiz is a Certified Public Accountant.

**History of our Company**

We were incorporated under the laws of the State of Nevada in October 1987 under the name North Star Petroleum, Inc. We initially engaged in the exploration, development and production of oil and gas on a joint venture basis with other industry partners. In May 1990, we changed our name to Gemstar Enterprises, Inc. During 1990, we also acquired approximately 200 acres of real property located in Alexander County, North Carolina. Our performance in both our oil and gas business and our investment in real estate did not generate sufficient revenue to result in profitable operations. These operations were disposed of in June 1991 and in April 1993. From 1993 until July 1997, we had essentially no operations.

In July 1997, we closed two separate Agreements and Plan of Reorganization to acquire Roli Ink Corporation ("RIC") and Safe Environment Corp. in a reverse acquisition. The businesses and management of the two acquired corporations became our business and management. Under the terms of the Agreements and Plans of Reorganization, we acquired all of the issued and outstanding shares of RIC and SECO and the shareholders of RIC and SECO acquired approximately 59.9% of our common stock. In November 2000, we sold substantially all of the assets of RIC to an unrelated third party and in August 2002 we sold the stock of SECO to an unrelated third party.

In March 2001, we acquired WorldMall.com which was reincorporated in North Carolina in June 2002 as WebSourced, Inc. and subsequently changed its name to MarketSmart Interactive, Inc. in January 2006.

Thereafter, we entered into the following acquisitions:

- In August 2004 we acquired 100% of the outstanding stock of WebCapades, Inc.,
- In January 2005 we acquired 100% of the outstanding stock of the MSA companies through three mergers,
- In February 2005 we acquired 100% of the stock of Personals Plus, Inc.,

- In February 2005 we also acquired 100% of the stock of Ozona Online Network, Inc.,
- In March 2005 we acquired 100% of the stock of KowaBunga! Marketing, Inc.,
- In March 2005 MarketSmart Interactive, Inc. acquired the assets of Smart Interactive Ltd.,
- In April 2005 we acquired 100% of the stock of PrimaryAds Inc.,
- In July 2005, we acquired 100% of the stock of RESO,
- In December 2005, we acquired 100% of the stock of Vintacom,
- In January 2006, we acquired 100% of the stock of Morex,
- In April 2006, we acquired 100% of the stock of the Litmus Media, Inc.,
- In April 2006, we also acquired 100% of the stock of Web Diversity Ltd., and
- In May 2006, we acquired 100% of the stock iLead Media.

Effective July 30, 2009, we changed our corporate name to Inuvo, Inc.

As set forth above under "Discontinued Operations" during 2009 and 2010 we sold Cherish, MSA and RESO and discontinued the operations of iLead Media.

**ITEM 1A. RISK FACTORS.**

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

***We have a history of losses and there are no assurances we will ever generate profits.*** As of December 31, 2010 we have an accumulated deficit of approximately $105.7 million. For 2010, our operating loss from continuing operations was approximately $4.6 million and for 2009 our operating loss from continuing operations was approximately $5.1 million. Our future capital requirements depend on a number of factors, including our ability to internally grow our revenues, manage our business and control our expenses. If we are not successful in increasing our revenues we may be required to raise additional capital to fund our operations and pay our obligations as they become due. We do not have any firm commitments to provide capital and there are no assurances that we would be able to raise funds upon terms satisfactory to our company.

***We are subject to risks frequently encountered by companies in the Internet marketing and advertising industry.*** Our prospects for financial and operational success must be considered in light of the risks frequently encountered by companies in the Internet marketing and advertising industry. During 2010, the search alliance between Microsoft and Yahoo adversely impacted our revenues and any continued consolidation within the search segment could result in additional decline in this portion of our business. In addition, we face other risks associated with our industry, including the need to:

- attract new clients and maintain current client relationships;
- achieve effective advertising campaign results for our clients;
- continue to expand the number of services and technologies we offer;
- successfully implement our business model, which is evolving;
- respond to pricing pressure in some of our lines of business;
- maintain our reputation and build trust with our clients;
- identify, attract, retain and motivate qualified personnel;
- accurately measure impressions, searches, clicks, or other online actions for our advertisers, publishers, or partners;
- adapt to changes in online advertising, email, and other filtering software; and
- manage online credit card billing and customer service concerns.

There are no assurances we will be able to effectively manage these risks. Our failure to do so could result in a decline in our revenues and impact our ability to continue as a going concern.

***We may not successfully defend ourselves against litigation.*** We are a defendant in a several pending lawsuits in which the plaintiffs are seeking damages in significant amounts. If we are not successful, one or more of these lawsuits could result in an unfavorable judgment against us. If we are unable to satisfactorily settle these lawsuits and we do not prevail in court, we may be subject to judgments in amounts which exceed our available capital which will damage our business and our ability to continue as a going concern.

***Our success depends on our ability to continue and expand relationships with other Internet media content, advertising and product providers***. The Internet includes an ever-increasing number of businesses that offer and market consumer products and services. Advertising providers allow us to generate advertising revenue from our and our affiliates' websites, as well as profit sharing arrangements for joint effort marketing programs. We expect that with the increasing number of entrants into the Internet commerce arena, advertising costs and joint effort marketing programs will become more competitive. Additionally, upstream advertising networks that we use may offer customers discounts as away to attract more advertisers to their network thereby reducing our revenues generated by these networks. This competitive environment might prevent us from satisfactorily executing profit generating advertising and joint effort marketing programs in the future. This competitive environment may also prevent us from providing content and product and service providers from marketing their products and services through our or our affiliates' websites. If we fail to continue establishing new, and maintain and expand existing, profitable advertising and joint marketing arrangements, we may suffer substantial adverse consequences to our financial condition and results of operations.

***If we are unable to raise additional capital as needed, our ability to grow our company and satisfy our obligations as they become due will be in jeopardy.*** It is likely that we will need to raise significant additional capital to grow our company, fund our operating expenses and satisfy our obligations as they become due, including our revolving credit facility with Bridge Bank, N.A. which matures in 2013. We do not have any commitments to provide this additional capital and we cannot assure you that funds are available to us upon terms acceptable to us, if at all. If we do not raise funds as needed, our ability to provide for current working capital needs and satisfy our obligations is in jeopardy. In this event, you could lose all of your investment in our company.

***We depend on a single customer for a significant portion of our revenues.*** We received 80.3% of our net revenue for 2010 from a single customer and this customer accounted for 66.5% of our revenue in 2009. We currently have one year remaining on the original agreement with this customer. The loss of that customer or a material change in the revenue or gross profit generated by that customer could have a material adverse impact on our business, results of operations and financial condition.

***We compete with many companies, some of whom are more established and better capitalized than us.*** We compete with a variety of companies on a worldwide basis both through the Internet and in traditional markets. Some of these companies are larger and better capitalized than us. There are also few barriers to entry in our markets. Our competitors may develop services that are superior to, or have greater market acceptance than our services. For example, many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources and larger customer bases than us. These factors may allow our competitors to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Our competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies which may allow them to build larger registrant and membership bases. In addition, current and potential competitors are making, and are expected to continue to make, strategic acquisitions or establish cooperative, and, in some cases, exclusive relationships with significant companies or competitors to expand their businesses or to offer more comprehensive products and services. To the extent these competitors or potential competitors establish exclusive relationships with major portals, search engines and ISPs, our ability to reach potential members through online advertising may be restricted. Any of these competitors could cause us difficulty in attracting and retaining registrants and converting registrants into members and could jeopardize our existing affiliate program and relationships with portals, search engines, ISPs and other Internet properties. Failure to compete effectively including by developing and enhancing our services offerings would have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

***Increasing government regulations, consumer protection laws or taxation could adversely affect our business.*** We are affected not only by regulations applicable to businesses generally, but also by federal, state, local and foreign laws, rules, regulations and taxes directly applicable to electronic communications, telecommunications and the Internet. Laws and regulations related to the Internet are becoming more prevalent, and new laws and regulations are under consideration in various jurisdictions. Many areas of law affecting the Internet remain unsettled, and it may take years to determine whether and how existing laws such as those governing consumer protection, intellectual property, libel and taxation apply to the Internet. New, or amendments to existing laws and regulations, including laws and regulations that govern, restrict, tax or affect things such as user privacy, the pricing and taxation of goods and services offered over the Internet, the content of websites, access to websites, linking of websites, outgoing email solicitations, consumer protection and the characteristics and quality of products and services offered over the Internet could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

***Our business must keep pace with rapid technological change to remain competitive***. Our business operates in a market characterized by rapidly changing technology, evolving industry standards, frequent new product and service announcements, enhancements, and changing customer demands. We must adapt to rapidly changing technologies and industry standards and continually improve the speed, performance, features, ease of use and reliability of our services. Introducing new technology into our systems involves numerous technical challenges, requires substantial amounts of capital and personnel resources, and often takes many months to complete. We may not successfully integrate new technology into our websites on a timely basis, which may degrade the responsiveness and speed of our websites. Technology, once integrated, may not function as expected. In addition, the number of people who access the Internet through devices other than desktop and laptop computers, including mobile telephones and other handheld computing devices, has increased dramatically in the past few years. Failure to attract and retain a substantial number of mobile device users to our services, or failure to develop services that are more compatible with mobile communications devices, or failure to generally keep pace with the rapid technological change could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

***Our services may be interrupted due to problems with our servers, our network hardware and software, or our inability to obtain network capacity***. The performance of our server and networking hardware and software infrastructure is critical to our business and reputation and our ability to attract Internet users, advertisers, members and e-commerce partners to our websites and to convert members to subscribers. We have experienced occasional system interruptions as a result of unexpected increases in usage. We cannot assure you we will not incur similar or more serious interruptions in the future. An unexpected or substantial increase in the use of our websites could strain the capacity of our systems, which could lead to a slower response time or system failures. Any slowdowns or system failures could adversely affect the speed and responsiveness of our websites and would diminish the experience for our members and visitors. Further, if usage of our websites substantially increases, we may need to purchase additional servers and networking equipment to maintain adequate data transmission speeds, the availability of which may be limited or the cost of which may be significant. Any system failure that causes an interruption in service or a decrease in the responsiveness of our websites could reduce traffic on our websites and, if sustained or repeated, could impair our reputation and the attractiveness of our brands all of which could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock. Furthermore, we rely on many different hardware and software systems. Failure of these systems or inability to rapidly expand our transaction-processing systems and network infrastructure in response to a significant unexpected increase in usage could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock. The failure to establish and maintain affiliate agreements and relationships could limit the growth of business. We have entered into, and expect to continue to enter into, arrangements with affiliates to increase our member base, increase traffic to our websites and enhance our brands. If any of the current agreements are terminated, we may not be able to replace the terminated agreement with an equally beneficial arrangement. We cannot assure you that we will be able to renew any of our current agreements when they expire on acceptable terms, if at all. We also do not know whether we will be successful in entering into additional agreements or that any relationships, if entered into, will be on terms favorable to us. Failure to establish and maintain affiliate agreements and relationships could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

***Our business relies on a number of third-party providers, and their failure to perform or termination of our relationships with them could harm our business***. We license technologies from third parties to facilitate our ability to provide our services. Any failure on our part to comply with the terms of these licenses could result in the loss of our rights to continue using the licensed technology, and we could experience difficulties obtaining licenses for alternative technologies. Furthermore, any failure of these third parties to provide these and other services, or errors, failures, interruptions or delays associated with licensed technologies, could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

***We depend on our merchant and banking relationships, as well as strategic relationships with third parties, who provide us with payment processing solutions.*** From time to time, VISA and MasterCard increase the fees that they charge processors. We may attempt to pass these increases along to our merchant customers, but this might result in the loss of those customers to our competitors who do not pass along the increases. Our revenues from merchant account processing are dependent upon our continued merchant relationships which are highly sensitive and can be canceled if customer charge-backs escalate and generate concern that the company has held back sufficient funds in reserve accounts to cover these charge-backs. Cancellation by our merchant providers would most likely result in the loss of new customers and lead to a reduction in our revenues.

***We are exposed to risks associated with credit card fraud and credit payment.*** Many of our customers use credit cards to pay for our services. We have suffered losses, and may continue to suffer losses, as a result of membership orders placed with fraudulent credit card data, even though the associated financial institution approved payment. Under current credit card practices, a merchant is liable for fraudulent credit card transactions when the merchant does not obtain a cardholder's signature. A failure to adequately control fraudulent credit card transactions would result in significantly higher credit card-related costs and could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

***Our business may incur liability for information retrieved from or transmitted through its websites or websites linked to it***. Because our business publishes or makes various information available on its websites or though linked websites, we may be sued for, or incur liability related to, defamation, civil rights infringement, negligence, copyright or trademark infringement, invasion of privacy, personal injury, product liability or other legal claims. Our business also offers email services subjecting us to liabilities or claims relating to unsolicited email or spamming, lost or misdirected messages, security breaches, illegal or fraudulent use of email or interruptions or delays in email service. Liability or expense relating to these types of claims could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

***Our business could be significantly impacted by the occurrence of natural disasters such as hurricanes and other catastrophic events***. Our primary data center and corporate headquarters are located in Clearwater, Florida and, are therefore, susceptible to damage from hurricanes or other tropical storms. Although we believe we have adequate backup for this data in a secure location, we may not be able to prevent outages and downtime caused by these storms or other events out of our control, which could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

***We may incur liability if we fail to adequately protect personal information.*** Our business handles personally identifiable information pertaining to our members and visitors residing in the United States as well as foreign countries. Many jurisdictions have adopted privacy, security, and data protection laws and regulations intended to prevent improper use and disclosure of personally identifiable information. In addition, some jurisdictions impose database registration requirements for which significant monetary and other penalties may be imposed for failure to comply. These laws, which are subject to change and may be inconsistent, may impose costly administrative requirements, limit our handling of information, and subject us to increased government oversight and financial liabilities all of which could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

***Security breaches and inappropriate Internet use could damage our business.*** Concerns over the security of transactions conducted on the Internet and the privacy of users may inhibit the growth of the Internet and other online services generally, and online commerce in particular. Failure to successfully prevent security breaches could significantly harm our business and expose us to lawsuits. Anyone who is able to circumvent our security measures could misappropriate proprietary information, including customer credit card and personal data, cause interruptions in our operations, or damage our brand and reputation. Breach of our security measures could result in the disclosure of personally identifiable information and could expose us to legal liability. We cannot assure you that our financial systems and other technology resources are completely secure from security breaches or sabotage. We have experienced security breaches and attempts at "hacking." We may be required to incur significant costs to protect against security breaches or to alleviate problems caused by breaches. Further, any well-publicized compromise of our security or the security of any other Internet provider could deter people from using our services or the Internet to conduct transactions that involve transmitting confidential information or downloading sensitive materials, which might adversely affect our online dating business. All of these factors could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

***Computer viruses could damage our business.*** Computer viruses, worms and similar programs may cause our systems to incur delays or other service interruptions and could damage our reputation and ability to provide our services and expose us to legal liability, all of which could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

***We depend on key personnel, the loss of whom could harm our business.*** Our success depends in part on the retention of personnel critical to our combined business operations due to, for example, unique technical skills, management expertise or key business relationships. We may be unable to retain existing management, finance, engineering, sales, customer support, and operations personnel that are critical to our success, which may result in disruption of operations, loss of key business relationships, information, expertise or know-how, unanticipated additional recruitment and training costs, and diminished anticipated benefits of acquisitions, including loss of revenue and profitability. Our future success is substantially dependent on the continued service of our key senior management. Our employment agreements with our key personnel are short-term and on an at-will basis. We do not have key-person insurance on any of our employees. The loss of the services of any member of our senior management team, or of any other key employees, could divert management's time and attention, increase our expenses and adversely affect our ability to conduct our business efficiently. Our future success also depends on our continuing ability to attract, retain and motivate highly skilled employees. We may be unable to retain our key employees or attract, retain and motivate other highly qualified employees in the future. We have experienced difficulty from time to time in attracting or retaining the personnel necessary to support the growth of our business, and may experience similar difficulties in the future.

***Demand for our services may decline due to the proliferation of "spam" and software designed to prevent its delivery***. Our business may be adversely affected by the proliferation of "spam" and other unwanted Internet solicitations. In response to such proliferation, Internet Service Providers ("ISP's") have been adopting technologies, and individual computer users are installing software on their computers that are designed to prevent the delivery of certain Internet advertising, including legitimate solicitations such as those delivered by us. We cannot assure you that the number of ISP's and individual computer users who employ these or other similar technologies and software will not increase, thereby diminishing the efficacy of our services. In the case that one or more of these technologies are widely adopted or the software widely utilized, demand for our services would decline.

***Defects in our platform, disruptions in our service or errors in execution could diminish demand for our service and subject us to substantial liability.*** Our on-demand platform is complex and incorporates a variety of hardware and proprietary and licensed software. Internet-based services such as ours frequently experience disruptions from undetected defects when first introduced or when new versions or enhancements are released. In addition, our recently added text messaging capabilities may hinder the performance of our platform as we have limited experience with dealing with text messaging services. From time to time we have found and corrected defects in our platform. Other defects in our platform, or defects in new features, complementary services or upgrades released in the future, could result in service disruptions for one or more clients. Our clients might use our service in unanticipated ways that cause a service disruption for other clients attempting to access their contact list information and other data stored on our platform. In addition, a client may encounter a service disruption or slowdown due to high usage levels of our service. Because clients use our service for critical business processes, any defect in our platform, any disruption in our service or any error in execution could cause existing or potential clients not to use our service, could harm our reputation, and could subject us to litigation and significant liability for damage to our clients' businesses.

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

- our ability to attract new clients, including the length of our sales cycles, or to sell increased usage of our service to existing clients;
- technical difficulties or interruptions in our services;
- changes in privacy protection and other governmental regulations applicable to the our industry;
- changes in our pricing policies or the pricing policies of our competitors;

- the financial condition and business success of our clients;
- purchasing and budgeting cycles of our clients;
- acquisitions of businesses and products by us or our competitors;
- competition, including entry into the market by new competitors or new offerings by existing competitors;
- discounts offered to advertisers by upstream advertising networks;
- our history of litigation;
- our history of uncollectable receivables;
- our ability to hire, train and retain sufficient sales, client management and other personnel;
- timing of development, introduction and market acceptance of new services or service enhancements by us or our competitors;
- concentration of marketing expenses for activities such as trade shows and advertising campaigns;
- expenses related to any new or expanded data centers; and
- general economic and financial market conditions.

Many of these factors are beyond our control, and the occurrence of one or more of them could cause our operating results to vary widely. Because of quarterly fluctuations, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. We may fail to forecast accurately the behavior of existing and potential clients or the demand for our service. Our expense levels are based, in significant part, on our expectations as to future revenues and are largely fixed in the short term. As a result, we could be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenues. Variability in our periodic operating results could lead to volatility in our stock price as equity research analysts and investors respond to quarterly fluctuations. Moreover, as a result of any of the foregoing or other factors, our operating results might not meet our announced guidance or expectations of investors and analysts, in which case the price of our common stock could decrease significantly.

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

Not applicable to a smaller reporting company.

**ITEM 2. PROPERTIES.**

Our principal executive offices are located in approximately 31,600 square feet of leased space in Clearwater, Florida. The offices house our administration, marketing, product development and service personnel. Under the terms of this lease which expires in August 2015, we incurred approximately $797,000 in rental expenses in fiscal 2010, which will increase to approximately $823,000 in fiscal 2011. In 2010, approximately 15,000 square feet of this office space was subleased to an unrelated third party for a term of 3 years for approximately $240,000 annually.

**ITEM 3. LEGAL PROCEEDINGS.**

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

*Hypertouch, Inc. v. ValueClick, Inc., E-Babylon, Inc., Hi-Speed Media, Inc., VC E-Commerce Solutions, Inc. Webclients, Inc. and Primary Ads, Inc., Case No. LC081000 in the Los Angeles Superior Court.* On April 8, 2008, Hypertouch, Inc. filed an action against us and various other defendants in the same industry. The plaintiff is seeking recovery for purported violations of the California anti-“spam” statute and the California unfair competition statute, alleging that we had sent 4,000 “spam” e-mails. The plaintiff is seeking $1,000 per “spam” email. After summary judgment was entered against the plaintiff, the plaintiff appealed and obtained a partial reversal; however, the appeals court upheld the portion of the order limiting plaintiff’s potential recovery to a set of 34 “spam” e-mails. The case remains pending further developments in both the superior court and appeals courts.

*Raleigh Flex Owner I, LLC v MarketSmart Interactive, Inc. and MarketSmart Advertising, Inc., Case No. 1:09-CV-699, Middle District of North Carolina.* This action, which was commenced in September 2009, is by the owner of property located in Morrisville, NC that was leased to MarketSmart Interactive, Inc. (“Interactive”) and occupied at various times by Interactive and MSA. Interactive was a wholly owned subsidiary which was dissolved in March 2007; MSA was a wholly owned subsidiary whose assets were sold in 2010. The plaintiff is alleging breach of the lease agreement in addition to claims against both defendants for unfair and deceptive trade practices, fraud and misrepresentation. The plaintiff has alleged damages in excess of $500,000. Summary judgment motions are pending and we are vigorously defending this matter.

*John Giura v Inuvo, Inc., Case No. 08 L 3539, in the Circuit Court of Cook County, Illinois.* On April 1, 2008, John Giura, a former director, filed a breach of contract action alleging that we breached a consulting agreement between Mr. Giura and our company and seeking damages in excess of $500,000. Discovery is ongoing and we are defending this case vigorously.

*Oltean et al v Think Partnership Inc. et al, Q.B. Action No. 0803 03228 and Oltean v Vintacom Acquisition Company ULC, Q.B. Action No. 0903 06658*. On March 6, 2008 Kelly Oltean, Mike Baldock and Terry Schultz, former employees, filed a breach of employment claim against us in The Court of Queen's Bench of Alberta, Judicial District of Edmonton, Canada claiming damages for wrongful dismissal in the amount of $200,000 for each of Kelly Oltean and Terry Schultz and $187,500 for Mike Baldock. On March 6, 2008 the same three plaintiffs filed a similar statement of claim against Vintacom Acquisition Company, ULC, a subsidiary of our company, again for wrongful dismissal and claiming the same damages. In October 2009, the two actions were consolidated. We are vigorously defending this case.

*Think Partnership, Inc. v. John Paul Linden*, Case No. 08-11160-CI-7, in the Sixth Judicial Circuit Court for Pinellas County, Florida. We are involved in one pending litigation with John Linden, a former employee, who has alleged breach of his employment agreement and other contract and tort claims, and seeks damages in excess of $500,000. The litigation is scheduled for trial in April 2011, and we are vigorously defending this case.

**ITEM 4. REMOVED AND RESERVED.**

## PART II

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

Our common stock is listed on the NYSE Amex under the symbol "INUV." The following table sets forth the reported high and low last sale prices for our common stock for the following periods and includes the impact of the companies 1 for 10 reverse stock split on December 10, 2010.

| | High | Low |
|---|---|---|
| *Year Ended December 31, 2009:* | | |
| First Quarter | $ 2.40 | $ 0.50 |
| Second Quarter | $ 3.70 | $ 1.40 |
| Third Quarter | $ 3.20 | $ 2.00 |
| Fourth Quarter | $ 3.50 | $ 1.90 |
| | | |
| *Year Ended December 31, 2010:* | | |
| First Quarter | $ 4.40 | $ 2.70 |
| Second Quarter | $ 3.00 | $ 1.30 |
| Third Quarter | $ 3.40 | $ 1.60 |
| Fourth Quarter | $ 6.60 | $ 2.80 |

As of March 28, 2011, the last reported sale price of the common stock on NYSE Amex was $2.89. As of March 28, 2011, there were 201 stockholders of record of our common stock.

**Transfer Agent**

Our transfer agent is Colonial Stock Transfer Co., Inc. which is located at 66 Exchange Place, Salt Lake City, Utah 84111-2713. The phone number is (801) 355-5740 and its website is www.colonialstock.com.

**Dividends**

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

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

None.

**Recent Sales of Unregistered Securities**

None.

**ITEM 6.  SELECTED FINANCIAL DATA**.

Not applicable to a smaller reporting company.

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

**Overview**

We are an Internet marketing business with two segments:

- Exchange, and
- Direct.

The Exchange segment designs, builds, implements, manages and sells the various technology platforms and services we offer. For the last 12 months, the Exchange segment has been executing a technology strategy to consolidate the disparate technologies and platforms we acquired between 2002 and 2008 into the Inuvo Platform.  The Inuvo Platform is an open, quality-controlled, lead generation marketplace designed to allow advertisers and publishers to manage their transactions in an automated and transparent environment. In addition to the core Inuvo Platform for advertisers and publishers, which launched in beta in October 2009, we continue to sell several legacy platforms, services or directories within the Exchange segment.

Our Direct segment designs, builds and implements unique offers and/or websites that generate revenue from the sale of products, services, data and advertising. The Direct segment manages owned and operated properties across verticals that include professional recertification and baby products. The segment uses a number of online tactics for lead generation that includes search and affiliate and email marketing campaigns designed to drive traffic to the sites.  In the future, a majority of such tactics will be deployed and/or tracked via the Inuvo Platform.

The cornerstone of our value proposition for advertisers is our ability to generate high converting leads at an attractive return on investment (ROI). Concurrently, to allow for scale within our advertising exchange, we must also attract high traffic web publishers where competition for advertising space is driven primarily by the amount paid for each offer presented. We believe that greater transparency and alignment between advertisers and publishers, combined with sophisticated analytic technologies that predict fraud and target offers more effectively, will differentiate service providers in this marketplace.

We believe we have been on the forefront of these technologies for the past five years. From our click fraud detection technology, which has successfully proven its ability to eliminate bad traffic, to our introduction of transaction flagging within the Inuvo Platform to the targeting of advertisements based on behavioral information.  We have and will continue to operate our business based on the principle of quality.

In October 2009, we brought to market the Inuvo Platform. Within this solution, advertisers create and manage advertising campaigns, web publishers better monetize their available advertising inventory and we and strategic partners can develop new applications via application-programming interfaces (APIs). We see our Company well positioned to capitalize on market trends that play to our technological strengths.

A very important by-product of our business is the information produced both on the advertiser side, where we see what kind of products convert, and on the publisher side, where we see what kind of websites attract viewers. This business intelligence allows for improved detection of fraudulent transactions and higher response rates.

In 2010, we continued the transformation of the Company that began in early 2009.  In 2009, our management reassessed the array of businesses that had been acquired in the preceding years and developed a strategy to focus on two core businesses; the Exchange segment and the Direct segment Throughout 2009 and 2010, eleven businesses were either sold or retired including iLead Media, Inc. (“iLead”) which we determined to exit the negative-option marketing programs. iLead had historically represented as much as 20% of our revenue from continuing operations.   We also sold our MSA and RESO businesses which were the last of our discontinued operations.

During the fourth quarter of 2010, we experienced a reduction in search marketing revenue resulting from the migration to the recently launched Yahoo!-Bing platform. The integration of these two platforms caused both an unexpected disruption in search traffic purchased through the Yahoo!-Bing platform and lower revenue-per-click received from the Yahoo!-Bing platform. We have been making adjustments to adapt to this new marketplace, and have seen incremental improvements in revenue as a result. However, volatility may continue over the ensuing months and there are no assurances our search revenues will return to historic levels.

**Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting practices (GAAP).  The preparation of these consolidated financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities.  We evaluate estimates, including those related to our allowance for doubtful accounts receivable, inventories, goodwill and amortizable intangibles, certain stock based compensation and income taxes, on an ongoing basis.  We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.  Actual results may differ from these estimates under different assumptions or conditions.  We believe the following critical accounting policies, among others, involve more significant judgments and estimates used in the preparation of our consolidated financial statements:

**Revenue Recognition**

We recognize revenue in accordance with FASB Accounting Standards Codification (ASC) 605-10 *Revenue Recognition - General (“ASC 605-10”)*. Under ASC 605-10, we recognize revenue when the following criteria have been met: persuasive evidence of an arrangement exists, the fees are fixed and determinable, no significant obligations remain and collection of the related receivable is reasonably assured.  We recognize revenues in accordance with the following principles with respect to our different business services:

Exchange Segment:

- *Affiliate Network* - Consistent with the provisions ASC 605-45, *Revenue Recognition – Principal Agent Considerations (“ASC 605-45”)* we recognize revenue as an agent in affiliate marketing transactions in which we are not the primary obligor.  Accordingly, service fee revenue is recognized on a net basis because any affiliate expenses are the responsibility of our advertising customer. In certain instances we assume the position of primary obligor and thus recognize revenue on a gross basis. Revenue is recognized when the related services are performed.

- *Search Network* - In accordance with ASC 605-45 we record as revenue the gross amount received from advertisers and the amount paid to the publishers placing the advertisements as cost of revenue. Revenue from our company-owned networks is based on a "per click" basis and is recognized once the action is taken.

- *Affiliate Software* - We recognize revenue the month in which the software is utilized. Customers are invoiced on the first of the month for the monthly services. All overages for the month are billed at the end of the month and are included in our accounts receivable.

- *Hosting Arrangements* – We recognize revenue through a monthly hosting fee and additional usage fees as provided.

Direct Segment:

- *Online Membership Income* - We recognize revenue from online membership revenue when payment is received and the service date of providing membership benefits has taken place.

- *Lead Sales* - For lead sales, our revenue recognition varies depending on the arrangement with the purchaser. Where the arrangement provides for delivery only, revenue is recognized when the lead information is provided to the purchaser. Where the arrangement provides for compensation based on sales generated by the purchaser from the lead, we recognize revenue in the period that the purchasing company makes a sale that was derived from the lead.

- *Product Sales* - For product sales, we recognize revenue when payment is received and the goods are shipped.

- *List Management Services* - Substantially all of our revenue is recorded at the net amount of its gross billings less pass-through expenses charged to a customer. In most cases, the amount that is billed to customers exceeds the amount of revenue that is earned and reflected in our financial statements, because of various pass-through expenses. In compliance with ASC 605-45, we assess whether we or a third-party supplier is the primary obligor. We have evaluated the terms of our customer agreements and considered other key indicators such as latitude in establishing price, discretion in supplier selection and credit risk to the vendor as part of this assessment. Accordingly, we generally record revenue net of pass-through charges.

- *Subscription Income* - We recognize revenue on monthly and multi-monthly subscription contracts on a straight-line basis over the term of the contract.

**Allowance for Doubtful Accounts**

We record our accounts receivable based upon the invoiced amount and they are considered past due when full payment is not received by the specified credit terms. We estimate the uncollectibility of our accounts receivable and establish an allowance for doubtful accounts based upon those estimates. The allowances are based on both recent trends of certain customers estimated to be a greater credit risk as well as general trends. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**Goodwill and Other Intangible Assets**

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. In accordance with ASC 350, *Intangibles - Goodwill and Other ("ASC 350"),* we test goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis or more frequently if we believe indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying value, including goodwill. We generally determine the fair value of our reporting units using the gross profit approach methodology of valuation that includes the undiscounted cash flow method as well as other generally accepted valuation methodologies. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

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

For the year ended December 31, 2009, we had impairments of our goodwill and other intangible assets of approximately $800,000. As part of the sale of RESO in December 2010, we wrote off $92,000 of tradenames. In 2010, tradenames associated with Morex and Primary Ads were impaired and consequently, the Company recorded an impairment loss of $400,000.

**Deferred Taxes**

We reserve for federal and state income taxes on items included in our Consolidated Statements of Operations regardless of the period when the taxes are payable. Deferred taxes are recognized for temporary differences between financial statement and income tax basis. In determining our current income tax provision, we assess temporary differences resulting from different treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded in our consolidated balance sheet. We evaluate the realizability of our deferred tax assets and assess the need for a valuation allowance on an ongoing basis. In evaluating our deferred tax assets, we consider whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of our deferred tax assets depends upon generating sufficient future taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance we must project future levels of taxable income. This assessment requires significant judgment. We examine the evidence related to a recent history of tax losses, the economic conditions in which we operate, recent organizational changes, and our forecasts and projections. As a result, we were unable to support a conclusion that it is more likely than not that any of our deferred tax assets will be realized. We therefore recorded a full reserve for the net deferred tax asset.

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

**Stock Awards and Stock Based Compensation**

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

In 2010, we issued 112,422 shares of our common stock valued at approximately $232,500 to our executive officers and certain of our senior management in lieu of cash compensation. The value of the shares equaled the fair market value of our common stock on the date of issuance. The recipients were accredited or otherwise sophisticated individuals who had such knowledge and experience in business matters that they were capable of evaluating the merits and risks of the prospective investment in our securities. The recipients had access to business and financial information concerning our Company. The securities were issued in reliance on an exemption from registration provided by Section 4(2) of the Securities Act of 1933.

**Recent Accounting Pronouncements**

For a description of recent accounting pronouncements, please see Footnote 2 to the Consolidated Financial Statements, Summary of Significant Accounting Policies, which appears elsewhere in this report.

**Results of Operations**

**Overview of 2010**

The following table sets forth selected information concerning our results of operations for 2010 and 2009 (in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Net revenue | $ 48,970 | $ 39,807 |
| Cost of revenue | 29,255 | 24,774 |
| Gross profit | 19,715 | 15,033 |
| Total operating expenses | 23,403 | 19,264 |
| Operating loss | (3,688) | (4,231) |
| Other expenses | (947) | (850) |
| Loss from continuing operations before taxes | (4,635) | (5,081) |
| Income tax expense | (3) | - |
| Net loss from continuing operations | (4,638) | (5,081) |
| Loss from discontinued operations | (368) | (310) |
| Net loss | $ (5,006) | $ (5,391) |

Net revenues increased by approximately 23% for 2010 from 2009. Gross profit increased by approximately 31% in 2010 when compared to 2009 which reflects the increase in revenues from our Exchange segment which is a result of the increase in search spend. In 2010, our operating expenses increased by approximately $4.1 million due primarily to an increase in search spend.

Our net loss from continuing operations in 2010 declined by approximately $443,000 from 2009 as a result of increased revenues, higher margins; and a reduction of interest expenses.

**Net Revenue**

Total net revenue from our Exchange and Direct segments for 2010 and 2009 were as follows (in thousands):

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 ($) | % of Revenue | 2009 ($) | % of Revenue | $ Change | % Change |
| Exchange segment | 41,722 | 85.2% | 28,842 | 72.5% | 12,880 | 44.7% |
| Direct segment | 7,248 | 14.8% | 10,965 | 27.5% | (3,717) | (33.9)% |
| Total net revenue | 48,970 | 100.0% | 39,807 | 100.0% | 9,163 | 23.0% |

Net revenue from our Exchange segment increased 44.7% over last year primarily due to the number of transactions driven through our owned and operated properties and our affiliates. The Company serves hundreds of thousands of individual advertisers within the business. Access to those advertisers comes principally through our relationship with a top three search engine. For 2010, 94.3% of our net revenue in our Exchange segment was attributable to this relationship as compared to 91.8% for the same period in 2009. As described elsewhere herein, during the fourth quarter of 2010, we experienced a reduction in search marketing revenue resulting from the migration to the recently launched Yahoo!-Bing platform. While we have made adjustments to adapt to this new marketplace, and have seen incremental improvements in revenue as a result, we are unable to predict at this time the continuing impact on our revenues in 2011 but through the first two months of 2011, revenue and transaction volumes have been increasing.

The decline in net revenue from our Direct segment of approximately 34% in 2010 as compared to 2009 was primarily due to a decrease in Primary Ads platform revenue of $2.4 million as a result of our decision to retire the Primary Ads service and migrate customers to our Exchange segment platform. Additionally we had a $1.3 million decrease in revenue from our BabytoBee business. Net revenue from our BabytoBee business was approximately $7.1 million in 2010 as compared to approximately $8.5 million for 2009. This decrease of 16.5% was due to a decline in lead volumes and lower revenue generated from telesales. The conversion, in August 2010, to a new Florida-based outsourced facility caused a “ramp up” period that had a negative effect on lead revenues during the third and fourth quarters of 2010. As we diversify and expand our lead sources, we believe we can increase our lead volume and revenue.

We believe that the revenue trends described above for the Exchange segment will continue as we focus our marketing to our owned and operated websites. However, as we expand our product offerings in our Direct business in 2011, we expect that the Direct segment revenue will increase.

**Cost of Revenue and Gross Profit**

Cost of revenue, which includes affiliate payments, data acquisition amortization, merchant processing fees and product costs, were as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 % of Revenue | 2009 % of Revenue | % Change |
| Affiliate expenses | 54.7% | 55.6% | (0.9)% |
| Data acquisition | 4.8% | 6.3% | (1.5)% |
| Merchant processing fees and product costs | 0.2% | 0.3% | (0.1)% |
| Total cost of revenue | 59.7% | 62.2% | (2.5)% |

The lower affiliate payments in 2010 as a percentage of revenue compared to the same period in 2009 is due to a higher percentage of search transactions with owned and operated websites. We anticipate that these costs will continue to increase in dollar amounts as revenue from the Inuvo platform and our search network increases but to decrease as a percentage of revenue as we focus on managing the revenue generated from our owned and operated websites.

The decrease in data acquisition in 2010 compared to 2009 is due primarily to email distribution costs tied to our Direct segment as revenue from our BabytoBee website has decreased over this same period. Consistent with the changes in our net revenues and cost of revenues described above, our gross margin increased to 40.3% during 2010 from 37.8% in 2009. This increase in margin is due to the increasing percentage of revenue derived from owned and operated websites. Overall, gross profit increased approximately $4.7 million during 2010 from 2009.

The following table provides information on gross profit by operating segment for each of the periods presented (in thousands):

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 ($) | % of Gross Profit | 2009 ($) | % of Gross Profit | $ Change | % Change |
| Exchange segment | 14,836 | 75.2% | 7,597 | 50.5% | 7,239 | 95.3% |
| Direct segment | 4,879 | 24.8% | 7,436 | 49.5% | (2,557) | (34.4)% |
| Total gross profit | 19,715 | 100.0% | 15,033 | 100.0% | 4,682 | 31.1% |

Gross profit in our Exchange segment increased in 2010 from 2009 as the result of our increased search spending in 2010 compared to 2009. For 2010 and 2009, gross margin of our Exchange segment was approximately 35.6% and 26.3%, respectively, of Exchange segment net revenue.

The decrease in gross profit in our Direct segment during 2010 from 2009 is primarily attributed to a reduction in revenue and lead volumes noted above. Gross margin in our Direct segment for 2010 and 2009 was approximately 67.3% and 67.8%, respectively. The decrease in margin in the Direct segment is due to the relatively fixed nature of our direct costs in this segment which was impacted by the lower revenue noted above.

### Operating Expenses

Operating expenses, which consist of search costs, compensation and selling, general and administrative expenses, were as follows (in thousands):

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 ($) | % of Revenue | 2009 ($) | % of Revenue | $ Change | % Change |
| Search costs | 5,418 | 11.0% | 906 | 2.3% | 4,512 | 498.0% |
| Compensation and telemarketing | 10,357 | 21.1% | 10,167 | 25.5% | 190 | 1.9% |
| Selling, general and administrative | 7,628 | 15.6% | 8,191 | 20.6% | (563) | (6.9)% |
| Total other operating expenses | 23,403 | 47.7% | 19,264 | 48.4% | 4,139 | 21.5% |

This increase in search costs of approximately $4.5 million is a result of our strategic initiative to drive revenue generating traffic to promote our owned and operated web sites as noted above.

The increase in compensation and telemarketing costs in 2010 over 2009 of approximately $190,000 is primarily due to an increase of telemarketing costs of approximately $268,000 as we outsourced this activity to a Florida-based company; an increase in stock based compensation of approximately $364,000 was due primarily to our executive officers and certain of our senior management accepting shares of our common stock in lieu of cash compensation, with a fair market value of $232,500. These increases were partially offset by decreases in bonuses of approximately $101,000 and payroll and related costs of approximately $355,000 which were a result of managements focusing on improving operating margins.

The decrease in selling, general and administrative expenses is due primarily to a reduction in accounting and legal costs of approximately $283,000 related to the restatements of prior year financial statements in 2009. Additionally, we experienced a general decline in selling, general and administrative expenses of approximately $641,000 as management initiated cost reduction measures to increase operating margins. These declines were partially offset by an increase in bad debt expense of approximately $361,000 due to our assessments of collectability of older receivables

Our operating expenses by segment were as follows (in thousands):

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 ($) | % of Revenue | 2009 ($) | % of Revenue | $ Change | % Change |
| Exchange segment | 11,187 | 22.8% | 6,980 | 17.5% | 4,207 | 60.3% |
| Direct segment | 4,575 | 9.3% | 7,223 | 18.1% | (2,648) | (36.7)% |
| Corporate | 7,641 | 15.6% | 5,061 | 12.7% | 2,580 | 51.0% |

The increase of operating expenses in our Exchange segment was primarily attributed to an increase in search spend of $4.5 million as noted above. Search spend advertising is the purchase of key words and phrases from search engine operators that attracts web browsers to a web site. We use search spend advertising to drive web browsers to our owned and operated websites in order to increase revenue.

The decline in operating expenses in our Direct segment was primarily attributed to a reduction in depreciation and amortization of approximately $836,000 as these costs are included in corporate in 2010. Additionally, we experienced a decrease in payroll and telemarketing expenses of approximately $408,000 due to the reduction of employees in this segment as we transitioned our PrimaryAds operations to the Inuvo Platform in late 2009.

The increase in corporate expenses is due primarily to the realignment of approximatelty $2.1 million of IT personnel costs and related expenses, as these personnel were reassigned to corporate initiatives rather than the day to day operations of the operating segments. In late 2009, we reassigned personnel to develop our strategic initiatives begun in 2008.

We expect that the trends in our operating segments will remain at the same historical levels as a percentage of revenue in 2011 and that our corporate expenses will decrease as a percentage of revenues as we continue to manage costs and create economies of scale with our corporate costs.

**Other income (expense)**

Interest expense which is related to our borrowings from Wachovia Bank, N.A. decreased by approximately $275,000 or 32.8% during 2010 as compared to 2009. This decrease in interest expense reflects a decrease in interest rates and the reduction of our overall debt with Wachovia.

In accordance with FASB ASC Topic 350, goodwill is tested for impairment annually or more frequently when events or circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value. In March 2010, we closed our negative-option marketing programs. As a result, the projections for 2010 and beyond for that business were adjusted to zero and we charged off as impaired, the goodwill and intangible assets associated with that business as of December 31, 2009 totaling approximately $850,000.

In 2010, trade names associated with Morex and Primary Ads were impaired and consequently, the Company wrote-off $400,000.

**Income (loss) from Discontinued Operations, net of tax expense**

As described earlier in this report, our Board of Directors decided in 2008 to pursue the divestiture of the assets of our advertising agency, as well as the dating business and the consumer marketing business, which were both part of the Direct segment. At the time, the decision was driven primarily as a means to focus on the higher growth Exchange segment.

The loss from discontinued operations in 2010 was approximately $368,000 and is primarily attributed to the loss on the sale of MSA of approximately $1.5 million offset by the gain on the sale of RESO of $493,000 and further reduced by an operating income of approximately $621,000. Loss from discontinued operations for 2009 of approximately $310,000 includes a one-time gain of approximately $288,000 on the sale of our dating business offset by operating losses of approximately $598,000. As of December 31, 2010, the Company had successfully sold all of its discontinued operations. As part of the sale of RESO, we also wrote-off tradenames in the amount of $92,000.

**Liquidity and Capital Resources**

Liquidity is the ability of a company to generate adequate amounts of cash to meet the company's needs for cash. At December 31, 2010, we had working capital deficit of $4.3 million as compared to working capital of $1.9 million at December 31, 2009. Our principal sources of liquidity are cash from operations, cash on hand and the bank credit facility.

On February 15, 2011, we entered into the Business Financing Agreement (the "Agreement") with Bridge Bank, N.A. ("Bridge Bank"). This Agreement provides for a revolving credit facility of up to $8.0 million and replaces the $5.0 million credit facility with Wachovia Bank, N.A. ("Wachovia") that was scheduled to expire in March 2011. The Bridge Bank credit facility allows us to borrow against 80% of eligible accounts receivable balances, which are generally those balances owed by U.S. based customers that are less than 90 days from the date of invoice. In addition, the Bridge Bank facility provides an additional term credit of $475,000 to collateralize a stand-by letter of credit required by our corporate headquarters lease. Under the terms of the Agreement, we must maintain certain depository, operating and investment accounts at Bridge Bank; provide Bridge Bank a first priority perfected security interest in all of our accounts and personal property; provide various monthly, quarterly and annual reports; limit additional indebtedness to $500,000 of purchase money including capital leases and an additional $500,000 of all other indebtedness; and maintain "operating profit" of net income plus interest and taxes plus non-cash expenses for amortization, depreciation, stock based compensation, discontinued operations and non-recurring items of not less than $100,000 for the immediate proceeding three month period. At the closing of the Agreement several fees were paid including a facility fee (0.25% of the maximum credit limit), a due diligence fee ($800), a fee-in-lieu-of-warrant ($21,250) and a non-formula facility fee ($4,750). The facility fee is due annually. A maintenance fee of .125% of the average daily balance and the finance charge (Prime Rate plus 200 bonus points) and are due monthly.

While we do not have any commitments for capital expenditures which come due within the next 12 months, our liquidity has been negatively affected by exiting the negative-option marketing program in March 2010. This business generated approximately $10.8 million in revenue in 2009. In addition, during the fourth quarter of 2010, we experienced a reduction in search marketing revenue resulting from the migration to the recently launched Yahoo!-Bing platform. The integration of these two platforms caused both an unexpected disruption in search traffic purchased through the Yahoo!-Bing platform and lower revenue-per-click received from the Yahoo!-Bing platform. The Company has been making adjustments to adapt to this new marketplace, and has seen incremental improvements in revenue as a result. Revenue under this platform has improved steadily since reaching its lowest levels in January 2011. However, volatility may continue over the ensuing months. We also implemented a cost reduction plan during the first quarter of 2010 and again in the same quarter of 2011 to offset the lost business which included a reduction in employees and related expenses which resulted in monthly savings of $107,000 beginning in February 2011.

Additionally, in 2010, our executive officers and certain of our senior management accepted shares of our common stock, valued at fair market value, in lieu of cash compensation totaling $232,500 in an effort to conserve our cash resources. In the first quarter of 2011, our executive officers and certain of our senior management agreed to a deferral of cash compensation in an effort to assist us to better manage our liquidity. In addition, we favorably renegotiated the outsourced call center contract reducing the monthly cost outlay of over $100,000 monthly. We believe these steps, along with the new bank facility, will provide sufficient cash for the next 12 months.

We may seek to raise additional capital through public or private equity financings in order to fund our operations, take advantage of favorable business opportunities, develop and upgrade our technology infrastructure, develop new product and service offerings, take advantage of favorable conditions in capital markets, sell certain of our operations or respond to competitive pressures in an effort to maintain our market position. We cannot be assured that additional financing will be available to us on favorable terms, or at all. If we issue additional equity, our existing stockholders may experience substantial dilution.

The accompanying consolidated financial statements were prepared by management on a go-forward basis and therefore do not include any adjustments to the Company's assets or liabilities.

*Cash flows*

Net cash provided by operating activities totaled $3.3 million for 2010 compared to $4.7 million in 2009. The decrease in net cash provided by operating activities of $1.4 million from 2009 to 2010 was primarily due to a impact of the change in accounts receivable in 2010 compared to 2009 of $3.1. In 2010, we also had lower net losses before non-cash expenses of depreciation and amortization, impairment of assets, provision for doubtful accounts, stock-based compensation, and loss/gain on sale of assets of discontinued operations compared to 2009.

Net cash used in investing activities for 2010 of $1.6 million was primarily the result of the $2.4 million purchase of names and exclusivity rights partially offset by $1.4 million of proceeds from the sale of discontinued operations. Net cash used in investing activities for 2009 of $2.7 million was primarily the result of the $2.1 million purchase of names and exclusivity rights and the $1.4 million purchase of equipment and software capitalization.

Net cash used in financing activities during 2010 was $6.4 million and resulted primarily from the net payments under our bank term note and credit facility. Net cash provided by financing activities during 2009 was $2.5 million and resulted primarily from the cash generated from issuance of common stock of approximately $4.7 million and proceeds from the term note of $2.7 million partially offset by the net payments under our bank term note and credit facility and capital leases of approximately $2.1million.

**Off Balance Sheet Arrangements**

As of December 31, 2010, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

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

Not applicable to a smaller reporting company.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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

We appointed Mayer Hoffman McCann P.C. as our new independent registered public accounting firm as approved by the Audit Committee of the Board of Directors on November 5, 2010. We were notified that the shareholders of Kirkland, Russ, Murphy & Tapp, P.A. ("KRMT"), the independent registered public accounting firm engaged by us on July 14, 2009, that they became shareholders of Mayer Hoffman McCann P.C. pursuant to an asset purchase agreement effective November 1, 2010.

During our two most recent fiscal years ended December 31, 2009 and through November 9, 2010, the date we filed the Current Report on Form 8-K disclosing the change in auditors, we did not consult with Mayer Hoffman McCann P.C. regarding any of the matters or reportable events set forth in Item 304 (a)(2) (i) and (ii) of Regulation S-K.

KRMT served as our independent registered public accounting firm since July 14, 2009 and issued its audit report on our consolidated financial statements as of and for the year ended December 31, 2009. The audit report of KRMT on our consolidated financial statements as of, and for the year ended December 31, 2009, did not contain an adverse opinion or a disclaimer of opinion, and was not qualified, or modified, as to uncertainty, audit scope or accounting principles.

In connection with the audit of our consolidated financial statements for the fiscal year ended December 31, 2009 and through the date of the aforementioned Current Report on Form 8-K, there were (i) no disagreements between our company and KRMT on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of KRMT, would have caused KRMT to make reference to the subject matter of the disagreement in their report on our financial statements for such year, or for any reporting period, since our last fiscal year end and (ii) no reportable events within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K.

## ITEM 9A. CONTROLS AND PROCEDURES.

### Evaluation of Disclosure Controls and Procedures

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

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

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of December 31, 2010, the end of the period covered by this report, our management concluded its evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. As of the evaluation date, our Chief Executive Officer and Chief Financial Officer, concluded that we maintain disclosure controls and procedures that are effective in providing reasonable assurance that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and regulations, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

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

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Tread way Commission ("COSO") in *Internal Control-Integrated Framework*. Based upon this assessment, our management concluded that as of December 31, 2010, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

**Changes in Internal Control over Financial Reporting**

There was no changes in our internal control over financial reporting identified in connection with our evaluation that occurred during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**.

None.

## PART III

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

The information required by this Item will be contained in our Proxy Statement in relation to the 2011 Annual Meeting of Shareholders to be filed on or prior to April 30, 2011 and is incorporated herein by this reference or is included in Part I under "Executive Officers of the Company."

### ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

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

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

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

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

## PART IV

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

(a) 1. Financial Statements

The consolidated financial statements and Reports of Independent Registered Accounting Firms are listed in the "Index to Financial Statements and Schedules" on page F-1 and included on pages F-2 through F-26.

2. Financial Statement Schedules

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

3. Exhibits (including those incorporated by reference).

| Exhibit No. | Description of Exhibit |
|---|---|
| 2.1 | Agreement, entered into as of August 19, 2004, by and among Registrant, WebCapades Acquisition Sub, Inc., WebCapades, Inc., Scott Mitchell and Kristine E. Mitchell (1) |
| 2.2 | Plan of Merger by Registrant, WebCapades Acquisition Sub, Inc., and WebCapades, Inc. (1) |
| 2.3 | Agreement and Plan of Reorganization by and among Registrant and WorldMall Acquisition Corporation, WorldMall, Inc., S. Patrick Martin and the other stockholders of WorldMall, Inc. dated as of March, 2001 (2) |
| 2.4 | Agreement and Plan of Merger dated June 5, 2009 between Inuvo, Inc. and Kowabunga! Inc. (3) |
| 3(i).1 | Articles of Incorporation, as amended(2) |
| 3(i).2 | Amended to Articles of Incorporation filed March 14, 2005 (4) |
| 3(i).3 | Articles of Merger between Inuvo, Inc. and Kowabunga! Inc. (3) |
| 3(i).4 | Certificate of Change Filed Pursuant to NRS 78.209 (19) |
| 3(ii).1 | Amended and Restated By-Laws (18) |
| 4.1 | Form of common stock purchase warrants of Registrant for August 2004 offering (5) |
| 4.2 | Form of common stock purchase warrants of Registrant for December 2004 offering (5) |
| 4.3 | Form of Registration Rights Agreement by and among Registrant and certain of its stockholders for December 6, 2004 offering (5) |
| 4.4 | Registration Rights Agreement, dated as of March 20, 2006, by and among the Registrant and the schedule of Buyers attached thereto (6) |
| 4.5 | Form of Warrant by and among the Registrant and the schedule of Buyers attached to Securities Purchase Agreement (6) |
| 10.1 | Lease Agreement, dated November 24, 2003, between Duke Realty Limited Partnership and WebSourced, Inc (2) |
| 10.2 | Agreement, dated April 22, 2005, by and among the Registrant, PrimaryAds Merger Sub, Inc., PrimaryAds Inc., Kenneth M. Harlan, David J. Harlan, Steven M. Harlan and Matthew A. Sessanta (7) |
| 10.3 | Agreement by and among the Registrant, Vintacom Acquisition, ULC, Vintacom Holdings, Inc., and the stockholders of Vintacom Holdings, Inc., dated December 2, 2005 (8) |
| 10.4 | Agreement by and among the Registrant, Morex Merger Sub, LLC, Morex Marketing Group, LLC, Lloyd Ecker, Robert Moore, Tina MacNicholl, and What If Holdings, LLC, dated January 20, 2006 (9) |
| 10.5 | Agreement by and among the Registrant, Litmus Acquisition Sub, Inc., Litmus Media, Inc., John Linden and Tobias Teeter, dated as of February 17, 2006 (10) |
| 10.6 | Amendment No. 1 to Agreement by and among the Registrant, Litmus Acquisition Sub, Inc., Litmus Media, Inc., John Linden and Tobias Teeter, dated as of March 17, 2006 (11) |
| 10.7 | Agreement and Plan of Merger and Reorganization by and among the Registrant, iLead Acquisition Sub, Inc., THK, LLC, iLead Media, Inc., Brady Whittingham, David Nelson and Robert Seolas dated as of April 27, 2006 (12) |
| 10.8 | First Amendment to Agreement, entered August 10, 2006, to be effective as of July 1, 2006, by and among the Registrant, PrimaryAds, Inc., Kenneth M. Harlan, David J. Harlan, Steven M. Harlan and Matthew A. Sessanta.(13) |
| 10.9 | Second Amendment to Agreement, entered into August 10, 2006, to be effective as of July 1, 2006, by and among the Registrant, Litmus Media, Inc., and John Linden and Tobias Teeter(13) |
| 10.10 | First Amendment to Agreement, entered into August 10, 2006, to be effective as of July 1, 2006, by and among the Registrant, THK, LLC, and Brady Whittingham, David Nelson, and Robert Seolas(13) |
| 10.11 | First Amendment to Agreement, entered into August 10, 2006, to be effective as of July 1, 2006, by and between the Registrant and James Banks(13) |
| 10.12 | 2005 Long-Term Incentive Plan (14) |
| 10.13 | Specimen Stock Option Agreement between the Registrant and Optionees (15) |
| 10.14 | Specimen Restricted Stock Agreement between the Registrant and Employees with Amendment Agreement No. 1, dated as of June 23, 2008, between the Registrant and John Linden (15) |
| 10.15 | Employment Agreement, dated November 3, 2008, by and between the Registrant and Richard K. Howe (16) |
| 10.16 | Subscription Agreement (17) |

| | |
|---|---|
| 10.17 | Form of Business Financing Agreement dated February 15, 2011 between Inuvo, Inc. and Bridge Bank, National Association.* Portions of this agreement have been omitted and marked with a [_____] and separately filed with the Securities and Exchange Commission with a request for confidential treatment. |
| 10.18 | Form of Intellectual Property Security Agreement dated February 15, 2011 between Inuvo, Inc. and Bridge Bank, National Association. * |
| 10.19 | 2010 Equity Compensation Plan (18) |
| 10.20 | Asset Sale/Purchase Agreement dated September 24, 2010 by and between MarketSmart Advertising, Inc., Rightstuff, Inc., Checkup Marketing, Inc. and The Finch Agency, Inc. (19) |
| 10.21 | Asset Purchase Agreement dated December 10, 2010 by and between Real Estate School Online, Inc. and Inuvo, Inc. and DF Institute, Inc. (20) |
| 10.22 | Amendment dated June 18, 2010 to Employment Agreement with Richard K. Howe (18) |
| 16.1 | Letter dated November 9, 2010 from Kirkland, Russ Murphy & Tapp, P.A.(21) |
| 21.1 | Subsidiaries of the Registrant* |
| 23.1 | Consent of Mayer Hoffman McCann P.C.* |
| 23.2 | Consent of Kirkland Russ Murphy & Tapp, P.A.* |
| 31.1 | Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer * |
| 31.2 | Rule 13a-14(a)/15d-14(a) certification of Chief Financial Officer * |
| 32.1 | Section 1350 certification of Chief Executive Officer * |
| 32.2 | Section 1350 certification of Chief Financial Officer * |

* filed herewith

(1) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 25, 2004.
(2) Incorporated by reference and filed as an exhibit to the Registrant's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 1, 2004.
(3) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2009.
(4) Incorporated by reference and filed as an exhibit to the Registrant's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2006.
(5) Incorporated by reference and filed as an exhibit to the Registrant's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on December 30, 2004, SEC File No. 333-121761.
(6) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2006.
(7) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 27, 2005.
(8) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 5, 2005.
(9) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 25, 2006.
(10) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 22, 2006.

(11) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2006.
(12) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 2, 2006.
(13) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 10, 2006.
(18) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2010.
(14) Incorporated by reference to the Current Report on Form 8-K as filed on December 10, 2010.
(15) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 1, 2008.
(16) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 7, 2008.
(17) Incorporated by reference and filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2009.
(18) Incorporated by reference to the Registrant's definitive proxy statement on Schedule 14A as filed on April 30, 2010.
(19) Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on September 30, 2010.
(20) Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on December 13, 2010.
(21) Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on November 9, 2010.

## SIGNATURES

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

**Inuvo, Inc.**

By: /s/ Richard K. Howe
Chief Executive Officer

Date: March 30, 2011

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

| Signature | Title | Date |
|---|---|---|
| /s/ Mitch Tuchman<br>Mitch Tuchman | Chairman of the Board of Directors | March 30, 2011 |
| /s/ Richard K. Howe<br>Richard K. Howe | Chief Executive Officer and director, principal executive officer | March 30, 2011 |
| /s/ Wallace D. Ruiz<br>Wallace D. Ruiz | Chief Financial Officer, principal financial and accounting officer | March 30, 2011 |
| /s/ Charles Pope<br>Charles Pope | Director | March 30, 2011 |
| /s/ Jack Balousek<br>Jack Balousek | Director | March 30, 2011 |
| /s/ Charles Morgan<br>Charles Morgan | Director | March 30, 2011 |

**INUVO, INC.**
**FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**
**INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**CONTENTS**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheet of Inuvo, Inc. (the Company) as of December 31, 2010 and the related consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inuvo, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Mayer Hoffman McCann P.C.

Clearwater, Florida

March 28, 2011

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheet of Inuvo, Inc. (the Company) as of December 31, 2009 and the related consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inuvo, Inc. as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Kirkland Russ Murphy & Tapp, P.A.

Clearwater, Florida

March 30, 2010

**INUVO, INC.**
**CONSOLIDATED BALANCE SHEETS**
**December 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| Assets: | | |
| Current assets: | | |
| Cash | $ 118,561 | $ 4,843,128 |
| Restricted cash | 140,493 | 638,285 |
| Accounts receivable, net of allowance for doubtful accounts of $450,634 and $1,344,648 respectively | 4,500,894 | 4,671,510 |
| Unbilled revenue | 59,881 | 55,117 |
| Prepaid expenses and other current assets | 463,958 | 380,435 |
| Current assets of discontinued operations | 50,000 | 2,421,758 |
| Total current assets | 5,333,787 | 13,010,233 |
| Property and equipment, net | 2,749,098 | 4,881,168 |
| Other assets: | | |
| Goodwill | 3,351,405 | 3,351,405 |
| Intangible assets | 2,511,918 | 3,805,707 |
| Other assets | 79,324 | 1,657 |
| Other assets of discontinued operations | - | 775,000 |
| Total other assets | 5,942,647 | 7,933,769 |
| Total assets | $ 14,025,532 | $ 25,825,170 |
| Liabilities and Stockholders' Equity: | | |
| Current liabilities: | | |
| Term and credit note payable – current portion | $ 1,850,000 | $ 2,324,000 |
| Accounts payable | 5,479,796 | 4,431,285 |
| Deferred revenue | 19,921 | 112,773 |
| Accrued expenses and other current liabilities | 1,599,625 | 1,743,934 |
| Current liabilities of discontinued operations | 712,024 | 2,531,601 |
| Total current liabilities | 9,661,366 | 11,143,593 |
| | | |
| Long-Term Liabilities: | | |
| Term and credit notes payable – long term | - | 5,786,806 |
| Other long-term liabilities | 356,509 | 456,340 |
| Long-term liabilities of discontinued operations | - | 214,829 |
| Long-term liabilities | 356,509 | 6,457,975 |
| Stockholders' equity: | | |
| Preferred stock, $.001 par value: | | |
| Authorized shares – 500,000 – none issued or outstanding | - | - |
| Common stock, $.001 par value: | | |
| Authorized shares 20,000,000, issued shares 9,110,486 and 8,995,929, respectively | | |
| Outstanding shares – 8,558,790 and 8,444,233, respectively | 9,110 | 8,996 |
| Additional paid-in capital | 111,766,319 | 110,976,129 |
| Accumulated deficit | (105,671,666) | (100,665,417) |
| Treasury stock, at cost – 551,696 shares | (2,096,106) | (2,096,106) |
| Total stockholders' equity | 4,007,657 | 8,223,602 |
| Total liabilities and stockholders' equity | $ 14,025,532 | $ 25,825,170 |

See accompanying reports of independent registered public accounting firms and notes to the consolidated financial statements.

**INUVO, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**Years Ended December 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| Net revenue | $ 48,969,847 | $ 39,807,107 |
| Cost of revenue: | | |
| Affiliate expenses | 26,817,621 | 22,133,297 |
| Data acquisition | 2,335,313 | 2,506,942 |
| Merchant processing fees and product costs | 102,376 | 133,468 |
| Cost of revenue | 29,255,310 | 24,773,707 |
| Gross profit | 19,714,537 | 15,033,400 |
| Operating expenses: | | |
| Search costs | 5,418,099 | 906,366 |
| Compensation and telemarketing | 10,356,682 | 10,167,108 |
| Selling, general and administrative | 7,627,703 | 8,190,809 |
| Total operating expenses | 23,402,484 | 19,264,283 |
| Operating loss | (3,687,947) | (4,230,883) |
| Other income (expense): | | |
| Interest income | 4,721 | 4,670 |
| Interest expense | (564,001) | (839,234) |
| Impairment of assets | (400,000) | (2,213) |
| Other income (expense) | 11,843 | (13,211) |
| Other expenses, net | (947,437) | (849,988) |
| Loss from continuing operations before taxes on income | (4,635,384) | (5,080,871) |
| Income tax expense | (2,642) | - |
| Net loss from continuing operations | (4,638,026) | (5,080,871) |
| Loss from discontinued operations net of tax expense of $0 and $212,429, respectively | (368,223) | (310,243) |
| Net loss | $ (5,006,249) | (5,391,114) |
| | | |
| Per common share data: | | |
| Basic and diluted: | | |
| Loss from continuing operations | $ (0.55) | $ (0.76) |
| Loss from discontinued operations | $ (0.04) | $ (0.05) |
| Net loss | $ (0.59) | $ (0.81) |
| | | |
| Weighted average shares (basic and diluted) | 8,496,284 | 6,679,319 |

See accompanying reports of independent registered public accounting firms and notes to the consolidated financial statements.

**INUVO, INC.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS**
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

| | Common Stock Shares | Common Stock Stock | Additional Paid in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (loss) | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| Balances, December 31, 2008 | 6,560,807 | $ 7,113 | $ 105,868,752 | $ (95,274,303) | $ (116,961) | $ (2,096,106) | $ 8,388,495 |
| Warrants exercised, net | 226,093 | 226 | 610,225 | | | | 610,451 |
| Issuance of common stock for equity offering, net | 1,674,000 | 1,674 | 4,062,308 | | | | 4,063,982 |
| Stock based compensation | | | 434,827 | | | | 434,827 |
| Forfeited restricted stock units | (16,667) | (17) | 17 | | | | |
| Other Comprehensive loss | | | | | | | |
| Net loss | | | | (5,391,114) | | | (5,391,114) |
| Interest rate swap termination | | | | | 101,943 | | 101,943 |
| Other | | | | | 15,018 | | 15,018 |
| Comprehensive loss | | | | | | | (5,274,153) |
| Balances December 31, 2009 | 8,444,233 | 8,996 | 110,976,129 | (100,665,417) | - | (2,096,106) | 8,223,602 |
| Forfeited Restricted stock units | (6,667) | (7) | 7 | | | | |
| Additional shares issued due to reverse stock split | 87 | | | | | | |
| Issuance of common stock for compensation | 121,137 | 121 | 256,779 | | | | 256,900 |
| Stock based compensation | | | 533,404 | | | | 533,404 |
| Net loss | | | | (5,006,249) | | | (5,006,249) |
| Balances December 31, 2010 | 8,558,790 | $ 9,110 | $ 111,766,319 | $ (105,671,666) | - | $ (2,096,106) | $ 4,007,657 |

See accompanying reports of independent registered public accounting firms and notes to the consolidated financial statements.

**INUVO, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| Operating activities: | | |
| Net loss | $ (5,006,249) | $ (5,391,114) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,067,982 | 5,704,004 |
| Impairment of assets | 400,000 | 849,083 |
| Provision for doubtful accounts | 491,000 | 304,598 |
| Stock based compensation | 790,304 | 434,827 |
| Loss (gain) on sale of discontinued operations | 989,364 | (168,813) |
| Other | 1,290 | 15,018 |
| Change in operating assets and liabilities: | | |
| Restricted cash | 497,792 | 253,789 |
| Accounts receivable | (320,384) | 2,799,042 |
| Prepaid expenses and other assets | (39,247) | (330,004) |
| Accounts payable | 1,048,511 | (658,870) |
| Deferred revenue | (92,852) | 327,322 |
| Other accrued expenses and current liabilities | (90,828) | 500,792 |
| Net cash provided by operating activities from continuing operations | 3,736,683 | 4,639,674 |
| Net cash (used in) provided by operating activities from discontinued operations | (389,699) | 37,869 |
| Net cash provided by operating activities | 3,346,984 | 4,677,543 |
| | | |
| Investing activities: | | |
| Purchasing of equipment and software | (659,451) | (1,376,790) |
| Purchase of names database and exclusivity rights | (2,444,598) | (2,099,897) |
| Proceeds from sale of discontinued operations | 1,434,923 | 749,985 |
| Proceeds from the sale of property and equipment | 20,018 | - |
| Net cash used in investing activities | (1,649,108) | (2,726, 702) |
| | | |
| Financing activities: | | |
| Proceeds from term note | - | 2,700,000 |
| Principal payments made on term note and capital leases | (3,627,443) | (3,273,234) |
| Advances from credit note | 40,067,000 | 39,284, 056 |
| Payments on credit note | (42,862,000) | (40,853,283) |
| Proceeds from issuance of common stock, net of costs | - | 4,674,433 |
| Net cash (used in) provided by financing activities | (6,422,443) | 2,531,972 |
| Net (decrease) increase in cash | (4,724,567) | 4,482,813 |
| Cash, beginning of year | 4,843,128 | 360,315 |
| Cash, end of year | $ 118,561 | $ 4,843,128 |
| | | |
| Supplemental information: | | |
| Interest paid | $ 548,371 | $ 743,789 |
| Income taxes paid, net | $ 2,642 | $ 20,904 |
| Non-cash investing activities: | | |
| Equipment under capital leases | $ 19,236 | $ 133,808 |
| Sale of assets through note receivable | $ 140,472 | $ - |

See accompanying reports of independent registered public accounting firms and notes to the consolidated financial statements.

**Note 1 – Organization and Business**

**Company Overview**

Inuvo™, Inc. and subsidiaries (the "Company," or "its") is an Internet marketing business with two segments:

- Exchange, and
- Direct.

The Exchange segment designs, builds, implements, manages and sells the various technology platforms and services the Company offers. For the last 12 months, the Exchange segment has been executing a technology strategy to consolidate the disparate technologies and platforms the Company acquired between 2002 and 2008 into the Inuvo Platform. The Inuvo Platform is an open, quality-controlled, lead generation marketplace designed to allow advertisers and publishers to manage their transactions in an automated and transparent environment. In addition to the core Inuvo Platform for advertisers and publishers, which launched in beta in October 2009, the Company continues to sell several legacy platforms, services or directories within the Exchange segment. The Direct segment designs, builds and implements unique offers and/or websites that generate revenue from the sale of products, services, data and advertising. The Direct segment manages owned and operated properties across verticals that include professional recertification and baby products. The segment uses a number of online tactics for lead generation that includes search and affiliate and email marketing campaigns designed to drive traffic to the sites. In the future, a majority of such tactics will be deployed and/or tracked via the Inuvo Platform. The cornerstone of the Company's value proposition for advertisers is its ability to generate high converting leads at an attractive return on investment ("ROI"). Concurrently, to allow for scale within the Company's advertising exchange, the Company must also attract high traffic web publishers where competition for advertising space is driven primarily by the amount paid for each offer presented. The Company believes that greater transparency and alignment between advertisers and publishers, combined with sophisticated analytic technologies that predict fraud and target offers more effectively, will differentiate service providers in this marketplace.

The Company believes we have been on the forefront of these technologies for the past five years. From its click fraud technology, which has successfully proven its ability to eliminate bad traffic, to its introduction of transaction flagging within the Inuvo Platform to the targeting of advertisements based on behavioral information. The Company has and will continue to operate its business based on the principle of quality.

In October 2009, the Company brought to market the Inuvo Platform. Within this solution, advertisers create and manage advertising campaigns, web publishers better monetize their available advertising inventory and strategic partners and web developers will soon have the ability to customize their implementation through an application-programming interface ("API"). The Company sees itself well positioned to capitalize on market trends that play to its technological strengths.

A very important by-product of the Company's business is the information produced both on the advertiser side, where the Company sees what kind of products convert, and on the publisher side, where it see what kind of websites attract viewers. This business intelligence allows for improved detection of fraudulent transactions and higher response rates.

The Company was incorporated in the State of Nevada in October 1987. As of March 7, 2011, the Company employed, through its operating subsidiaries, 47 people full time. The Company's principal executive offices are located at 15550 Lightwave Drive, Suite 300, Clearwater, Florida 33760.

**Liquidity**

The Company implemented a cost reduction plan during the first quarter of 2011 to offset the lower revenue associated with the reduction in search marketing revenue resulting from the migration to the recently launched Yahoo!-Bing platform. This cost reduction plan included the elimination of employee positions and the related expenses. Additionally, the Company's executive officers and certain of its senior management agreed to a deferral of cash compensation in an effort to assist us to better manage the Company's liquidity. Furthermore, the Company favorably renegotiated the outsourced call center contract reducing the monthly cash outlay. The Company also made adjustments to adapt to the new Yahoo!-Bing marketplace, and has seen incremental improvements in revenue as a result. The Company believes these steps, along with the higher loan availability from the new bank facility (see Note 18), will provide sufficient cash for the next twelve months.

The accompanying consolidated financial statements were prepared by management on a go-forward basis and therefore do not include any adjustments to the Company's assets or liabilities.

**Discontinued Operations**

During the second quarter of 2008, the Company made a decision to divest its MarketSmart Advertising, Inc. ("MSA") operations and, effective August 31, 2010, the Company sold substantially all of the assets of MSA. During the second quarter of 2008, the Company ceased operations of its Web Diversity Ltd. ("Web Diversity") subsidiary. In 2008, the Company also made a decision to divest its Cherish, Inc. ("Cherish") and Vintacom Florida Inc ("Vintacom") operations. On February 17, 2009, the Company concluded the sale of the assets of Cherish. In the second half of 2009, the Company ceased operations of Vintacom. In March 2010, the Company determined that due to market and strategic reasons to accelerate its decision to exit the negative-option marketing programs which became part of its Direct segment following the iLead Media, Inc. ("iLead") acquisition in 2006. In July 2010, the Board of Directors approved the plan to sell the Company's Real Estate School Online ("RESO") business unit and in December 2010, substantially all of the assets of RESO were sold.

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

a) Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

b) Cash and restricted cash

The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. The Company's cash deposits exceeded FDIC-insured limits at various financial institutions on December 31, 2010 and 2009 by approximately $0.0 and $4.2 million, respectively, as reported before adjustment for outstanding checks. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

The Company has restricted cash on deposit with various merchant processors. The majority of these funds are in non-interest bearing accounts. As of December 31, 2010 and 2009, the Company had approximately $140,000 and $638,000, respectively, of restricted cash.

c) Reclassifications

For comparability, the 2009 audited consolidated financial statements reflect reclassifications where appropriate to conform to the interim consolidated financial statement presentation used in 2010. Certain prior period amounts have been reclassified to conform to the current presentation related to the discontinued operations of MSA, iLead and RESO.

Additionally, all consolidated financial statements and notes herein reflect the impact of the 1:10 reverse stock split on the Company's common and preferred stock in December 2010.

d) Revenue recognition

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

**Exchange Segment**

*Affiliate Network* - consistent with the provisions of ASC 605-45 *Revenue Recognition-Principal Agent Considerations* ("ASC 605-45"), the Company recognizes revenue as an agent in affiliate marketing transactions in which the Company is not the primary obligor. Accordingly, service fee revenue is recognized on a net basis because any affiliate expenses are the responsibility of the Company's advertising customer. In certain instances, the Company assumes the position of primary obligor and thus recognizes revenue on a gross basis. Revenue is recognized when the related services are performed.

*Search Network* - In accordance with ASC 605-45, the Company records as revenue the gross amount received from advertisers and the amount paid to the publishers placing the advertisements as cost of sales. Revenue from company owned networks are based on "per click" basis and is recognized once the action is taken.

*Affiliate Software* - The Company recognizes revenue the month in which the software is utilized. Customers are invoiced on the first of the month for the monthly services. All overages for the month are billed at the end of the month and are included in the Company's accounts receivable.

*Hosting Arrangements* - The Company recognizes revenue through a monthly hosting fee and additional usage fees as provided.

**Direct Segment**

*Online Membership Income* – The Company recognizes revenue from online memberships when payment is received and the service date of providing membership benefits has taken place.

*Lead Sales* - For lead sales, the Company's revenue recognition varies depending on the arrangement with the purchaser. Where the arrangement provides for delivery only, revenue is recognized when the lead information is provided to the purchaser. Where the arrangement provides for compensation based on sales generated by the purchaser from the lead, the Company recognizes revenue in the period that the purchasing company makes a sale that was derived from the lead.

*List Management Services* - Substantially all of the Company's revenue from list management services is recorded at the net amount of its gross billings less pass-through expenses charged to a customer. In most cases, the amount that is billed to customers exceeds the amount of revenue that is earned and reflected in the Company's consolidated financial statements, because of various pass-through expenses. In compliance with ASC 605-45, the Company assesses whether the Company or a third-party supplier is the primary obligor. The Company has evaluated the terms of its customer agreements and considered other key indicators such as latitude in establishing price, discretion in supplier selection and credit risk to the vendor as part of this assessment. Accordingly, the Company generally records revenue net of pass-through charges.

*Subscription Income* – The Company recognizes revenue on monthly and multi-monthly subscription contracts on a straight-line basis over the term of the contract. Funds that are collected in advance from customers are recorded as deferred revenue.

**Discontinued Operations**

*Product Sales* - For product sales in RESO, the Company recognizes revenue when payment is received and the goods are shipped.

*Pay Per Click Management Fees* – The Company recognizes revenue on pay per click management services in the month the services are performed.

e) Accounts receivable

Accounts receivable are recorded at the net realizable value and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses on the Company's existing accounts receivable. The Company reviews its allowance for doubtful accounts quarterly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. In determining past due or delinquent status of a customer, the aged trial balance is continually reviewed by collections and generally any accounts older than 120 days are considered delinquent.

f) Advertising and search expenses

The Company expenses advertising costs as incurred. Advertising costs from continuing operations as included in selling general and administrative expenses for the years ended December 31, 2010 and 2009 were approximately $126,000 and $59,000, respectively. In addition, the Company expenses search costs as incurred. Search cost advertising is the purchase of key words and phrases from search engine operators that attracts web browsers to a web site. In 2010, the Company increased search costs by approximately $4.5 million to $5.4 million as the Company focused its revenue growth on its owned and operated websites.

g) Property and equipment

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

Property and equipment are depreciated on a straight-line basis over 3 years for equipment, 5 to 7 years for furniture and fixtures and 3 to 5 years for software. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining term of the lease. Depreciation and amortization expense was approximately $1.8 million and $2.0 million, respectively, for the years ended December 31, 2010 and 2009.

h) Capitalized Software Costs

The Company capitalizes certain costs related to the acquisition and internally developed software and amortizes these costs using the straight-line method over the estimated useful life of the software. The Company utilizes all developed software for internal use. The Company does not sell developed software. Certain development costs not meeting the criteria for capitalization are expensed as incurred.

i) Goodwill and other intangible assets

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. In accordance with ASC 350, *Goodwill and Other Intangible Assets ("ASC 350"),* the Company tests goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis or more frequently if the Company believes indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying value, including goodwill. The Company generally determines the fair value of its reporting units using the gross profit approach methodology of valuation that includes the undiscounted cash flow method as well as other generally accepted valuation methodologies. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the Company performs the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill (See Note 5).

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

j) Income taxes

The Company utilizes the liability method of accounting for income taxes as set forth in ASC 740, *Income Taxes* (“ASC 740”). Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. In assessing the need for a valuation allowance the Company must project future levels of taxable income. This assessment requires significant judgment. The Company examines evidence related to the history of taxable losses or income, the economic conditions in which the Company operates, organizational characteristics, its forecasts and projections, as well as factors affecting liquidity.

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

k) Impairment of long-lived assets

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

For the year ended December 31, 2009, the Company had impairments of its goodwill and other intangible assets of approximately $800,000. As part of the sale of RESO in December 2010, the Company wrote off $92,000 of tradenames. In 2010, tradenames associated with Morex and Primary Ads were impaired and consequently, the Company recorded an impairment loss of $400,000.

l) Share-based compensation

The Company recognizes share based compensation at fair value pursuant to ASC 718, *Compensation- Stock Compensation* (“ASC 718) using the modified prospective transition method. The fair value of units granted is determined using market value of the common stock on the date of the grant. The Company estimates the fair value of all stock option awards as of the grant date by applying the Black-Scholes-Merton option pricing model and recognizes the fair value as compensation expense in earnings over the requisite service period. The use of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, exercise price, and forfeiture rate. Under ASC 718, forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. The forfeiture rate, which is currently estimated at a weighted average of 25 percent of unvested options outstanding, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

m) Treasury Stock

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

n) Net loss per share

During the periods presented, the Company had securities that could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net loss per share, as their effect would have been anti-dilutive. Because the Company reported a net loss for all periods presented, shares associated with stock options, warrants and restricted stock are not included because they are anti-dilutive. Basic and diluted net loss per share is the same for all periods presented. Per share data is based on the weighted average number of shares outstanding and has been adjusted for the 1 for 10 reverse stock split.

o) Comprehensive income

ASC 220, *Comprehensive Income,* requires disclosure of total comprehensive income. Other comprehensive income (loss) is defined as the change in equity during a period, from transactions and other events, excluding changes resulting from investments by owners (e.g., supplemental stock offering) and distributions to owners (e.g., dividends).

p) Operating segments

ASC 280, *Segment Reporting,* requires disclosures of certain information about operating segments, products and services, geographic areas in which the Company operates, and their major customers. The Company has evaluated the effect of this standard and has determined that currently it operates in two segments, as defined in this statement (See Note 17).

q) Concentration of credit risk

Financial instruments that potentially expose the Company to concentrations of risk consist primarily of cash and cash equivalents and accounts receivable, which are generally not collateralized. The Company's policy is to place its cash and cash equivalents with high credit quality financial institutions in order to limit the amount of credit exposure. The Company does not require collateral from its customers, but its credit extension and collection policies include monitoring payments and aggressively pursuing delinquent accounts. The Company maintains allowances for potential credit losses.

r) Risks and concentrations

When assessing credit risk, the Company considers whether the credit risk exists at both the individual and group level. Consideration is given to the activity, region and economic characteristics when assessing if there exists a group concentration risk. The following disclosures were calculated based on the entire Company results. At December 31, 2010, the Company had one individual customer with accounts receivable balances greater than 10% of the gross accounts receivable from continuing operations. This customer owed approximately $3.0 million or 57.7% of gross accounts receivable from continuing operations at December 31, 2010 and approximately $2.5 million or 41.3% at December 31, 2009. This same customer contributed approximately $39.3 million or, 80.3%, of total net revenue from continuing operations for year ended December 31, 2010 and approximately $26.3 million, or 66.5%, of total net revenue from continuing operations for the year ended December 31, 2009.

s) Fair value of financial instruments

The Company has adopted ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") for its financial assets and liabilities. Management uses the fair value hierarchy of ASC 820, which gives the highest priority to quoted prices in active markets. The fair value of financial instruments is estimated based on market trading information, where available. Absent published market values for an instrument or other assets, management uses observable market data to arrive at its estimates of fair value. Management believes that the carrying amount of accounts receivable, accrued expenses and long-term debt approximate fair value.

ASC 820 defines fair value as an exit price, representing the amount 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted price for identical or similar assets and liabilities in markets that are not active; or other input that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

As of December 31, 2010, the Company has no financial assets or liabilities that were measured at fair value on a recurring basis.

t) Derivative financial instruments

The Company accounts for its interest rate swap agreements in accordance with ASC 815, *Derivatives and Hedging.* This standard requires the Company to recognize all derivatives on the balance sheet at fair value. The Company's interest rate swap agreement qualifies as a cash flow hedge. Therefore, the effective portion of the fair value change is recorded through other comprehensive income, a component of stockholders' equity while any ineffectiveness is recorded in the statement of operations. In March 2009, the Company cancelled its only derivative and incurred a related expense of $94,000 included in Interest Expense on the 2009 consolidated statements of operations, which was previously reflected in other accumulated comprehensive loss. At December 31, 2010 and 2009, the value of the interest rate swap on the consolidated balance sheets was $0.

u) Use of estimates

The preparation of the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of net revenue and expenses in the reporting period. The Company regularly evaluates estimates and assumptions related to allowances for doubtful accounts, useful lives of property and equipment, goodwill and purchased intangible asset valuations and lives, derivatives, deferred income tax asset valuation allowances, stock compensation, and valuation of stock option and warrants. The Company bases its estimates and assumptions on current facts, historical experience and on various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from management's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

v) Litigation and Settlement Costs

From time to time, the Company is involved in disputes, litigation and other legal actions. In accordance with ASC 450, *Contingencies*, the Company records a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred as of the date of the financial statements and (ii) the range of loss can be reasonably estimated (See Note 16).

w) Recent accounting pronouncements

ASU 2010-06 — Improving Disclosures about Fair Value Measurements: In January 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-06. This update provides amendments to ASC Topic 820 — Fair Value Measurements and Disclosures that requires additional disclosures about transfers into and out of Levels 1 and 2 in the fair value hierarchy and additional disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. Additionally, it clarifies existing fair value disclosures about the level of disaggregation of inputs and valuation techniques used to measure fair value. The Company adopted the new disclosure requirements in ASU 2010-06 as of the period ended March 31, 2010, and it did not have a material impact on its consolidated financial statements.

ASU 2010-09 — Amendments to Certain Recognition and Disclosure Requirements: In February 2010, the FASB issued ASU 2010-09. This amendment to ASC Topic 855 — Subsequent Events removes the requirement for an SEC filer to disclose the date through which subsequent events are evaluated. This includes both issued and revised consolidated financial statements. The Company adopted the new disclosure requirements in ASU 2010-09 in 2010, and it did not have a material impact on its consolidated financial statements.

*ASC 810 — Consolidation of Variable Interest Entities:* In June 2009, FASB issued additional guidance related to ASC Topic No. 810, "Consolidation" (ASC 810). ASC 810 requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This guidance requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. The Company adopted the additional guidance in 2010, and it did not have a material impact on its Consolidated Financial Statements.

Other recent accounting pronouncements issued by the FASB, the AICPA, and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

**Note 3 – Allowance for Doubtful Accounts**

The activity in the allowance for doubtful accounts was as follows during the years ended December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Balance at the beginning of the year | $ 1,344,648 | $ 2,052,833 |
| Provision for bad debts | 491,000 | 304,598 |
| Charge-offs | (1,385,014) | (1,012,783) |
| Recoveries | - | - |
| Balance at the end of the year | $ 450,634 | $ 1,344,648 |

**Note 4– Property and Equipment**

The net carrying value of property and equipment at December 31, 2010 and 2009 was as follows:

| | 2010 | 2009 |
|---|---|---|
| Furniture and fixtures | $ 427,121 | $ 639,107 |
| Equipment | 3,078,393 | 3,161,665 |
| Software | 5,514,375 | 4,862,195 |
| Leasehold improvements | 321,873 | 321,873 |
| Assets not yet in service | - | 25,912 |
| Subtotal | 9,341,762 | 9,010,752 |
| Less: accumulated depreciation and amortization | (6,592,664) | (4,973,777) |
| Net property and equipment from continuing operations | $ 2,749,098 | $ 4,036,975 |
| Net property and equipment from discontinued operations | - | 844,193 |
| Total | $ 2,749,098 | $ 4,881,168 |

**Note 5 – Intangible Assets and Goodwill**

During 2009, the Company tested all reporting units for impairment. During the first quarter of 2010, the Company was notified by its merchant processors that the merchant processors would be unable to continue to process transactions from the negative option marketing business, which was included in the Direct Segment. As a result of this change to the business, the Company deemed all intangible assets and goodwill associated with the iLead Media, Inc. acquisition as of December 31, 2009 to be impaired. The Company has included approximately $800,000 in impairment of assets in the accompanying consolidated statement of operations for the year ended December 31, 2009 associated with this impairment.

During 2010, the Company tested all reporting units for impairment. Based on the results of these tests, there were no indications of impairment. However in 2010, the tradenames associated with Morex and Primary Ads were impaired because the Company is no longer using these names and consequently, the Company recorded an impairment loss of $400,000.

The following is a schedule of the Company's intangible assets from its continuing operations as of December 31, 2010:

| | Term | Carrying Value | Accumulated Amortization and Impairment | Net Carrying Value |
|---|---|---|---|---|
| Names database (1) | 1-2 Years | $ 13,563,058 | $ (11,600,097) | $ 1,962,961 |
| Website development | 5 Years | 4,210,000 | (4,110,729) | 99,271 |
| Customer lists | 5 Years | 3,500,000 | (3,477,814) | 22,186 |
| Exclusivity agreement | 1 Year | 150,000 | (112,500) | 37,500 |
| Tradenames | Indefinite | 390,000 | - | 390,000 |
| Total intangible assets | | $ 21,813,058 | $ (19,301,140) | $ 2,511,918 |
| Goodwill | | $ 3,893,405 | $ (542,000) | $ 3,351,405 |

The following is a schedule of the Company's intangible assets from its continuing operations as of December 31, 2009:

| | Term | Carrying Value | Accumulated Amortization and Impairment | Net Carrying Value |
|---|---|---|---|---|
| Names database (1) | 1-2 Years | $ 11,803,351 | $ (10,143,103) | $ 1,660,248 |
| Website development | 5 Years | 4,210,000 | (3,268,727) | 941,273 |
| Customer lists | 5 Years | 3,895,000 | (3,572,814) | 322,186 |
| Vendor relations | 3 Years | 2,682,000 | (2,682,000) | - |
| Software | 5 Years | 1,195,000 | (1,195,000) | - |
| Reference Materials | 4 Years | 571,000 | (571,000) | - |
| Tradenames | Indefinite | 882,000 | - | 882,000 |
| Total intangible assets | | $ 25,238,351 | $ (21,432,644) | $ 3,805,707 |
| Goodwill | | $ 3,893,405 | $ (542,000) | $ 3,351,405 |

(1) Amortization of Names Database included in cost of revenue for the years ended December 31, 2010 and 2009 was approximately $2.0 million and $1.8 million, respectively. The Company does not amortize the carrying value of its Tradenames.

The Company's amortization expense over the next five years is as follows:

| | |
|---|---|
| 2011 | $ 1,715,919 |
| 2012 | 405,999 |
| 2013 | - |
| 2014 | - |
| 2015 | - |
| Total | $ 2,121,918 |

**Note 6 - Notes Payable**

The following table summarizes the Company's notes payable balance as of December 31, 2010 and 2009:

| Lender | Due Date | Interest Rate | 2010 | 2009 |
|---|---|---|---|---|
| Wachovia Bank – term note | March 2011 | LIBOR + 7% | $ - | $ 3,465,806 |
| Wachovia Bank – credit note | March 2011 | LIBOR + 7% | 1,850,000 | 4,645,000 |
| Totals | | | 1,850,000 | 8,110,806 |
| Less: Term and credit notes payable – current portion | | | 1,850,000 | (2,324,000) |
| Term and credit notes payable – long-term portion | | | $ - | $ 5,786,806 |

*Principal Payments Due*

Principal payments due are as follows as of December 31, 2010:

| | |
|---|---|
| 2011 | $ 1,850,000 |
| 2012 | - |
| Total | $ 1,850,000 |

*Wachovia Credit and Term Notes Payable*

On December 24, 2009, the Company entered into the Second Amended and Restated Loan Agreements with Wachovia Bank, N.A. ("Wachovia") pursuant to which the Company restructured its obligations with Wachovia to reallocate the amounts owed to the bank between the term note and the credit note and to extend the due date of the remaining portion of the obligations. Under the terms of the Second Amended and Restated Loan Agreements ("Amended Loan Agreement"), which have superseded all prior loan agreements with Wachovia, the Company issued Wachovia the Second Amended and Restated Revolving Credit Promissory Note in the principal amount of $5.3 million (the "Credit Note") and the Second Amended and Restated Term Promissory Note in the principal amount of approximately $4.1 million (the "Term Note"). Both the Credit Note and Term Note bear interest at the rate of LIBOR plus 7%, with a floor of 7%, (7.26% and 7.23% at December 31, 2010 and December 31, 2009, respectively) and are due on March 31, 2011. Prior to the restructure, the Company owed Wachovia approximately $6.4 million under the previous credit note, with a maximum borrowing of $8,000,000. As described below, the maximum borrowing was reduced by $2.7 million and reallocated to the balance of the Term Note. The Company is permitted to have aggregate principal advances outstanding under this Credit Note of the lesser of (i) $5.3 million or (ii) 80% of eligible accounts receivable less reserves plus an "over-advance" of $2.1 million through May 31, 2010, after which the "over advance" is reduced to $700,000 at January 1, 2011, and remains at that level through maturity of the Credit Note. Prior to the restructure, the Company owed Wachovia approximately $1.4 million under the previous term note. As part of the restructure, this amount was increased by $2.7 million. The Company's obligations under the loan agreement and the notes continue to be secured by a first priority lien, in favor of Wachovia, on all of the Company assets, including the stock of each of the operating subsidiaries, and are subject to certain financial covenants.

The Company further agreed to reduce the amounts owed Wachovia by approximately $100,000 at closing, $400,000 on or before December 31, 2009 and $500,000 split between March 31, 2010 and July 31, 2010. In addition, 25% of all net proceeds from equity sales made by the Company after July 31, 2010 and 100% of the net proceeds from the sale of any collateral or subsidiary will be used to further reduce its obligations to Wachovia. Under the terms of the loan agreement, the Company used funds from the exercise of warrants as previously disclosed and from the sale of its stock for these reductions, The amounts due under the notes can be accelerated if an event of default occurs as described in the notes, and the Company's outstanding letter of credit of $475,000 must be terminated or replaced by the maturity date of the notes. The availability under the Credit Note is reduced by the outstanding balance of any letters of credit.

Per the Amended Loan Agreement, the Company is required to calculate its borrowing base monthly based on eligible accounts receivable. The Company's outstanding balance on the Credit Note as of December 31, 2010 and 2009 was approximately $1.9 million and $4.6 million, respectively. In addition, the Company has $475,000 under a letter of credit with its landlord as of December 31, 2010 and 2009. The Credit Note availability is calculated as principal less the outstanding balance less the outstanding letters of credit. As of December 31, 2010 and 2009, the Company's availability under its Credit Note was approximately $2,575,000 and $180,000, respectively. As of December 31, 2010 and 2009, the Company's outstanding balance on the Term Loan was $0 and approximately $3.5 million, respectively.

On March 29, 2010, the Company entered into a First Amendment to the Amended Loan Agreement and the Credit Note with Wachovia Bank, which modified certain terms including i) accelerating a scheduled principal payment of $250,000 due on July 31, 2010 to March 29, 2010, ii) reducing the $5.3 million Credit Note to $5.0 million over the term of the agreement, iii) reducing the over-advance provided in the Credit Note from $2.1 million to $700,000 over the term of the agreement ($1.3 million at December 31, 2010) and iv) changing to the covenants as reflected below.

On September 29, 2010, the Company entered into a Second Amendment to the Amended Loan Agreement with Wachovia to add back any loss or closing expenses or deduct any gain, related to the sale of various discontinued operations, in the calculation of the financial covenants as defined below.

In December 2010, the Company and Wachovia agreed to reduce the over-advance to $0 and stop any additional monthly payments to Wachovia in reduction of the over-advance through the remainder of the term of the Agreement.

Interest Rates; Repayment Terms. Interest on the unpaid principal balance of the Credit Note and Term Note accrues at LIBOR Market Index Rate plus 7% provided further that the interest rate shall in no event be less than 7%. The Credit Note matures on March 31, 2011. Amounts due under the Term Note are payable in monthly payments of $152,000 with any remaining principal due on March 31, 2011. The principal amount of the Term Note was reduced by the net cash proceeds to the Company upon the sale of MSA and RESO and the final amount due under the Term Note was repaid on December 29, 2010.

Covenants. As detailed further in the First Amendment to the Amended Agreement, so long as there remain any amounts outstanding under the Credit Note, the Company is required to maintain: (1) a "Funded Debt to EBITDA Ratio" (i) as of December 31, 2009 of not more than 4.25 to 1.00; (ii) as of March 31, 2010 of not more than 3.5 to 1.00; (iii) as of June 30, 2010 of not more than 4.0 to 1.00; (iv) as of September 30, 2010 of not more than 2.25 to 1.00; and (v) as of December 31, 2010 of not more than 1.75 to 1.00. This covenant is calculated quarterly, on a rolling four quarter basis; and (2) a "Fixed Charge Coverage Ratio" (i) as of December 31, 2009 of not less than 0.50 to 1.00; (ii) as of March 31, 2010 of not less than 0.40 to 1.00; (iii) as of June 30, 2010 of not less than 0.45 to 1.00; (iv) as of September 30, 2010 of not less than 1.00 to 1.00; and (v) as of December 31, 2010 of not less than 1.50 to 1.00. This covenant is calculated quarterly, on a rolling four quarter basis. In addition, the Company may not, without the approval of Wachovia: (a) make capital expenditures (excluding acquired names and capitalized software) during any calendar year exceeding $500,000; (b) incur any additional indebtedness; or (c) declare or pay dividends. The Amended Loan Agreement further prohibits the Company from acquiring or investing in, directly or indirectly, or purchasing, redeeming, retiring or otherwise acquiring, directly or indirectly, any stock, securities, or evidence of indebtedness. The Company was in compliance with all covenants at December 31, 2010 and December 31, 2009.

See Note 18 for the refinancing of the Wachovia Agreement with Bridge Bank, National Association ("Bridge Bank").

**Note 7 - Derivatives and Hedging Transactions**

On March 18, 2009, the Company terminated an interest rate swap agreement early as part of the Loan Amendment between the Company and Wachovia and incurred a related expense of approximately $94,000 included in interest expense on the 2009 consolidated statement of operations which was previously reflected in other accumulated comprehensive loss. As of December 2010, the Company does not have derivatives or interest rate swap agreements.

**Note 8 – Accrued Expenses and Other Current Liabilities**

The accrued expenses and other current liabilities consist of the following at December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Accrued expenses | $ 748,515 | $ 965,059 |
| Accrued search costs | 697,510 | - |
| Accrued affiliate expenses | 11,949 | 202,153 |
| Accrued judgment | - | 310,450 |
| Accrued payroll liabilities | 13,927 | 89,335 |
| Capital lease – current portion | 127,724 | 176,937 |
| Total | $ 1,599,625 | $ 1,743,934 |

**Note 9 – Other Long-Term Liabilities**

Other long-term liabilities consist of the following at December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Capital lease – net of current portion | $ 71,356 | $ 190,867 |
| Deferred rent | 285,153 | 265,473 |
| Total | $ 356,509 | $ 456,340 |

**Note 10 – Income Taxes**

*Provision (Benefit) for Income Taxes*

The provision for income taxes consists of the following:

| | 2010 | 2009 |
|---|---|---|
| Current tax provision | $ - | $ - |
| Deferred tax (benefit) provision | - | - |
| Total tax (benefit) provision | $ - | $ - |

A reconciliation of the expected Federal statutory rate of 34% to the Company's actual rate as reported for each of the periods presented is as follows:

| | 2010 | 2009 |
|---|---|---|
| Expected statutory rate | (34)% | (34)% |
| State income tax rate, net of federal benefit | (4)% | (4)% |
| Permanent differences | 4% | 99% |
| Impairment differences | - | - |
| Valuation allowance | 34% | (68)% |
| Other | -% | 7% |
| | - | - |

*Deferred Income Taxes*

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

The Company assesses temporary differences resulting from different treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded in the consolidated balance sheets. The Company evaluates the realizability of its deferred tax assets and assesses the need for a valuation allowance on an ongoing basis. In evaluating its deferred tax assets, the Company considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of deferred tax assets depends upon generating sufficient future taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance the Company must project future levels of taxable income. This assessment requires significant judgment. The Company examined the evidence related to a recent history of tax losses, the economic conditions in which it operates, recent organizational changes and, its forecasts and projections. As a result, the Company was unable to support a conclusion that it is more likely than not that any of its deferred tax assets will be realized. The Company therefore has recorded a full valuation for the net deferred tax assets as of December 31, 2010 and 2009.

The Company will continue to evaluate its deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of the Company's deferred income tax assets satisfies the realization standard, the valuation allowance will be reduced accordingly. The 2010 net increase of approximately $1.8 million in valuation allowance related to deferred tax assets from operating loss carryforwards.

The following is a schedule of the deferred tax assets and liabilities as of December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| **Deferred tax assets:** | | |
| Net operating loss carry forward | $ 5,871,000 | $ 4,445,000 |
| Intangible assets | 4,984,000 | 5,225,000 |
| Deferred rent | 381,000 | 242,000 |
| Depreciation | 272,000 | - |
| Allowance for doubtful accounts | 406,000 | 689,000 |
| Stock based expenses | 324,000 | 325,000 |
| Other | 214,000 | 214,000 |
| Subtotal | 12,452,000 | 11,140,000 |
| Less valuation allowance | (12,452,000) | (10,641,000) |
| Total | - | 499,000 |
| Less: current portion | - | - |
| Non-current portion | - | 499,000 |
| | | |
| **Deferred tax liabilities:** | | |
| Depreciation | - | 499,000 |
| Intangibles | - | - |
| Total | - | 499,000 |
| Less: current portion | - | - |
| Non-current portion | - | 499,000 |
| Total deferred tax assets (liabilities) | - | - |

The net operating losses amounted to approximately $15.4 million and expire beginning 2022 through 2030.

Under the Internal Revenue Code of 1986, as amended, these losses can be carried forward twenty years. The Company has approximately $2.8 million of carry forward deductions from 2006 relating to stock options exercised as of December 31, 2010.

The adoption of provisions, required by ASC 740, did not result in any adjustments.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2007 through 2010. The Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ending December 31, 2007 through 2010.

The Company recognizes interest and penalties related to income taxes in income tax expense. The Company had incurred no penalties and interest for the years ended December 31, 2010 and 2009.

**Note 11 - Stock-Based Compensation**

The stock option program is a long-term retention program that is intended to attract, retain and provide incentives for talented employees, officers and directors, and to align stockholder and employee interests. The Company considers its option programs critical to its operation and productivity. Currently, the Company grants options and restricted stock awards ("RSAs") from the 2005 Long-Term Incentive Plan ("2005 LTIP") and the 2010 Equity Compensation Plan ("2010 ECP"), approved by the shareholders on June 18, 2010. Option and restricted stock unit vesting periods are generally zero to three years and most options expire after 5 years.

As of December 31, 2010, the Company reserved 700,000 shares of common stock for issuance under the 2010 ECP of which 282,974 were available for grant.

As of December 31, 2010, the Company had reserved 1.0 million shares of common stock for issuance under its 2005 LTIP of which i) 791,096 options were outstanding, ii) 40,000 shares issued to a former executive as severance and iii) 59,667 RSAs provided to employees, officers or directors. As of December 31, 2010, there were 109,237 options available for grant under the 2005 LTIP.

The following table summarizes all stock based compensation grants as of December 31, 2010:

| | Stock Options | Severance | RSA's | Available Shares | Total |
|---|---|---|---|---|---|
| 2010 ECP | 417,026 | - | - | 282,974 | 700,000 |
| 2005 LTIP | 791,096 | 40,000 | 59,667 | 109,237 | 1,000,000 |
| Non - LTIP | 15,037 | - | - | - | 15,037 |
| Total | 1,223,159 | 40,000 | 59,667 | 392,211 | 1,715,037 |

The fair value of restricted stock units is determined using market value of the common stock on the date of the grant. The fair value of stock options is determined using the Black-Scholes valuation model. The use of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, exercise price, and forfeiture rate. Under ASC 718, "Accounting for Stock Options and Other Stock Based Compensation," forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. The forfeiture rate, which is estimated at a weighted average of 25.0 percent of unvested options outstanding, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

In 2010, the Company granted options to purchase 93,750 shares of common stock under the 2005 LTIP with an average exercise price of $2.07 per share. The Company also granted options to purchase 433,488 shares of common stock under the newly adopted 2010 ECP with an average exercise price of $2.55 per share.

The Company recorded stock-based compensation expense for all equity incentive plans, exclusive of stock in lieu of pay, of approximately $533,000 and $435,000 for the years ended December 31, 2010 and 2009, respectively.

At December 31, 2010, the aggregate intrinsic value of all outstanding options was $2.7 million with a weighted average remaining contractual term of 3.77 years, of which 372,663 of the outstanding options are currently exercisable with an aggregate intrinsic value of approximately $600,000, a weighted average exercise price of $5.86 and a weighted average remaining contractual term of 3.32 years. There were no options exercised during the years ended December 31, 2010 and 2009. The total compensation cost at December 31, 2010 related to non-vested awards not yet recognized was approximately $900,000 with an average expense recognition period of 3.06 years. The total fair value of options vested during 2010 and 2009 was approximately $1.1 million and $400,000, respectively.

The following table summarizes information about stock option activity during the years ended December 31, 2010 and 2009:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 987,963 | $ 5.70 | 735,501 | $ 9.40 |
| Granted | 527,238 | $ 2.46 | 470,600 | $ 2.60 |
| Forfeited or expired | (292,042) | $ 4.47 | (218,138) | $ 11.60 |
| Exercised | - | $ - | - | $ - |
| Outstanding, end of year | 1,223,159 | $ 3.74 | 987,963 | $ 5.70 |
| *Exercisable, end of year* | 372,663 | $ 6.94 | 427,706 | $ 8.50 |

The weighted average grant date fair value of options granted during 2010 and 2009 were $2.46 and $1.90, respectively.

Cash received from option exercises under all share-based payment arrangements for the years ended December 31, 2010 and 2009 was $0.

The following table summarizes information about stock options outstanding as of December 31, 2010, which includes 417,026 2010 ECP options, 791,096 2005 LTIP options and 15,037 non-2005 LTIP options:

| Range of Exercise Price | Shares | Weighted Average Remaining Contractual Life ( Years) | Weighted Average Exercise Price |
|---|---|---|---|
| $1.70 – $3.00 | 1,029,831 | 3.95 | $ 2.49 |
| $3.01 - $9.99 | 148,958 | 2.55 | $ 6.79 |
| $10.00 - $25.00 | 38,833 | 4.09 | $ 21.45 |
| $25.01 - $53.00 | 5,537 | 8.72 | $ 29.62 |
| Total | 1,223,159 | 3.77 | $ 3.74 |

In accordance with ASC 718, the fair values of options granted prior to adoption and determined for purposes of disclosure under ASC 718 have not been changed. The fair value of options granted was estimated assuming the following weighted averages:

| | 2010 | 2009 |
|---|---|---|
| Expected life (in years) | 5.00 | 4.2 |
| Volatility | 164.0% | 134.0% |
| Risk free interest rate | 1.82% | 1.92% |
| Dividend yield | 0.00% | 0.00% |

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

In 2010, the Company issued an aggregate of 112,422 shares of its common stock valued at approximately $232,500 to its executive officers and certain of its senior management in lieu of cash compensation. The value of the shares equaled the fair market value of the Company's common stock on the date of issuance. Additionally in 2010, we issued an aggregate of 8,715 shares of the Company's common stock valued at approximately $24,000 to its board of directors in lieu of cash compensation. The value of these shares equaled the fair market value of the Company's common stock on the date of issuance. The recipients were accredited or otherwise sophisticated individuals who had such knowledge and experience in business matters that they were capable of evaluating the merits and risks of the prospective investment in the Company's securities. The recipients had access to business and financial information concerning the Company. The securities were issued in reliance on an exemption from registration provided by Section 4(2) of the Securities Act of 1933.

**Note 12 – Stockholder's Equity**

*Stock Split*

On December 10, 2010, the Company undertook a 1 for 10 reverse stock split of its common stock. As a result, the Company reduced the number of its authorized shares of common stock from 200,000,000 shares to 20,000,000 shares and reduced the number of authorized shares of "blank check" preferred stock from 5,000,000 shares to 500,000 shares.

*Significant Equity Transactions*

On December 16, 2009, the Company entered into subscription agreements for the sale of an aggregate of 1,674,000 shares of common stock at a purchase price of $2.50 per share resulting in gross proceeds of approximately $4.2 million. This offering was an "at the market" offering conducted as a takedown from the Company's shelf registration statement which was declared effective by the Securities and Exchange Commission in January 2007. Under the terms of the subscription agreements, the closing of the offering was subject to the restructure of the Wachovia obligations and the proceeds from the subscriptions were deposited in escrow pending satisfaction of the closing condition. On December 28, 2009, following the restructure of the Wachovia obligations as described earlier in this report, the offering was closed. Included purchasers in this offering along with several institutional investors were members of the Company's Board of Directors, their affiliates, and its executive officers who purchased an aggregate of approximately $1.7 million in the offering upon the same terms and conditions as the other investors. The Company did not engage the services of an underwriter or placement agent in this offering, but paid a finder's fee of $48,000 to a broker dealer and member of FINRA. Additional fees incurred with the sale of common stock included $45,000 in listing fees and approximately $45,000 in legal fees.

*Treasury Stock*

The Company has 551,696 shares of stock in its treasury at a combined total value of approximately $2.1 million. The cost method was used in recording the purchase of the treasury stock.

*Warrants Outstanding*

As of December 31, 2010, the Company had outstanding warrants for the potential issuance of 643,958 shares of common stock. Exercise price ranges from $3.00 to $35.00 as of December 31, 2010. These warrants were primarily issued in connection with private placements and debt issuances and reflect the balances after the 226,093 shares were exercised in September 2009 (see below) for approximately $0.6 million or $2.70 per share. In August 2009, the Company issued 40,000 warrants to an Investor Relations firm as partial compensation for services. The 40,000 warrants are divided into four tranches of 10,000 warrants per tranche with exercises prices of $3.00, $5.00, $10.00 and $15.00. The warrants exercise over a 24 month period on a pro-rata basis and have a term of five years. All of these warrants are exercisable for five years.

As a result of the granting of the investor relations warrants, the Company triggered the anti-dilution protection for warrants issued to investors in 2006 as part of their purchase and conversion of Series A Preferred Stock ("Investor Warrants"). As a result of the floor on each warrant the following represents the warrants that were outstanding, the stated exercise price and the adjusted exercise price. The Company issued 520,000 warrants with an exercise price of $25.00 per share, which was reduced to the floor of $20.00 per share. The Company issued 200,000 warrants with an exercise price of $30.50 per share, which was reduced to the floor of $25.00 per share. The Company issued 100,000 warrants with an exercise price of $40.00 per share, which was reduced to the floor of $35.00 per share.

Additionally, during the third quarter of 2009 the Company temporarily, from September 21, 2009 to September 29, 2009 ("Reduction Period"), re-priced the Investor Warrants. The Company provided a modification to the warrant agreements that i) reduced the exercise price from all the warrants ranging from $20.00 - $35.00 per share to $27.00 per share, the market price during the Reduction Period and ii) removed the cashless exercise feature. During the Reduction Period, 226,093 warrants were exercised.

The following table summarizes information about stock warrants outstanding as of December 31, 2010:

| Range of Exercise Price | Shares | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price |
|---|---|---|---|
| $3.00 - $15.00 | 40,000 | 3.58 | $ 8.25 |
| $15.01 - $25.00 | 376,490 | 0.26 | $ 20.00 |
| $25.01 - $35.00 | 227,468 | 0.83 | $ 28.67 |
| Total | 643,958 | 0.62 | $ 22.33 |
| Exercisable | 632,291 | 0.62 | $ 22.33 |

**Note 13 – Discontinued Operations**

During the second quarter of 2008, the Company made a decision to divest its MSA operations and ceased operations of its Web Diversity subsidiary. The Company also made a decision to divest its Cherish and Vintacom operations. On February 17, 2009, the Company concluded the sale of Cherish. In the fourth quarter of 2009, the Company ceased operations of Vintacom. On March 1, 2010, the Company, as a result of market and strategic reasons, accelerated its decision to exit the negative-option marketing programs which was part of the Company's Direct Segment with the acquisition of iLead in 2006. As a result in this change to the iLead business, the Company deemed all remaining intangible assets associated with this business as of December 31, 2009 to be impaired. On June 3, 2010, the Company entered into an Asset Purchase Agreement (the "Agreement") with Omega Direct Marketing, LLC ("Omega") to sell all of the gross assets of its Exact Supplements, LLC. business ("Exact"). The purchase price is 50% of all monthly revenues for the immediate 12 months after the date of the Agreement, less specific costs as defined in the Agreement for revenue from the sold customer base. The Company shall recognize gains from the sale of Exact only upon receipt of monies per the Agreement. During the year ended December 31, 2010, the Company did not recognize any gain or loss from this sale. Additionally, as all assets of Exact were written off as of December 31, 2009 and, therefore, no gain or loss was recognized on the sale of Exact.

On September 24, 2010, the Company sold the assets of MSA and its related companies Rightstuff, Inc. and Checkup Marketing, Inc., all North Carolina corporations which are wholly-owned subsidiaries of Inuvo, Inc. The purchase price of the assets was $766,636, of which $247,147 was paid at closing and the balance was paid in three equal installments of $173,163 each during the 90 days following the closing. Under the terms of the agreement, the purchaser also assumed certain liabilities related to the purchased assets. To ensure orderly transition of the business, the Company agreed to provide the purchaser with hosting services at no cost for 90 days following the closing. The agreement contains customary indemnification, non-disclosure and non-solicitation provisions. All the proceeds received from the sale of MSA were used to reduce the term note with Wachovia. Additionally, the Company reported a non-cash charge in discontinued operations of approximately $1.5 million for the loss on the sale for the year ended December 31, 2010.

In July 2010, the Board of Directors approved the plan to sell the Company's RESO business unit. On December 10, 2010, the Company closed the sale of the assets of RESO. The purchase price of the assets was $750,000, of which all was paid at closing less $31,716 working capital adjustment and $50,000 held in escrow for a period of one year. Earlier in 2010, the Company announced its intention to sell the business and it accounted for the subsidiary as a discontinued operation since that time. To ensure an orderly transition of the business, the Company agreed to provide transitional services until April 15, 2011 and will receive a fee of $107,204 paid in five equal monthly installments. The Asset Purchase Agreement contains customary indemnification, non-disclosure and non-solicitation provisions. All the proceeds from the sale were used to reduce the term note with Wachovia. In addition, the Company reported a gain on the sale of RESO in discontinued operations of approximately $500,000.

The table below summarizes unaudited financial results for the assets classified as held for sale which is comprised primarily of the Company's MSA, iLead and RESO business units for the years ended December 31, :

| | Years Ended | |
|---|---|---|
| | **2010** | **2009** |
| Revenue | $ 7,805,231 | $ 24,713,512 |
| Income (loss) from discontinued operations before loss on sale | 621,140 | (585,262) |
| (Loss) gain on sale of discontinued operations | (989,364) | 275,019 |
| Loss from discontinued operations | $ (368,224) | $ (310,243) |

**Note 14 – Retirement Plan Costs**

The Company sponsors a defined contribution plan to help eligible employees provide for retirement. The Company began matching employees' contributions in 2007. The Company currently matched 50% of employee contributions up to 6% of eligible contributions. The Company's total matching contributions for the years ended December 31, 2010 and 2009 were approximately $43,000 and $124,000, respectively. During 2010, the Company suspended matching contributions.

**Note 15 - Leases**

The Company leases certain office space and equipment. As leases expire, it can be expected that, in the normal course of business, certain leases will be renewed or replaced.

Rent expense was approximately $800,000 and $1.3 million for the years ended December 31, 2010 and 2009, respectively.

Minimum lease payments under non-cancelable operating leases as of December 31, 2010 are:

| | |
|---|---|
| 2011 | $ 822,596 |
| 2012 | 850,960 |
| 2013 | 880,271 |
| 2014 | 905,143 |
| 2015 | 692,422 |
| Thereafter | - |

The Company had a subsidiary, MarketSmart Interactive ("Interactive") that was dissolved in 2007. Interactive was a party to an operating lease. There is currently a legal action filed by the Lessor of the Interactive lease. Interactive was insolvent when it was dissolved. (See Note 16).

In 2010, the Company subleased a portion of its offices in its headquarters to a third-party telemarketing firm. The term of the sublease is for 36 months and requires equal monthly payments of approximately $20,000 per month.

**Note 16 - Commitments and Contingencies**

*Legal Related*

From time to time, the Company is a party as plaintiff or defendant to various legal proceedings related to its normal business operations.

A dissolved subsidiary, Interactive was party to a real estate lease in North Carolina ("the Property"). The lessor of the Property has filed a suit against Interactive, the dissolved lessee and MSA. Interactive was insolvent at the time of dissolution and MSA was not party to the lease. The Company intends to vigorously defend this matter.

In the opinion of management, although the outcome of any legal proceeding cannot be predicted with certainty, the ultimate liability of the Company in connection with its legal proceedings will not have a material adverse effect on the Company's financial position, but could be material to the results of operations in any one future accounting period. Defense costs are expensed as incurred.

**Note 17 - Segment Analysis**

The Company is an Internet marketing services business separated into two reporting segments: Exchange and Direct. The Exchange Segment includes both the technologies and networks required to facilitate business to business transactions. The Direct Segment includes both the products and websites required to market to consumers online, a lead generation business and data collection and distribution.

Listed below is a presentation of the unaudited revenue, gross profit and earnings (loss) before interest, taxes, depreciation and amortization and stock based compensation for all reportable industry segments for the years ended December 31, 2010 and 2009. The Company currently only tracks certain assets at the segment level and therefore assets by segment are not presented below. The Corporate category in the "Earnings (Loss) before Interest, Taxes, Depreciation and Amortization, and Stock Based Compensation" table consists of corporate expenses not allocated to any segment.

### Net Revenue by Industry Segment

| Segment: | 2010 Amount | 2010 Percent | 2009 Amount | 2009 Percent |
|---|---|---|---|---|
| Exchange | $ 41,721,447 | 85.2% | $ 28,842,342 | 72.5% |
| Direct | 7,248,400 | 14.8% | 10,964,765 | 27.5% |
| **Total** | $ 48,969,847 | 100.0% | $ 39,807,107 | 100.0% |

### Gross Profit by Industry Segment

| Segment: | 2010 | 2009 |
|---|---|---|
| Exchange | $ 14,835,164 | 7,597,315 |
| Direct | 4,879,373 | 7,436,085 |
| **Total** | $ 19,714,537 | $ 15,033,400 |

### Earnings (Loss) before Stock-Based Compensation, Interest, Taxes, Depreciation and Amortization and Impairment Charges by Industry Segment

| Segment: | 2010 | 2009 |
|---|---|---|
| Exchange | $4,062,496 | $2,410,349 |
| Direct | 2,739,257 | 3,335,292 |
| Corporate | (4,620,322) | (4,373,312) |
| Total | $2,181,431 | $1,372,329 |

**Note 18 – Subsequent Events**

On February 15, 2011, the Company entered into the Business Financing Agreement (the “Agreement”) with Bridge Bank, N.A. (“Bridge Bank”). This Agreement provides for a revolving credit facility of up to $8.0 million and replaces the $5.0 million credit facility with Wachovia Bank, N.A. (“Wachovia”) that was scheduled to expire in March 2011. The Bridge Bank credit facility allows the Company to borrow against 80% of eligible accounts receivable balances, which are generally those balances owed by U.S. based customers that are less than 90 days from the date of invoice. In addition, the Bridge Bank facility provides an additional term credit of $475,000 to collateralize a stand-by letter of credit required the Company’s corporate headquarters lease. Under the terms of the Agreement, the Company must maintain certain depository, operating and investment accounts at Bridge Bank; provide Bridge Bank a first priority perfected security interest in all of the Company’s accounts and personal property; provide various monthly, quarterly and annual reports; limit additional indebtedness to $500,000 of purchase money including capital leases and an additional $500,000 of all other indebtedness; and maintain “operating profit” of net income plus interest and taxes plus non-cash expenses for amortization, depreciation, stock based compensation, discontinued operations and non-recurring items of not less than $100,000 for the immediate proceeding three month period. At the closing of the Agreement several fees were paid including a facility fee (0.25% of the maximum credit limit), a due diligence fee ($800), a fee-in-lieu-of-warrant ($21,250) and a non-formula facility fee ($4,750). The facility fee is due annually. A maintenance fee of .125% of the average daily balance and the finance charge (Prime Rate plus 200 bonus points) are due monthly.

Portions of this Exhibit 10.17 marked by a **[__]** have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

**BUSINESS FINANCING AGREEMENT**

**Borrower: INUVO, INC.**
**15550 Lightwave Drive, Suite 300**
**Clearwater, FL 33670**

**Lender: BRIDGE BANK, National Association**
**55 Almaden Boulevard, Suite 100**
**San Jose, CA 95113**

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This BUSINESS FINANCING AGREEMENT, dated as of February __, 2011, is made and entered into between BRIDGE BANK, NATIONAL ASSOCIATION ("**Lender**") and INUVO, INC., a Nevada corporation ("**Borrower**") on the following terms and conditions:

**1. REVOLVING CREDIT LINE**.

1.1 **Advances**. Subject to the terms and conditions of this Agreement, from the date on which this Agreement becomes effective until the Maturity Date, Lender will make Advances to Borrower not exceeding the Credit Limit or the Borrowing Base, whichever is less; provided that in no event shall Lender be obligated to make any Advance that results in an Overadvance or while any Overadvance is outstanding. Amounts borrowed under this Section may be repaid and reborrowed during the term of this Agreement. It shall be a condition to each Advance that (a) an Advance Request acceptable to Lender has been received by Lender, (b) all of the representations and warranties set forth in Section 3 are true and correct on the date of such Advance as though made at and as of each such date, and (c) no Default has occurred and is continuing, or would result from such Advance.

1.2 **Advance Requests**. Borrower may request that Lender make an Advance by delivering to Lender an Advance Request therefor and Lender shall be entitled to rely on all the information provided by Borrower to Lender on or with the Advance Request. The Lender may honor Advance Requests, instructions or repayments given by the Borrower (if an individual) or by any Authorized Person.

1.3 **Due Diligence**. Lender may audit Borrower's Receivables and any and all records pertaining to the Collateral, at Lender's sole discretion and at Borrowers expense. Lender may at any time and from time to time contact Account Debtors and other persons obligated or knowledgeable in respect of Receivables to confirm the Receivable Amount of such Receivables, to determine whether Receivables constitute Eligible Receivables, and for any other purpose in connection with this Agreement. If any of the Collateral or Borrower's books or records pertaining to the Collateral are in the possession of a third party, Borrower authorizes that third party to permit Lender or its agents to have access to perform inspections or audits thereof and to respond to Lender's requests for information concerning such Collateral and records.

1.4 **Collections**. All proceeds of Receivables and Collateral shall be deposited into a lockbox or dominion account with Lender pursuant to an agreement acceptable to Lender (the "Blocked Account"). Borrower shall use the Blocked Account address as the remit to and payment address for all proceeds of Receivables and Collateral and it will be considered an immediate Event of Default if this does not occur or is not operational within 45 days of the date of this Agreement. All proceeds of Receivables and Collateral received to the Blocked Account will be deposited to a non-interest bearing bank-control account maintained with Lender and Borrower will not have access to that account. Until the Blocked Account is operational Borrower will immediately notify, transfer and deliver to Lender all Collections Borrower receives, and deliver to Lender a detailed cash receipt's journal on Friday of each week.

1.5 **Receivables Activity Report**. Within 30 days after the end of each Monthly Period, Lender shall send to Borrower a report covering the transactions for that Monthly Period, including the amount of all Advances, Collections, Adjustments, Finance Charges, and other fees and charges. The accounting shall be deemed correct and conclusive unless Borrower makes written objection to Lender within 45 days after the Lender sends the accounting to Borrower.

1.6 **Adjustments**. In the event any Adjustment or dispute is asserted by any Account Debtor, Borrower shall promptly advise Lender and shall, subject to the Lender's approval, resolve such disputes and advise Lender of any Adjustments; provided that in no case will the aggregate Adjustments made with respect to any Receivable exceed 2% of its original Receivable Amount unless Borrower has obtained the prior written consent of Lender. So long as any Obligations are outstanding, Lender shall have the right, at any time, to take possession of any rejected, returned, or recovered personal property. If such possession is not taken by Lender, Borrower is to resell it for Lender's account at Borrower's expense with the proceeds made payable to Lender. While Borrower retains possession of any returned goods, Borrower shall segregate said goods and mark them as property of Lender.

1.7 **Recourse; Maturity**. Advances and the other Obligations shall be with full recourse against Borrower. On the Maturity Date, the Borrower will pay all then outstanding Advances and other Obligations to the Lender or such earlier date as shall be herein provided.

1.8 **Letter of Credit Line.** Subject to the terms and conditions of this Agreement, Lender hereby agrees to issue or cause an Affiliate to issue letters of credit for the account of Borrower (each, a "Letter of Credit" and collectively, "Letters of Credit") from time to time; provided that (a) the Letter of Credit Obligations shall not at any time exceed the Letter of Credit Sublimit and (b) the Letter of Credit Obligations will be treated as Advances for purposes of determining availability under the Credit Limit and shall decrease, on a dollar-for-dollar basis, the amount available for other Advances. The form and substance of each Letter of Credit shall be subject to approval by Lender, in its sole discretion. Each Letter of Credit shall be subject to the additional terms of the Letter of Credit agreements, applications and any related documents required by Lender in connection with the issuance thereof (each, a "Letter of Credit Agreement"). Each draft paid under any Letter of Credit shall be repaid by Borrower in accordance with the provisions of the applicable Letter of Credit Agreement. No Letter of Credit shall be issued that results in an Overadvance or while any Overadvance is outstanding. Upon the Maturity Date, the amount of Letter of Credit Obligations shall be secured by unencumbered cash on terms acceptable to Lender if the term of this Agreement is not extended by Lender.

1.9 **Cash Management Services.** Borrower may use availability hereunder up to the Cash Management Sublimit for Lender's cash management services, which may include merchant services, direct deposit of payroll, business credit card, and check cashing services identified in various cash management services agreements related to such services (the "Cash Management Services"). The entire Cash Management Sublimit will be treated as an Advance for purposes of determining availability under the Credit Limit and shall decrease, on a dollar-for-dollar basis, the amount available for other Advances. The Cash Management Services shall be subject to additional terms set forth in applicable cash management services agreements.

1.10 **Foreign Exchange Facility.** Borrower may enter in foreign exchange forward contracts with Lender under which Borrower commits to purchase from or sell to Lender a set amount of foreign currency more than one business day after the contract date (the "FX Forward Contract"). The total FX Forward Contracts at any one time may not exceed 10 times the amount of the FX Sublimit. Ten percent (10%) of the amount of each outstanding FX Forward Contract shall be treated as an Advance for purposes of determining availability under the Credit Limit and shall decrease, on a dollar-for-dollar basis, the amount available for other Advances. Lender may terminate the FX Forward Contracts if an Event of Default occurs. Each FX Forward Contract shall be subject to additional terms set forth in the applicable FX Forward Contract or other agreements executed in connection with the foreign exchange facility.

1.11 **Non-Formula Facility.** On the date this agreement becomes effective, Lender will make an advance (the "Non-Formula Loan") in the amount of the Non-Formula Loan Amount into an interest bearing account in Borrower's name maintained at Lender and controlled by Lender (the "Non-Formula Loan Account"), and funds may not be withdrawn from the Non-Formula Loan Account by Borrower or used by Borrower or Lender other than to repay the Non-Formula Loan and secure the Landlord Letter of Credit. On August 10, 2011, Lender will withdraw $250,000 from the Non-Formula Loan Account in partial repayment of the Non-Formula Loan. Lender will withdraw the remaining amount of the Non-Formula Loan on the Maturity Date in full repayment of the Non-Formula Loan.

1.12 **Overadvances**. Upon any occurrence of an Overadvance, Borrower shall immediately pay down the Advances such that, after giving effect to such payments, no Overadvance exists.

## 2. FEES AND FINANCE CHARGES.

2.1 **Finance Charges**. Lender may, but is not required to, deduct the amount of accrued Finance Charge from Collections received by Lender. Within 10 days of each Month End, Borrower shall pay to Lender any accrued and unpaid Finance Charge as of such Month End.

2.2 **Fees**.

(a) **Termination Fee**. In the event this Agreement is terminated prior to the first anniversary of the date of this Agreement other than because (i) the Obligations of Borrower under this Agreement are refinanced by Lender, or (ii) Lender terminates this Agreement for a reason other than the occurrence or existence of an Event of Default, Borrower shall pay the Termination Fee to Lender.

(b) **Facility Fee**. Borrower shall pay the Facility Fee to Lender promptly upon the execution of this Agreement and annually thereafter.

(c) **Letter of Credit Fees**. Borrower shall pay to Lender fees upon the issuance of each Letter of Credit, upon the payment or negotiation of each draft under any Letter of Credit and upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Lender's standard fees and charges then in effect for such activity.

(d) **Maintenance Fee**. Within ten days after each Month End, Borrower shall pay to Lender the Maintenance Fee.

(e) **Cash Management and FX Forward Contract Fees**. Borrower shall pay to Lender fees in connection with the Cash Management Services utilized by Borrower and the FX Forward Contracts as determined in accordance with Lender's standard fees and charges then in effect for such activity.

(f) **Due Diligence Fee**. Borrower shall pay the Due Diligence Fee to Lender promptly upon the execution of this Agreement and annually thereafter.

(g) **Fee-in-lieu-of-Warrant**. Borrower shall pay a fee of $21,250 to Lender promptly upon the execution of this Agreement.

(h) **Non-Formula Facility Fee**. Borrower shall pay a fee of $4,750 to Lender promptly upon execution of this Agreement.

**3. REPRESENTATIONS AND WARRANTIES**. Borrower represents and warrants:

**3.1** No representation, warranty or other statement of Borrower in any certificate or written statement given to Lender contains any untrue statement of a material fact or omits to state a material fact necessary to make the statement contained in the certificates or statement not misleading.

**3.2** Borrower is duly existing and in good standing in its state of formation and qualified and licensed to do business in, and in good standing in, any state in which the conduct of its business or its ownership of property requires that it be qualified.

**3.3** The execution, delivery and performance of this Agreement has been duly authorized, and does not conflict with Borrower's organizational documents, nor constitute an Event of Default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which or by which it is bound.

**3.4** Borrower has good title to the Collateral and all inventory is in all material respects of good and marketable quality, free from material defects.

**3.5** Borrower's name, form of organization, chief executive office, and the place where the records concerning all Receivables and Collateral are kept is set forth at the beginning of this Agreement, Borrower is located at its address for notices set forth in this Agreement.

**3.6** If Borrower owns, holds or has any interest in, any copyrights (whether registered, or unregistered), patents or trademarks, and licenses of any of the foregoing, such interest has been specifically disclosed and identified to Lender in writing.

**4. MISCELLANEOUS PROVISIONS**. Borrower will:

**4.1** Maintain its corporate existence and good standing in its jurisdictions of incorporation and maintain its qualification in each jurisdiction necessary to Borrower's business or operations and not merge or consolidate with or into any other business organization, or acquire all or substantially all of the capital stock or property of a third party, unless (i) any such acquired entity becomes a "borrower" under this Agreement and (ii) Lender has previously consented to the applicable transaction in writing.

**4.2** Give Lender at least 30 days prior written notice of changes to its name, organization, chief executive office or location of records.

**4.3** Pay all its taxes including gross payroll, withholding and sales taxes when due and will deliver satisfactory evidence of payment to Lender if requested, however Borrower may in good faith protest tax assessments and withhold payment of the protested portion of taxes during the pendency of such protest if Borrower provides the taxing authority with a bond or other surety acceptable to such authority and to Lender in its sole discretion in the amount of the taxes subject to the protest.

**4.4** Maintain:

(a) insurance satisfactory to Lender as to amount, nature and carrier covering property damage (including loss of use and occupancy) to any of the Borrower's properties, business interruption insurance, public liability insurance including coverage for contractual liability, product liability and workers' compensation, and any other insurance which is usual for the Borrower's business. Each such policy shall provide for at least thirty (30) days prior notice to Lender of any cancellation thereof and must name Lender as additional insured.

(b) all risk property damage insurance policies (including without limitation windstorm coverage, and hurricane coverage as applicable) covering the tangible property comprising the collateral. Each insurance policy must be for the full replacement cost of the collateral and include a replacement cost endorsement. The insurance must be issued by an insurance company acceptable to Lender and must include a lender's loss payable endorsement in favor of Lender in a form acceptable to Lender.

Upon the request of Lender, Borrower shall deliver to Lender a copy of each insurance policy, or, if permitted by Lender, a certificate of insurance listing all insurance in force.

**4.5** Immediately transfer and deliver to Lender all Collections Borrower receives.

**4.6** Not create, incur, assume, or be liable for any indebtedness, other than Permitted Indebtedness.

**4.7** Immediately notify Lender if Borrower hereafter obtains any interest in any copyrights, patents, trademarks or licenses that are significant in value or are material to the conduct of its business.

**4.8** Provide the following financial information and statements in form and content acceptable to Lender, and such additional information as requested by Lender from time to time. Lender has the right to require Borrower to deliver financial information and statements to Lender more frequently than otherwise provided below, and to use such additional information and statements to measure any applicable financial covenants in this Agreement.

(a) Within 5 days of the public filing of its annual financial statements, the annual financial statements of Borrower, certified and dated by an authorized financial officer. These financial statements must be audited (with an opinion satisfactory to the Lender) by a Certified Public Accountant acceptable to Lender. The statements shall be prepared on a consolidated basis.

(b) No later than 30 days after the end of each month (including the last period in each fiscal year), monthly financial statements of Borrower, certified and dated by an authorized financial officer. The statements shall be prepared on a consolidated and consolidating basis.

(c) Promptly, upon sending or receipt, copies of any management letters and correspondence relating to management letters, sent or received by Borrower to or from Borrower's auditor. If no management letter is prepared, Borrower shall, upon Lender's request, obtain a letter from such auditor stating that no deficiencies were noted that would otherwise be addressed in a management letter.

(d) Copies of the Form 10-K Annual Report, Form 10-Q Quarterly Report and Form 8-K Current Report for Borrower within 48 hours of the date of filing with the Securities and Exchange Commission.

(e) An annual budget, approved by Borrower's board of directors, containing financial projections for each fiscal year and specifying the assumptions used in creating the projections. The annual budget shall in any case be provided to Lender no less than 60 days after the beginning of each fiscal year, and any time Borrower materially modifies such projections.

(f) Within 30 days of the end of each month (including the last month in each fiscal year), a compliance certificate of Borrower, signed by an authorized financial officer and setting forth (i) the information and computations (in sufficient detail) to establish compliance with all financial covenants at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action Borrower is taking and proposes to take with respect thereto.

(g) Within 10 days after the last day of each calendar month, a borrowing base certificate, in form and substance satisfactory to Lender, setting forth Eligible Receivables and Receivable Amounts thereof as of the last day of the preceding calendar month.

(h) Within 10 days after the last day of each calendar month, a detailed aging of Borrower’s receivables by invoice or a summary aging by account debtor, together with payable aging, inventory analysis, deferred revenue report, and such other matters as Lender may request.

(i) Promptly upon Lender's request, such other invoices, contracts, books, records, statements, lists of property and accounts, budgets, forecasts or reports as to Borrower and as to each guarantor of Borrower's obligations to Lender as Lender may request.

**4.9** Maintain its primary depository and operating accounts with Lender and, in the case of any deposit or investment accounts not maintained with Lender, grant to Lender a first priority perfected security interest in and “control” (within the meaning of Section 9104 of the California Uniform Commercial Code) of such deposit or investment account pursuant to documentation acceptable to Lender.

**4.10** Provide to Lender no later than 60 days after the execution hereof, the following documents which shall be in form satisfactory to Lender: (i) a guaranty by each of Borrower’s subsidiaries of Borrower’s obligations to Lender hereunder, (ii) a security agreement by each of Borrower’s subsidiaries pledging all of the personal property of such subsidiaries as collateral to secure Borrower’s obligations to Lender hereunder, and (iii) a pledge agreement by Borrower pledging all of Borrower’s ownership interests in Borrower’s subsidiaries.

**4.11** Promptly provide to Lender such additional information and documents regarding the finances, properties, business or books and records of Borrower or any guarantor or any other obligor as Lender may request.

**4.12** Notify Lender of any lawsuit, administrative proceeding, arbitration demand or other dispute in which Borrower is a party, and which, aggregated with all other disputes (other than the Scheduled Disputes), exceeds $50,000.

**4.13** Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein): Operating Profit for the immediately preceding three month period of at least $100,000 determined as of the last day of each month.

**5.** **SECURITY INTEREST**. To secure the prompt payment and performance to Lender of all of the Obligations, Borrower hereby grants to Lender a continuing security interest in the Collateral. Borrower is not authorized to sell, assign, transfer or otherwise convey any Collateral without Lender’s prior written consent, except for the sale of finished inventory in the Borrower’s usual course of business. Borrower agrees to sign any instruments and documents requested by Lender to evidence, perfect, or protect the interests of Lender in the Collateral. Borrower agrees to deliver to Lender the originals of all instruments, chattel paper and documents evidencing or related to Receivables and Collateral. Borrower shall not grant or permit any lien or security in the Collateral or any interest therein other than Permitted Liens.

**6.** **POWER OF ATTORNEY**. Borrower irrevocably appoints Lender and its successors and as true and lawful attorney in fact, and authorizes Lender (a) to, whether or not there has been an Event of Default, (i) demand, collect, receive, sue, and give releases to any Account Debtor for the monies due or which may become due upon or with respect to the Receivables and to compromise, prosecute, or defend any action, claim, case or proceeding relating to the Receivables, including the filing of a claim or the voting of such claims in any bankruptcy case, all in Lender’s name or Borrower’s name, as Lender may choose; (ii) prepare, file and sign Borrower’s name on any notice, claim, assignment, demand, draft, or notice of or satisfaction of lien or mechanics’ lien or similar document; (iii) notify all Account Debtors with respect to the Receivables to pay Lender directly; (iv) receive and open all mail addressed to Borrower for the purpose of collecting the Receivables; (v) endorse Borrower’s name on any checks or other forms of payment on the Receivables; (vi) execute on behalf of Borrower any and all instruments, documents, financing statements and the like to perfect Lender’s interests in the Receivables and Collateral; (vii) debit any Borrower’s deposit accounts maintained with Lender for any and all Obligations due under this Agreement; and (viii) do all acts and things necessary or expedient, in furtherance of any such purposes, and (b) to, upon the occurrence and during the continuance of an Event of Default, sell, assign, transfer, pledge, compromise, or discharge the whole or any part of the Receivables. Upon the occurrence and continuation of an Event of Default, all of the power of attorney rights granted by Borrower to Lender hereunder shall be applicable with respect to all Receivables and all Collateral.

Portions of this Exhibit 10.17 marked by a **[__]** have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

**7. DEFAULT AND REMEDIES**.

**7.1** **Events of Default**. The occurrence of any one or more of the following shall constitute an Event of Default hereunder.

(a) **Failure to Pay**. Borrower fails to make a payment when due under this Agreement.

(b) **Lien Priority**. Lender fails to have an enforceable first lien (except for any prior liens to which Lender has consented in writing) on or security interest in the Collateral.

(c) **False Information**. Borrower (or any guarantor) has given Lender any materially false or misleading information or representations or has failed to disclose any material fact relating to the subject matter of this Agreement.

(d) **Death**. Borrower or any guarantor dies or becomes legally incompetent, or if Borrower is a partnership, any general partner dies or becomes legally incompetent.

(e) **Bankruptcy**. Borrower (or any guarantor) files a bankruptcy petition, a bankruptcy petition is filed against Borrower (or any guarantor) or Borrower (or any guarantor) makes a general assignment for the benefit of creditors.

(f) **Receivers**. A receiver or similar official is appointed for a substantial portion of Borrower's (or any guarantor's) business, or the business is terminated.

(g) **Judgments**. (i) Any judgments or arbitration awards are entered against Borrower (or any guarantor) with respect to a Scheduled Dispute, or Borrower (or any guarantor) enters into any settlement agreements with respect to a Scheduled Dispute, and the amount of such agreements, awards and judgments **[______ ________]** individually or **[__________________________]**, or (ii) any judgments or arbitration awards are entered against Borrower (or any guarantor) with respect to litigation or arbitration that is not a Scheduled Dispute, or Borrower (or any guarantor) enters into any settlement agreements with respect to any litigation or arbitration that is not a Scheduled Dispute, and the aggregate amount of such agreements, awards and judgments **[_________________]**.

(h) **Material Adverse Change**. A material adverse change occurs, or is reasonably likely to occur, in Borrower's (or any guarantor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.

(i) **Cross-default**. Any default occurs under any agreement in connection with any credit Borrower (or any guarantor) or any of Borrower's Affiliates has obtained from anyone else or which Borrower (or any guarantor) or any of Borrower's Affiliates has guaranteed (other than trade amounts payable incurred in the ordinary course of business and not more than 60 days past due).

(j) **Default under Related Documents**. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect.

(k) **Other Agreements**. Borrower (or any guarantor) or any of Borrower's Affiliates fails to meet the conditions of, or fails to perform any obligation under any other agreement Borrower (or any guarantor) or any of Borrower's Affiliates has with Lender or any Affiliate of Lender.

(l) **Change of Control**. The holders of the capital ownership of the Borrower as of the date hereof cease to own and control, directly and indirectly, at least 51% of the capital ownership of the Borrower.

(m) **Other Breach Under Agreement**. Borrower fails to meet the conditions of, or fails to perform any obligation under, any term of this Agreement not specifically referred to above.

(n) **Failure to Fully Secure Landlord Letter of Credit**. The maximum amount available to be drawn on the Landlord Letter of Credit exceeds the amount held in the Non-Formula Loan Account.

**7.2** **Remedies**. Upon the occurrence of an Event of Default, (1) without implying any obligation to do so, Lender may cease making Advances or extending any other financial accommodations to Borrower; (2) all or a portion of the Obligations shall be, at the option of and upon demand by Lender, or with respect to an Event of Default described in Section 7.1(e), automatically and without notice or demand, due and payable in full; and (3) Lender shall have and may exercise all the rights and remedies under this Agreement and under applicable law, including the rights and remedies of a secured party under the California Uniform Commercial Code, all the power of attorney rights described in Section 6 with respect to all Collateral, and the right to collect, dispose of, sell, lease, use, and realize upon all Receivables and all Collateral in any commercial reasonable manner.

**8.** **ACCRUAL OF INTEREST.** All interest and finance charges hereunder calculated at an annual rate shall be based on a year of 360 days, which results in a higher effective rate of interest than if a year of 365 or 366 days were used. If any amount due under Section 2.2, amounts due under Section 9, and any other Obligations not otherwise bearing interest hereunder is not paid when due, such amount shall bear interest at a per annum rate equal to the Finance Charge Percentage until the earlier of (i) payment in good funds or (ii) entry of a trial judgment thereof, at which time the principal amount of any money judgment remaining unsatisfied shall accrue interest at the highest rate allowed by applicable law.

**9.** **FEES, COSTS AND EXPENSES; INDEMNIFICATION**. The Borrower will pay to Lender upon demand all fees, costs and expenses (including fees of attorneys and professionals and their costs and expenses) that Lender incurs or may from time to time impose in connection with any of the following: (a) preparing, negotiating, administering, and enforcing this Agreement or any other agreement executed in connection herewith, including any amendments, waivers or consents in connection with any of the foregoing, (b) any litigation or dispute (whether instituted by Lender, Borrower or any other person) in any way relating to the Receivables, the Collateral, this Agreement or any other agreement executed in connection herewith or therewith, (c) enforcing any rights against Borrower or any guarantor, or any Account Debtor, (d) protecting or enforcing its interest in the Receivables or the Collateral, (e) collecting the Receivables and the Obligations, or (f) the representation of Lender in connection with any bankruptcy case or insolvency proceeding involving Borrower, any Receivable, the Collateral, any Account Debtor, or any guarantor. Borrower shall indemnify and hold Lender harmless from and against any and all claims, actions, damages, costs, expenses, and liabilities of any nature whatsoever arising in connection with any of the foregoing.

**10. INTEGRATION, SEVERABILITY WAIVER, CHOICE OF LAW, FORUM AND VENUE**.

**10.1** This Agreement and any related security or other agreements required by this Agreement, collectively: (a) represent the sum of the understandings and agreements between Lender and Borrower concerning this credit; (b) replace any prior oral or written agreements between Lender and Borrower concerning this credit; and (c) are intended by Lender and Borrower as the final, complete and exclusive statement of the terms agreed to by them. In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. If any provision of this Agreement is deemed invalid by reason of law, this Agreement will be construed as not containing such provision and the remainder of the Agreement shall remain in full force and effect. Lender retains all of its rights, even if it makes an Advance after a default. If Lender waives a default, it may enforce a later default. Any consent or waiver under, or amendment of, this Agreement must be in writing, and no such consent, waiver, or amendment shall imply any obligation by Lender to make any subsequent consent, waiver, or amendment.

**10.2** THIS AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF CALIFORNIA. THE PARTIES HERETO AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER RELATED DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF SANTA CLARA, CALIFORNIA, OR, AT THE SOLE OPTION OF LENDER, IN ANY OTHER COURT IN WHICH LENDER SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS JURISDICTION OVER THE SUBJECT MATTER AND PARTIES IN CONTROVERSY. EACH PARTY HERETO WAIVES ANY RIGHT TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION AND STIPULATES THAT THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF SANTA CLARA, CALIFORNIA SHALL HAVE IN PERSONAM JURISDICTION AND VENUE OVER EACH SUCH PARTY FOR THE PURPOSE OF LITIGATING ANY SUCH DISPUTE, CONTROVERSY, OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT, OR ANY OTHER RELATED DOCUMENTS. SERVICE OF PROCESS SUFFICIENT FOR PERSONAL JURISDICTION IN ANY ACTION AGAINST THE BORROWER MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO ITS ADDRESS SPECIFIED FOR NOTICES PURSUANT TO SECTION 11.

**11. NOTICES; TELEPHONIC AND TELEFAX AUTHORIZATIONS.** All notices shall be given to Lender and Borrower at the addresses or faxes set forth on the signature page of this agreement and shall be deemed to have been delivered and received: (a) if mailed, three (3) calendar days after deposited in the United States mail, first class, postage pre-paid, (b) one (1) calendar day after deposit with an overnight mail or messenger service; or (c) on the same date of confirmed transmission if sent by hand delivery, telecopy, telefax or telex. Lender may honor telephone or telefax instructions for Advances or repayments given, or purported to be given, by any one of the Authorized Persons. Borrower will indemnify and hold Lender harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions Lender reasonably believes are made by any Authorized Person. This paragraph will survive this Agreement's termination, and will benefit Lender and its officers, employees, and agents.

## 12. DEFINITIONS AND CONSTRUCTION.

**12.1** **Definitions**. In this Agreement:

"**Account Balance**" means at any time the aggregate of the Advances outstanding as reflected on the records maintained by Lender, together with any past due Finance Charges thereon.

"**Account Debtor**" has the meaning in the California Uniform Commercial Code and includes any person liable on any Receivable, including without limitation, any guarantor of any Receivable and any issuer of a letter of credit or banker's acceptance assuring payment thereof.

"**Adjustments**" means all discounts, allowances, disputes, offsets, defenses, rights of recoupment, rights of return, warranty claims, or short payments, asserted by or on behalf of any Account Debtor with respect to any Receivable.

"**Advance**" means an advance made by Lender to Borrower under this Agreement.

"**Advance Rate**" means 80%, or such greater or lesser percentage as Lender may from time to time establish in its sole discretion upon notice to Borrower.

"**Advance Request**" means a writing in form and substance satisfactory to Lender and signed by an Authorized Person requesting an Advance.

"**Agreement**" means this Business Financing Agreement.

"**Affiliate**" means, as to any person or entity, any other person or entity directly or indirectly controlling or controlled by, or under direct or indirect common control with, such person or entity.

"**Authorized Person**" means Borrower (if an individual) or any one of the individuals authorized to sign on behalf of the Borrower as shown on Borrower's Corporate Resolutions to Borrow, and any other individual designated by any one of such authorized signers.

"**Borrowing Base**" means at any time the sum of (i) the Eligible Receivable Amount multiplied by the applicable Advance Rate minus (iii) such reserves as Lender may deem proper and necessary from time to time.

**"Cash Management Sublimit"** means $250,000.

"**Collateral**" means all of Borrower's rights and interest in any and all personal property, whether now existing or hereafter acquired or created and wherever located, and all products and proceeds thereof and accessions thereto, including but not limited to the following (collectively, the "Collateral"): (a) all accounts (including health care insurance receivables), chattel paper (including tangible and electronic chattel paper), inventory (including all goods held for sale or lease or to be furnished under a contract for service, and including returns and repossessions), equipment (including all accessions and additions thereto), instruments (including promissory notes), investment property (including securities and securities entitlements), documents (including negotiable documents), deposit accounts, letter of credit rights, money, any commercial tort claim of Borrower which is now or hereafter identified by Borrower or Lender, general intangibles (including payment intangibles and software), goods (including fixtures) and all of Borrower's books and records with respect to any of the foregoing, and the computers and equipment containing said books and records; and (b) any and all cash proceeds and/or noncash proceeds thereof, including without limitation, insurance proceeds, and all supporting obligations and the security therefore or for any right to payment.

"**Collections**" means all payments from or on behalf of an Account Debtor with respect to Receivables.

"**Compliance Certificate**" means a certificate in the form attached as Exhibit A to this Agreement by an Authorized Person that, among other things, the representations and warranties set forth in this Agreement are true and correct as of the date such certificate is delivered.

"**Credit Limit**" means $8,000,000, which is intended to be the maximum amount of Advances at any time outstanding.

"**Default**" means any Event of Default or any event that with notice, lapse of time or otherwise would constitute an Event of Default.

"**Due Diligence Fee**" means a payment of an annual fee equal to $800 due upon the date of this Agreement and $500 due upon each anniversary thereof so long as any Advance is outstanding or available hereunder.

"**Eligible Receivable**" means a Receivable that satisfies all of the following:

(a) The Receivable has been created by Borrower in the ordinary course of Borrower's business and without any obligation on the part of Borrower to render any further performance.

(b) There are no conditions which must be satisfied before Borrower is entitled to receive payment of the Receivable, and the Receivable does not arise from COD sales, consignments or guaranteed sales.

(c) The Account Debtor upon the Receivable does not claim any defense to payment of the Receivable, whether well founded or otherwise.

(d) The Receivable is not the obligation of an Account Debtor who has asserted or may be reasonably be expected to assert any counterclaims or offsets against Borrower (including offsets for any "contra accounts" owed by Borrower to the Account Debtor for goods purchased by Borrower or for services performed for Borrower).

(e) The Receivable represents a genuine obligation of the Account Debtor and to the extent any credit balances exist in favor of the Account Debtor, such credit balances shall be deducted in calculating the Receivable Amount.

(f) Borrower has sent an invoice to the Account Debtor in the amount of the Receivable.

(g) Borrower is not prohibited by the laws of the state where the Account Debtor is located from bringing an action in the courts of that state to enforce the Account Debtor's obligation to pay the Receivable. Borrower has taken all appropriate actions to ensure access to the courts of the state where Account Debtor is located, including, where necessary; the filing of a Notice of Business Activities Report or other similar filing with the applicable state agency or the qualification by Borrower as a foreign corporation authorized to transact business in such state.

(h) The Receivable is owned by Borrower free of any title defects or any liens or interests of others except the security interest in favor of Lender, and Lender has a perfected, first priority security interest in such Receivable.

(i) The Account Debtor on the Receivable is not any of the following: (1) an employee, Affiliate, parent or subsidiary of Borrower, or an entity which has common officers or directors with Borrower; (2) the U.S. government or any agency or department of the U.S. government unless Borrower complies with the procedures in the Federal Assignment of Claims Act of 1940 (41 U.S.C.§15) with respect to the Receivable, and the underlying contract expressly provides that neither the U.S. government nor any agency or department thereof shall have the right of set-off against Borrower; (3) any person or entity located in a foreign country unless (A) the Receivable is supported by an irrevocable letter of credit issued by a bank acceptable to Lender or credit insurance acceptable to Lender, and (B) if requested by Lender, the original of such letter of credit and/or any usance drafts drawn under such letter of credit and accepted by the issuing or confirming bank or the credit insurance policy, as applicable, have been delivered to Lender; or (4) an Account Debtor as to which 35% or more of the aggregate dollar amount of all outstanding Receivables owing from such Account Debtor have not been paid within 90 days from invoice date.

(j) The Receivable is not in default (a Receivable will be considered in default if any of the following occur: (i) the Receivable is not paid within 90 days from its invoice date; (ii) the Account Debtor obligated upon the Receivable suspends business, makes a general assignment for the benefit of creditors, or fails to pay its debts generally as they come due; or (iii) any petition is filed by or against the Account Debtor obligated upon the Receivable under any bankruptcy law or any other law or laws for the relief of debtors).

(k) The Receivable does not arise from the sale of goods which remain in Borrower's possession or under Borrower's control.

(l) The Receivable is not evidenced by a promissory note or chattel paper, nor is the Account Debtor obligated to Borrower under any other obligation which is evidenced by a promissory note.

(m) the Receivable is not that portion of Receivables due from (i) Yahoo! Inc. or its wholly owned subsidiaries or affiliates which is in excess of 70% of Borrower's aggregate dollar amount of outstanding Receivables, or (ii) any other Account Debtor which is in excess of 35% of Borrower's aggregate dollar amount of all outstanding Receivables.

(n) The Receivable is otherwise acceptable to Lender.

**"Eligible Receivable Amount"** means at any time the sum of the Receivable Amounts of the Eligible Receivables.

"**Event of Default**" has the meaning set forth in Section 7.1.

"**Facility Fee**" means a payment of an annual fee equal to 0.25 percentage points of the Credit Limit due upon the date of this Agreement and each anniversary thereof so long as any Advance is outstanding or available hereunder.

"**Finance Charge**" means for each Monthly Period an interest amount equal to the Finance Charge Percentage of the average daily Account Balance outstanding during such Monthly Period.

"**Finance Charge Percentage**" means a rate per year equal to the Prime Rate plus 2.00 percentage points plus an additional 5.00 percentage points during any period that an Event of Default has occurred and is continuing.

**"FX Sublimit"** means $250,000.

"**Landlord Letter of Credit**" means the Letter of Credit issued by Lender in favor of Lightwave Drive, LLC as beneficiary.

"**Lender**" means Bridge Bank, National Association, and its successors and assigns.

"**Letter of Credit**" has the meaning set forth in Section 1.8.

"**Letter of Credit Obligations**" means, at any time, the sum of, without duplication, (i) the maximum amount available to be drawn on all outstanding Letters of Credit issued by Lender or by Lender's Affiliate and (ii) the aggregate amount of all amounts drawn and unreimbursed with respect to Letters of Credit issued by the Lender or by Lender's Affiliate.

"**Letter of Credit Sublimit**" means $500,000.

"**Maintenance Fee**" means for any Monthly Period, the amount equal to 0.125 percentage points of the average daily Account Balance for such Monthly Period.

"**Maturity Date**" means two years from the date hereof or such earlier date as Lender shall have declared the Obligations immediately due and payable pursuant to Section 7.2.

"**Month End**" means the last calendar day of each Monthly Period.

"**Monthly Period**" means each calendar month.

"**Non-Formula Loan Amount**" means $475,000.

“**Non-Formula Loan**” has the meaning set forth in Section 1.11.

“**Obligations**” means all liabilities and obligations of Borrower to Lender of any kind or nature, present or future, arising under or in connection with this Agreement or under any other document, instrument or agreement, whether or not evidenced by any note, guarantee or other instrument, whether arising on account or by overdraft, whether direct or indirect (including those acquired by assignment) absolute or contingent, primary or secondary, due or to become due, now owing or hereafter arising, and however acquired; including, without limitation, all Advances (including the Non-Formula Loan), Finance Charges, fees, interest, expenses, professional fees and attorneys’ fees.

“**Operating Profit**” means net income plus interest and taxes, plus non-cash expenses for amortization, depreciation, stock-based compensation, discontinued operations, and non-recurring items.

“**Overadvance**” means at any time an amount equal to the greater of (a) the amounts (if any) by which the total amount of the outstanding Advances (including deemed Advances with respect to the FX Sublimit and the Letter of Credit Sublimit and the total amount of the Cash Management Sublimit, but not including the Landlord Letter of Credit) exceeds the lesser of the Credit Limit or the Borrowing Base, or (b) the amounts (if any) by which the total amount of the outstanding deemed Advances with respect to the FX Sublimit, the Letter of Credit Sublimit or the Cash Management Sublimit) exceeds the sublimit therefor.

“**Permitted Indebtedness**” means:

(a) Indebtedness under this Agreement or that is otherwise owed to the Lender.

(b) Indebtedness existing on the date hereof and specifically disclosed on a schedule to this Agreement.

(c) Purchase money indebtedness (including capital leases) incurred to acquire capital assets in ordinary course of business and not exceeding $300,000 in total principal amount at any time outstanding.

(d) Other indebtedness in an aggregate amount not to exceed $500,000 at any time outstanding; provided that such indebtedness is junior in priority (if secured) to the Obligations and provided that the incurrence of such Indebtedness does not otherwise cause and Event of Default hereunder.

(e) Indebtedness incurred in the refinancing of any indebtedness set forth in (a) through (d) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon the Borrower.

(f) Subordinated Debt.

“**Permitted Liens**” means the following but only with respect to property not consisting of Receivables:

(a) Liens securing any of the indebtedness described in clauses (a) through (d) of the definition of Permitted Indebtedness.

(b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings, provided the same have no priority over any of Lender’s security interests.

(c) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness described in clause (e) of the definition of Permitted Indebtedness, provided that any extension, renewal or replacement lien shall be limited to the property encumbered by the existing lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase.

(d) Liens securing Subordinated Debt.

"**Prime Rate**" means the greater of 3.25% per year or the variable per annum rate of interest most recently announced by Lender as its "Prime Rate." Lender may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in Lender's Prime Rate.

"**Receivable Amount**" means as to any Receivable, the Receivable Amount due from the Account Debtor after deducting all discounts, credits, offsets, payments or other deductions of any nature whatsoever, whether or not claimed by the Account Debtor.

"**Receivables**" means Borrower's rights to payment arising in the ordinary course of Borrower's business, including accounts, chattel paper, instruments, contract rights, documents, general intangibles, letters of credit, drafts, and bankers acceptances.

"**Scheduled Disputes**" means the lawsuits, arbitration proceedings and other disputes described in Schedule 1 hereto.

"**Subordinated Debt**" means indebtedness of Borrower that is expressly subordinated to the indebtedness of Borrower owed to Lender pursuant to a subordination agreement satisfactory in form and substance to Lender.

"**Termination Fee**" means a payment equal to 1.00% of the sum of the Credit Limit plus the Non-Formula Loan Amount.

**12.2 Construction:**

(a) In this Agreement: (i) references to the plural include the singular and to the singular include the plural; (ii) references to any gender include any other gender; (iii) the terms "include" and "including" are not limiting; (iv) the term "or" has the inclusive meaning represented by the phrase "and/or," (v) unless otherwise specified, section and subsection references are to this Agreement, and (vi) any reference to any statute, law, or regulation shall include all amendments thereto and revisions thereof.

(b) Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved using any presumption against either Borrower or Lender, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each party hereto and their respective counsel. In case of any ambiguity or uncertainty, this Agreement shall be construed and interpreted according to the ordinary meaning of the words used to accomplish fairly the purposes and intentions of all parties hereto.

(c) Titles and section headings used in this Agreement are for convenience only and shall not be used in interpreting this Agreement.

**13. JURY TRIAL WAIVER**. THE UNDERSIGNED ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED UNDER CERTAIN CIRCUMSTANCES. TO THE EXTENT PERMITTED BY LAW, EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS, HIS OR HER CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION ARISING OUT OF OR RELATED TO THIS AGREEMENT OR ANY OTHER DOCUMENT, INSTRUMENT OR AGREEMENT BETWEEN THE UNDERSIGNED PARTIES.

**14. JUDICIAL REFERENCE PROVISION**.

**14.1** In the event the Jury Trial Waiver set forth above is not enforceable, the parties elect to proceed under this Judicial Reference Provision.

**14.2** With the exception of the items specified in Section 14.3, below, any controversy, dispute or claim (each, a " **Claim**") between the parties arising out of or relating to this Agreement or any other document, instrument or agreement between the undersigned parties (collectively in this Section, the "**Loan Documents**"), will be resolved by a reference proceeding in California in accordance with the provisions of Sections 638 et seq. of the California Code of Civil Procedure ("**CCP**"), or their successor sections, which shall constitute the exclusive remedy for the resolution of any Claim, including whether the Claim is subject to the reference proceeding. Except as otherwise provided in the Loan Documents, venue for the reference proceeding will be in the state or federal court in the county or district where the real property involved in the action, if any, is located or in the state or federal court in the county or district where venue is otherwise appropriate under applicable law (the "**Court**").

**14.3** The matters that shall not be subject to a reference are the following: (i) nonjudicial foreclosure of any security interests in real or personal property, (ii) exercise of self-help remedies (including, without limitation, set-off), (iii) appointment of a receiver and (iv) temporary, provisional or ancillary remedies (including, without limitation, writs of attachment, writs of possession, temporary restraining orders or preliminary injunctions). This reference provision does not limit the right of any party to exercise or oppose any of the rights and remedies described in clauses (i) and (ii) or to seek or oppose from a court of competent jurisdiction any of the items described in clauses (iii) and (iv). The exercise of, or opposition to, any of those items does not waive the right of any party to a reference pursuant to this reference provision as provided herein.

**14.4** The referee shall be a retired judge or justice selected by mutual written agreement of the parties. If the parties do not agree within ten (10) days of a written request to do so by any party, then, upon request of any party, the referee shall be selected by the Presiding Judge of the Court (or his or her representative). A request for appointment of a referee may be heard on an ex parte or expedited basis, and the parties agree that irreparable harm would result if ex parte relief is not granted. Pursuant to CCP § 170.6, each party shall have one peremptory challenge to the referee selected by the Presiding Judge of the Court (or his or her representative).

**14.5** The parties agree that time is of the essence in conducting the reference proceedings. Accordingly, the referee shall be requested, subject to change in the time periods specified herein for good cause shown, to (i) set the matter for a status and trial-setting conference within fifteen (15) days after the date of selection of the referee, (ii) if practicable, try all issues of law or fact within one hundred twenty (120) days after the date of the conference and (iii) report a statement of decision within twenty (20) days after the matter has been submitted for decision.

**14.6** The referee will have power to expand or limit the amount and duration of discovery. The referee may set or extend discovery deadlines or cutoffs for good cause, including a party's failure to provide requested discovery for any reason whatsoever. Unless otherwise ordered based upon good cause shown, no party shall be entitled to "priority" in conducting discovery, depositions may be taken by either party upon seven (7) days written notice, and all other discovery shall be responded to within fifteen (15) days after service. All disputes relating to discovery which cannot be resolved by the parties shall be submitted to the referee whose decision shall be final and binding.

**14.7** Except as expressly set forth herein, the referee shall determine the manner in which the reference proceeding is conducted including the time and place of hearings, the order of presentation of evidence, and all other questions that arise with respect to the course of the reference proceeding. All proceedings and hearings conducted before the referee, except for trial, shall be conducted without a court reporter, except that when any party so requests, a court reporter will be used at any hearing conducted before the referee, and the referee will be provided a courtesy copy of the transcript. The party making such a request shall have the obligation to arrange for and pay the court reporter. Subject to the referee's power to award costs to the prevailing party, the parties will equally share the cost of the referee and the court reporter at trial.

**14.8** The referee shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. The rules of evidence applicable to proceedings at law in the State of California will be applicable to the reference proceeding. The referee shall be empowered to enter equitable as well as legal relief, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a court proceeding, including without limitation motions for summary judgment or summary adjudication. The referee shall issue a decision at the close of the reference proceeding which disposes of all claims of the parties that are the subject of the reference. Pursuant to CCP § 644, such decision shall be entered by the Court as a judgment or an order in the same manner as if the action had been tried by the Court and any such decision will be final, binding and conclusive. The parties reserve the right to appeal from the final judgment or order or from any appealable decision or order entered by the referee. The parties reserve the right to findings of fact, conclusions of laws, a written statement of decision, and the right to move for a new trial or a different judgment, which new trial, if granted, is also to be a reference proceeding under this provision.

**14.9** If the enabling legislation which provides for appointment of a referee is repealed (and no successor statute is enacted), any dispute between the parties that would otherwise be determined by reference procedure will be resolved and determined by arbitration. The arbitration will be conducted by a retired judge or justice, in accordance with the California Arbitration Act §1280 through §1294.2 of the CCP as amended from time to time. The limitations with respect to discovery set forth above shall apply to any such arbitration proceeding.

**14.10** THE PARTIES RECOGNIZE AND AGREE THAT ALL CONTROVERSIES, DISPUTES AND CLAIMS RESOLVED UNDER THIS REFERENCE PROVISION WILL BE DECIDED BY A REFEREE AND NOT BY A JURY. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS, HIS OR HER OWN CHOICE, EACH PARTY KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, AGREES THAT THIS REFERENCE PROVISION WILL APPLY TO ANY CONTROVERSY, DISPUTE OR CLAIM BETWEEN OR AMONG THEM ARISING OUT OF OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS.

**15.** **EXECUTION, EFFECTIVENESS, SURVIVAL** . This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other documents executed in connection herewith constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement. This Agreement shall become effective upon the execution and delivery hereof by Borrower and Lender and shall continue in full force and effect until the Maturity Date and thereafter so long as any Obligations remain outstanding hereunder. Lender reserves the right to issue press releases, advertisements, and other promotional materials describing any successful outcome of services provided on Borrower's behalf. Borrower agrees that Lender shall have the right to identify Borrower by name in those materials.

**16.** **OTHER AGREEMENTS**. Any security agreements, liens and/or security interests securing payment of any obligations of Borrower owing to Lender or its Affiliates also secure the Obligations, and are valid and subsisting and are not adversely affected by execution of this Agreement. An Event of Default under this Agreement constitutes a default under other outstanding agreements between Borrower and Lender or its Affiliates.

[Signature Page Follows]

IN WITNESS WHEREOF, Borrower and Lender have executed this Agreement on the day and year above written.

BORROWER:

INUVO, INC.

By________________________
Name:_____________________
Title:______________________

Address for Notices:
15550 Lightwave Drive, Suite 300
Clearwater, FL 33670
Attn: Wally Ruiz
Fax: [ ]

LENDER:

BRIDGE BANK, NATIONAL ASSOCIATION

By______________________________
Name:___________________________
Title:____________________________

Address for Notices:
55 Almaden Blvd.
San Jose, CA 95113
Fax: (408) 423-8510

Portions of this Exhibit 10.18 marked by a **[__]** have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

**<u>Schedule 1</u>**

**Scheduled Disputes**

**Exhibit 10.18**

# INTELLECTUAL PROPERTY SECURITY AGREEMENT

This INTELLECTUAL PROPERTY SECURITY AGREEMENT, dated as of February 15, 2011, (the "Agreement") between BRIDGE BANK, NATIONAL ASSOCIATION ("Lender") and Inuvo, Inc., a Nevada corporation, ("Grantor") is made with reference to the Business Financing Agreement, dated as of the date hereof (as amended from time to time, the "Financing Agreement'), between Lender and Grantor. Terms defined in the Financing Agreement have the same meaning when used in this Agreement.

For good and valuable consideration, receipt of which is hereby acknowledged, Grantor hereby covenants and agrees as follows:

To secure the Obligations under the Financing Agreement, Grantor grants to Lender a security interest in all right, title, and interest of Grantor in any of the following, whether now existing or hereafter acquired or created in any and all of the following property (collectively, the "Intellectual Property Collateral"):

(a) copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held (collectively, the "Copyrights"), including the Copyrights described in Exhibit A;

(b) trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks (collectively, the "Trademarks"), including the Trademarks described in Exhibit B;

(c) patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same (collectively, the "Patents"), including the Patents described in Exhibit C;

(d) mask work or similar rights available for the protection of semiconductor chips or other products (collectively, the "Mask Works");

(e) trade secrets, and any and all intellectual property rights in computer software and computer software products;

(f) design rights;

(g) claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;

(h) licenses or other rights to use any of the Copyrights, Patents, Trademarks, or Mask Works, and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(i) amendments, renewals and extensions of any of the Copyrights, Trademarks, Patents, or Mask Works; and

(j) proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

The rights and remedies of Lender with respect to the security interests granted hereunder are in addition to those set forth in the Financing Agreement, and those which are now or hereafter available to Lender as a matter of law or equity. Each right, power and remedy of Lender provided for herein or in the Financing Agreement, or now or hereafter existing at law or in equity shall be cumulative and concurrent and shall be in addition to every right, power or remedy provided for herein, and the exercise by Lender of any one or more of such rights, powers or remedies does not preclude the simultaneous or later exercise by Lender of any other rights, powers or remedies.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

**GRANTOR:**
INUVO, INC.

By: ______________________________

Name: ______________________________

Title: ______________________________

Address for Notices:
Attn: Wally Ruiz
15550 Lightwave Drive, Suite 300
Clearwater, FL 33670
Fax: (727) 324-0063

**LENDER:**
BRIDGE BANK, NATIONAL ASSOCIATION

By: ______________________________

Name: ______________________________

Title: ______________________________

Address for Notices:
Attn: Lee Shodiss
55 Almaden Blvd. Ste. 100
San Jose, CA 95113
Tel: (408) 423-8500
Fax:(408) 423-8510

EXHIBIT A

COPYRIGHTS

Please Check if No Copyrights Exist ☐

| Type of Work | Title: | International Standard Serial Number (ISSN): | Registration Number: | Filing Date: | Preregistered? |
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EXHIBIT B

TRADEMARKS

Please Check if No Trademarks Exist ☐

| Mark / Title: | U.S. Serial Number: | U.S. Registration Number: | UPTO Reference Number: | Filing Date: |
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EXHIBIT C

PATENTS

Please Check if No Patents Exist ☐

| Title: | Patent Number: | Application Serial Number: | Issued or Published? | Issue Date: |
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**EXHIBIT 21.1**

**SUBSIDIARIES OF THE REGISTRANT**

| | | |
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| Inuvo, Inc. | | Nevada Corporation |
| | | |
| | Morex Marketing Group, LLC / BabytoBee | New York Limited Liability Company |
| | | |
| | Kidzadu, Inc. | Florida Corporation |
| | | |
| | ValidClick | Missouri Corporation |
| | | |
| | CUM Holding, Inc. | North Carolina Corporation |
| | | |
| | Advertising Holding, Inc. | North Carolina Corporation |
| | | |
| | Rightstuff, Inc. | North Carolina Corporation |
| | | |
| | Exact Supplements, LLC | Florida Limited Liability Company |
| | | |
| | Home Biz Ventures, LLC | Florida Limited Liability Company |
| | | |
| | Vintacom Florida, Inc. | Florida Corporation |
| | | |
| | RE School Holdings, Inc. | Florida Corporation |
| | | |
| | iLead Media, LLC | Delaware Limited Liability Company |
| | | |
| | Kowabunga Marketing, Inc. | Michigan Corporation |
| | | |
| | PrimaryAds, Inc. | New Jersey Corporation |

**EXHIBIT 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our report dated March 28, 2011 on the 2010 consolidated financial statements included in the Annual Report of Inuvo, Inc. on Form 10-K for the year ended December 31, 2010. We hereby consent to the incorporation by reference of said report in the Registration Statements of Inuvo, Inc. on Forms S-3 (File No. 333-143299, effective December 28, 2007, File No. 333-137141, effective September 25, 2006 and File No. 333-134823, effective August 1, 2006) and on Forms S-8 (File No. 333-137666, effective September 29, 2006, and File No. 333-169158, effective September 2, 2010).

March 28, 2011

By: /s/ Mayer Hoffman McCann P.C.
Mayer Hoffman McCann P.C.
Clearwater, Florida

**EXHIBIT 23.2**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our report dated March 30, 2010 on the 2009 consolidated financial statements included in the Annual Report of Inuvo, Inc. on Form 10-K for the year ended December 31, 2010. We hereby consent to the incorporation by reference of said report in the Registration Statements of Inuvo, Inc. on Forms S-3 (File No. 333-143299, effective December 28, 2007, File No. 333-137141, effective September 25, 2006 and File No. 333-134823, effective August 1, 2006) and on Forms S-8 (File No. 333-137666, effective September 29, 2006, and File No. 333-169158, effective September 2, 2010).

March 28, 2011

By: /s/ Kirkland Russ Murphy & Tapp, P.A.
/s/ Kirkland Russ Murphy & Tapp, P.A.
Clearwater, Florida

**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 for the year ended December 31, 2010 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.

March 30, 2011

By: /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 for the year ended December 31, 2010 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.

March 30, 2011

By: /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 December 31, 2010 as filed with the Securities and Exchange Commission (the "Report"), I, Richard K. Howe, Chief Executive Office 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.

March 30, 2011

By: /s/Richard K. Howe

Richard K. Howe
Chief Executive Officer, principal executive officer

**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 December 31, 2010 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.

March 30, 2011

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