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, 2012

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.)
1111 Main St Suite 201 Conway, AR	**72032**
(Address of principal executive offices)	(Zip Code)

(855) 440-8484
(Registrant's telephone number, including area code)

143 Varick St New York, NY 10013
(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 MKT**

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

None
(Title of class)

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☑ No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☑ Yes ☐ No

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

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

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

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

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

The aggregate market value of the outstanding common stock, other than shares held by persons who may be deemed affiliates of the registrant, computed by reference to the closing sales price for the registrant's common stock on June 30, 2012 (the last business day of the registrant's most recently completed second quarter), as reported on the NYSE MKT, was approximately $16.0 million. As of March 8, 2013, there were 23,287,718 shares of common stock of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2013 Annual Meeting of Stockholders, to be filed within 120 days of the year ended December 31, 2012, 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 (the "Exchange Act"). These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “will,” “should,” “intend,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “continue,” or the negative of such terms or other comparable terminology. This report includes, among others, statements regarding our:

- history of losses;
- material dependence on net revenues from two customers;
- pending relocation of our headquarters and data operations collocations;
- failure to successfully manage the combination of Inuvo and Vertro;
- ability to continue and expand relationships with Internet media, content, advertising and product providers;
- dependence of our Network segment on relationships with distribution partners;
- dependence of our Applications segment on our ability to maintain and grow our customer base and the estimations and assumptions we use in that segment;
- material dependence on our relationships with Google and Yahoo!;
- company owned and operated websites and various risks associated with those websites;
- dependence on our banking arrangements with Bridge Bank, N.A. which are collateralized by our assets;
- possible need to raise additional capital;
- ability to effectively compete;
- need to keep pace with technology changes;
- possible interruptions of services;
- dependence on third-party providers;
- liability associated with retrieved or transmitted information, failure to adequately protect personal information; security breaches and computer viruses, and other risks experienced by companies in our industry;
- dependence on key personnel;
- regulatory uncertainties;
- failure to protect our intellectual property
- continued listing on the NYSE MKT;
- fluctuations in our quarterly earnings and the trading price of our common stock;
- ability to defend our company against lawsuits; and
- outstanding warrants and options and possible dilutive impact to our stockholders.

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

OTHER PERTINENT INFORMATION

Unless specifically set forth to the contrary, when used in this report the terms "Inuvo," the “Company,” "we," "us," "our," and similar terms refers to Inuvo, Inc., a Nevada corporation and our subsidiaries. When used in this report, “2010” means the fiscal year ended

December 31, 2010, “2011” means the fiscal year ended December 31, 2011, “2012” means the fiscal year ended December 31, 2012 and "2013" means the fiscal year ending December 31, 2013. The information which appears on our corporate web site at www.inuvo.com is not part of this report.

PART I

ITEM 1. BUSINESS.

Company Overview

Inuvo® is an Internet marketing and technology company that develops consumer applications and delivers targeted advertisements onto websites reaching desktop and mobile. The majority of our revenues result from a consumer action that involves either clicking on an advertisement or purchasing a product online. We source advertisements either directly from merchants or through media companies who consolidate advertisements. We partner with website owners delivering advertisements to their websites as well as onto our own web properties and applications.

The business is organized along two segments, Network and Applications. The Network segment primarily includes the delivery of advertisements onto partner and Company owned and operated websites. The Applications segment includes our consumer applications, which are downloaded through various online marketing methods. In 2012, the Network and Applications segment represented approximately 54% and 46%, respectively, of our annual net revenues.

On March 1, 2012 we completed the acquisition of Vertro, Inc. ("Vertro"), an Internet company that owns and operates the ALOT product portfolio, comprised of both browser-based consumer applications and websites. Vertro's operations are now part of our Applications segment. In evaluating the merger, we, and the management of Vertro, believed that the combination of the two companies could create a stronger, more scalable business, from which to attract advertisers, publishers and consumers. The merger allowed for greater diversification of revenue streams, mitigating dependence on a single customer; the existing ALOT install and distribution capability has provided a vehicle for our consumer facing innovations like BargainMatch; the combined business is a greater footprint to access the debt and capital markets; the combining of two experienced digital marketing teams has broadened our ability and reduced time to market; and the elimination of overlapping operating and public company expenses has reduced combined costs by over $2 million.

On January 31, 2013, we announced that we had received a grant of $1.75 million from the state of Arkansas to assist with the costs of purchasing equipment and relocating its headquarters to Arkansas. We are in the process of relocating our headquarters to Conway, AR and have agreed to have at least fifty employees in the state within four years. In conjunction with the relocation, we will close our Clearwater, FL office and anticipate subleasing our office space in New York City. In addition, we will consolidate two data center collocation facilities in New York City into a single collocation facility in Arkansas. A reduced leased space, a single collocation facility and a generally lower cost of living are expected to have a significant favorable effect on our future operating expenses.

Industry Overview

Online marketing spend has continued to rise in the United States and in 2012, for the first time, surpassed that of newspaper and magazine. In 2012, online advertising spend grew almost 23% to $39.5 billion according to digital marketing research firm eMarketer. As marketers evaluate their marketing spend across channels, they are likely to continue to allocate increasingly larger percentages of overall budgets to online channels where return on investment ("ROI") is more directly measurable and controllable. eMarketer predicts that online advertising spend will continue to grow at a compounded rate of roughly 14% through 2016. We believe our online business is well positioned to benefit from these industry trends.

Our Strategy and Differentiators

Our strategy is to expand our network of small and medium sized publishers, to build additional content rich owned and operated websites and to develop value added browser and webpage based applications that are monetized through advertising revenues across the digital media landscape. We remain alert to acquisition opportunities at attractive and accretive multiples.

We believe our key differentiators include the ability to market directly to consumers at scale online, the long standing partnerships we have developed with our search engine partners and the competency amassed over many years in the delivery of targeted search based advertising results.

Additionally, we believe our scale provides a key differentiator. We have consumer applications actively in use in over 20 countries, access to over 50 million Internet users monthly and ads being served onto over billions of pages annually where hundreds of millions of clicks are received.

The Network Segment

The Network segment designs, builds, implements, manages and sells the various business to business technology platforms and services we offer. The segment also designs, builds and markets to the various web properties we own and operate. The segment is also responsible for managing the various affiliate technology and programs we manage either directly or indirectly. The technology that supports this segment facilitates transactions between advertisers and website publishers in an automated and transparent environment. The majority of the revenue earned within this segment is derived from clicks on advertisements as well as commissions on the sale of products through the applications, websites and platforms. The following product lines continue to be sold and/or managed within the Network segment.

- The ValidClick® service at www.validclick.com. ValidClick is a pay-per-click 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 owned and operated local search directory websites at www.yellowise.com and Local.ALOT.com. Both websites are powered by the LocalXML service that allows publishers the ability to make real-time calls to the LocalXML database and have users receive a listing of all local businesses that meet the search criteria. Users may also post reviews of their favorite and not-so-favorite businesses making the reviews available to all other users of the site.

- The BargainMatch CashBack website at www.BargainMatch.com. BargainMatch is a product shopping and comparison service that allows consumers the ability to price compare for products and receive CashBack when they purchase those products through BargainMatch. The service has been designed and positioned as a consumer loyalty solution. The product line also includes a consumer facing application.

- 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. Typically, each advertising customer of MyAP is supported by a unique implementation of the software, customized to suit their individual needs and populated by publishers. Today, MyAP supports hundreds of customers.

- The Babytobee web site at www.babytobee.com. Babytobee is a web property that caters to pre-natal women. The site displays various content of interest to the targeted demographic and provides certain tools and suggestions for additional content as a service to the consumer.

The Applications Segment

The Applications segment designs, builds and markets the various business to consumer products we offer. Revenue earned within this segment is derived from clicks on advertisements, sponsored advertisements within applications and commissions on the sales of products through the applications. The following products continue to be sold and/or managed within the Applications segment.

- The ALOT product line offers two primary products to consumers, ALOT Home, a homepage product, and ALOT Appbar, a software application that consumers install into their web browsers. Both ALOT Home and ALOT Appbar include a search box from which consumers conduct type-in web search requests. The ALOT Appbar provides access to a library of applications, which are used by consumers to receive dynamic information, perform useful tasks, or access their favorite content online. There are hundreds of apps available for consumers to choose from ranging from a weather app that provides an at-a-glance snapshot of the weather for the coming four days, to a radio app that enables consumers to instantly listen to thousands of radio stations from around the world. All ALOT products and apps are free to download and use.

- The BargainMatch comparison-shopping and CashBack application is a browser based consumer shopping aid that overlays onto organic search listings merchant locations where a consumer can obtain CashBack when purchasing products. The application acts as a shopping companion, alerting consumers to opportunities they would normally not be aware of through normal Internet usage.

The Applications segment also sells certain information that is collected across our products, websites, applications or platforms. This information typically provides general insight into consumer behaviors online without the disclosure of any personally identifiable information.

Competitive Analysis

Our business experiences competitive pressure along the three principal categories of search marketing, affiliate marketing and the 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, Google, Yahoo!-Bing and Ask. Our affiliate competitors include Commission Junction, Linkshare and DigitalRiver. The websites we own all have individual competitors based on their respective vertical markets.

Our ALOT competitors include, but are not limited to Google, Yahoo!, IAC, MSN, Answers.com, Xacti, InfoSpace, Perion and Conduit.com. Each of these entities offers a form of online media or entertainment through websites or downloadable products. These offerings can include web search, online news and information and other content and services.

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. For sales, we employ sales professionals whose job it is to build both advertiser and publisher relationships. For marketing, we use marketing channels that include our website, email campaigns, social media, blogs, public relations, trade shows, seminars, conferences, partner programs and search marketing to build awareness for our suite of products and services. The Network segment uses search engine optimization and search engine marketing as well as affiliate marketing tactics to drive traffic to the sites.

We market our ALOT products to consumers in over 20 countries encompassing eight languages around the world, and currently have users in more than 200 countries. Approximately half of our ALOT users are from what we refer to as Region 1, which we define as the U.S., Canada, U.K., Ireland, Australia and New Zealand.

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 seeking to strike the proper balance between using commercially available software and Open Source software, our technology expenditures are directed toward maintaining our technology platforms while minimizing third-party technology supplier costs.

We strive to build high-performance, availability and reliability into our product offerings. We safeguard against the potential for service interruptions at our third-party technology vendors by engineering fail-safe controls into our critical components. We deliver our 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 currently source advertising principally from two large consolidators of advertisements, Yahoo! and Google. They have developed, as a result of their market dominance, relationships with hundreds of thousands of advertisers over many years of service. In 2012, 89.3% of overall revenues were derived from advertising sourced directly from these partners. We have maintained a long-standing relationship with both of these companies and maintain multi-year service contracts with both. The loss of either of these customers, however, would have a material adverse effect on our business.

Intellectual Property Rights

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

We currently have one pending U.S. patent application for online shopping cart abandonment and sales recovery and one assigned patent for click fraud detection. We do not know if our current patent applications or approvals will be challenged or invalidated.

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

In addition to www.inuvo.com, 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 applications, platforms and websites. During 2012 and 2011, we capitalized approximately $800,000 and $340,000, respectively, on costs associated with these developments.

Employees

As of February 28, 2013 we employed 46 full-time employees. None of these employees are covered by a collective bargaining agreement.

Our History

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. 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. ("SECO") 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 Market Smart Advertising companies,
- 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, we 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 Real Estate School Online, Inc.,
- In December 2005, we acquired 100% of the stock of Vintacom, Inc.,
- In January 2006, we acquired 100% of the stock of Morex Marketing Group, LLC.
- 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.,
- In May 2006, we acquired 100% of the stock iLead Media, and
- In March 2012, we acquired Vertro, Inc. via a merger with a wholly-owned subsidiary

In 2009, our management reassessed the array of businesses that had been acquired in the preceding years and 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:

- In March 2010, we determined due to market and strategic reasons to exit the negative-option marketing programs which became part of our web properties 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, we made a decision to divest our 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 2010 in discontinued operations.

- In August 2010, we contracted with an outsourced telemarketing company to handle in-bound calls generated from our lead generation website, BabytoBee. By May 2011, were unable to realize a profit from this organizational structure and exercised our right to terminate the Master Services Agreement between the parties. Pursuant to the Master Services Agreement, we were required to pay a one-time payment of $340,000. In addition, we wrote-off approximately $101,000 related to the sale of property and equipment to the outsourcing telecommunication company.

- 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 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 we received 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.

- On October 16, 2011, we entered into an agreement and plan of merger with Vertro, Inc. On February 29, 2012, at special meetings of shareholders for Vertro and Inuvo, the shareholders of each company elected to merge the two companies. On March 1, 2012, the merger closed and Vertro became our wholly-owned subsidiary. Pursuant to the terms of the agreement, each share of Vertro common stock that was issued and outstanding at the effective

time of the merger was canceled and converted into the right to receive 1.546 shares of our common stock. We issued an aggregate of 12,713,552 shares of our common stock to the Vertro stockholders.

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

ITEM 1A. RISK FACTORS.

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

Risks Related to Our Business

We have a history of losses and there are no assurances we will ever generate profits. As of December 31, 2012 we had an accumulated deficit of $121,670,882. For 2012, our net loss from continuing operations was $6,839,318 and for 2011 our net loss from continuing operations was $9,233,507. While we expect to report higher revenues in 2013, there are no assurances that these additional revenues will fully offset the additional costs and result in profitable operations in future periods.

We depend on two customers for a significant portion of our revenues. Prior to the acquisition of Vertro, we received 86.6%, and 80.3%, respectively, of our net revenue for 2011 and 2010 from a single customer. Vertro received approximately 81.0%, and 87.0%, respectively, of its net revenue for 2011 and 2010, from a different single customer. Our current contract with Yahoo! expires in April 2014. Our current contract with Google expires January 31, 2015. During 2012 we received 41.5% of our net revenue from Google and 47.8% of our net revenue from Yahoo!. The amount of revenue we receive from these customers depends on a number of factors outside of our control, including the amount they charge for advertisements, the depth of advertisements available from them, and their ability to display relevant ads in response to our end-user queries. We will likely experience a significant decline in revenue and our business operations could be significantly harmed if:

- We fail to have websites and applications approved;
- Our paid listings providers' performance deteriorates; or
- We violate our paid listings providers' guidelines or they change their implementation guidelines.

In addition, if any of these preceding circumstances were to occur, we may not be able to find a suitable alternate paid search results provider or otherwise replace the lost revenues. The loss of either of these customers or a material change in the revenue or gross profit generated by these customers will have a material adverse impact on our business, results of operations and financial condition in future periods.

We may not successfully transition our headquarters and operations from New York to Arkansas. We have accepted a grant of $1.75 million from the state of Arkansas to relocate our New York headquarters and Florida facilities to Arkansas. This transition will require the hiring and training of new employees in Arkansas. We may be unable to find employees with the requisite technical skills. We may not find adequate personnel early enough to learn and take on roles of departing employees who will not relocate. We will close our two data operations collocations in New York and open a new facility in Arkansas. We may be unable to make the transition of data operations without disruption causing loss of revenue and customers. We are obligated under the grant to provide employment to fifty persons with an average annual compensation of $90,000 within Arkansas by the fourth anniversary of the grant. If we are unable to do so, we will be obligated to reimburse the state on a pro rata formula basis up to the total amount of grant we received.

The failure to manage successfully the combined Inuvo and Vertro businesses could adversely affect our future results. The success of the merger with Vertro will depend, in large part, on the ability of the combined company to realize the anticipated benefits from combining the Inuvo and Vertro businesses. While the integration process is largely complete, the failure to organize the business appropriately and manage successfully the challenges faced by the combined company may result in our failure to achieve some or all of the anticipated benefits of the merger. There are no assurances that all of the expected benefits of the merger with Vertro will be realized.

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 downloadable products, as well as our and our affiliates' websites. 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 a way 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 downloadable products, as well as our and 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.

Portions of our Network segment are dependent upon our relationships with, and the success of, our distribution partners, including our ability to attract new distribution partners and retain existing distribution partners on favorable terms. Our publisher network distribution partners are very important to our business. Our distribution partners may experience difficulty in attracting and retaining a substantial number of users due to, among other reasons, the rapidly changing nature of the market, technological innovation, industry consolidation, and changing consumer preferences. In addition, we may not be able to further develop and maintain relationships with distribution partners. Difficulties may arise in our relationships with distribution partners for a number of reasons, some of which are outside of our control. These distribution partners may regard us as not significant for their own businesses, may regard us as a competitor to their businesses, or find our competitors to be more attractive. Additionally, we have in the past and expect that in the future we will cease displaying advertisements through certain distribution partners whose traffic does not adequately convert to revenue for our monetization partners. Moreover, our agreements with our distribution partners vary in duration and generally are not exclusive or long-term agreements. We may not be successful in recruiting new distribution partners or renewing our existing distribution partnership agreements. If we are able to recruit new distribution partners or renew existing agreements, there is no guarantee that the new agreements will be on as favorable terms as our existing distribution basis. Any adverse changes in the business of, or our relationships with, key distribution partners or any inability on our part to obtain new distribution partners could have a material adverse effect on our business, financial position, and results of operations.

The success of our business is dependent on our ability to maintain and grow our active consumer base. Our Applications segment operates a portfolio of websites and consumer-oriented interactive products including appbars and home pages, deriving the majority of its revenue from advertisements directed towards consumers. The amount of revenue generated by the Applications segment is dependent on our ability to maintain and grow our user base. Factors that influence our ability to maintain and grow our active user base include, but are not limited to, government regulation, acceptance of our Appbar products and websites by consumers, the availability of advertising to promote our websites and Appbar products, third-party designation of Appbar and/or other products as undesirable or malicious, user attrition, competition, and sufficiency of capital to purchase advertising. We acquire users of our websites and ALOT products primarily through online advertising that we purchase from ad networks at prices agreed to based on expected rate of return. We have historically experienced difficulties in achieving cost effective distribution for ALOT products because we were unable to acquire our targeted number of users at desired prices. If we are unable to maintain and grow our active user base, it could have a material adverse effect on our business, financial condition, and results of operations.

We base customer acquisition decisions in our Applications segment primarily on our model of the predictive rate of return on new users. If the estimates and assumptions it uses in calculating the predictive rate of return for new users are inaccurate, our customer acquisition decisions may be misguided. We acquire users based on our predictive return which it calculates using estimates and assumptions and data from previously acquired users. The estimates and assumptions include estimates about user behavior and third party advertising revenue, both of which are out of our control. Estimates and assumptions used in calculating predictive rate of return may not be accurate or correct. Accordingly, the calculation of predictive rate of return may not be reflective of our actual returns. If we are unable to effectively manage our customer acquisition costs, it could have a material adverse effect on our business, financial condition, and results of operations.

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

If we are not successful with our owned and operated initiative, our future financial performance may be affected. We own and operate a number of websites that we monetize with our partners. We have and expect to continue to invest significant amounts of time and resources in these websites and other similar initiatives. We cannot assure you that we will continue to sustain or grow our current revenue from these websites. We also cannot assure you that we will sustain or grow the number of consumers or advertisers that use our owned and operated offerings. If we are unable to sustain or grow the number of consumers using and/or advertisers advertising with our owned and operated websites, our financial performance may be adversely affected.

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

Our credit facility with Bridge Bank imposes restrictions. Failure to comply with these restrictions could result in the acceleration of a substantial portion of such debt, which we may not be able to repay or refinance. In March 2012, we entered into a credit facility with Bridge Bank, N.A. which provides for up to $15.0 million in loans in a combination of term loans and revolving loans. The credit facility contains a number of covenants that, among other things, requires us, and certain of its subsidiaries, to:

- pay fees to the lender associated with the credit facility;
- maintain our corporate existence in good standing;
- grant the lender a security interest in our assets;
- provide financial information to the lender; and
- refrain from any transfer of any of our business or property (subject to customary exceptions).

Our ability to comply with the provisions of the credit facility will be dependent upon its future performance, which may be affected by events beyond our control. A breach of any of its covenants could result in a default under the credit facility. In the event of any such default, Bridge Bank could elect to declare all borrowings outstanding under the credit facility, together with any accrued interest and other fees, to be due and payable, as well as require us to apply all available cash to repay the amounts. If we were unable to repay the indebtedness upon its acceleration, Bridge Bank, N.A. could proceed against the underlying collateral. There can be no assurance that our assets would be sufficient to repay an amount in full, that we would be able to borrow sufficient funds to refinance the indebtedness, or that we would be able to obtain a waiver to cure any such default. In that event, our ability to conduct our business as it is currently conducted would be in jeopardy.

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 and term loan with Bridge Bank, N.A. Our revolving credit facility matures in 2014 and the term loan expires in February 2016. 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 us.

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.

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. For example, our Internet toolbar products are browser based plug-ins which must be supported by the Internet browser to function. The standards regarding support for browser based plug-ins are changing and Microsoft recently indicated that one setting of its new browser will not support plug-ins and we will have to adapt our product to this change. Furthermore, many of our products, including our toolbars, must operate across multiple operating systems. 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 modify our Internet toolbar product to keep pace with changes in underlying Internet browser specifications, and/or operating systems, attracting and retaining 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.

Our business may incur liability for information retrieved from or transmitted through its applications, websites or websites linked to it . Because our business publishes or makes various information available on its applications, 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 natural disasters and other catastrophic events. Our data center locations could be affected by natural disasters and other catastrophic events, which could cause outages and service downtime. 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 such events. This 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. Some segments of our business handle personally identifiable information pertaining to our users 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, and 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. 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.

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.

We have made and anticipate making additional significant investments in new initiatives related to current and future product and service offerings that may not meet expectations in terms of the viability, success, or profitability of such initiatives. We have made and anticipate making significant investments in new initiatives related to current and proposed product and service offerings. All such new and proposed initiatives require the expenditure of significant time, money, personnel and other resources. There can be no assurance that any of these initiatives will be timely, viable, successful, and profitable or will enjoy the same margins as our historical business. An investor should consider the likelihood of our future success with respect to these and other initiatives to be speculative in light of our limited history in successfully developing, introducing, and commercially exploiting new initiatives of this nature, as well as the problems, limited resources, expenses, risks, and complications frequently encountered by similarly situated companies in emerging and changing markets, such as e-commerce, with respect to the development and introduction of initiatives of this nature. Any inability to successfully develop, introduce, or implement these or other products or services could materially adversely affect our business, financial condition, and results of operations.

If we fail to grow or manage our growth, our business will be adversely affected. To succeed, we must grow. We may make additional acquisitions in the future as part of our growth initiatives. These may include acquisitions of international companies or other international operations. We have limited experience in acquiring and integrating companies, and we may also expand into new lines of business in which it has little or no experience. Additionally, we may fail to achieve anticipated synergies from such acquisitions. Accordingly, our growth strategy subjects us to a number of risks, including the following:

- we may incur substantial costs, delays, or other operational or financial problems in integrating acquired businesses, including integrating each company's accounting, management information, human resource, and other administrative systems to permit effective management;
- we may not be able to identify, acquire, or profitably manage any additional businesses;
- with smaller acquired companies, we may need to implement or improve controls, procedures, and policies appropriate for a public company;
- the acquired companies may adversely affect our consolidated operating results, particularly since some of the acquired companies may have a history of operating losses;
- acquisitions may divert management's attention from the operation of our businesses;
- we may not be able to retain key personnel of acquired businesses;
- there may be cultural challenges associated with integrating employees from acquired companies into our organization; and
- we may encounter unanticipated events, circumstances, or legal liabilities.

Any of these factors could materially adversely affect our business, financial condition, and results of operations.

Risks Related to Our Industry

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 2011, the search alliance between Microsoft and Yahoo! adversely impacted our revenues and any continued consolidation within the Network segment could result in additional decline in this portion of our business. In the fourth quarter of 2012, one of our search providers informed us of policy changes that will take effect in 2013 that could potentially adversely affect our Applications segment revenue. 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.

Regulatory and legal uncertainties could harm our business. While there are currently relatively few laws or regulations directly applicable to Internet access, commerce, or commercial search activity, there is increasing awareness and concern regarding some uses of the Internet and other online services, leading federal, state, local, and international governments to consider adopting civil and criminal laws and regulations, amending existing laws and regulations, conducting investigations, or commencing litigation with respect to the Internet and other online services covering issues such as:

- user privacy;
- trespass;
- defamation;
- database and data protection;
- limitations on the distribution of materials considered harmful to children;
- liability for misinformation provided over the web;
- user protection, pricing, taxation, and advertising restrictions (including, for example, limitation on the advertising on Internet gambling websites or of certain products);
- delivery of contextual advertisements via connected desktop software;
- intellectual property ownership and infringement, including liability for listing or linking to third-party websites that include materials infringing copyrights or other rights;
- distribution, characteristics, and quality of products and services; and
- other consumer protection laws.

Legislation has also been introduced in the U.S. Congress and some state legislatures that is designed to regulate spyware, which does not have a precise definition, but which is often defined as software installed on consumers' computers without their informed consent and designed to gather and, in some cases, disseminate information about those consumers, including personally identifiable information. We do not rely on spyware for any purpose, and it is not part of our product offerings, but the definition of spyware or proposed legislation relating to spyware may be broadly defined or interpreted to include legitimate ad-serving software, including toolbar offerings and other downloadable software currently provided by our product offerings. Currently, legislation has focused on providing Internet users with notification of and the ability to consent or decline the installation of such software, but there can be no guarantee that future legislation will not provide more burdensome standards by which software can be downloaded onto consumers' computers. Currently, all downloadable software that we distribute requires an express consent of the consumer and provides consumers with an easy mechanism to delete the software once downloaded. However, if future legislation is adopted that makes the consent, notice, or uninstall procedures more onerous, we may have to develop new technology or methods to provide our services or discontinue those services in some jurisdictions or altogether. There is no guarantee we will be able to develop this new technology at all or in a timely fashion or on commercially reasonable terms. The adoption of any additional laws or regulations, application of existing laws to the Internet generally or our industry, or any governmental investigation or litigation related to the Internet generally, our industry, or our services may decrease the growth of the Internet or other online services, which could, in turn:

- decrease the demand for our services;
- increase our cost of doing business;
- preclude us from developing additional products or services;
- result in adverse publicity to us;
- subject us to fines, litigation, or criminal penalties; or
- enjoin us from conducting our business or providing any of our services;

any of which could have a material adverse effect on our business, financial condition, and results of operations. The regulatory environment with respect to online marketing practices is also evolving. The Federal Trade Commission, or FTC, has increasingly focused on issues affecting online marketing, particularly online privacy and security issues. One of the key areas of focus for the FTC is the difference between spyware and ad-serving software, such as our downloadable toolbar applications.

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

We are subject to risks from publishers who could fabricate clicks either manually or technologically. Our business involves the establishment of relationships with website owners. In exchange for their consumer traffic, we provide an advertising placement service and share a portion of the revenue we collect with that website publisher. We can not guarantee that when clicks have been fabricated by a website publisher we will be able to recover all of the funds distributed to that website publisher for the fabricated clicks. This risk could materially impact our ability to borrow, our cash flow and the stability of our business.

Risks Related to an Investment in Our Common Stock

In the past Inuvo has been deficient in the continued listing standards of NYSE MKT and there are no assurances it will be able to maintain compliance in the future. In November 2012, Inuvo was notified by the NYSE MKT, LLC, (the " exchange") that we are below certain of the exchange's continued listing standards due to stockholders' equity of less than $6,000,000 and net losses in our five of our most recent fiscal years as set forth in Section 1003(a)(iii) of the exchange's Company Guide. We were afforded the opportunity to submit a plan of compliance to the exchange by December 31, 2012, that demonstrates our ability to regain compliance with Section 1003(a)(iii) of the Company Guide by December 2, 2013 (the "Plan Period"). We submitted our plan and on February 15, 2013 we were informed by the exchange that the plan was accepted. Our listing on the exchange shall continue during the Plan Period, during which time we will be subject to periodic review to determine whether we are making progress consistent with the plan. In that event that Inuvo is delisted, it is likely that Inuvo's common stock would be quoted in the over-the-counter market on the OTC Bulletin Board. The loss of Inuvo's exchange listing would adversely impact the future liquidity of Inuvo's common stock and may make it more difficult for its stockholders to resell those shares.

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.

The market price for our shares of common stock may continue to be highly volatile and subject to wide fluctuations. The market for our common stock has recently been subject to significant disruptions that have caused substantial volatility in the prices of these securities, which may or may not have corresponded to our business or financial success. The market price for shares of our common stock has declined substantially in recent months and could decline further if Inuvo's future operating results fail to meet or exceed the expectations of market analysts and investors and/or current economic or market conditions persist or worsen. Some specific factors that may have a significant effect on the future market price of our common stock include:

- actual or expected fluctuations in its operating results;
- variance in its financial performance from the expectations of market analysts;
- changes in general economic conditions or conditions in its industry generally;
- changes in conditions in the financial markets;
- announcements of significant acquisitions or contracts by Inuvo or its competitors;
- its inability to raise additional capital and maintain its exchange listing;
- changes in applicable laws or regulations, court rulings and enforcement and legal actions;
- additions or departures of key management personnel;
- actions by its stockholders;
- changes in market prices for its products; and
- changes in stock market analyst research and recommendations regarding the shares of our common stock, other comparable companies or its industry generally.

In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the affected companies. These broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on our business, financial condition and results of operations. New legislation, which could be proposed or enacted at any time in the future, new regulations or changes in the regulatory climate, or the expansion, enforcement, or interpretation of existing laws could prevent us from offering some or all of our services or expose us to additional costs and expenses requiring substantial changes to our business or otherwise substantially harm our business. Due to the global nature of the Internet, it is possible that multiple state, federal, or international jurisdictions might inconsistently regulate Internet activities, which would increase our costs of compliance and the risk of violating the laws of a particular jurisdiction, both of which could have a material adverse effect on our business, financial condition, and results of operations.

Significant dilution will occur if outstanding warrants and options are exercised or restricted stock unit grants vest. As of January 31, 2013, we had warrants and stock options outstanding to purchase a total of approximately 2.1 million shares at share prices ranging from $ 0.56 to $ 115.70 per share. Also, as of January 31, 2013, we had approximately 136,000 restricted stock units outstanding. If outstanding warrants and stock options are exercised or restricted stock units vest, dilution will occur to our stockholders, which may be significant.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable to a smaller reporting company.

ITEM 2. PROPERTIES.

During 2012, we had had three leased office locations. Following our acquisition of Vertro on March 1, 2012, our principal executive offices moved from Clearwater, Florida to New York, New York (administration, finance, business development, product development, customer service, and technical personnel). We continued to maintain a small office space in Clearwater (accounting, marketing, product development and technical personnel) and in Ft. Myers, Florida where we leased to a subtenant. Our Ft. Myers lease expired on November 30, 2012.

Additionally, we maintain data center operations in four third-party collocation facilities in New York, New York; San Jose, California; and Tampa, Florida.

On January 31, 2013, we announced that we will move our headquarters to Conway, Arkansas and leased 5,834 square feet of office space which was prepaid during the first quarter of 2013. This agreement is for two years in the total amount of $193,200.

As a result, we entered into an agreement with the landlord of the Clearwater office space for an early termination of the lease on March 31, 2013. The fee associated with this early termination was $615,000 which was paid during the first quarter of 2013. As a result, the lease will now end on March 31, 2013, resulting in a reduction of rent of $135,273 each quarter through November 2013.

In addition, we have engaged a broker to find a suitable subleasee for the New York office space. The lease cost as of February 1, 2013, is $129,367 per quarter, which escalates to $133,248 per quarter on February 1, 2014 and to $137,246 per quarter on February 1, 2015. The lease expires on January 31, 2016.

As of March 1, 2013, our leased properties provide an aggregate of approximately 21,660 square feet for all of our operations. This total does not include allocated space for our data centers . We believe these facilities are adequate at this time for their intended use.

ITEM 3. LEGAL PROCEEDINGS.

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

Shareholder Class Action Lawsuits. In 2005, five putative securities fraud class action lawsuits were filed against Vertro and certain of its former officers and directors in the United States District Court for the Middle District of Florida, which were subsequently consolidated. The consolidated complaint alleged that Vertro and the individual defendants violated Section 10(b) of the Exchange Act and that the individual defendants also violated Section 20(a) of the Exchange Act as “control persons.” Plaintiffs sought unspecified damages and other relief alleging that, during the putative class period, Vertro made certain misleading statements and omitted material information. The court granted Defendants' motion for summary judgment on November 16, 2009, and the court entered final judgment in favor of all Defendants on December 7, 2009. Plaintiffs appealed the summary judgment ruling and the court's prior orders dismissing certain claims. On September 30, 2011, the Court of Appeals for the Eleventh Circuit affirmed the dismissal of 9 of the 11 alleged misstatements and reversed the court's prior order on summary judgment and the case has been remanded to the District Court. In October 2012 the District Court entered an order maintaining the existing stay on discovery and setting forth a schedule for briefing by the parties on the defendants' renewed motion of summary judgment.

Derivative Stockholder Litigation. On July 25, 2005, a stockholder, Bruce Verduyn, filed a putative derivative action purportedly on behalf of Vertro in the United States District Court for the Middle District of Florida, against certain of Vertro's directors and officers. This action is based on substantially the same facts alleged in the securities class action litigation described above. The complaint is seeking to recover damages in an unspecified amount. By agreement of the parties and by orders of the court, the case was stayed pending the resolution of the defendant's motion to dismiss in the securities class action. On July 10, 2007, the parties filed a stipulation to continue the stay of the litigation. On July 13, 2007, the court granted the stipulation to continue the stay and administratively closed the case pending notification by plaintiff's counsel that the case is due to be reopened.

State of Florida civil investigation re Inuvo, Inc. formerly d/b/a iLead Media, LLC d/b/a Home Biz Ventures, LLC, Case No. L09-3-1186 . The State of Florida Attorney General's office served a subpoena for documents on November 23, 2009, relating to the negative-option marketing business of former Inuvo subsidiary iLead Media, LLC. In January 2013, we entered into an Assurance of Voluntary Compliance with The State of Florida Attorney General's office regarding our prior business practices and we agreed to pay $40,000 to investigative costs and attorney's fees and a $60,000 charitable donation to Seniors vs. Crime, Inc.

Litigation Relating to the Merger. On October 27, 2011, a complaint was filed in the Supreme Court of the State of New York, County of New York against Vertro, its directors, Inuvo, and Anhinga Merger Subsidiary, Inc. on behalf of a putative class of Vertro shareholders (the “New York Action”). Two other complaints, also purportedly brought on behalf of the same class of shareholders, were filed on November 3 and 10, 2011, against these same defendants in Delaware Chancery Court and were ultimately consolidated by the Court (the “Delaware Action”). The plaintiffs in both the New York and the Delaware Actions alleged that Vertro's board of directors breached their fiduciary duties regarding the merger with Inuvo and that Vertro, Inuvo, and Anhinga Merger Subsidiary, Inc. aided and abetted the alleged breach of fiduciary duties. The plaintiffs asked that the merger be enjoined and sought other unspecified monetary relief. Defendants in the Delaware Action moved to dismiss plaintiffs' complaint, but before the briefing of that motion was complete the plaintiffs filed a notice and proposed order of voluntary dismissal without prejudice, which was entered by the Delaware Court on March 20, 2012. The defendants in the New York Action also moved to dismiss the complaint, or in the alternative to stay proceedings. The New York Court granted Defendants' motion to stay on February 22, 2012 and, as a result of this ruling, the Court denied without prejudice defendants' motion to dismiss and the plaintiff's pending request for expedited discovery. Plaintiffs in the New York action then filed a Second Amended Complaint on June 19, 2012 and, on July 9, 2012, Defendants moved to dismiss that complaint for failure to state a claim. A hearing was held on January 31, 2013, regarding Defendants' motion to dismiss.

Express Revenue, Inc. v. Inuvo, Inc.; Case No. 10-44118-13, in the Circuit Court for the Seventeenth Judicial Circuit of Florida. On November 4, 2010, the plaintiff filed this lawsuit alleging breach of oral contract, and violation of Florida Statute §68.065, among other claims, and seeking approximately $30,000 for allegedly unpaid commissions dating back to 2009. Initial discovery has begun and Inuvo is vigorously defending the action.

Corporate Square, LLC v. Think Partnership, Inc., Scott Mitchell, and Kristine Mitchell; Case No. 08-019230-CI-11, in the Circuit Court for the Sixth Judicial Circuit of Florida. This complaint, filed on December 17, 2008, involves a claim by a former commercial landlord for alleged improper removal of an electric generator and for unpaid electricity expenses, amounting to approximately $60,000. The litigation has not been actively prosecuted, but the plaintiff recently served discovery requests seeking additional information. Inuvo is actively defending this action, and the co-defendants' separate counsel is likewise defending the claim against the co-defendants.

Oltean, et al. v. Think Partnership, Inc.; Edmonton, Alberta CA. On March 6, 2008, Kelly Oltean, Mike Baldock and Terry Schultz, former employees, filed a breach of employment claim against Inuvo in The Court of Queen's Bench of Alberta, Judicial District of Edmonton, Canada, claiming damages for wrongful dismissal in the amount of $200,000 for each of Kelly Oltean and Terry Schultz and $187,500 for Mike Baldock. On March 6, 2008, the same three plaintiffs filed a similar statement of claim against Vintacom Acquisition Company, ULC, a subsidiary of Inuvo, again for wrongful dismissal and claiming the same damages. In October 2009, the two actions were consolidated. The case is in the discovery stage and Inuvo is vigorously defending the matter.

Reverso-Softissimo v. ALOT. In May 2012 a complaint was filed against us in the Court of First Instance of Paris in Paris, France. The complaint is related to our alleged use of Reverso-Softissimo's trademarks in our advertising. The case is in the initial stages and Inuvo is vigorously defending the matter.

ITEM 4. Mine Safety and Disclosures.

Not applicable

PART II

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

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

	High	Low
Year Ended December 31, 2011:		
First Quarter	$ 5.85	$ 2.58
Second Quarter	$ 3.02	$ 1.65
Third Quarter	$ 4.49	$ 1.02
Fourth Quarter	$ 1.94	$ 0.69
Year Ended December 31, 2012		
First Quarter	$ 1.44	$ 0.67
Second Quarter	$ 0.86	$ 0.48
Third Quarter	$ 0.73	$ 0.40
Fourth Quarter	$ 2.12	$ 0.74

As of March 8, 2013, the last reported sale price of the common stock on NYSE MKT was $0.75. As of March 8, 2013, there were approximately 416 stockholders of record of our common stock.

Dividends

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

Inuvo® is an Internet marketing and technology company that develops consumer applications and delivers targeted advertisements onto websites reaching desktop and mobile.

We operate two segments, Network and Applications. In 2012, we reorganized operations along these two new operating segments (previously referred to as Publisher Network and Software Search, respectively). Prior to 2012, our segments were classified as Performance Marketing and Web Properties.

The Network segment designs, builds, implements, manages and sells the various business to business technology platforms and services that we offer. The segment also designs, builds and markets to the various web properties we own and operate. The segment is also responsible for managing the various affiliate technology and programs we manage either directly or indirectly. The technology that supports this segment facilitates transactions between advertisers and website publishers in an automated and transparent environment. The majority of the revenue earned within this segment is derived from clicks on advertisements as well as from commissions on the sales of products through the applications, websites and platforms. 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.

The Applications segment designs, builds and markets the various business to consumer products we offer. Revenue earned within this segment is derived from clicks on advertisements and sponsored advertisements within applications.

On March 1, 2012 we completed the acquisition of Vertro, Inc. (“Vertro”), an internet company that owns and operates the ALOT product portfolio, comprised of both browser-based consumer applications and websites. Vertro's operations are now part of our Applications segment. In evaluating the merger, we, and the management of Vertro, believed that the combination of the two companies could create a stronger, more scalable business, from which to attract advertisers, publishers and consumers. The merger allowed for greater diversification of revenue streams, mitigating dependence on a single customer; the existing ALOT install and distribution capability has provided a vehicle for our consumer facing innovations like BargainMatch; the combined business is a greater footprint to access the debt and capital markets; the combining of two experienced digital marketing teams has broadened our ability and reduced time to market; and the elimination of overlapping operating and public company expenses has reduced combined costs by over $2 million per year.

On January 31, 2013, we announced that we had received a grant of $1.75 million from the state of Arkansas to assist with the costs of purchasing equipment and relocating our headquarters to Conway, Arkansas, as discussed in the next section.

Subsequent Events

On January 25, 2013, we agreed with the state of Arkansas to receive a grant of up to $1.75 million to assist with the relocation of our corporate headquarters to Conway, Arkansas. In accepting the grant, we agreed to have at least 50 full-time equivalent, permanent positions in Arkansas within four years, and maintain that personnel level for another six years at a total average compensation of $90,000 per year. If we fail to meet the requirements of the grant after the initial four year period, we may be required to repay a portion of the grant, up to but not to exceed the full amount of the grant. In conjunction with the relocation, we will close our Clearwater, Florida office and plan to sublease our New York City office. In addition, we will consolidate two data center collocation facilities in New York City into a single collocation facility in Arkansas. A reduced lease space, a single collocation facility, and a generally lower cost of living are expected to have a significant favorable effect on our operating expenses.

On January 31, 2013, we agreed to an early termination of the Clearwater office lease. For a total early termination fee of $615,000, the lease will terminate on March 31, 2013.

On January 31, 2013 we signed a two year lease for 5,834 square feet of office space in Conway, AR.

On February 1, 2013 we agreed to a two year services agreement with Google Inc. for advertising and search services.

On March 8, 2013, Bridge Bank N.A. waived an event of default that occurred in January 2013.

NYSE MKT

On May 9, 2011, we received notice from the NYSE MKT, LLC, formerly NYSE Amex (the "Exchange") that we did not meet certain of the Exchange's continued listing standards due to stockholders' equity of less than $4.0 million and losses from continuing operations and/or net losses in three of the four most recent fiscal years as set forth in Section 1003(a) (ii) of the NYSE MKT Company Guide. The Exchange accepted our plan to regain compliance with the continued listing standards and on September 11, 2012, we received notification from the Exchange that the continued listing deficiencies were resolved. However, since we had losses from continuing operations and/or net losses in five of out most recent fiscal years, the Exchange's minimum requirement for continued listing becomes a stockholder equity of not less than $6,000,000. At September 30, 2012, our stockholders' equity was $5.1 million and in November 2012, Inuvo was notified by the Exchange that we were below the Exchange's continued listing standards. We were afforded the opportunity to submit a plan of compliance to the exchange by December 31, 2012, that demonstrates our ability to regain compliance with Section 1003(a)(iii) of the Company Guide by December 2, 2013 (the “Plan Period”). We submitted our plan and were notified on February 15, 2013 that the plan was accepted by the Exchange. We are able to continue our listing during the Plan Period, though subject to periodic review to determine whether we are making progress consistent with the plan.

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, 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:

Search Advertising - In accordance with ASC 605-45 *Revenue Recognition-Principal Agent Considerations* (“ASC 605-45”), we record the gross amount received from advertisers as revenue and the amount paid to the publishers placing the advertisements as cost of sales. Revenue is earned on our owned networks on a “per click” basis and is recognized when the end user clicks on an advertisement.

Affiliate Advertising - In accordance with 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.

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 unbilled revenue.

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

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 we provided.

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.

Accounts Receivable and 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. Indefinite-lived intangibles are reviewed annually for impairment under ASC 350.

For the year ended December 31, 2012, we had no impairments to our goodwill and other intangible assets, and for the year ended December 31, 2011, we had impairments of our goodwill and other intangible assets of approximately $2.6 million as a result of exiting our call center activities.

Deferred Taxes

We reserve for federal and state income taxes on items included in our Consolidated Statements of Comprehensive Loss 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 to make this judgment.

We have adopted certain provisions of ASC 740 *Income Taxes*. 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.

The merger agreement with Vertro required that at closing of the merger, we pay outstanding obligations under our deferred compensation program and bonus agreements to our executive officers, board of directors and certain management employees with our common stock in lieu of cash. These obligations were satisfied by issuing 1,017,742 shares of our common stock. At the same time, 284,962 of the common stock issued to executives, board directors and managers were withheld by us at the same value as issued, to pay for the associated individual's income taxes, approximately $256,000. Those shares withheld were retired. In the third quarter of 2012, we issued 279,180 restricted stock grants to our senior management and board of directors. We also issued 148,995 restricted stock grants to certain other managers. The grants to the senior management and board of directors were performance-based and whose targets were not achieved and were therefore canceled. The grants to the other managers were fully vested on February 1, 2013 and 127,710 shares of restricted stock were distributed. In December 2012, a restricted stock grant of 45,045 shares was granted to our former Chief Executive Officer. The grant vests fifty percent on each of the next two anniversaries.

During the year ended December 31, 2011, our executive officers, certain of our senior management and our board of directors, voluntarily elected to defer a portion of their compensation. The amount of the deferred compensation was approximately $490,000. As an incentive for officers, management and directors to participate in the elected deferrals, we granted them restricted stock awards ("RSAs") with a fair value equal to the amount of the deferred compensation. The RSAs vest upon the earlier of payment of the deferred compensation or one year from the date of grant. The number of RSAs granted in conjunction with the deferred compensation program was 326,291 for the year ended December 31, 2011 and were granted at an exercise price ranging from $1.09 per share to $2.94 per share on the date of each grant. With the merger of Vertro on March 1, 2012, all the RSAs granted vested and subsequently the shares of restricted stock granted in connection with these elected deferrals were issued.

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 2012

Net revenues increased 49% and gross profit increased 85% in 2012 compared to 2011. The increases were due to our Applications segment which is composed largely of the ALOT products acquired with our merger with Vertro. In 2012, our operating expenses increased by approximately 66% over 2011 due primarily to search costs from the Applications segment, which increased $10.7 million.

Our net loss from continuing operations for 2012 decreased by approximately $2.4 million or 26% from 2011 due to improved gross profit and the cost synergies derived from the merger with Vertro.

The financial results for 2012 include only ten months of combined financial results of the merger with Vertro which took effect on March 1, 2012.

In 2012, management reorganized operations along two new operating segments, Network and Applications (previously referred to as Publisher Network and Software Search, respectively). Prior to 2012, our segments were classified as Performance Marketing and Web Properties. The following tables adjust the 2011 financial presentation to reflect the new organization.

Net Revenue

Total net revenue from our Network and Applications segments for 2012 and 2011 were as follows:

	Year Ended December 31,					
	2012 ($)	% of Revenue	2011 ($)	% of Revenue	$ Change	% Change
Network	28,892,793	54.1%	35,753,243	99.8%	(6,860,450)	(19.2)%
Applications	24,470,152	45.9%	66,753	0.2%	24,403,399	*
Total net revenue	53,362,945	100.0%	35,819,996	100.0%	17,542,949	49.0 %

* - Not meaningful

Net revenue from our Network segment decreased 19% over last year primarily due to a decrease in the number of transactions driven through our owned and operated website. In addition, during the fourth quarter of 2011 we experienced traffic irregularities from sources we identified and subsequently eliminated from our platform, contributing to the decline in revenues during 2012. As a result, we changed our marketing on the ValidClick platform to focus on smaller website publishers where we had better visibility to their traffic and could offer them value-added services.

Net revenue from our Applications segment is primarily a result of the merger with Vertro on March 1, 2012. Net revenue from the Applications segment is derived from the ALOT users conducting searches that produce both algorithmic results and sponsored listings. Both the algorithmic results and sponsored listings are provided by third parties with whom we have contractual relationships. When users click on a sponsored listing after conducting a search, we earn a percentage of the total click-through revenue provided by the third-party that placed the advertisement. This segment also includes the non-search revenue generated from the ALOT products. The largest portion of non-search revenue is derived from display ads presented on the ALOT homepage. Recently we have seen a decline in click-through revenue and display advertising due to implementation changes made by our advertising provider.

A provider of paid search results for our Applications segment accounted for approximately 41.5% of our total net revenues for 2012. No revenue from that paid search provider was included in our total net revenue for 2011. Additionally, the Network segment 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, which accounted for approximately 47.8% and 86.6% of total net revenues for 2012 and 2011, respectively. The lower percentage this year is due to the diversification of the revenue streams achieved by merging with Vertro in March 2012.

We believe that the revenue from the Network segment will grow as we develop our owned and operated websites as well as continue the focus on smaller publishers in our third party platform, ValidClick. Our Applications segment is historically dependent upon one of the three largest search engines. This partner changed its search policies in the first quarter of 2013. We anticipate these policy changes to have a deleterious effect on the Applications segment going forward.

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:

	Year Ended December 31,					
	2012 ($)	% of Revenue	2011 ($)	% of Revenue	$ Change	% Change
Affiliate expenses	20,680,931	38.8%	18,130,731	50.6%	2,550,200	14.1%
Data acquisition	4,282,568	8.0%	2,526,001	7.1%	1,756,567	69.5%
Merchant processing fees and product costs	672,011	1.3%	175,027	0.5%	496,984	283.9%
Total cost of revenue	25,635,510	48.1%	20,831,759	58.2%	4,803,751	23.1%

The lower affiliate payments in 2012 as a percentage of revenue compared to 2011 is due to the overall greater revenue in the current year compared to last year and to the fact that 46% of the 2012 revenue is from the Applications segment which does not have any affiliate payments. We anticipate that these costs will continue to increase in dollar amounts as revenue from the

Network segment increases but to decrease as a percentage of revenue as we scale into higher revenue share with partners and expand the number of owned and operated websites which do not have an affiliate payment.

The increase in data acquisition costs for 2012 as compared to 2011 is due primarily to acquiring bundled downloads to drive revenue through our ALOT Appbar which was acquired in the Vertro acquisition in March 2012. We do not expect these costs to increase in the future.

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

	Year Ended December 31,					
	2012 ($)	% of Gross Profit	2011 ($)	% of Gross Profit	$ Change	% Change
Network	7,129,783	25.7%	14,921,984	99.6%	(7,792,201)	(52.2)%
Applications	20,597,652	74.3%	66,253	0.4%	20,531,399	*
Total gross profit	27,727,435	100.0%	14,988,237	100.0%	12,739,198	85.0 %

* - Not meaningful

Gross profit from our Network segment decreased 52.2% for 2012 compared to 2011 primarily due to lower revenue of owned and operated websites as described above in “Net Revenue”.

Gross profit from the Applications segment increased as a result of the ALOT operations acquired in the merger with Vertro in March 2012.

Operating Expenses

Operating expenses, which consist of search costs, compensation and telemarketing and selling, general and administrative expenses were as follows:

	Year Ended December 31,					
	2012 ($)	% of Revenue	2011 ($)	% of Revenue	$ Change	% Change
Search costs	18,189,643	34.1%	7,446,116	20.8%	10,743,527	144.3 %
Compensation and telemarketing	6,816,013	12.8%	7,670,869	21.4%	(854,856)	(11.1)%
Selling, general and administrative	9,249,678	17.3%	5,567,103	15.5%	3,682,575	66.1 %
Total operating expenses	34,255,334	64.2%	20,684,088	57.7%	13,571,246	65.6 %

Search costs increased 144.3% for 2012 compared to 2011 primarily due to the advertising spend to create download traffic for the ALOT appbar. This expense is not expected to increase in the future as we focus on stabilizing the ALOT user base and revenue.

Compensation and telemarketing expense decreased 11.1% for 2012 compared to 2011 primarily due to the discontinuance of the telemarketing operations in June 2011. Telemarketing expense was $1.9 million in 2011. This was partially offset by the recording in 2012 of a severance charge of $505,000 associated with our former CEO. At December 31, 2012, we had a headcount of 49 employees compared to 24 employees at December 31, 2011.

Selling, general and administrative expense increased approximately 66.1% for 2012 compared to2011 primarily due to higher depreciation and amortization expense, higher facilities expense, and the indirect costs associated with the merger with Vertro in March 2012.

We expect that as a result of our decision to relocate to Conway, Arkansas, close our Clearwater, Florida office, the anticipated sublease of our office space in New York City and consolidate two data center collocation facilities in New York City into a single collocation facility in Arkansas, combined with a generally lower cost of living in Arkansas, we will significantly lower operating expenses in the future.

Other Income (Expense)

Other income (expense) includes net interest expense, impairment charges to goodwill and intangible assets, loss on sale of assets, and litigation settlements.

Net interest expense, which is related to our borrowings from Bridge Bank, N.A., increased by approximately $232,000 or 70% in 2012 as compared to 2011. This increase in interest expense reflects higher overall borrowing balances and includes a $45,000 warrant to Bridge Bank associated with the execution of the Second Business Financing Modification Agreement.

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 2011, we had an impairment of our goodwill and other intangible assets of approximately $2.6 million associated with our BabytoBee business as a result of exiting our call center activities. Additionally during 2011 we wrote-off approximately $78,000 of software development costs associated with Kidzadu as we have decided to discontinue the launch of this marketing campaign.

During 2012, we settled a lawsuit resulting in a charge of $75,000. During 2011, we settled two lawsuits totaling $374,800 of which $249,800 was settled with issuing shares of our common stock and the remainder was paid by insurance or by us over several months.

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

The loss from discontinued operations for 2012 was approximately $184,000 and is primarily attributed to the denial by European authorities to hear our appeal for refunding of Value Added Taxes in Germany. Income from discontinued operations for 2011 of approximately $257,000 was due to the favorable settlement of litigation pertaining to a lease.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate adequate amounts of cash to meet the company's future obligations. At December 31, 2012 and December 31, 2011, we had working capital deficits of approximately $3.5 million and $2.0 million, respectively. Our principal sources of liquidity are cash from operations, cash on hand and the bank credit facility.

While we do not have any commitments for capital expenditures which come due within the next 12 months, the merger with Vertro in March 1, 2012 and the subsequent investment in search costs to increase the ALOT users and revenue compelled us to increase our outstanding borrowings. Even after extensive efforts to reduce our cost structure, including savings achieved by merging with Vertro, we realized our fixed operating expenses were too high. On January 31, 2013, we announced that we had received a grant of $1.75 million from the state of Arkansas to assist with the costs of purchasing equipment and relocating our headquarters to Arkansas. We are in the process of relocating headquarters to Conway, Arkansas. In conjunction with the relocation, we will close our Clearwater office and plan to sublease the former headquarters office in New York City. We are also in the process of consolidating our data center collocation facilities in New York City into a single collocation facility in Arkansas. We believe a reduced leased space, a single collocation facility and a generally lower cost of living in Arkansas will have a significant effect in lowering our operating expenses in the future.

On March 1, 2012 we entered into a new Business Financing Agreement with Bridge Bank, for a $10 million accounts receivable revolving credit facility (the "Revolving Credit Line") and a $5 million term loan (the "Term Loan") . The Revolving Credit Line replaced our then existing $8 million revolving credit facility. The new credit facility is used primarily to satisfy our working capital needs following the closing of the merger with Vertro. Subject to the terms of the new agreement, we are entitled to obtain advances against the Revolving Credit Line up to 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, plus $1 million up to the credit limit of $10 million. In addition, subject to the terms of the agreement, we are entitled to borrow up to $5 million under the Term Loan portion of the credit facility, which is repayable in 45 equal monthly installments beginning June 2012. The Revolving Credit Line portion of the credit facility expires on March 1, 2014, at which time all loan advances under the Revolving Credit Line become due and payable. The Term Loan expires in February 10, 2016. Under the terms of the new 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; and limit additional indebtedness to $500,000 of purchase money including capital leases and an additional $500,000 of all other indebtedness. In addition, we must have maintained through May 2012 an "operating profit" of net income plus interest and taxes plus non-cash expenses for amortization, depreciation, stock based compensation, discontinued operations, non-recurring non-cash items and certain closing costs associated with the Merger Transaction with Vertro of not less than $200,000 for the immediate proceeding three month period; after May 2012 a Debt Service Coverage Ratio of at least 1.50 to 1.0 tested on the immediate proceeding three month period; and an Asset Coverage Ratio of not less tahn1.10 to 1. At all times until September 30, 2012 and 1.25 to 1.0 thereafter. Interest on the Revolving Credit Line is payable monthly at prime plus 0.5% plus a monthly maintenance fee of 0.125 percentage points on the average daily account balance. Interest on the Term Loan bears interest at prime plus 1%. In connection with establishing the credit facility, we incurred fees payable to Bridge Bank of approximately $100,000. The agreement calls for a termination fee until the first anniversary and prepayment fee on the Term Loan until the first anniversary.

On June 29, 2012 we entered into the First Business Financing Modification Agreement with Bridge Bank (the "First Amendment") changing the minimum asset coverage ratio to 0.75 to 1.00 for the June 2012, July 2012 and August 2012, 0.80 to 1.00 for the September 2012, 0.85 to 1.00 for the October 2012, 1.00 to 1.00 for the November 2012 and1.15 to 1.00 beginning December 2012. It also changed the minimum operating profit measured monthly on a trailing 3 month basis to not less than $200,000 for June 2012, $500,000 for July 2012, $1,000,000 for August 2012 and $1,500,000 for September 2012. Further, the First Amendment required from October 2012 and thereafter that the Debt Service Coverage Ratio be at least 1.50 to 1.0, on a trailing 3 month basis and waived the event of default caused by the non-compliance of the Asset Coverage Ratio in April and May 2012.

On October 11, 2012 we entered into the Second Business Financing Modification Agreement with Bridge Bank (the "Second Amendment") changed the minimum asset coverage ratio to 0.9 to 1.0 for September 2012 and October 2012, 1.0 to 1.0 for November and December 2012 and 1.15 to 1.0 for each measuring period thereafter beginning January 2013. It also changed the minimum operating profit measured monthly on a trailing 3 month basis to not less than $600,000 for the September 2012 measuring period and $1,000,000 for the October 2012 measuring period. Also changed was the minimum debt service ratio, measured monthly on a trailing 3 month basis, to not less than 1.1 to 1.0 for November 2012 measuring period, 1.25 to 1.0 for December 2012 and 1.50 to 1.0 for each measuring period thereafter beginning January 2013. Further, the Second Amendment waived the event of default caused by the non-compliance of the operating profit in July and August 2012. Additionally, pursuant to the Second Amendment, we issued Bridge Bank a warrant to purchase 51,724 shares of our own common stock exercisable at $0.87 per share until October 2017. The warrant was valued at $45,000 and is included in our financing expense.

As of December 31, 2012, we had a balance outstanding of $4.2 million in the Term Loan and $3.6 million in the Revolving Credit Line. We were in compliance with all terms of the amended Bridge Bank credit facility. 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. If we continue to generate losses and are unable to comply with the continued listing standards of NYSE MKT, we could be delisted and be unable to raise additional capital at a reasonable cost. At December 31, 2012, we had a working capital deficit of approximately $3.5 million and availability under our revolving line of credit of approximately $1.5 million. We believe with the continued improvement in cash flow, the reduction of duplicate costs with respect to the merger with Vertro and the higher limit of the new bank facility, we will have sufficient cash for the next twelve months.

Cash Flows - Operating

Net cash provided by operating activities for the year ended December 31, 2012 totaled approximately $1.0 million compared to net cash used in operations of approximately $187,000 during the same period in 2011. In 2012, the net loss of approximately $7.0 million was offset by the non-cash charge of depreciation and amortization of approximately $7.3 million, a charge for stock based compensation of approximately $843,000 and an increase to the provision for doubtful accounts of approximately $300,000. An increase in accrued expenses and other liabilities of $2.6 million was the largest source of cash by operating activities in 2012, but was partially offset by a decrease in accounts receivable of approximately $1.8 million. In 2011, the net loss of approximately $9.0 million was partially offset by non-cash charges depreciation and amortization charges of approximately $4.2 million, an impairment charge to goodwill and other intangibles of approximately $2.6 million, and a charge for stock-based compensation of approximately $1.5 million. A working capital use of $191,000 also drove the use of cash by operating activities in 2011. Additionally, cash flows from operations for the years ended December 31, 2012 was negatively impacted by the net results from discontinued operations of approximately $160,000 due to a settlement of litigation.

Cash Flows - Investing

Net cash used in investing activities in 2012 of $1.5 million was primarily associated with the acquisition of Vertro offset by the purchase of bundled downloads for the ALOT AppBar and capitalized development costs. Net cash used in investing activities in 2011 of $3.0 million was due to the purchase of names database of $2.6 million and approximately $462,000 of equipment purchases and capitalized development costs.

Cash Flows - Financing

Net cash provided by financing activities in the year ended December 31, 2012 and 2011 was approximately \$3.9 million and \$3.1 million, respectively. The cash provided by financing activities for 2012 resulted from the proceeds from the bank term note and draw downs from the bank credit facility. Net cash provided by financing activities in 2011 was approximately \$3.1 million and resulted primarily from the net proceeds from the sale of our common stock of approximately \$2.6 million and payments on debt net of revolver borrowings of \$931,000.

Off Balance Sheet Arrangements

As of December 31, 2012, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

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

Not applicable to a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

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

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of December 31, 2012, the end of the period covered by this report, our management concluded their evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. As of the evaluation date, our Chief Executive Officer and Chief Financial Officer, concluded that we maintain disclosure controls and procedures that are effective in providing reasonable assurance that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and regulations, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting

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

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

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

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

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. 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, 2012, 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 were no changes in our internal control over financial reporting identified in connection with our evaluation that occurred during the quarter ended December 31, 2012 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 for our 2013 Annual Meeting of Shareholders to be filed on or prior to April 30, 2013 (the "Proxy Statement") and is incorporated herein by this reference or is included in Part I under "Executive Officers of the Company."

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

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

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

1. Financial Statements

The consolidated financial statements and Report of Independent Registered Accounting Firm are listed in the “Index to Financial Statements and Schedules” on page F-1 and included on pages F-2 through F-30.

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 (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.)
2.2	Plan of Merger by Registrant, WebCapades Acquisition Sub, Inc., and WebCapades, Inc. (Incorporated by reference and filed as an exhibit to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 25, 2004.)
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 (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.)
2.4	Agreement and Plan of Merger dated June 5, 2009 between Inuvo, Inc. and Kowabunga! Inc. (Incorporated by reference and filed as an exhibit to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2009.)
2.5	Agreement and Plan of Merger dated October 16, 2011 between Inuvo, Inc., Anhinga Merger Subsidiary, Inc. and Vertro, Inc. (Incorporated by reference to the Registrant’s Current Report on Form 8-K as fled on October 17, 2011.)
3(i).1	Articles of Incorporation, as amended)Incorporated by reference and filed as an exhibit to the Registrant’s Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 1, 2004.)
3(i).2	Amended to Articles of Incorporation filed March 14, 2005 (Incorporated by reference and filed as an exhibit to the Registrant’s Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2006.)
3(i).3	Articles of Merger between Inuvo, Inc. and Kowabunga! Inc. (Incorporated by reference and filed as an exhibit to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2009.)
3(i).4	Certificate of Change Filed Pursuant to NRS 78.209 (Incorporated by reference to the Registrant’s Current Report on Form 8-K as filed on September 30, 2010.)
3(i).5	Certificate of Merger as filed with the Secretary of State of Nevada on February 29, 2012 (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
3(i).6	Articles of Amendment to Amended Articles of Incorporation as filed on February 29, 2012 (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
3(ii).1	Amended and Restated By-Laws (Incorporated by reference to the Registrant’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2010.)
3(ii).2	Bylaw amendment adopted February 29, 2012 (Incorporated by reference to the Registrant’s Current Report on Form 8-K as filed on March 6, 2012.)
4.1	Form of warrant to purchase shares of Registrant for 2009 consultants (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
4.2	Form of warrant to purchase shares of Registrant for 2011 offering. (Incorporated by reference and filed as an exhibit to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 22, 2011.)

4.3	Rights Agreement dated February 14, 2008 (Incorporated by reference to the Current Report on Form 8-K as filed with the Securities and Exchange Commission on February 19, 2008).
4.4	Exchange Agent Agreement dated February 24, 2012 between Inuvo, Inc. and Colonial Stock Transfer Co., Inc. (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
4.5	Form of Amendment No. 1 to Rights Agreement (Incorporated by reference to the Registrant's Current Report on Form 8-K as fled on October 17, 2011.)
4.6	Form of warrant to purchase 40,000 shares of common stock issued to Alliance Advisors, LLC (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
4.7	Form of warrant to purchase 10,000 shares of common stock issued to Alliance Advisors, LLC (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
4.8	Form of warrant to purchase 51,724 shares pursuant to the Second Business Financing Modification Agreement with Bridge Bank, National Association, dated October 11, 2012. (Incorporated by reference to Form 10-Q filed with the Securities and Exchange Commission on November 8, 2012.)
10.1	2005 Long-Term Incentive Plan (Incorporated by reference to the Current Report on Form 8-K as filed on December 10, 2010.)
10.2	Specimen Stock Option Agreement between the Registrant and Optionees (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.)
10.3	Lease Agreement, dated August 10, 2007, by and between Lightwave Drive, LLC and Think Partnership, Inc., as amended (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
10.4	Lease dated February 29, 2000 by and between Alot, Inc. (formerly Comet Systems, Inc.) and The Rector, Church-Wardens and Vestrymen of Trinity Church in New York, a religious corporation in the State of New York, including the previous amendment dated August 8, 2000. (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
10.5	Lease Modification and Extension Agreement by and between Alot, Inc.(formerly known as MIVA Direct, Inc.) and The Rector, Church-Wardens and Vestrymen of Trinity Church in New York, dated February 23, 2006. (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
10.6	Reserved.
10.7	Reserved.
10.8	Reserved.
10.9	Reserved.
10.1	2010 Equity Compensation Plan (Incorporated by reference to the Registrant's definitive proxy statement on Schedule 14A as filed on April 30, 2010.)
10.11	Amendment to Lease, dated as of July 25, 2012, between Capital Growth of Clearwater, LLC, and Inuvo, Inc. (Incorporated by reference to Form 10-Q filed with the Securities and Exchange Commission on August 9, 2012.)
10.12	First Business Financing Modification Agreement with Bridge Bank, National Association, dated June 29, 2012. (Incorporated by reference to Form 10-Q filed with the Securities and Exchange Commission on August 9, 2012.)
10.13	Agreement dated June 15, 2011, executed October 20, 2011, between Inuvo, Inc. and Alliance Advisors, LLC (Incorporated by reference to the Registrant's Annual Report on Form 10-K as filed on March 29, 2012.)
10.14	Employment Agreement dated March 1, 2012 between Inuvo, Inc. and Richard K. Howe (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
10.15	Second Business Financing Modification Agreement with Bridge Bank, National Association, dated October 11, 2012. (Incorporated by reference to Form 10-Q filed with the Securities and Exchange Commission on November 8, 2012.)
10.16	Employment Agreement dated March 1, 2012 between Inuvo, Inc. and Wallace D. Ruiz (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
10.17	Employment Agreement dated March 1, 2012 between Inuvo, Inc. and John B. Pisaris (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
10.18	Amendment dated February 29, 2012 to 2010 Equity Compensation Plan (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)

10.19	Business Financing Agreement, dated March 1, 2012, with Bridge Bank, National Association (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
10.2	Intellectual Property Security Agreement, dated March 1, 2012, between Inuvo, Inc. and Bridge Bank, National Association (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
10.21	Intellectual Property Security Agreement, dated March 1, 2012, between subsidiaries and Bridge Bank, National Association (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
10.22	Release Agreement dated December 19, 2012 by and between Peter A. Corrao and Inuvo, Inc. (Incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on December 19, 2012.)
10.23	Quick Action Closing Fund Grant Agreement, dated January 25, 2013, with the Arkansas Economic Development Commission. *
10.24	Grant Reimbursement Agreement, dated January 25, 2013, with the Arkansas Economic Development.* Commission. *
10.25	Google Services Agreement, as of February 1, 2013, between Google Inc. and Vertro, Inc. */**
10.26	Lease Termination Agreement, dated January 29, 2013, between Inuvo, Inc. and Capital Growth of Clearwater, LLC. *
10.27	Yahoo! Publisher Network Contract, dated April 4, 2009, as amended. (Incorporated by reference to Amendment No. 1 to Form 10-Q filed with the Securities and Exchange Commission on December 28, 2012).
21.1	Subsidiaries of the Registrant*
31.1	Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer *
31.2	Rule 13a-14(a)/15d-14(a) certification of Chief Financial Officer *
32.1	Section 1350 certification of Chief Executive Officer *
32.2	Section 1350 certification of Chief Financial Officer *
101.INS	XBRL Instance Document ***
101.SCH	XBRL Taxonomy Extension Schema Document ***
1010.CAL	XBRL Taxonomy Extension Calculation Linkbase Document ***
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document ***
101.LAB	XBRL Taxonomy Extension Label Linkbase Document ***
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document ***

* filed herewith

** Portions of this exhibit have been omitted pursuant to a request for confidential treatment filed with the Commission under Rule 24b-2 The omitted confidential material has been filed separately with the Commission. The location of the omitted confidential information is indicated in the exhibit with asterisks (***).

*** In accordance with Regulation S-T, the XBRL-formatted interactive data files that comprise Exhibit 101 to this report shall be deemed furnished and not filed.

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.

Date: March 13, 2013

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

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

Signature	Title	Date
/s/ Richard K. Howe Richard K. Howe	Chairman of the Board of Directors, Chief Executive Officer, and principal executive officer	March 13, 2013
/s/ Wallace D. Ruiz Wallace D. Ruiz	Chief Financial Officer, principal financial and accounting officer	March 13, 2013
/s/ Joseph P. Durrett Joseph P. Durrett	Director	March 13, 2013
/s/ Adele Goldberg Adele Goldberg	Director	March 13, 2013
/s/ Charles Morgan Charles Morgan	Director	March 13, 2013
/s/ Charles Pope Charles Pope	Director	March 13, 2013
/s/ Patrick Terrell Patrick Terrell	Director	March 13, 2013

INUVO, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Inuvo, Inc. (the Company) as of December 31, 2012 and 2011 and the related consolidated statements of comprehensive loss, stockholders' equity (deficit), and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inuvo, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Mayer Hoffman McCann P.C.

Clearwater, Florida

March 13, 2013

INUVO, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
Assets		
Current assets		
Cash	$ 3,381,018	$ 4,413
Restricted cash	301,158	475,586
Accounts receivable, net of allowance for doubtful accounts of $231,542 and $477,289, respectively	5,400,290	5,426,865
Unbilled revenue	58,219	49,196
Intangible assets - current, net of accumulated amortization	328,665	947,882
Prepaid expenses and other current assets	467,957	433,601
Total current assets	9,937,307	7,337,543
Property and equipment, net	2,110,771	1,590,011
Other assets		
Goodwill	5,760,808	1,776,544
Intangible assets, net of accumulated amortization	11,138,330	390,000
Other assets	182,387	2,243
Total other assets	17,081,525	2,168,787
Total assets	$ 29,129,603	$ 11,096,341
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Term and credit notes payable - current portion	$ 1,333,333	$ 452,000
Accounts payable	10,196,930	6,198,921
Deferred compensation	—	929,428
Accrued expenses and other current liabilities	1,872,722	1,611,831
Current liabilities of discontinued operations	—	160,000
Total current liabilities	13,402,985	9,352,180
Long-term liabilities		
Deferred tax liability	4,099,000	—
Term and credit notes payable - long term	6,488,889	2,454,303
Other long-term liabilities	932,377	300,124
Total long-term liabilities	11,520,266	2,754,427
Stockholders' equity (deficit)		
Preferred stock, $.001 par value:		
Authorized shares - 500,000 - none issued and outstanding	—	—
Common stock, $.001 par value:		
Authorized shares - 40,000,000 and 20,000,000, issued shares 23,586,186 and 10,422,617, respectively		
Outstanding shares - 23,209,659 and 10,035,790, respectively	23,586	10,422
Additional paid-in capital	127,249,789	115,096,953
Accumulated deficit	(121,670,882)	(114,648,037)
Accumulated other comprehensive income	418	—
Treasury stock, at cost - 376,527 and 386,827 shares, respectively	(1,396,559)	(1,469,604)
Total stockholders' equity (deficit)	4,206,352	(1,010,266)
Total liabilities and stockholders' equity (deficit)	$ 29,129,603	$ 11,096,341

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

INUVO, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Net revenue	$ 53,362,945	$ 35,819,996
Cost of revenue		
Affiliate expenses	20,680,931	18,130,731
Data acquisition	4,282,568	2,526,001
Merchant processing fees and product costs	672,011	175,027
Cost of revenue	25,635,510	20,831,759
Gross profit	27,727,435	14,988,237
Operating expenses		
Search costs	18,189,643	7,446,116
Compensation and telemarketing	6,816,013	7,670,869
Selling, general and administrative	9,249,678	5,567,103
Total operating expenses	34,255,334	20,684,088
Operating loss	(6,527,899)	(5,695,851)
Other income (expense)		
Litigation settlements	(75,000)	(374,800)
Impairment of assets and loss on sale of assets	—	(2,824,100)
Interest expense, net	(563,198)	(330,880)
Other income (expense), net	(638,198)	(3,529,780)
Loss from continuing operations before taxes	(7,166,097)	(9,225,631)
Income tax benefit (expense)	326,779	(7,876)
Net loss from continuing operations	(6,839,318)	(9,233,507)
Net income (loss) from discontinued operations	(183,527)	257,136
Net loss	(7,022,845)	(8,976,371)
Other comprehensive income		
Foreign currency revaluation	418	—
Total comprehensive loss	$ (7,022,427)	$ (8,976,371)
Per common share data		
Basic and diluted		
Net loss from continuing operations	$ (0.33)	$ (0.99)
Net loss (income) from discontinued operations	(0.01)	0.03
Net loss	$ (0.34)	$ (0.96)
Weighted average shares (basic and diluted)	21,004,235	9,364,038

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

INUVO, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
YEARS ENDED DECEMBER 31, 2012 AND 2011

	Common Stock				Accumulated Other		Total Stockholders'
	Shares	Stock	Additional Paid in Capital	Accumulated Deficit	Comprehensive Income	Treasury Stock	Equity (Deficit)
Balances December 31, 2010	8,558,790	$ 9,110	$ 111,766,319	$ (105,671,666)	—	$ (2,096,106)	$ 4,007,657
Forfeited restricted stock units	(3,000)	(3)	3	—	—	—	—
Sale of stock, net of stock issuance costs	1,350,000	1,350	2,634,446	—	—	—	2,635,796
Issuance of common stock for litigation settlements	130,000	130	365,270	—	—	—	365,400
Retirement of treasury shares	—	(165)	(626,337)	—	—	626,502	—
Stock based compensation			957,252		—		957,252
Net loss	—	—	—	(8,976,371)	—	—	(8,976,371)
Balances December 31, 2011	10,035,790	10,422	115,096,953	(114,648,037)	—	(1,469,604)	(1,010,266)
Issuance of common stock to stockholders of Vertro, Inc. for all of the outstanding shares of Vertro, Inc. in the merger of Vertro into Inuvo, Inc.	12,393,308	12,394	11,118,589	—	—	—	11,130,983
Stock issuance costs	—	—	(687,678)	—	—	—	(687,678)
Issuance of warrants to purchase common stock	—	—	45,000	—	—		45,000
Retirement of treasury shares	—	(21)	(80,786)	—	—	80,807	—
Issuance of common stock to pay outstanding obligations under our deferred compensation program and bonus agreements	732,780	732	915,018	—	—	—	915,750
Issuance of common stock in employee restricted stock awards	58,751	59	(59)	—	—	—	—
Shares withheld for taxes on restricted stock awards	(10,970)	—	—	—	—	(7,762)	(7,762)
Stock based compensation	—	—	842,752	—	—	—	842,752
Net loss	—	—	—	(7,022,845)	—	—	(7,022,845)
Other comprehensive income	—	—	—	—	418	—	418
Balances December 31, 2012	23,209,659	$ 23,586	$ 127,249,789	$ (121,670,882)	$ 418	$ (1,396,559)	$ 4,206,352

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

INUVO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
Operating activities:		
Net (loss)	$ (7,022,845)	$ (8,976,371)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,321,679	4,213,771
Deferred income taxes	(444,000)	—
Amortization of financing fees	98,223	108,824
Litigation settlements in stock	—	249,800
Provision for doubtful accounts	299,565	83,020
Deferred compensation	—	356,193
Stock based compensation	842,752	1,530,487
Loss on sale of assets	—	193,133
Impairment of assets	—	2,630,967
Warrant issuance to Bridge Bank	45,000	—
Change in operating assets and liabilities, net of acquisition:		
Accounts receivable and unbilled revenue	1,811,832	(1,010,829)
Prepaid expenses and other assets	592,143	38,580
Accounts payable	244,396	719,125
Accrued expenses and other liabilities	(2,638,071)	62,581
Net cash provided by operating activities from continuing operations	1,150,674	199,281
Net cash used in operating activities of discontinued operations	(160,000)	(386,424)
Net cash provided by (used in) operating activities	990,674	(187,143)
Investing activities:		
Purchases of equipment and capitalized development costs	(894,415)	(462,114)
Acquisition of Vertro, Inc., net of stock issuance costs	2,432,642	—
Purchase of names database and bundled downloads	(3,065,569)	(2,567,029)
Net cash used in investing activities	(1,527,342)	(3,029,143)
Financing activities:		
Proceeds from sale of common stock, net	—	2,635,796
Proceeds from term note	5,000,000	—
Deposit to collateralize letter of credit	(300,572)	(335,093)
Proceeds from revolving line of credit	5,308,742	7,304,756
Prepaid financing fees	(100,000)	(130,025)
Payments on revolving line of credit	(5,140,045)	(6,248,453)
Payments on term note payable and capital leases	(855,270)	(124,843)
Net cash provided by financing activities	3,912,855	3,102,138
Effect of exchange rate changes	418	—
Net change – cash	3,376,605	(114,148)
Cash, beginning of year	4,413	118,561
Cash, end of year	$ 3,381,018	$ 4,413
Supplemental information:		
Interest paid	$ 312,247	$ 236,783
Income taxes paid, net	—	$ 7,876
Non-cash investing activities:		
Issuance of stock as settlement of deferred compensation	$ 915,750	$ —
Restricted advances on term note payable	$ 475,000	$ —
Purchase of property, plant and equipment under capital lease	$ 94,915	$ —
Retirement of treasury stock	$ 73,045	$ —

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

Note 1 – Organization and Business

Company Overview

Inuvo®, Inc. and subsidiaries ("we", "us", "our" or the "Company") is an Internet marketing and technology company that develops consumer applications and delivers targeted advertisements onto websites reaching desktop and mobile.

We operate two segments, Network and Applications. In 2012, we reorganized operations along the operating segments (previously referred to as Publisher Network and Software Search, respectively). Prior to 2012, the segments were Performance Marketing and Web Properties.

The Network segment designs, builds, implements, manages and sells the various business to business technology platforms and services that the Company offers. The segment also designs, builds and markets to the various web properties the Company owns and operates. The segment is also responsible for managing the various affiliate technology, and programs it manages, either directly or indirectly. The technology that supports this segment facilitates transactions between advertisers and website publishers in an automated and transparent environment. The majority of the revenue earned within this segment is principally derived from clicks on advertisements as well as commissions on the sale of products through the applications, websites and platforms. 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.

The Applications segment designs, builds, and markets the various business to consumer products it offers. Revenue earned within this segment is derived from clicks on advertisements and sponsored advertisements within applications.

On March 1, 2012 we completed the acquisition of Vertro, Inc. (“Vertro”), an internet company that owns and operates the ALOT product portfolio, comprised of both browser-based consumer applications and websites. Vertro's operations are now part of our Applications segment. In evaluating the merger, we, and the management of Vertro, believed that the combination of the two companies could create a stronger, more scalable business, from which to attract advertisers, publishers and consumers. The merger allowed for greater diversification of revenue streams, mitigating dependence on a single customer; the existing ALOT install and distribution capability has provided a vehicle for our consumer facing innovations like BargainMatch; the combined business is a greater footprint to access the debt and capital markets; the combining of two experienced digital marketing teams has broadened our ability and reduced time to market; and the elimination of overlapping operating and public company expenses has reduced combined costs by over $2 million per year.

Subsequent Events

On January 25, 2013, we agreed with the state of Arkansas to receive a grant of up to $1.75 million for expenses related to the relocation of the our headquarters and operations from New York and Florida to Arkansas as well as expenses related to purchase of equipment necessary to begin operations in Arkansas. The grant is contingent upon us having at least fifty full-time equivalent permanent positions within four years and maintaining at least fifty full-time equivalent permanent positions for the following six years. The grant is also contingent upon us paying the full-time equivalent permanent positions an average total compensation of $90,000 per year. After the initial four year period, the grant provides for penalties if either the minimum full-time equivalent permanent positions or the average total compensation conditions are not met. In no event would the penalty exceed the amount of the grant received.

On January 31, 2013, we agreed to an early termination of the Clearwater office lease. For a total early termination fee of $615,000, the lease will terminate on March 31, 2013.

On January 31, 2013 we signed a two year lease for 5,834 square feet of office space in Conway, Arkansas. A director and shareholder of Inuvo is the majority owner of First Orion Corp., the lessor of this space.

On February 1, 2013 we agreed to a two year Services Agreement with Google Inc. for advertising and search services.

NYSE MKT

On May 9, 2011, we received notice from the NYSE MKT, LLC, formerly NYSE Amex (the "Exchange") that it did not meet certain of the Exchange's continued listing standards due to stockholders' equity of less than $4.0 million and losses from continuing operations and/or net losses in three of the four most recent fiscal years as set forth in Section 1003(a) (ii) of the NYSE MKT Company Guide. The exchange accepted our plan to regain compliance with the continued listing standards and on September 11, 2012, we received notification from the Exchange that the continued listing deficiencies were resolved. However, since we had losses from continuing operations and/or net losses in five of its most recent fiscal years, the Exchange's minimum requirement for continued listing becomes a stockholder equity of not less than $6,000,000. At September 30, 2012, stockholders' equity was $5.1 million and in November 2012, Inuvo was notified by the Exchange that it was below the Exchange's continued listing standards. We were afforded the opportunity to submit a plan of compliance to the Exchange by December 31, 2012, that demonstrates our ability to regain compliance with Section 1003(a)(iii) of the Company Guide by December 2, 2013 (the "Plan Period"). We submitted our plan and were notified on February 15, 2013 that the plan was accepted by the Exchange. We are able to continue our listing during the Plan Period, though subject to periodic review to determine whether it is making progress consistent with the plan.

Liquidity

While we do not have any commitments for capital expenditures which come due within the next 12 months, our liquidity was affected by the investment made in search costs to increase the ALOT users and revenue acquired in the merger with Vertro on March 1, 2012. In 2011 prior to the merger, we implemented a cost reduction plan which included a reduction in employees and related expenses which resulted in monthly savings of $107,000 beginning in February 2011. We have also delayed payments to publishers and vendors in the management of our cash flows. Extending these payments may affect the decision of publishers and vendors to do business with us. In September 2011, in order to further reduce our operating costs, we eliminated an additional 16 full time positions and six part-time positions. The effect of this reduction in personnel was approximately $92,000 monthly. Additionally in 2011, the directors, executive officers and certain senior managers agreed to a deferral of cash compensation for approximately $356,000. In the first quarter of 2011,we renegotiated the outsourced call center contract reducing the monthly cost outlay of over $100,000 monthly and in the second quarter decided to terminate the outsourcing agreement entirely. The result of that decision was a one-time termination fee of $340,000 and the forgiveness of the remainder of a note receivable associated with the sale of furniture and equipment. In 2012, with the merger with Vertro, we moved our headquarters to the Vertro facilities in New York and negotiated the reduction of the leased space in Clearwater, FL by approximately $30,000 per month. The Company also consolidated its data operations, closing the Florida facility and moving it to the Vertro collocation in New York. However, even with the savings achieved by merging the two public companies, it was realized the fixed operating expense level was too high. On January 31, 2013, we announced that we had received a grant of $1.75 million from the state of Arkansas to assist with the costs of purchasing equipment and relocating our headquarters to Arkansas. We are in the process of relocating its headquarters to Conway, AR. In conjunction with the relocation, the Clearwater, FL office will be closed and the former headquarters office in New York City will be subleased. We are also in process of consolidating its data center collocation facilities in New York City into a single collocation facility in Arkansas. We believe a reduced leased space, a single collocation facility and a generally lower cost of living in Arkansas will have a significant effect in lowering its operating expenses in the future.

Effective with our merger with Vertro on March 1, 2012 (Note 15), we entered into a new Business Financing Agreement with Bridge Bank, for a $10 million accounts receivable revolving credit facility (the "Revolving Credit Line") and a $5 million term loan (the "Term Loan") . The Revolving Credit Line replaced our then existing $8 million revolving credit facility. The new credit facility will be used primarily to satisfy our working capital needs following the closing of the merger with Vertro, Inc. described later in this report. Subject to the terms of the new agreement, we are entitled to obtain advances against the Revolving Credit Line up to 80% of eligible accounts receivable balances plus $1 million up to the credit limit of $10 million. In addition, subject to the terms of the agreement, we are entitled to borrow up to $5 million under the Term Loan portion of the credit facility. As of December 31, 2012, there was approximately $1.5 million of credit available on the revolving credit facility and $0 on the term loan. On June 29, 2012 we entered into the First Business Financing Modification Agreement with Bridge Bank (the "First Amendment") changing the minimum asset coverage ratio to 0.75 to 1.00 for the June 2012, July 2012 and August 2012, 0.80 to 1.00 for the September 2012, 0.85 to 1.00 for the October 2012, 1.00 to 1.00 for the November 2012 and 1.15 to 1.00 beginning December 2012. It also changed the minimum operating profit measured monthly on a trailing 3 month basis to not less than $200,000 for June 2012, $500,000 for July 2012, $1,000,000 for August 2012 and $1,500,000 for September 2012. Further, the First Amendment required from October 2012 and thereafter that the Debt Service Coverage Ratio be at least 1.50 to 1.0, on a trailing 3 month basis and waived the event of default caused by the non-compliance of the Asset Coverage Ratio in April and May 2012.

On October 11, 2012 we entered into the Second Business Financing Modification Agreement with Bridge Bank (the "Second Amendment") changed the minimum asset coverage ratio to 0.9 to 1.0 for September 2012 and October 2012, 1.0 to 1.0 for November and December 2012 and 1.15 to 1.0 for each measuring period thereafter beginning January 2013. It also changed the minimum operating profit measured monthly on a trailing 3 month basis to not less than $600,000 for the September 2012 measuring period and $1,000,000 for the October 2012 measuring period. Also changed was the minimum debt service ratio, measured monthly on a trailing 3 month basis, to not less than 1.1 to 1.0 for November 2012 measuring period, 1.25 to 1.0 for December 2012 and 1.50 to 1.0 for each measuring period thereafter beginning January 2013. Further, the Second Amendment waived the event of default caused by the non-compliance of the operating profit in July and August 2012. Additionally, pursuant to the Second Amendment, the Company issued Bridge Bank a warrant to purchase 51,724 shares of our own common stock exercisable at $0.87 per share until October 2017. As of December 31, 2012, we were in compliance with all terms of the amended Bridge Bank credit facility.

We believe that with the new Business Financing Agreement and the operating benefits from the merger with Vertro (Note 15) will provide us with sufficient cash for operations over the next 12 months.

The accompanying consolidated financial statements were prepared by management on a go-forward basis and therefore do not include any adjustment to our assets or liabilities.

Note 2 – Summary of Significant Accounting Policies

a) Basis of presentation

The consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. In addition, results from the former Vertro operations are included beginning on March 1, 2012, the date of the merger.

b) Cash and restricted cash

We consider all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. Our cash deposits exceeded FDIC-insured limits at various financial institutions on December 31, 2012 by approximately $3.2 million, as reported before adjustment for outstanding checks. We have not experienced any losses in such accounts. We believe we are not exposed to any significant credit risk related to cash.

In 2011, we established a restricted cash account with Bridge Bank that secures a letter of credit related to our headquarters lease in Clearwater, FL (see Note 6). As of December 31, 2012 and 2011, we had approximately $301,000 and $476,000, respectively, of restricted cash. As of March 31, 2013 this restriction will be released and the cash will be available for operations.

c) Revenue recognition

We recognize revenue in accordance with *Accounting Standards Codification ("ASC")* 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.

Affiliate Advertising - Consistent with the provisions of 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 Advertising - 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 sales. Revenue is earned on our owned networks on a "per click" basis and is recognized when the end user clicks on an advertisement.

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 unbilled revenue.

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

Online Membership Income – We recognize revenue from online memberships 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 we provided.

List Management Services - Substantially all of our revenue from list management services is recorded at the net amount of our 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 consolidated 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.

d) Accounts receivable

Accounts receivable are recorded at the net realizable value and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses on our existing accounts receivable. We review our 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 our collections department and generally any accounts older than 120 days are considered delinquent.

e) Advertising and search expenses

We expense advertising costs as incurred. Advertising costs from continuing operations included in selling general and administrative expenses for the years ended December 31, 2012 and 2011 were approximately $112,000 and $119,000, respectively. In addition, we expense 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 2012, we increased search costs by approximately $10.7 million to $18.2 million to create download traffic for the ALOT appbar acquired with the merger of Vertro in March 2012.

f) 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 comprehensive loss.

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 $2.5 million and $1.5 million, respectively, for the years ended December 31, 2012 and 2011.

g) Capitalized Software Costs

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

h) 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"),* we test goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis or more frequently if we believe indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying value, including goodwill.

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

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.

We recorded no impairment of goodwill and other intangible assets during 2012. For the year ended December 31, 2011, we had impairments of our goodwill and other intangible assets of approximately $2.6 million as a result of exiting our call center activities.

i) <u>Income taxes</u>

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

We 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.

j) <u>Impairment of long-lived assets</u>

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

k) <u>Share-based compensation</u>

We recognize 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 our common stock on the date of the grant. We estimate the fair value of all stock option awards as of the grant date by applying the Black-Scholes-Merton option pricing model, and recognize 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.

l) <u>Treasury Stock</u>

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. During 2012, we retired 21,270 treasury shares and during 2011, we retired 164,869 treasury shares. We also withheld shares to pay for employee taxes on restricted stock grants, increasing treasury stock by 10,970 treasury shares valued at approximately $7,800.

m) Net loss per share

During the periods presented, we 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 we reported a loss from operations 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.

n) Operating segments

ASC 280, *Segment Reporting,* requires disclosures of certain information about operating segments, products and services, geographic areas in which we operate, and their major customers. We have evaluated the effect of this standard and have determined that we currently operate in two segments, as defined in this statement (See Note 17). In 2012, management reorganized our operations along two operating segments – Network and Applications. Prior to 2012, our operations were classified as the Performance Marketing and Web Properties segments.

o) Concentration of credit risk

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

p) Risks and concentrations

When assessing credit risk, we consider 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 our entire results. At December 31, 2012 , we had two individual customers with accounts receivable balances greater than 10% of the gross accounts receivable from continuing operations. These customers owed approximately $4.0 million or 71% of gross accounts receivable from continuing operations at December 31, 2012. These same two customers contributed approximately $47.7 million or 89.3% of net revenue from continuing operations for year ended December 31, 2012. At December 31, 2011 a single customer owed approximately $4.8 million or 81% of gross accounts receivable from continuing operations. The same customer contributed approximately $31.1 million or 86.6% of our total net revenue from continuing operations for the year ended December 31, 2011.

q) Fair value of financial instruments

We have adopted ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") for our financial assets and liabilities. We use 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 our estimates of 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, 2012, we have no financial assets or liabilities that were measured at fair value on a recurring basis.

r) Use of estimates

The preparation of our 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. We regularly evaluate estimates and assumptions related to allowances for doubtful accounts, useful lives of property and equipment, goodwill and purchased intangible asset valuations and useful lives, deferred income tax asset valuation allowances, stock compensation, and valuation of stock options and warrants. In addition, we used significant assumptions in our valuation of the assets and liabilities acquired with the acquisition of Vertro. We base our estimates and assumptions on current facts, historical experience and on various other factors that we believe 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 us 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.

s) Litigation and settlement costs

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

t) Recent accounting pronouncements

ASU 2011-08- In September 2011, the Financial Accounting Standards Board ("FASB") issued "Intangibles-Goodwill and Other: Testing Goodwill for Impairment" to simplify the goodwill impairment test. The change allows companies to first decide whether they need to perform the two-step test by allowing companies to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. This amendment also includes examples of how the amended test should be carried out. This amendment is effective for annual and interim tests performed for fiscal years beginning after December 15, 2011, although early adoption is permitted. The effect of adopting this statement is not expected to have an impact on our financial position or results of operations.

ASU 2011-05 - In June 2011, the FASB issued "Presentation of Comprehensive Income". For annual periods, an entity has the option to present the components of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. For interim periods, total comprehensive income is required to be disclosed either below net income on the income statement or as a separate statement. The Accounting Standards Update ("ASU") does not change the items that must be reported as other comprehensive income. Whether presenting two separate statements or one continuous statement in annual periods, the ASU required entities to present reclassifications from other comprehensive income in the statement reporting net income. In December 2011, however, the FASB deferred this requirement when it issued ASU 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05", which has the same effective date as ASU 2011-05. Companies must continue to disclose reclassifications from other comprehensive income on the statement that reports other comprehensive income, or in the notes to the financial statements. We adopted this guidance effective January 1, 2012, and disclosed total comprehensive income below net income on the income statement in our interim financial statements. The effect of adopting this statement is not expected to have an impact on our financial position or results of operations.

Other recent accounting pronouncements issued by the FASB, the American Institute of Certified Public Accountants (AICPA), and the SEC did not or are not believed by management to have a material impact on our present or future consolidated financial statements.

u) Reclassifications

Certain reclassifications have been made in the 2011 financial statements to conform to the classifications used in 2012. These reclassifications had no effect on total consolidated stockholders' (deficit) or net loss.

Note 3 – Allowance for Doubtful Accounts

The activity in the allowance for doubtful accounts was as follows during the years ended December 31, 2012 and 2011:

	2012	2011
Balance at the beginning of the year	$ 477,289	$ 450,634
Provision for bad debts	299,565	83,020
Charge-offs	(554,145)	(132,753)
Recoveries	—	76,388
Allowance for doubtful accounts acquired from the merger with Vertro, Inc.	$ 8,833	$ —
Balance at the end of the year	$ 231,542	$ 477,289

Note 4– Property and Equipment

The net carrying value of property and equipment at December 31, 2012 and 2011 was as follows:

	2012	2011
Furniture and fixtures	$ 421,425	$ 421,425
Equipment	2,473,813	2,095,825
Software	8,018,509	5,382,424
Leasehold improvements	348,159	313,172
Subtotal	$ 11,261,906	$ 8,212,846
Less: accumulated depreciation and amortization	(9,151,135)	(6,622,835)
Total	$ 2,110,771	$ 1,590,011

Note 5 – Other Intangible Assets and Goodwill

During 2012, we evaluated our other intangible assets and goodwill for impairment at the reporting unit level. Based on the results of step 1 of our evaluation, there were no indications of impairment. During 2011, we also evaluated our other intangible assets and goodwill for impairment at the reporting unit level. Based on the results of our evaluation, there were indications of impairment within our web properties primarily due to the cessation of our call center activities in 2011. We completed step 2 of the analysis on the intangible assets related to our web properties and we determined that there was an impairment of our goodwill and names database and consequently we recognized an impairment charge of approximately $2.6 million.

Additionally, beginning in 2012 we are amortizing the names database costs over nine months as management has determined that the useful life for our names database has decreased due to the cessation of our call center operations. The following is a schedule of our intangible assets from continuing operations as of December 31, 2012:

	Term	Carrying Value	Accumulated Amortization and Impairment	Net Carrying Value	2012 Amortization Expense
Names database (1)	9 months	$ 17,417,397	$ (17,094,626)	$ 322,771	$ 1,590,529
Bundled downloads (1)	4.5 months	2,447,075	(2,441,181)	5,894	2,441,181
Intangible assets classified as current		$ 19,864,472	$ (19,535,807)	$ 328,665	$ 4,031,710
Customer list, Google	20 years	8,820,000	(367,500)	8,452,500	367,500
Customer list, all other	10 years	1,610,000	(134,170)	1,475,830	134,170
Exclusivity agreement	1 year	120,000	(100,000)	20,000	100,000
Trade names, ALOT (2)	5 years	960,000	(160,000)	800,000	160,000
Trade names, web properties (2)	-	390,000	—	390,000	—
Intangible assets classified as long-term		$ 11,900,000	$ (761,670)	$ 11,138,330	$ 761,670
Goodwill		$ 5,760,808	$ —	$ 5,760,808	N/A

The following is a schedule of our intangible assets from continuing operations as of December 31, 2011:

	Term	Carrying Value	Accumulated Amortization and Impairment	Net Carrying Value	2011 Amortization Expense
Names database, classified as current (1)	9 months	$ 16,130,086	$ (15,182,204)	$ 947,882	$ 3,582,107
Website development	5 years	4,210,000	(4,210,000)	—	99,171
Customer lists	5 years	3,500,000	(3,500,000)	—	22,186
Exclusivity agreement	1 year	150,000	(150,000)	—	37,500
Tradenames, web properties (2)	-	390,000	—	390,000	—
Intangible assets classified as long-term		$ 8,250,000	$ (7,860,000)	$ 390,000	$ 158,857
Goodwill		$ 3,893,405	$ (2,116,861)	$ 1,776,544	N/A

(1) The amortization of our names database and bundled downloads assets are included in cost of revenue. As of January 1, 2012, the names database is amortized over nine months due to the change in our estimate of their useful life. The change in estimate resulted in the names database being classified as current in the 2012 and 2011 consolidated balance sheets, respectively. Per ASC 250, *Accounting Changes and Error Corrections*, this change in estimate does not require a restatement in amounts in prior periods and will only change classifications prospectively.

(2) We have determined that our Inuvo trade name intangible has an indefinite life, and as such it is not amortized. We determined our ALOT trade names acquired with Vertro should be amortized over five years.

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

2013	$ 1,142,669
2014	794,004
2015	794,004
2016	794,004
2017	634,004
Thereafter	$ 6,918,310
Total	$ 11,076,995

Note 6 - Notes Payable

The following table summarizes our notes payable balances as of December 31, 2012 and 2011:

Lender	Due Date	Interest Rate	2012	2011
Bridge Bank – term note payable - March 1, 2012	February 10, 2016	4.25% (prime, plus 1 percentage point)	$ 4,222,222	$ —
Bridge Bank – term note payable - February 15, 2011	Matured March 1, 2012	5.25% (prime, plus 2 percentage points)	—	475,000
Bridge Bank – revolving credit line - March 1, 2012	March 1, 2014	3.75% (prime, plus 0.5 percentage point)	3,600,000	—
Bridge Bank – revolving credit line - February 15, 2011	Matured March 1, 2012	5.25% (prime, plus 2 percentage points)	—	2,431,303
Total			$ 7,822,222	$ 2,906,303
Less: current portion			(1,333,333)	(452,000)
Term and revolving credit line - long term portion			$ 6,488,889	$ 2,454,303

Principal Payments:

Principal payments under the term note payable are due as follows as of December 31, 2012:

2013	$ 1,333,333
2014	1,333,333
2015	1,333,333
2016	222,223
Total	$ 4,222,222

Bridge Bank Credit and Term Note Payable

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. The outstanding borrowings under the Agreement were fully repaid to Bridge Bank on March 1, 2012 with a portion of the proceeds of the new Business Financing Agreement signed March 1, 2012.

On March 1, 2012 we entered into a new Business Financing Agreement with Bridge Bank, for a $10 million accounts receivable revolving credit facility (the “Revolving Credit Line”) and a $5 million term loan (the “Term Loan”) . The Revolving Credit Line replaced the Company’s then existing $8 million revolving credit facility. The new credit facility will be used primarily to satisfy our working capital needs following the closing of the merger with Vertro. described later in this report. Subject to the terms of the new agreement, we are entitled to obtain advances against the Revolving Credit Line up to

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, plus $1 million up to the credit limit of $10 million. In addition, subject to the terms of the agreement, the Company is entitled to borrow up to $5 million under the Term Loan portion of the credit facility, which is repayable in 45 equal monthly installments beginning June 2012. The Revolving Credit Line portion of the credit facility expires on February 28, 2014, at which time all loan advances under the Revolving Credit Line become due and payable. The Term Loan expires in February 2016. Under the terms of the new 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; and limit additional indebtedness to $500,000 of purchase money including capital leases and an additional $500,000 of all other indebtedness. In addition, the Company must maintain through May 2012 an "operating profit" of net income plus interest and taxes plus non-cash expenses for amortization, depreciation, stock based compensation, discontinued operations, non-recurring non-cash items and certain closing costs associated with the merger transaction with Vertro of not less than $200,000 for the immediate proceeding three month period; after May 2012 a Debt Service Coverage Ratio of at least 1.50 to 1.0 tested on the immediate proceeding three month period; and an Asset Coverage Ratio of not less than 1.10 to 1 at all times until September 30, 2012 and 1.25 to 1.0 thereafter. Interest on the Revolving Credit Line is payable monthly at prime plus 0.5% plus a monthly maintenance fee of 0.125% percentage points on the average daily account balance. Interest on the Term Loan bears interest at prime plus 1%. In connection with establishing the credit facility, the Company incurred fees payable to Bridge Bank of approximately $100,000. The agreement calls for a termination fee until the first anniversary and prepayment fee on the Term Loan until the first anniversary.

On June 29, 2012 we entered into the First Business Financing Modification Agreement with Bridge Bank (the "First Amendment") changing the minimum asset coverage ratio to 0.75 to 1.00 for the June 2012, July 2012 and August 2012, 0.80 to 1.00 for the September 2012, 0.85 to 1.00 for the October 2012, 1.00 to 1.00 for the November 2012 and1.15 to 1.00 beginning December 2012. It also changed the minimum operating profit measured monthly on a trailing 3 month basis to not less than $200,000 for June 2012, $500,000 for July 2012, $1,000,000 for August 2012 and $1,500,000 for September 2012. Further, the First Amendment required from October 2012 and thereafter that the Debt Service Coverage Ratio be at least 1.50 to 1.0, on a trailing 3 month basis and waived the event of default caused by the non-compliance of the Asset Coverage Ratio in April and May 2012.

On October 11, 2012 we entered into the Second Business Financing Modification Agreement with Bridge Bank (the "Second Amendment") changed the minimum asset coverage ratio to 0.9 to 1.0 for September 2012 and October 2012, 1.0 to 1.0 for November and December 2012 and 1.15 to 1.0 for each measuring period thereafter beginning January 2013. It also changed the minimum operating profit measured monthly on a trailing 3 month basis to not less than $600,000 for the September 2012 measuring period and $1,000,000 for the October 2012 measuring period. Also changed was the minimum debt service ratio, measured monthly on a trailing 3 month basis, to not less than 1.1 to 1.0 for November 2012 measuring period, 1.25 to 1.0 for December 2012 and 1.50 to 1.0 for each measuring period thereafter beginning January 2013. Further, the Second Amendment waived the event of default caused by the non-compliance of the operating profit in July and August 2012. Additionally, pursuant to the Second Amendment, the Company issued Bridge Bank a warrant to purchase 51,724 shares of our own common stock exercisable at $0.87 per share until October 2017. The warrant was valued at $45,000, which was recorded to interest expense.

As of December 31, 2012, we had a balance outstanding of approximately $4.2 million on the Term Loan and $3.6 million on the Revolving Credit Line, and we were in compliance with all terms of the amended Bridge Bank credit facility. We had approximately $1.5 million available under the Revolving Credit Line as of December 31, 2012.

Note 7 – Accrued Expenses and Other Current Liabilities

The accrued expenses and other current liabilities consist of the following at December 31, 2012 and 2011:

	2012	2011
Accrued expenses and other	$ 1,012,638	$ 1,419,604
Accrued search costs	247,583	109,706
Accrued affiliate expenses	46,132	16,570
Capital leases – current portion	44,287	57,581
Accrued payroll and commission liabilities	522,082	8,370
Total	$ 1,872,722	$ 1,611,831

Note 8 – Other Long-Term Liabilities

Other long-term liabilities consist of the following at December 31, 2012 and 2011:

	2012	2011
Taxes payable	$ 506,453	$ —
Deferred rent	345,814	283,469
Capital leases – less current portion	47,372	16,655
Long-term deposits	32,738	—
Total	$ 932,377	$ 300,124

Note 9 – Income Taxes

Provision (Benefit) for Income Taxes

The provision for income taxes consists of the following:

	2012	2011
Current tax provision	$ —	$ —
Deferred tax (benefit) provision	(444,000)	—
Total tax (benefit) provision	$ (444,000)	$ —

In addition, we recognized $123,024 of state franchise taxes in income tax (benefit) expense during 2012.

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

	2012	2011
Expected statutory rate	(34)%	(34)%
State income tax rate, net of federal benefit	(4)%	(4)%
Permanent differences	2 %	2 %
Valuation allowance	48 %	36 %
Other	(18)%	— %
	(6)%	— %

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.

We assess temporary differences resulting from different treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded in the consolidated balance sheets. We evaluate the realizability of our deferred tax assets 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 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 examined 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 have recorded a full valuation for the net deferred tax assets as of December 31, 2012 and 2011.

We will continue to evaluate our 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 our deferred income tax assets satisfies the realization standard, the valuation allowance will be reduced accordingly. The 2012 net increase of approximately $3.6 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, 2012 and 2011:

	2012	2011
Deferred tax assets:		
Net operating loss carry forward	$ 10,710,000	$ 8,331,000
Intangible assets	6,303,000	5,499,000
Deferred rent	124,000	177,000
Depreciation	837,000	299,000
Allowance for doubtful accounts	88,000	257,000
Accrued expense	—	257,000
Stock based expenses	1,263,000	942,000
Other	225,000	220,000
Subtotal	19,550,000	15,982,000
Less valuation allowance	(19,550,000)	(15,982,000)
Total	—	—
Deferred tax liabilities:		
Intangibles	4,099,000	—
Total	4,099,000	—
Total deferred tax assets (liabilities)	(4,099,000)	—

The net operating losses amounted to approximately $27.2 million and expire beginning 2022 through 2032.

Under the Internal Revenue Code of 1986, as amended, these losses can be carried forward twenty years. We have approximately $2.5 million of carry forward deductions from 2006 relating to stock options exercised as of December 31, 2012.

We have accrued $506,453 for an uncertain tax position added due to the acquisition of Vertro.

We are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2008 through 2012. We and our subsidiaries state income tax returns are open to audit under the statute of limitations for the years ending December 31, 2008 through 2012.

We recognize interest and penalties related to income taxes in income tax expense. We have incurred no penalties and interest for the years ended December 31, 2012 and 2011.

Note 10 - Stock-Based Compensation

Our stock-based compensation 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. We consider our stock-based compensation programs critical to our operation and productivity. Currently, we grant 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 our shareholders on June 18, 2010. Option and restricted stock unit vesting periods are generally zero to three years.

On September 23, 2011, all unexpired stock options had their expiration term extended by 5 years from the date of grant. The extension of the termination period for these stock options increased the expected life of the options by approximately one year and accordingly increased the fair market value of these stock options by approximately $283,000, of which $117,000 was related to fully vested stock options and was recorded as a charge during the year ended December 31, 2011. The remaining $166,000 is being expensed over the remaining vesting periods.

On January 1, 2012, the number of shares of our common stock issuable under the 2010 ECP was increased by 100,357 shares due to the ever-green provision as part of the 2010 ECP. Additionally, effective February 29, 2012, our shareholders increased the number of shares of our common stock issuable under the 2010 ECP by 2.5 million shares. As of December 31, 2012, we had reserved under our 2005 LTIP 1.0 million shares of common stock for issuance and another 3,385,945 shares under our 2010 ECP.

On July 31, 2012, the company granted 445,500 RSAs, of which 296,505 were granted to our executive officers, certain of our senior management and our Board of Directors. These RSAs granted to our executive officers, certain of our senior management and our Board of Directors were subject to a 2012 performance target that was not met. As such, these RSAs did not vest. The remaining 148,995 RSAs were granted to the other members of the management team and vested on February 1, 2013 provided the grantee remained in the company’s employ on that date. Further, the company granted to non-management employees on July 31, 2012, 49,500 options to purchase the company’s common stock at $0.56 per share, the closing price of the stock on the grant date. The options fully vested on February 1, 2013 provided the grantee remained in the company’s employ on that date.

The following table summarizes the stock based compensation grants outstanding under our 2005 LTIP and 2010 ECP plans as of December 31, 2012:

	Options Outstanding	RSAs Outstanding	Options and RSAs Exercised	Available Shares	Total
2010 ECP	605,690	173,805	904,744	1,701,706	3,385,945
2005 LTIP	573,509	—	224,164	202,327	1,000,000
Total	1,179,199	173,805	1,128,908	1,904,033	4,385,945

The fair value of restricted stock units is determined using market value of the common stock on the date of the grant. The fair value of stock options is determined using the Black-Scholes-Merton valuation model. The use of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, exercise price, and forfeiture rate. 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% 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 2011, we granted options to purchase 40,000 shares of common stock under the 2005 LTIP with an average exercise price of $2.05 per share. We also granted options to purchase 300,000 shares of common stock under the newly adopted 2010 ECP with an average exercise price of $2.93 per share.

We recorded stock-based compensation expense for all equity incentive plans of approximately $843,000 and $957,000 for the years ended December 31, 2012 and 2011, respectively.

At December 31, 2012, the aggregate intrinsic value of options outstanding under the 2005 LTIP and 2010 ECP plans was $0 with a weighted average remaining contractual term of 7.1 years, of which 896,101 of the outstanding options are currently exercisable with an aggregate intrinsic value of $0, a weighted average exercise price of $2.79 and a weighted average remaining contractual term of 6.9 years. There were no options exercised during the years ended December 31, 2012 and 2011. The total compensation cost at December 31, 2012 related to non-vested awards not yet recognized was approximately $444,000 that will be recognized over a weighted-average recognition period of 0.63 years. The total fair value of options vested during 2012 and 2011 was approximately $609,000 and $466,000, respectively. The weighted average fair value of options vested during 2012 was $2.28.

The following table summarizes information about stock options activity for our 2005 LTIP and 2010 ECP plans during the years ended December 31, 2012 and 2011:

	2012		2011	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,358,717	$ 2.81	1,223,159	$ 3.74
Granted	49,500	$ 0.56	340,000	$ 2.83
Forfeited or expired	(229,018)	$ 3.09	(204,442)	$ 6.61
Exercised	—	$ —	—	$ —
Outstanding, end of year	1,179,199	$ 2.66	1,358,717	$ 2.81
Exercisable, end of year	896,101	$ 2.79	629,043	$ 3.03

The weighted average grant date fair value of options granted during 2012 and 2011 were $0.49 and $2.83, respectively. No option or warrant exercises occurred under any share-based payment arrangements during the years ended December 31, 2012 or 2011.

As part of the merger with Vertro on March 1, 2012, we had 118,842 options which were not part of the existing plans. During 2012, 8,020 of these options with a weighted average exercise price of $32.15 expired. At December 31, 2012, we had 110,822 options outstanding and exercisable under this plan with a weighted average exercise price of $69.00. The weighted average fair value of these options is $0, and their aggregate intrinsic value is also $0. The weighted average remaining contractual life of the outstanding and exercisable options is 2.16 years.

The following table summarizes information about stock options outstanding as of December 31, 2012, which includes 605,590 2010 ECP options and 573,509 2005 LTIP options:

Range of Exercise Price	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$0.00 – $3.00	1,128,949	2.49	$ 7.20
$3.01 - $9.99	50,250	6.66	5.52
Total	1,179,199	7.13	$ 2.66

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. There were 49,500 options granted during the year ended December 31, 2012. The fair value of options granted during the year ended December 31, 2012 and 2011 was estimated assuming the following weighted averages:

	2012	2011
Expected life (in years)	3.15	4.90
Volatility	174.2%	163.4%
Risk free interest rate	0.30%	1.96%
Dividend yield	—%	—%

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

The following table summarizes our RSA activity for 2012:

	RSAs	Weighted Average Fair Value
Outstanding, beginning of year	322,276	$ 1.73
Granted	1,271,008	$ 0.78
Forfeited	(316,715)	$ 0.59
Vested	(1,102,764)	$ 1.13
Outstanding, end of year	173,805	$ 0.70

Deferred Compensation and Stock Compensation

During the year ended December 31, 2011, our executive officers, certain of our senior management and our board of directors, voluntarily elected to defer a portion of their compensation. The amount of the deferred compensation was approximately $418,000 for our executive officers and senior management and $72,000 for our board of directors. As an incentive for officers, management and directors to participate in the elected deferrals, we granted them RSAs with a fair value equal to the amount of the deferred compensation, with the exception of the board of directors as they received approximately $36,000 in RSA's. We paid approximately $15,000 of these deferred amounts in 2012 with the remaining amounts paid in our common stock. The RSAs vested upon the earlier of payment of the deferred compensation or one year from the date of grant. The number of RSAs granted in conjunction with the deferred compensation program was 326,291 for the year ended December 31, 2011 and were granted at an exercise price ranging from $1.09 per share to $2.94 per share on the date of each grant. As of December 31, 2011, none of the shares of restricted stock granted in connection with these elected deferrals were issued. Of these amounts, approximately $573,000 was recorded as stock compensation expense. No deferrals of compensation were made in 2012.

Note 11 – Stockholders' Equity

Authorized Preferred Stock and Authorized Common Stock

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

Treasury Stock

During 2011, we retired 164,869 shares of our common stock held in treasury valued at approximately $627,000. During 2012, we retired 21,270 shares of our common stock valued at approximately $81,000. We also withheld shares to pay for employee taxes on restricted stock grants, increasing treasury stock by 10,970 restricted shares for approximately $7,800.

Sale of Common Stock

On June 20, 2011, we entered into Subscription Agreements with 17 institutional and accredited investors, several of which are affiliated entities, for the sale of 1,350,000 shares of our common stock, together with immediately exercisable five year warrants to purchase up to an aggregate of 675,000 shares of common stock, resulting in gross proceeds to us of $2,700,000. Each warrant entitles the investor to purchase 0.50 shares of our common stock for every share of common stock purchased by such investor in the offering. The purchase price for each share of common stock and the related warrants was $2.00. Each warrant has an exercise price of $2.20 per share which is subject to adjustments in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions. This offering was priced at the close of market on June 20, 2011 and was conducted as a takedown from our shelf registration statement which was declared effective by the SEC in April 2011. A portion of the proceeds from the sale the common stock were used to repay the $1 million non-formula revolving line of credit secured by a board member.The merger agreement with Vertro required that at closing of the merger, we pay outstanding obligations under our deferred compensation program and bonus agreements to our executive officers, board of directors and certain management employees with our common stock in lieu of cash. These obligations were satisfied by issuing 1,017,742 shares of our common stock. At the same time, 284,962 of the common stock issued to executives, board directors and managers were withheld by us at the same value as issued, to pay for the associated individual's income taxes, approximately $256,000. Those shares withheld were retired.

Warrants Outstanding

As of December 31, 2012, we have outstanding warrants for the potential issuance of 816,724 shares of common stock. Exercise price for these warrants ranges from $0.87 to $15.00. These warrants were primarily issued in connection with acquisitions, private placements and debt issuances. The weighted average remaining contractual life of the warrants outstanding are December 31, 2012 was 3.49 years and the weighted average exercise price was $2.37.

On October 11, 2012, pursuant to the Second Business Financing Modification Agreement with Bridge Bank (see Note 6), the Company issued Bridge Bank a warrant to purchase 51,724 shares of our own common stock exercisable at $0.87 per share until October 2017.

Note 12 – Discontinued Operations

On September 24, 2010, we sold the assets of MSA and our 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, 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 the term note with Wachovia. Additionally, we 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 our RESO business unit. On December 10, 2010, we 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 that was paid in December 2011. Earlier in 2010, we announced our intention to sell the business and we 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 received 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, we reported a gain on the sale of RESO in discontinued operations of approximately $500,000.

On March 1, 2012, Inuvo completed the acquisition of Vertro, an internet company that owns and operates the ALOT product portfolio, comprised of both browser-based consumer applications and websites. In March 2009, Vertro sold the assets of its subsidiary, Miva Media. As a result of the sale, Vertro terminated its European Union ("EU") centered operations and records its balances and transactions a a discontinued operation. Inuvo assumed these assets and liabilities upon the merger and accounts for these balances and transactions as a discontinued operation.

The table below summarizes the loss from EU operations acquired with the Vertro merger during the year ended December 31, 2012, and the gain from a litigation settlement resulting from the favorable settlement of a lawsuit involving a lease during the year ended December 31, 2011:

	2012	2011
(Loss) from discontinued operations from EU operations acquired with Vertro merger	$ (183,527)	$ —
Gain from litigation settlement in discontinued operations	—	257,136
(Loss) Gain on sale of discontinued operations	$ (183,527)	$ 257,136

Note 13 – Retirement Plan Costs

We sponsor a defined contribution plan to help eligible employees provide for retirement. During 2010, we suspended matching contributions. There were no matching contributions for the year ended December 31, 2011. With the Vertro merger we resumed matching contributions of 50% up to the participant's first 6% contribution. The matching contribution for 2012 was approximately $31,000.

Note 14 - Leases

We lease 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 from continuing operations was approximately $1,181,000 and $824,000 for the years ended December 31, 2012 and 2011, respectively.

Minimum lease payments under non-cancelable operating leases as of December 31, 2012 are:

2013	$	1,067,871
2014		537,501
2015		547,967
2016		45,749
2017		—
Total		2,199,088

Subsequent to December 31, 2012 and not contemplated in the above table, we signed an amendment allowing us to terminate our Clearwater office lease for $615,000, which was paid during the first quarter of 2013. As a result, the lease will now end on March 31, 2013, resulting in a reduction of rent of $135,273 each quarter through November 2013. We also entered into an agreement to lease office space in Conway, Arkansas, which was prepaid during the first quarter of 2013. This agreement is for two years in the total amount of $193,200. First Orion Corp., the lessor of this space, is owned by a director and shareholder of Inuvo.

Note 15 - Merger with Vertro, Inc.

Effective March 1, 2012, we merged with Vertro. Pursuant to the terms and conditions of the merger agreement, Vertro became a wholly owned subsidiary of Inuvo and we issued to the Vertro stockholders 12,393,308 shares of our common stock for all the outstanding shares of Vertro common stock. Upon closing of the merger, all the shares of Vertro common stock, which traded under the symbol “VTRO,” were delisted from the NASDAQ Capital Market and ceased trading.

The following table summarizes the net assets received and liabilities assumed in the merger with Vertro. Adjustments to the original purchase price allocation include a revision of shares of common stock issued related to the merger and the finalization of the fair value of accrued expenses.

Total consideration paid in common stock	$	11,130,983
Fair value of assets acquired:		
Accounts receivable, net		(2,093,845)
Other current assets		(520,342)
Property and equipment		(2,059,729)
Other assets		(283,911)
Goodwill		(3,984,264)
Intangible assets		(11,857,537)
Fair value of liabilities assumed:		
Accounts payable		3,753,613
Outstanding balance on credit facility		1,000,000
Accrued expenses		2,782,361
Deferred tax liability		4,543,000
Other long-term liabilities		709,991
Cash received in merger	$	3,120,320
Stock issuance costs		(687,678)
Net cash received in merger	$	2,432,642

Unaudited Pro Forma Results of Operations

As a result of the merger with Vertro, effective March 1, 2012 the consolidated operating results for the year ended December 31, 2012 and 2011, were revenue of $57,147,743and $64,094,339, respectively; net (loss) income of ($9,673,000) and $788,367, respectively; and basic and diluted (loss) earnings per share of ($0.46) and $0.05, respectively. The pro forma results do not include any anticipated synergies which may occur subsequent to the acquisition date. Accordingly, such pro forma amounts are not necessarily indicative of the results that actually would have occurred had the acquisition been completed on the dates indicated, nor are they indicative of our future combined operating results.

Note 16 - Commitments and Contingencies

Litigation and Settlement

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

Shareholder Class Action Lawsuits. In 2005, five putative securities fraud class action lawsuits were filed against Vertro and certain of its former officers and directors in the United States District Court for the Middle District of Florida, which were subsequently consolidated. The consolidated complaint alleged that Vertro and the individual defendants violated Section 10(b) of the Exchange Act and that the individual defendants also violated Section 20(a) of the Exchange Act as “control persons.” Plaintiffs sought unspecified damages and other relief alleging that, during the putative class period, Vertro made certain misleading statements and omitted material information. The court granted Defendants' motion for summary judgment on November 16, 2009, and the court entered final judgment in favor of all Defendants on December 7, 2009. Plaintiffs appealed the summary judgment ruling and the court's prior orders dismissing certain claims. On September 30, 2011, the Court of Appeals for the Eleventh Circuit affirmed the dismissal of 9 of the 11 alleged misstatements and reversed the court's prior order on summary judgment and the case has been remanded to the District Court. In October 2012 the District Court entered an order maintaining the existing stay on discovery and setting forth a schedule for briefing by the parties on the defendants' renewed motion of summary judgment.

Derivative Stockholder Litigation. On July 25, 2005, a stockholder, Bruce Verduyn, filed a putative derivative action purportedly on behalf of Vertro in the United States District Court for the Middle District of Florida, against certain of Vertro's directors and officers. This action is based on substantially the same facts alleged in the securities class action litigation described above. The complaint is seeking to recover damages in an unspecified amount. By agreement of the parties and by orders of the court, the case was stayed pending the resolution of the defendant's motion to dismiss in the securities class action. On July 10, 2007, the parties filed a stipulation to continue the stay of the litigation. On July 13, 2007, the court granted the stipulation to continue the stay and administratively closed the case pending notification by plaintiff's counsel that the case is due to be reopened.

State of Florida civil investigation re Inuvo, Inc. formerly d/b/a iLead Media, LLC d/b/a Home Biz Ventures, LLC, Case No. L09-3-1186 . The State of Florida Attorney General's office served a subpoena for documents on November 23, 2009, relating to the negative-option marketing business of former Inuvo subsidiary iLead Media, LLC. In January 2013, we entered into an Assurance of Voluntary Compliance with The State of Florida Attorney General's office regarding our prior business practices and we agreed to pay $40,000 to investigative costs and attorney's fees and a $60,000 charitable donation to Seniors vs. Crime, Inc.

Litigation Relating to the Merger. On October 27, 2011, a complaint was filed in the Supreme Court of the State of New York, County of New York against Vertro, its directors, Inuvo, and Anhinga Merger Subsidiary, Inc. on behalf of a putative class of Vertro shareholders (the "New York Action"). Two other complaints, also purportedly brought on behalf of the same class of shareholders, were filed on November 3 and 10, 2011, against these same defendants in Delaware Chancery Court and were ultimately consolidated by the Court (the "Delaware Action"). The plaintiffs in both the New York and the Delaware Actions alleged that Vertro's board of directors breached their fiduciary duties regarding the merger with Inuvo and that Vertro, Inuvo, and Anhinga Merger Subsidiary, Inc. aided and abetted the alleged breach of fiduciary duties. The plaintiffs asked that the merger be enjoined and sought other unspecified monetary relief.

Defendants in the Delaware Action moved to dismiss plaintiffs' complaint, but before the briefing of that motion was complete the plaintiffs filed a notice and proposed order of voluntary dismissal without prejudice, which was entered by the Delaware Court on March 20, 2012. The defendants in the New York Action also moved to dismiss the complaint, or in the alternative to stay proceedings. The New York Court granted Defendants' motion to stay on February 22, 2012 and, as a result of this ruling, the Court denied without prejudice defendants' motion to dismiss and the plaintiff's pending request for expedited discovery. Plaintiffs in the New York action then filed a Second Amended Complaint on June 19, 2012 and, on July 9, 2012, Defendants moved to dismiss that complaint for failure to state a claim. A hearing was held on January 31, 2013, regarding Defendants' motion to dismiss.

Express Revenue, Inc. v. Inuvo, Inc.; Case No. 10-44118-13, in the Circuit Court for the Seventeenth Judicial Circuit of Florida. On November 4, 2010, the plaintiff filed this lawsuit alleging breach of oral contract, and violation of Florida Statute §68.065, among other claims, and seeking approximately $30,000 for allegedly unpaid commissions dating back to 2009. Initial discovery has begun and Inuvo is vigorously defending the action.

Corporate Square, LLC v. Think Partnership, Inc., Scott Mitchell, and Kristine Mitchell; Case No. 08-019230-CI-11, in the Circuit Court for the Sixth Judicial Circuit of Florida. This complaint, filed on December 17, 2008, involves a claim by a former commercial landlord for alleged improper removal of an electric generator and for unpaid electricity expenses, amounting to approximately $60,000. The litigation has not been actively prosecuted, but the plaintiff recently served discovery requests seeking additional information. Inuvo is actively defending this action, and the co-defendants' separate counsel is likewise defending the claim against the co-defendants.

Oltean, et al. v. Think Partnership, Inc.; Edmonton, Alberta CA. On March 6, 2008, Kelly Oltean, Mike Baldock and Terry Schultz, former employees, filed a breach of employment claim against Inuvo in The Court of Queen's Bench of Alberta, Judicial District of Edmonton, Canada, claiming damages for wrongful dismissal in the amount of $200,000 for each of Kelly Oltean and Terry Schultz and $187,500 for Mike Baldock. On March 6, 2008, the same three plaintiffs filed a similar statement of claim against Vintacom Acquisition Company, ULC, a subsidiary of Inuvo, again for wrongful dismissal and claiming the same damages. In October 2009, the two actions were consolidated. The case is in the discovery stage and Inuvo is vigorously defending the matter.

Reverso-Softissimo v. ALOT. In May 2012 a complaint was filed against us in the Court of First Instance of Paris in Paris, France. The complaint is related to our alleged use of Reverso-Softissimo's trademarks in our advertising. The case is in the initial stages and Inuvo is vigorously defending the matter.

Note 17 - Segment Analysis

We are an internet marketing and technology company that develops consumer applications that make using the internet easier and delivers targeted advertisements onto the websites of partners and our own. Our business is separated into two reporting segments: Network and Applications. The Network segment includes both the technologies and networks required to facilitate business to business transactions. The Applications segment includes both the products and websites required to market to consumers online, a lead generation business and data collection and distribution. In 2012, management reorganized the Company's segments. Prior to 2012, we operated with two segments classified as Performance Marketing and Web Properties. For presentation purposes, our prior period results included herein have been reclassified for the new segment structure.

Listed below is a presentation of net revenue and gross profit for all reportable segments for the years ended December 31, 2012 and 2011. We currently only track certain assets at the segment level and therefore assets by segment are not presented below.

Net Revenue by Industry Segment

	2012		2011	
	$	% of Revenue	$	% of Revenue
Network	28,892,793	54.1%	35,753,243	99.8%
Applications	24,470,152	45.9%	66,753	0.2%
Total net revenue	53,362,945	100.0%	35,819,996	100.0%

Gross Profit by Industry Segment

	2012		2011	
	$	% of Net Revenue	$	% of Net Revenue
Network	7,129,783	13.4%	14,921,984	41.7%
Applications	20,597,652	38.6%	66,253	0.2%
Total gross profit	27,727,435	52.0%	14,988,237	41.9%

Note 18 – Subsequent Events

On January 25, 2013, we agreed with the state of Arkansas to receive a grant of up to $1.75 million for expenses related to the relocation of the our headquarters and operations from New York and Florida to Arkansas as well as expenses related to purchase of equipment necessary to begin operations in Arkansas. The grant is contingent upon us having at least fifty full-time equivalent permanent positions within four years and maintaining at least fifty full-time equivalent permanent positions for the following six years. The grant is also contingent upon us paying full-time equivalent permanent positions an average total compensation of $90,000 per year. After the initial four year period, the grant provides for penalties if either the minimum full-time equivalent permanent positions or the average total compensation conditions are not met. In no event would the penalty exceed the amount of the grant received.

On January 31, 2013, we agreed to an early termination of the Clearwater office lease. For a total early termination fee of $615,000, the lease will terminate on March 31, 2013.

On January 31, 2013 we signed a two year lease for 5,834 square feet of office space in Conway, Arkansas. This agreement is for two years in the total amount of $193,200. A director and shareholder of Inuvo is the majority owner of First Orion Corp., the lessor of this space.

On February 1, 2013 we agreed to a 2 year Services Agreement with Google Inc. for advertising and search services.

On February 15, 2013 we were notified by the NYSE MKT LLC ("exchange") that our plan to regain compliance with Section 1003(a)(iii) of the exchange's Company Guide by December 2, 2013 was accepted. We are able to continue our listing during the period ending December 2, 2013, though subject to periodic review to determine whether we are making progress consistent with the plan.

On March 8, 2013 Bridge Bank N.A. waived an event of default that occurred in January 2013.

QUICK ACTION CLOSING FUND
GRANT AGREEMENT

PART I

Signatory Page

Grantee: ___Inuvo, Inc._______ | *Grant Control: #QACF 200823*

Grant Amount: __$1,750,000________ | *Activity Type: Multi-Activity*

GRANTOR

Arkansas Economic Development Commission
900 W. Capitol, Ste. 400
Little Rock, AR 72201
Phone: (501) 682-1121

GRANTEE

Name: Inuvo, Inc.
Address: 1111 Main St., #208
Conway AR 72033
Phone:

1. This grant agreement which is comprised of this signature page (Part I), the General Terms and Conditions (Parts II), the Scope of Grant and Special Conditions (Part III), and the attached budget (hereinafter all referred to as the "Grant Agreement") is entered into by the Arkansas Economic Development Commission, Grantor, and Inuvo, Inc., the Grantee, for the purpose of providing funds to the Grantee to undertake economic development projects which support private sector job creation opportunities pursuant to Act 510 of 2007 and its successors. The Grantee agrees to initiate and complete an economic development project in accordance with the terms of this Grant Agreement.

2. The Grantee further warrants it will conduct and administer the grant in accordance with this agreement and all applicable State laws and regulations.

ARKANSAS ECONOMIC DEVELOPMENT COMMISSION

BY:
/s/ Michael J. Gaines
Michael J. Gaines
Deputy Director

1/25/2013
Date

INUVO, INC.

BY:
/s/ Richard Howe
Richard Howe
Executive Chairman and CEO

1/25/2013
Date

BH

PART II
GENERAL TERMS AND CONDITIONS

In consideration of the general terms and conditions hereinafter contained, the Grantor and the Grantee agree as follows:

1. **COMPENSATION AND METHOD OF PAYMENT.** The Grantor will utilize a grant request for payment procedure and will authorize the Grantee to draw up to **$__1,750,000______**against a grant award through the State Treasury, consistent with all fiscal requirements stipulated herein. The Grantee may request and receive authorized grant funds by submitting appropriate forms and documentation, subject to approval by the Grantor, evidencing eligible expenditures incurred by the Grantee while undertaking approved project activities in accordance with this Grant Agreement and the Grant Reimbursement Agreement attached to this agreement. These expenses must be identified by line item categories, which correspond to the line item categories in this grant's budget. Requisitions will be mailed to the Grantor, and the Grantor will review and approve the requisitions before issuing payment to the Grantee.

   It is understood that the Grantor will honor requests for payment and disburse funds only to the extent that funds have been released to Grantor, therefore consistent with the requirements of the General Accounting and Budgetary Procedures Law, the Revenue Stabilization Law and any other applicable fiscal control laws and regulations promulgated by the Arkansas Department of Finance and Administration.

2. **LEGAL AUTHORITY.** By signing this Grant Agreement signature page, the Grantee certifies that it possesses legal authority to accept grant funds and to execute the project described in this Grant Agreement. This act of signing will also certify that the Grantee will comply with all parts of this Grant Agreement.

3. **WAIVERS.** No conditions or provisions of this Grant Agreement may be waived unless approved by the Grantor, in writing.

4. **SPECIAL CONDITIONS.** The Grantee will comply with all special conditions and attachments incorporated herein to this Grant Agreement. Compliance approval and clearance of special conditions will be given by the Grantor in writing after receipt and review of evidence of compliance from the Grantee. Official notification of a special condition and the Grantor's approval and/or clearance of special conditions must be retained by the Grantee in its files.

5. **FINANCIAL MANAGEMENT AND ACCOUNTING.** The Grantee will establish and maintain a financial management and accounting system, which conforms to generally accepted accounting principles.

6. **ALLOWABLE COSTS.** All costs necessary to carry out the eligible activities in the project must be consistent with scope of work and budget set forth in this Grant Agreement.

7. **AMENDMENTS AND MODIFICATIONS**. The Grantor will consider project amendments if they are necessitated by actions beyond the control of a Grantee. If necessitated by events beyond the control of either party, the Grantee may request or the Grantor may require an amendment or modification of the Grant Agreement. However, such amendment or modification will not take effect until approved, in writing, by both the Grantor and Grantee. The Grantee must sign and return the amendment to the Arkansas Economic Development Commission within three days, or such other reasonable amount of time as circumstances may require, not to exceed five (5) business days. The Grantee must request prior approval for all amendments or modifications. Amendments will not be approved which would materially alter the circumstances under which the grant was originally funded.

8. **RECORD KEEPING**. The Grantee agrees to keep such records as the Grantor may reasonably require that are pertinent to the grant and work undertaken as part of the project contemplated by this Grant Agreement and the Grant Reimbursement Agreement.

9. **ACCESS TO RECORDS**. The Grantor and duly authorized officials of the State will have full access and the right to examine any pertinent documents, papers, records, and books of the Grantee which involve transactions related to this Grant Agreement. The Grantee's contract with other persons or organizations must specifically provide for the Grantor's access to documents as provided herein.

10. **REPORTS**. The Grantee, at such times and in such forms as the Grantor may reasonably require, will furnish the Grantor with such periodic reports as it may request pertaining to the activities undertaken pursuant to this Grant Agreement, the costs and obligations incurred in connection therewith, and any other matters covered by this Grant Agreement.

11. **OBLIGATIONS REGARDING THIRD PARTY RELATIONSHIPS**. The Grantee will remain fully obligated under the provisions of the Grant Agreement notwithstanding its designation of any third party or parties for the undertaking of all or any part of the project described herein. Any subcontractor who is not the Grantee will comply with all lawful requirements of the Grantee necessary to ensure that the project is carried out in accordance with the provisions of this Grant Agreement. Failure to comply will result in sanction upon Grantee, engineer/architect, contractor, or sub-contractors. This sanction will result in the Arkansas Economic Development Commission not working with said persons, for a period of not less than one year or more than five years and/or a suspension of existing funding.

The Grantee shall secure all such services in accordance with applicable State law and the provisions of this Grant Agreement.

12. **CONFLICT OF INTEREST**. No officer or employee of the Grantor, no member, officer, or employee of the Grantee or its designees or agents, no member of the governing body of the jurisdiction in which the project is undertaken or located and no other official of such locality or localities who exercises any functions or responsibilities with respect to the project during his tenure, will have any personal or pecuniary gain or interest, direct or indirect, in any contract or subcontract, or the proceeds thereof, for work to be performed in connection with the project assisted under this agreement. The Grantee will incorporate, or cause to incorporate, in all such contracts or subcontracts a provision prohibiting such interest pursuant to the purpose of this provision. The Grantor reserves the right to waive certain provisions of this clause in the event of a situation once justified as unavoidable by the Grantee, and approved by the Grantor which necessitates such a waiver.

13. **POLITICAL ACTIVITY**. No portion of the funds provided hereunder will be used for any partisan political activity or to further the election or defeat of any candidate for public office or influence the approval or defeat of any ballot issue.

14. **NOTICES**. The Grantee will comply with all public notices or notices to individuals required by applicable State laws.

15. **PROHIBITION AGAINST PAYMENTS OF BONUS OR COMMISSION**. The assistance provided under this Grant Agreement will not be used in payment of any bonus or commission for the purpose of obtaining approval of the application for such assistance or any other approval or concurrence under this Grant Agreement.

16. **TERMINATION BY MUTUAL AGREEMENT**. This Grant Agreement may be terminated, in whole or in part, prior to the completion of project activities when the Grantor, the Grantee, and any other benefitting entity determine in writing signed by the parties that continuation is not feasible or would not produce beneficial results commensurate with the further expenditure of funds. In the event of such

termination by mutual agreement, the Grantee will not incur new obligations for the terminated portion after the effective date, and will cancel as many outstanding obligations as possible, and the Grantor will make funds available to the Grantee to pay for allowable expenses incurred before the effective date of termination.

17. **TERMINATION FOR CAUSE**. If the Grantee fails to comply with the material terms of the Grant Agreement, or fails to use the grant for only those purposes set forth herein, the Grantor may:

(a) Suspend Grant Payments - After notice to the Grantee, suspend the grant and withhold any further payment or prohibit the Grantee from incurring additional obligations of grant funds, pending corrective action by the Grantee or a decision to terminate by the Grantor; and

(b) Terminate in toto - Terminate the grant in whole, or in part at any time before the final grant payment is made.

The Grantor will promptly notify the Grantee in writing of its determination to terminate, the reason for such termination, and the effective date of the termination.

Payments made to the Grantee or recoveries by the Grantor will be in accordance with the legal rights and liabilities of the parties.

Notwithstanding the foregoing, Grantor's sole and exclusive remedy against Grantee in the event of a breach by Grantee of this Grant Agreement or the Grant Reimbursement Agreement shall be repayment of the amounts due pursuant to the formulas set forth in the Grant Reimbursement Agreement and this Grant Agreement.

18. **RECOVERY OF FUNDS**. In the event of a default or violation of the terms of this Grant Agreement by the Grantee and Grantee does not voluntarily repay the applicable Grant amount based on the formulas set forth herein, the Grantor may institute actions to recover all or part of the proper funds paid to the Grantee.

19. **DISPUTES**. Except as otherwise provided in this agreement, any dispute concerning a question of fact arising under this Grant Agreement which is not disposed of by provision of the Grant Agreement, will initially be decided by the Grantor in its reasonable and fair discretion, which will reduce its decision to writing and mail or otherwise furnish a copy thereof to the Grantee. Notwithstanding the foregoing, in the event Grantee does not agree with Grantor's determination, nothing contained herein shall limit Grantee's rights under law. Nothing in this Grant Agreement will be construed as making final the decision of any administrative official, representative, or board on a question of law.

20. **INDEMNIFICATION**. The Grantee will defend, protect, and save harmless the Grantor from and against all claims, suits, and actions arising from any act or omission of the Grantee or any employee or agents of Grantee in the performance of this Grant Agreement.

21. **SEVERABILITY**. If any provision under this Grant Agreement or its application to any person or circumstances is held invalid by any court of competent jurisdiction, this invalidity does not affect other provisions of the Grant Agreement, which can be given effect without the invalid provision.

22. **PERFORMANCE**. The Grantor's failure to insist upon the strict performance of any provision of this contract or to exercise any right based upon breach thereof or the acceptance of any performance during such breach will not constitute a waiver of any rights under this Grant Agreement.

23. **ENFORCEMENT**. If the Grantor determines that a Grantee's performance fails to meet the terms and conditions of its Grant Agreement, several courses of action may be pursued in order to resolve the problem. The Grantor may take any of the following actions, severally or in combination:

(a) Request additional information from the Grantee to verify the nature of inadequate performance;

(b) Conduct a site visit to examine pertinent records and recommend remedial cause of action;

(c) Issue a letter of warning, advising the Grantee of the deficiency, recommendations for corrections, date by which performance must be corrected and notice that more serious sanctions may be imposed if the situation continues or is repeated;

(d) Suspend funding of questioned activities until remedies are effected;

(e) Establish sanctions upon Grantee, engineer/architect, contractor, or sub-contractor(s). This sanction will be for a period of not less than one year but not more than five years.

(f) Require reimbursement of funds improperly spent; or

(g) Refer the matter to the Attorney General of Arkansas with a recommendation that a civil action be instituted.

(h) Notwithstanding the foregoing, Grantor's sole and exclusive remedy against Grantee for a violation of the terms of this Grant Agreement and the Grant Reimbursement Agreement shall be the repayment of the Grant amounts owed in accordance with the applicable formulas set forth in this Grant Agreement and the Grant Reimbursement Agreement.

24. **<u>CLOSE-OUT</u>**. The Grantor will advise the Grantee to initiate close-out procedures when the Grantor determines, in consultation with the Grantee, that there are no impediments to close-out and that the following criteria have been met or soon will be met:

(a) All costs to be paid with grant funds have been incurred with the exception of any unsettled third-party claims against the Grantee. Costs are incurred when goods and services are received and/or contract work is performed;

(b) The last required progress report has been submitted. The Grantee's failure to submit or update will not preclude the Grantor from effecting closeout if it is deemed to be in the State's interest. Any excess grant amount which may be in the Grantee's possession will be returned in the event of the Grantee's failure to furnish or update the report; and

(c) Other responsibilities of the Grantee under this Grant Agreement and any close-out agreement, and applicable laws and regulations appear to have been carried out satisfactorily or there is no further State interest in keeping the grant open for the purpose of securing performance.

25. To the extent not inconsistent with the terms of this Grant Agreement or the Grant Reimbursement Agreement, the Grantee agrees, as a condition of receiving grant assistance, to abide by and adhere to any policy directives, rules, regulations or other requirements which may be issued from time to time by the Grantor, and which in the reasonable and fair opinion of the Grantor are necessary to efficient or legal execution of the project.

26. The Grantee agrees to use reasonable efforts to ensure that all work is performed and completed in a manner consistent with timelines established at the Grants inception. Failure to meet these timelines without acceptable justification may result in sanction and or deobligation of funding to Grantee and/or sub-contractors.

27. If the Grantee is acquired prior to 3/31/2023, and the purchasing entity does not assume the requirements outlined in the Grant Agreement, Grant Reimbursement Agreement, and accompanying d

ocuments, the Grantee will provide a repayment to the Grantor based on the formulas outlined in the Grant Agreement, Grant Reimbursement Agreement, and accompanying documents.

For the purpose of the Grant Agreement, Grant Reimbursement Agreement, and accompanying documents, an acquisition shall mean (i) any consolidation or merger of the Company with or into any corporation or other entity or person, or any other reorganization, other than any such consolidation, merger or reorganization in which the shareholders of the Company immediately prior to such consolidation, merger or reorganization, continue to hold at least a majority of the voting power of the surviving entity; (ii) any transaction or series of related transactions to which the Company is a party in which in excess of fifty percent (50%) of the Company's voting power is transferred; or (iii) a sale, lease, exclusive license or other disposition of all or substantially all of the assets of the Company.

PART III

SCOPE of GRANT & SPECIAL CONDITIONS

Grantee: Inuvo, Inc. *Amendment #*: N/A

Control #: **QACF 200823** *Amendment Date:* N/A

The project, described more fully herein, consists of a grant to ___Inuvo, Inc.______ (the Grantee) to be used for __eligible expenses__________ in relation to the relocation of the headquarters of the Grantee_ . In return for this assistance, the Grantee agrees to create a minimum of __50__ new, full-time, permanent positions.

Project Description

Up to $_1,750,000_________ in Governor's Quick Action Closing (QACF) funds will be used for ___expenses related to the relocation of the Grantee's headquarters and operations from New York and Florida to Arkansas as well as expenses related to purchase of equipment necessary to begin operations in Arkansas. The grant is contingent upon the Grantee having at least_50_ full-time equivalent permanent positions (New Position Creation Requirement) within four (4) years of signing the Grant Reimbursement Agreement (New Position Creation Period). The grant is also contingent upon the Grantee maintaining at least 50 full-time equivalent permanent positions (Position Maintenance Requirement) for six (6) years (Position Maintenance Period) following the New Position Creation Period. The grant is also contingent upon the Grantee paying full-time equivalent permanent positions an average total compensation of $90,000 per year (Average Total Compensation Requirement)

To receive reimbursement for eligible expenditures, the Grantee will be required to submit invoices to the Grantor, attached to an approved Draw Request Form.

Eligible expenses are more fully described in the QACF commitment letter dated December 31, 2012.

Grant Reimbursement Conditions

If, by the end of the New Position Creation Period, the Grantee has not met the New Position Creation Requirement, they will reimburse the Grantor $__5,000 for each position less than the number of positions required under the New Position Creation Requirement.

If, for any year during the Position Maintenance Period, the Grantee does not meet the Position Maintenance Requirement, they will reimburse the Grantor $__5,000 for each position less than the number of positions required under the Position Maintenance Requirement.

If, during the New Position Requirement Period or the Position Maintenance Period the Grantee does not meet the Average Total Compensation Requirement, they will reimburse the Grantor in accordance with the formulas set forth in Schedule 1 attached to the Grant Agreement.

In no case will the Grantee repay more money under this than was advanced by AEDC through the Governor's Quick Action Closing Fund. Any amount owed will be immediately due and payable. Quarterly job creation reports will be required for two years or until the jobs are created.

BUDGET

Grantee: _Inuvo, Inc.___________ **Amendment #: N/A**

Grant Control #: QACF 200823

Activity: Multi-Activity

Source of Funds

Cost Classification	AEDC	Company	Totals
Relocation Costs	$1,381,115		**$1,381,115**
Equipment	$368,885		**368,885**
Totals	**$1,750,000**		**$1,750,000**

GRANT REIMBURSEMENT AGREEMENT

THIS GRANT REIMBURSEMENT AGREEMENT (herein called the "Agreement") is made and entered into as of the ____25th____day of ________January_________, 2013 by and between Inuvo, Inc., a company authorized to do business in the State of Arkansas (herein called the "Company"), and the **Arkansas Economic Development Commission**, a commission of the State of Arkansas (herein called the "Commission").

WITNESSETH:

WHEREAS, the Arkansas Economic Development Commission (the Commission) is authorized to make grant funds available to qualified applicants under the Quick Action Closing Fund (QACF) program, with funds provided by the State of Arkansas;

WHEREAS, the granting of funds from the Commission to the Company will permit the creation of new employment opportunities for citizens of the State of Arkansas; and,

WHEREAS, certain move related expenses, renovations and equipment purchases will be made in support of the location/expansion of ___Inuvo, Inc.__________ in ___Conway_________, Arkansas;

NOW, THEREFORE, for and in consideration of the mutual covenants hereinafter contained, the parties hereby covenant and agree as follows:

1. **Grant.** Conditioned upon receipt of the grant funds by the Company from the

Commission, under a grant agreement dated ____January 25____________, 2013, with funding awarded from the QACF program (herein called "Grant Agreement"), in the amount of $_1,750,000_, the Company agrees to use the sum as set out in the Grant Agreement and this Agreement. A copy of the Grant Agreement is attached hereto as Exhibit "A" and is made a part hereof as set forth herein word for word. The Company acknowledges that the funds for the Grant are provided in accordance with the conditions of the Grant Agreement and shall submit to the Commission any reports, audits, documentation or other information as required therein. In the event of any conflict with the terms and conditions of the Grant Agreement and the terms and conditions hereof, the terms and conditions of the Grant Reimbursement Agreement shall control.

2. **Purpose**. The Grant will be utilized only for those purposes specifically identified herein and within the Grant Agreement.

3. **Employment Opportunities.** The ultimate purpose of this Agreement and the Grant

Agreement is to create employment opportunities for Arkansas residents. Accordingly, the Company agrees that it intends to have a minimum of __50___, full time, permanent positions, with an Average Total Compensation of $__90,000_____, over the next ____48 months____ (New Position Requirement Period). The Company also agrees that it intends to maintain at least 50 full-time equivalent permanent positions (Position Maintenance Requirement) for six (6) years (Position Maintenance Period) following the New Position Creation Period. The Employment Requirement shall be verified by the Commission from annual reports submitted by the Company and annual job creation reports will be required for ten years . The initial Employment Requirement annual report will be due twelve (12) months from the date of the signed Grant Agreement and subsequent reports will be due on the equivalent dates. The Company acknowledges that the Employment Requirement is a condition subsequent to the Company's receipt of the Grant. For purposes of this Agreement, Average Total Compensation means annual base salary, annual bonus, non-cash compensation, and the value of any other employee benefits provided by Grantee. For purposes of this Agreement, during the Position Maintenance Period, existing positions of the Company shall be defined as those being filled for at least nine months of a twelve month reporting period with an average of thirty (30) hours per week.

4. **Disbursement of the Grant.** The Grant shall be disbursed to the Company upon receipt of invoices for eligible expenses, to be attached to a Draw Request Form to be provided by the Commission.

5. **Grant Reimbursement.** If, at the end of the New Position Requirement Period, the Company has not created _50____ full-time jobs that meet the Employment Requirement, the Company shall reimburse the Commission $__5,000______ for each job under the __50______ minimum in accordance with the formulas set forth in Schedule 1 attached the Grant Agreement. If, for any year during the Position Maintenance Period, the Grantee does not meet the Position Maintenance Requirement, they will reimburse the Grantor $__5,000 for each position less than the number of positions required under the Position Maintenance Requirement in accordance with the formulas set forth in Schedule 1 attached to the Grant Agreement. Additionally, if, during the New Position Requirement Period or the Position Maintenance Period, the Average Total Compensation of the new, full time, permanent positions is less than $90,000 , the Company shall reimburse the Commission in accordance with the formulas set forth in Schedule 1 attached to the Grant Agreement. Annual job creation reports will be required for ten years . Any amount due will be immediately due and payable.

6. **Representations and Warranties of the Company.** The Company represents and warrants as follows:

(a) The Company is authorized to do business in the State of Arkansas, and has full power and authority to deliver this Agreement and every other instrument or document required to be delivered herein.

(b) The making and performance of this Agreement and each and every other document

required to be delivered hereunder are within the Company's powers, have been duly authorized by all necessary corporate action, have received all necessary approvals, and do not contravene any law, regulation or decree or any contractual restriction (other than those which shall be waived or discharged at the time of making of the Grant) are binding on the Company.

(c) This Agreement and each and every other document required to be delivered hereunder, when duly executed and delivered, will be the legal and binding obligations of the Company enforceable in accordance with their respective terms.

(d) To the best of the Company's knowledge, there are no pending or threatened actions or proceedings before any court or administrative agency which may materially adversely affect the financial condition or operations of the Company.

7. **Conditions Precedent.** The obligation of the Commission to make the Grant is subject to the conditions that the Commission shall have received the following:

(e) This Agreement and all documents or instruments reasonably required in connection with the Grant.

(f) Certificate of Good Standing of the Company from the Arkansas Secretary of State.

(g) Certified copies of any resolutions evidencing authorization for the undertakings contemplated hereby, including the authorization to execute this Agreement and designating the person or persons with authority to execute same.

(h) Certified copies of all documents evidencing necessary action and approvals, if any, with respect to this Agreement and all other documents required in connection herewith (or a certificate that no such documents are required.)

8. **Events of Default.** If any of the following events (herein called "Events of Default") shall occur and be continuing after the passage of a 30-day notice period ("Cure Period"), then this Agreement shall be in default (default will trigger the grant repayment provisions), and the repayment amounts shall be subject to acceleration and enforcement as permitted by law, to wit:

(a) The Company shall default in its compliance with the Employment Requirement (per number 3. of this Agreement); or

i. Terms of repayment for non-compliance for 8(a) shall be determined number by number 3. of this Agreement.

(b) Any representation or warranty made in connection with the execution and delivery of this Agreement or any other document executed in connection herewith or in any certificate furnished pursuant hereto or thereto shall prove to be, at any time, incorrect in any material respect; or

(c) The Company shall default in the performance of any other material term, covenant or agreement contained in this Agreement; or

(d) The Company shall be or become insolvent or bankrupt or have ceased or cease paying its debts as they mature or makes an assignment of or for the benefit of creditors, or a trustee or received or liquidator shall be appointed for the Company or for all or a substantial part of its property, or bankruptcy, reorganization, arrangement, insolvency, or similar proceedings shall be instituted by or against the Company under the law of any jurisdiction (provided, however, that in the event an involuntary bankruptcy action is commenced against the Company, then the Company shall have 180 days to secure the dismissal of such action).

Notwithstanding the foregoing, Grantor's sole and exclusive remedy against Grantee for a violation of the terms of Section 3 of the Grant Reimbursement Agreement (and the same provisions reiterated in Part III of the Grant Agreement) shall be repayment pursuant to the formulas set forth in those provisions.

9. **Notice.** All communications and notices provided for hereunder shall be in writing and

mailed or delivered to the parties hereto at their business addresses set forth below or, as to each party, at such other address as shall be designated by such party in a written notice to the other parties.

If to the Company:

INUVO, Inc.
1111 Main Street, 2nd Floor # 208
Conway, AR 72033
Attention: Chief Financial Officer

If to the Commission:

Arkansas Economic Development Commission
900 W. Capitol Ave., Ste. 400
Little Rock, AR 72201
Attention: Director of Business Finance

10. **Acquisition**. If the Company is acquired, defined as the purchase of 51% or more of the Company's stock, prior to 3/31/2023, and the purchasing entity does not assume the requirements outlined in the Grant Agreement, Grant Reimbursement Agreement, and accompanying documents, the acquiring entity will provide a rebate to the Grantor based on the formulas outlined in the Grant Agreement, Grant Reimbursement Agreement, and accompanying documents.

11. **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the Company and the Commission, and their respective heirs, personal representatives, successors and assigns, except that the Company may not assign or transfer its rights hereunder without the prior written consent of the Commission.

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12. **Governing Law.** This Agreement shall be deemed to contract under the laws of the State of Arkansas and for all purposes shall be governed by and construed in accordance with the laws of said State or the laws of the United States of America, as shall be applicable.

13. **Binding Effect.** This Agreement shall remain in full force and effect until the Remaining Reimbursement Amount has been paid in full.

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

ARKANSAS ECONOMIC DEVELOPMENT COMMISSION

By:__/s/ Michael J. Gaines__________________

INUVO, Inc.

By:_/s/ Richard K. Howe____________________
__Richard Howe ___________________
Chairman and CEO

SCHEDULE 1 TO GRANT AGREEMENT

In the following formulas and explanations; "ceases operations" is defined as less than 10 positions or a total payroll of less than $900,000 at the company's headquarters located in Conway, AR, or sells the majority of the assets to a non-affiliated entity except as otherwise allowed herein. "Grant Amount" is defined as the lesser of $1,750,000 or the actual amount granted to Grantee pursuant to the Grant Agreement.

The Company agrees:

- to endeavor to create and maintain at least 50 net new positions (Net New Positions) with an Average Total Compensation of all positions equaling at least $90,000 annually according to the employment schedule
- the new jobs created as described above will be located at the Inuvo headquarters located in Conway, Arkansas
- the new jobs created as described above and according to the employment schedule below will be created and maintained for the time period specified in the employment schedule
- Inuvo will submit annual job reports beginning on 4/30/2014 and continuing for nine (9) years thereafter.

Employment Schedule

	Defined Year	Est. Number of Positions Created Per Year	Number of Positions Maintained Per Year	Est. Number of Total Positions On Payroll Per Year
Year 1	4/1/13-3/31/14	0-26	0	0-26
Year 2	4/1/14-3/31/15	12	0-26	38
Year 3	4/1/15-3/31/16	6	38	42
Year 4	4/1/16-3/31/17	8	42	50
Year 5	4/1/17-3/31/18	0	50	50
Year 6	4/1/18-3/30/19	0	50	50
Year 7	4/1/19-3/31/20	0	50	50
Year 8	4/1/20-3/31/21	0	50	50
Year 9	4/1/21-3/31/22	0	50	50
Year 10	4/1/22-3/31/23	0	50	50

a) For the measured year beginning on 4/1/2013 and ending on 3/31/2014, with an annual report due by 4/30/2014, there would be no Reimbursement Requirement.

b) For the measured year beginning on 4/1/2014 and ending on 3/31/2015, with an annual report due by 4/30/2015, there would be no Reimbursement Requirement.

c) For the measured year beginning on 4/1/2015 and ending on 3/31/2016, with an annual report due by 4/30/2016, there would be no Reimbursement Requirement.

d) For the measured year beginning on 4/1/2016 and ending on 3/31/2017, with an annual report due by 4/30/2017, for any employment number under 50, the repayment would be calculated as:

Multiplier = Grant Amount/ 50 employees / 7 years

(50 – Number of total full-time positions filled at the headquarters facility) X Multiplier

e) For any measured year beginning with the year 4/1/2017-3/31/2018 and ending on 4/1/2022-3/31/2023, with annual reports beginning on 4/30/2018 and ending on 4/30/2023, for any employment number under 50, the repayment would be calculated as:

Multiplier = Grant Amount / 50 employees / 7 years

(50 – Number of total full-time positions filled at the headquarters facility) X Multiplier

It being understood that in order for a full-time position to be included in the measurement period, the position must have been filled for at least nine months during the reporting period with an average of thirty (30) hours per week.

f) For any measured year beginning with the year 4/1/2013-3/31/2014 and ending on 4/1/2022-3/31/2023, with annual reports beginning on 4/30/2014 and ending on 4/30/2023, if the average total compensation for the Net New Positions does not meet or exceed $90,000, the repayment would be calculated as:

Annualized Average Total Compensation of the Net New Positions located at the headquarters facility / number of actual positions maintained at the headquarters facility for the year = numerator

$90,000 = denominator

(Grant Amount / 10) – ((Grant Amount / 10) X (numerator / denominator))

It being understood that if a Net New Position is filled during a measurement period, such employee's compensation shall be calculated on an annualized basis for purposes of the foregoing calculation.

g) If the Company is acquired, as defined in the Grant Agreement, , prior to 3/31/2021, and the purchasing entity does not assume the requirements outlined in the Grant Agreement, Grant Reimbursement Agreement, and accompanying documents, the Company would owe a rebate, immediately due and payable upon the change of ownership, calculated as:

(Grant Amount – any repayments previously paid by the Company under any scenario above) – ((Grant Amount / 8) X each year The Company exceeds the "acquisition" standard.

This section is no longer applicable if the Company is acquired after 3/31/2021.

h) If the Company ceases operations, defined as less than 10 positions or a total payroll of less than $900,000, prior to 3/31/2021, the rebate, immediately due and payable when Inuvo ceases operations, would be calculated as:

(Grant Amount – any repayments previously paid by the Company under any scenario above) – ((Grant Amount / 8) X each year The Company exceeds the "ceases operations" standard)

This section is no longer applicable if the Company ceases operations any date after 3/31/2021.

In no case will the Company repay or rebate more money under this formula other than what was advanced by AEDC to the Company through the Quick Action Closing Fund. The Company may earn a year to year carryover credit for jobs created in excess of what is required by this Agreement. If the Company exceeds the jobs created estimate in a subsequent year in which case it will be entitled to a carry back for a period of one (1) year, and in such case the Company will be entitled to a repayment from AEDC through the formula above.

GOOGLE SERVICES AGREEMENT

COMPANY INFORMATION

COMPANY: VERTRO, INC.

	Business Contact:	**Legal Contact:**	**Technical Contact:**
Name:	Richard Howe	John Pisaris	Rick Anderson
Title:	CEO	General Counsel	VP of Technology
Address, City, State, Postal Code:	143 Varick St. New York NY 10013	143 Varick St. New York NY 10013	15550 Lightwave Dr. Suite 300 Clearwater FL 33760
Phone:	212.231.2000	212.231.2000	727.324.0150
Fax:			
Email:	Richard.Howe@inuvo.com	John.Pisaris@inuvo.com	Rick.Anderson@inuvo.com

TERM

TERM: ***

SEARCH SERVICES

WEBSEARCH SERVICE ("WS")	**Search Fees**
***	***

ADVERTISING SERVICES

ADSENSE FOR SEARCH ("AFS")	**AFS Revenue Share Percentage**	**AFS Deduction Percentage**

The confidential portions of this exhibit have been filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request in accordance with Rule 24b-2 of the Securities and Exchange Act of 1934, as amended. REDACTED PORTIONS OF THIS EXHIBIT ARE MARKED BY AN *.**

***	See Exhibit A	***

CURRENCY

	AUD		JPY
	CAD		KRW
	EUR	X	USD
	GBP		OTHER

The confidential portions of this exhibit have been filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request in accordance with Rule 24b-2 of the Securities and Exchange Act of 1934, as amended. REDACTED PORTIONS OF THIS EXHIBIT ARE MARKED BY AN *.**

This Google Services Agreement ("**Agreement**") is entered into by Google Inc. ("**Google**") and Vertro, Inc. ("**Company**") and is effective as of the Effective Date.

1. Definitions. In this Agreement:

1.1. "**Ad**" means an individual advertisement provided through the applicable Advertising Service.

1.2. "**Ad Deduction**" means, for each of the Advertising Services, for any period during the Term, the Deduction Percentage (listed on the front pages of this Agreement) of Ad Revenues.

1.3. "**Ad Revenues**" means, for any period during the Term, revenues that are recognized by Google in connection with Company's use of the applicable Advertising Service and attributed to Ads in that period.

1.4. "**Ad Set**" means a set of one or more Ads.

1.5. "**Advertising Services**" means the advertising services selected on the front pages of this Agreement.

1.6. "**Affiliate**" of a party means any corporate entity that directly or indirectly controls, is controlled by or is under common control with that party.

1.7. *****

1.8. *****

1.9. "**Brand Features**" means each party's trade names, trademarks, logos and other distinctive brand features.

1.10. "**Company Content**" means any content served to End Users that is not provided by Google.

1.11. "**Confidential Information**" means information disclosed by (or on behalf of) one party to the other party under this Agreement that is marked as confidential or would normally be considered confidential under the circumstances in which it is presented. It does not include information that the recipient already knew, that becomes public through no fault of the recipient, that was independently developed by the recipient, or that was lawfully given to the recipient by a third party.

1.12. "**End Users**" means individual human end users of a Site or Approved Client Application.

1.13. "**Equivalent Ads**" means any third party or Company sourced advertisements that are the same as or substantially similar in nature to the AFS Ads.

1.14. *****

1.15. *****

1.16. "**Google Program Guidelines**" means the policy and implementation guidelines applicable to the Services and as provided by Google to Company from time to time.

1.17. "**Intellectual Property Rights**" means all copyrights, moral rights, patent rights, trademarks, rights in or relating to Confidential Information and any other intellectual property or similar rights (registered or unregistered) throughout the world.

1.18. "**Net Ad Revenues**" means, for each of the Advertising Services, for any period during the Term, Ad Revenues for that period minus the Ad Deduction (if any) for that period.

1.19. "**Request**" means a request from Company or an End User (as applicable) to Google for a Search Results Set and/or an Ad Set (as applicable).

1.20. "**Results**" means Search Results Sets, Search Results, Ad Sets or Ads.

1.21. "**Results Page**" means any Site page that contains any Results.

1.22. "**Search Box**" means a search box (or other means approved by Google) for the purpose of sending search queries to Google as part of a Request.

1.23. ***

1.24. "**Search Result**" means an individual search result provided through the applicable Search Service.

1.25. "**Search Results Set**" means a set of one or more Search Results.

1.26. "**Search Services**" means the search services selected on the front pages of this Agreement.

1.27. "**Services**" means the Advertising Services and/or Search Services (as applicable).

1.28. "**Site(s)**" means the Web site(s) located at the URL(s) listed on the front pages of this Agreement, together with the additional URL(s) approved by Google from time to time under subsection 7.3(a) below.

2. Launch, Implementation and Maintenance of Services.

2.1. **Launch**. The parties will each use reasonable efforts to launch the Services into live use within 30 days from the Effective Date. Company will not launch its implementation of the Services into live use, and this implementation will not be payable by Google, until Google has approved the implementation in writing, which approval will not be unreasonably withheld or delayed.

2.2. **Implementation and Maintenance**.

(a) For the remainder of the Term, Google will make available and Company will implement and maintain each of the Services on each of the Sites and Approved Client Applications. For clarity, Company may not implement the Services on a property that is not a Site or Approved Client Application.

(b) Company will ensure that Company:

(i) is the technical and editorial decision maker in relation to each page, including Results Pages, and each Approved Client Application on which the Services are implemented; and

(ii) has control over the way in which the Services are implemented on each of those pages and Approved Client Applications.

(c) Company will ensure that the Services are implemented and maintained in accordance with:

(i) the applicable Google Branding Guidelines;

(ii) the applicable Google Program Guidelines;

(iii) the mock ups and specifications for the Services included in the exhibits to this Agreement; and

(iv) Google technical protocols (if any) and any other technical requirements and specifications applicable to the Services that are provided to Company by Google from time to time.

(d) ***

(e) Company will ensure that (i) every Search Query generates a WS Request, (ii) every Request is generated by a Search Query and (iii) every Request contains the Search Query that generated that Request.

(f) Google will, upon receiving a Request sent in compliance with this Agreement, provide a Search Results Set and/or an Ad Set (as applicable) when available. Company will then display the Search Results Set and/or Ad Set (as applicable) on the applicable Site.

(g) Company will ensure that at all times during the applicable Term, Company:

(i) has a clearly labeled and easily accessible privacy policy in place relating to the Site(s) and Approved Client Application(s); and

(ii) provides the End User with clear and comprehensive information about cookies and other information stored or accessed on the End User's device in connection with the Services, including information about End Users' options for cookie management.

(h) Company will use commercially reasonable efforts to ensure that an End User gives consent to the storing and accessing of cookies and other information on the End User's device in connection with the Services where such consent is required by law.

2.3. ***.

(a) ***

(b) ***

(c) ***

(d) ***

2.4. ***

2.5. ***

3. Policy and Compliance Obligations.

3.1. **Policy Obligations.** Company will not, and will not knowingly or negligently allow any third party to:

(i) modify, obscure or prevent the display of all, or any part of, any Results;

(j) edit, filter, truncate, append terms to or otherwise modify any Search Query;

(k) implement any click tracking or other monitoring of Results;

(l) display any Results in pop-ups, pop-unders, exit windows, expanding buttons, animation or other similar methods;

(m) interfere with the display of or frame any Results Page or any page accessed by clicking on any Results;

(n) display any content between any Results and any page accessed by clicking on those Results or place any interstitial content immediately before any Results Page containing any Results;

(o) enter into any type of co-branding, white labeling or sub-syndication arrangement with any third party in connection with any Results or Ad revenue;

(p) directly or indirectly, (i) offer incentives to End Users to generate impressions, Requests or clicks on Results, (ii) fraudulently generate impressions, Requests or clicks on Results or (iii) modify impressions, Requests or clicks on Results;

(q) "crawl", "spider", index or in any non-transitory manner store or cache information obtained from the Services (including Results); or

(r) display on any Site or Approved Client Application, any content that violates or encourages conduct that would violate the Google Program Guidelines, Google technical protocols and any other technical requirements and specifications applicable to the Services that are provided to Company by Google from time to time.

3.2. **Compliance Obligations**. Company will not knowingly or negligently allow any use of or access to the Services through any Site or Approved Client Application that is not in compliance with the terms of this Agreement. Company will use commercially reasonable efforts to monitor for any such access or use and will, if any such access or use is detected, take all reasonable steps requested by Google to disable this access or use. If Company is not in compliance with this Agreement at any time, Google may with notice to Company, suspend provision of all (or any part of) the applicable Services until Company implements adequate corrective modifications as reasonably required and determined by Google.

4. ***

5. ***

6. ***

7. Changes and Modifications.

7.1. **By Google**. If Google modifies the Google Branding Guidelines, Google Program Guidelines, or the Google technical protocols and the modification requires action by Company, Company will take the necessary action no later than 30 days from receipt of notice from Google. Any modifications to the Google Branding Guidelines or Google Program Guidelines will be generally applied to Google's similarly situated customers in the same region who are using the specific Service impacted by the modification.

7.2. **By Company**. Company will provide Google with at least 15 days prior notice of any change in code or serving technology that could reasonably be expected to affect the delivery or display of any Results.

7.3. **Site *** List Changes**.

(a) Company may notify Google from time to time that it wishes to add or remove URL(s) to those comprising the Site(s) *** by sending notice to Google at least 45 days before Company wishes the addition or deletion to take effect. Google may approve or disapprove the request in its reasonable discretion, this approval or disapproval to be in writing.

(b) If there is a change in control of any Site or Approved Client Application (such that the conditions set out in Section 2.2(b)(i) or 2.2(b)(ii) are not met):

(i) Company will provide notice to Google at least 30 days before the change; and

(ii) unless the entire Agreement is assigned to the third party controlling the Site or Approved Client Application in compliance with Section 16.3 (Assignment) below, from the date of that change in control of the Site or Approved Client Application, that Site or Approved Client Application will be treated as removed from this Agreement. Company will ensure that from that date, the Services are no longer implemented on that Site or Approved Client Application.

8. Intellectual Property. Except to the extent expressly stated otherwise in this Agreement, neither party will acquire any right, title or interest in any Intellectual Property Rights belonging to the other party, or to the other party's licensors.

9. Brand Features.

9.1. Google grants to Company a non-exclusive and non-sublicensable license during the Term to use the Google Brand Features solely to fulfill Company's obligations in connection with the Services in accordance with this Agreement and the Google Branding Guidelines. Google may revoke this license at any time upon notice to Company. Any goodwill resulting from the use by Company of the Google Brand Features will belong to Google.

9.2. Google may include Company's Brand Features in customer lists. Google will provide Company with a sample of this usage if requested by Company.

10. Payment.

10.1. **Company Payments**.

(a) **Search Services**. The Search Fees owed to Google under this Agreement will be calculated using the number of Requests for Search Results Sets as reported by Google.

(b) **Offset**. Google will, unless it has notified Company otherwise, offset the Search Fees payable by Company under this Agreement against Google's payment obligations to Company under this Agreement.

(c) **Invoices**. Even if the Search Fees are offset under subsection 10.1(b), Google will invoice (or send a statement of financial activity to) Company for Search Fees in the month after the Search Fees are incurred. Company will pay the invoice amount, if any, to Google within 30 days of the date of invoice.

10.2. **Google Payments**.

(a) For each applicable Advertising Service, Google will pay Company an amount equal to the Revenue Share Percentage (listed on the front pages of this Agreement) of Net Ad Revenues attributable to a calendar month. This payment will be made in the month following the calendar month in which the applicable Ads were displayed.

(b) Google's payments for Advertising Services under this Agreement will be based on Google's accounting which may be filtered to exclude (i) invalid queries, impressions, conversions or clicks, and (ii) any amounts refunded to advertisers in connection with Company's failure to comply with this Agreement, as reasonably determined by Google.

10.3. **All Payments**.

(a) As between Google and Company, Google is responsible for all taxes (if any) associated with the transactions between Google and advertisers in connection with Ads displayed on the Sites. Company is responsible for all taxes (if any) associated with the Services, other than taxes based on Google's net income. All payments to Company from Google in relation to the Services will be treated as inclusive of tax (if applicable) and will not be adjusted. If Google is obligated to withhold any taxes from its payments to Company, Google will notify Company of this and will make the payments net of the withheld amounts. Google will provide Company with original or certified copies of tax payments (or other sufficient evidence of tax payments) if any of these payments are made by Google.

(b) All payments due to Google or to Company will be in the currency specified in this Agreement and made by electronic transfer to the account notified to the paying party by the other party for that purpose, and the party receiving payment will be responsible for any bank charges assessed by the recipient's bank.

(c) In addition to other rights and remedies Google may have, Google may offset any payment obligations to Company that Google may incur under this Agreement against any product or service fees owed to Google and not yet paid by Company under this Agreement or any other agreement between Company and Google. Google may also withhold and offset against its payment obligations under this Agreement, or require Company to pay to Google within 30 days of any invoice, any amounts Google may have overpaid to Company in prior periods.

11. Warranties; Disclaimers.

11.1. **Warranties**. Each party warrants that (a) it has full power and authority to enter into this Agreement; and (b) entering into or performing under this Agreement will not violate any agreement it has with a third party.

11.2. **Disclaimers**. Except as expressly provided for in this Agreement and to the maximum extent permitted by applicable law, NEITHER PARTY MAKES ANY WARRANTY OF ANY KIND, WHETHER IMPLIED, STATUTORY, OR OTHERWISE AND DISCLAIMS, WITHOUT LIMITATION, WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR USE, AND NONINFRINGEMENT.

12. Indemnification.

12.1. **By Company**. Company will indemnify, defend, and hold harmless Google from and against all liabilities, damages, and costs (including settlement costs) arising out of a third party claim: (a) arising from any Company Content, Sites or Company Brand Features; (b) arising from Company's breach of this Agreement; or (c) arising from any Approved Client Applications.

12.2. **By Google**. Google will indemnify, defend, and hold harmless Company from and against all liabilities, damages, and costs (including settlement costs) arising out of a third party claim: (a) that Google's technology used to provide the Services or any Google Brand Features infringe(s) or misappropriate(s) any copyright, trade secret, trademark or US patent of that third party; or (b) arising from Google's breach of this Agreement. For purposes of clarity, Google will not have any obligations or liability under this Section 12 (Indemnification) arising from any Search Results, Ads, content appearing in Search Results or Ads, or content to which Search Results or Ads link.

12.3. **General**. The party seeking indemnification will promptly notify the other party of the claim and cooperate with the other party in defending the claim. The indemnifying party has full control and authority over the defense, except that any settlement requiring the party seeking indemnification to admit liability or to pay any money will require that party's prior written consent, such consent not to be unreasonably withheld or delayed. The other party may join in the defense with its own counsel at its own expense. THE INDEMNITIES IN SUBSECTIONS 12.1(a) and 12.2(a) ARE THE ONLY REMEDY UNDER THIS AGREEMENT FOR VIOLATION OF A THIRD PARTY'S INTELLECTUAL PROPERTY RIGHTS.

13. Limitation of Liability.

13.1. **Limitation**.

(a) NEITHER PARTY WILL BE LIABLE UNDER THIS AGREEMENT FOR LOST REVENUES OR INDIRECT, SPECIAL, INCIDENTAL, CONSEQUENTIAL, EXEMPLARY, OR PUNITIVE DAMAGES, EVEN IF THE PARTY KNEW OR SHOULD HAVE KNOWN THAT SUCH DAMAGES WERE POSSIBLE AND EVEN IF DIRECT DAMAGES DO NOT SATISFY A REMEDY.

(b) NEITHER PARTY WILL BE LIABLE UNDER THIS AGREEMENT FOR MORE THAN THE SUM OF FEES PAID TO SUCH PARTY UNDER THIS AGREEMENT AND AD REVENUES RECEIVED AND RETAINED BY SUCH PARTY DURING THE 12 MONTHS BEFORE THE CLAIM ARISES.

13.2. **Exceptions to Limitations**. These limitations of liability do not apply to Company's breach of Section 4 (Conflicting Services), breaches of confidentiality obligations contained in this Agreement, violations of a party's Intellectual Property Rights by the other party, or indemnification obligations contained in this Agreement.

14. Confidentiality; PR.

14.1. **Confidentiality**. The recipient of any Confidential Information will not disclose that Confidential Information, except to Affiliates, employees, and/or agents who need to know it and who have agreed in writing to keep it confidential. The recipient will ensure that those people and entities use Confidential Information only to exercise rights and fulfill obligations under this Agreement and keep the Confidential Information confidential. The recipient may also disclose Confidential Information when required by law after giving the discloser reasonable notice and the opportunity to seek confidential treatment, a protective order or similar remedies or relief prior to disclosure. ***

14.2. **Exceptions**. Notwithstanding Section 14.1 (Confidentiality), Google may (a) inform advertisers of Company's participation in the Google AdSense Program; and (b) share with advertisers Site-specific statistics, the Site URL, and related information collected by Google through its provision of the Advertising Service to Company. Disclosure of information by Google under this subsection 14.2 will be subject to the terms of the Google Privacy Policy located at the following URL: http://www.google.com/privacypolicy.html (or a different URL Google may provide to Company from time to time).

14.3. **PR**. Neither party will issue any public statement regarding this Agreement without the other party's prior written approval.

15. Term and Termination.

15.1. **Term**. The term of this Agreement is the Term stated on the front pages of this Agreement, unless earlier terminated as provided in this Agreement.

15.2. **Termination**.

(a) Either party may terminate this Agreement with notice if the other party is in material breach of this Agreement:

(i) where the breach is incapable of remedy;

(ii) where the breach is capable of remedy and the party in breach fails to remedy that breach within 30 days after receiving notice from the other party; or

(iii) more than twice even if the previous breaches were remedied.

(b) ***

(c) Google reserves the right to suspend or terminate Company's use of any Services that are alleged or reasonably believed by Google to infringe or violate a third party right. If any suspension of a Service under this subsection 15.2(c) continues for more than 6 months, Company may immediately terminate this Agreement upon notice to Google.

(d) Google may terminate this Agreement, or the provision of any Service, immediately with notice if pornographic content that is illegal under U.S. law is displayed on any Site.

(e) Upon the expiration or termination of this Agreement for any reason:

(i) all rights and licenses granted by each party will cease immediately; and

(ii) if requested, each party will use commercially reasonable efforts to promptly return to the other party, or destroy and certify the destruction of, all Confidential Information disclosed to it by the other party.

16. Miscellaneous.

16.1. **Compliance with Laws**. Each party will comply with all applicable laws, rules, and regulations in fulfilling its obligations under this Agreement.

16.2. **Notices**. All notices will be in writing and addressed to the attention of the other party's Legal Department and primary point of contact. Notice will be deemed given (a) when verified by written receipt if sent by personal courier, overnight courier, or mail; or (b) when verified by automated receipt or electronic logs if sent by facsimile or email.

16.3. **Assignment**. Neither party may assign or transfer any part of this Agreement without the written consent of the other party, except to an Affiliate but only if (a) the assignee agrees in writing to be bound by the terms of this Agreement and (b) the assigning party remains liable for obligations under this Agreement. Any other attempt to transfer or assign is void.

16.4. **Change of Control**. Upon the earlier of (i) entering into an agreement providing for a Change of Control (as defined below), (ii) the board of directors of a party recommending its shareholders approve a Change of Control, or (iii) the occurrence of a Change of Control (each, a "**Change of Control Event**"), the party experiencing the Change of Control Event will provide notice to the other party promptly, but no later than 3 days, after the occurrence of the Change of Control Event. The other party may terminate this Agreement by sending notice to the party experiencing the Change of Control Event and the termination will be effective upon the earlier of delivery of the termination notice or 3 days after the occurrence of the Change of Control Event. *******

16.5. **Governing Law**. This Agreement is governed by California law, excluding California's choice of law rules. FOR ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE PARTIES CONSENT TO PERSONAL JURISDICTION IN, AND THE EXCLUSIVE VENUE OF, THE COURTS IN SANTA CLARA COUNTY, CALIFORNIA.

16.6. **Equitable Relief**. Nothing in this Agreement will limit either party's ability to seek equitable relief.

16.7. **Entire Agreement; Amendments**. This Agreement is the parties' entire agreement relating to its subject and supersedes any prior or contemporaneous agreements on that subject. Any amendment must be in writing signed (including by electronic signature) by both parties and expressly state that it is amending this Agreement.

16.8. **No Waiver**. Failure to enforce any provision will not constitute a waiver.

16.9. **Severability**. If any provision of this Agreement is found unenforceable, the balance of this Agreement will remain in full force and effect.

16.10. **Survival**. The following sections of this Agreement will survive any expiration or termination of this Agreement: 8 (Intellectual Property), 12 (Indemnification), 13 (Limitation of Liability), 14 (Confidentiality; PR) and 16 (Miscellaneous).

16.11. **Independent Contractors**. The parties are independent contractors and this Agreement does not create an agency, partnership, or joint venture.

16.12. **No Third Party Beneficiaries**. There are no third-party beneficiaries to this Agreement.

16.13. **Force Majeure**. Neither party will be liable for inadequate performance to the extent caused by a condition (for example, natural disaster, act of war or terrorism, riot, labor condition, governmental action, and Internet disturbance) that was beyond the party's reasonable control.

16.14. **Counterparts**. The parties may execute this Agreement in counterparts, including facsimile, PDF or other electronic copies, which taken together will constitute one instrument.

Signed:

Google	**Company**
By: 2013.01 /s/ Nikesh Arora	By: /s/ Rich Howe
Print Name: Nikesh Arora	Print Name: Rich Howe
Title: President, Global Sales and Business Development Group, Google, Inc.	Title: Chairman/CEO
Date:	Date:

EXHIBIT A

AFS Revenue Share Percentage

***.

The confidential portions of this exhibit have been filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request in accordance with Rule 24b-2 of the Securities and Exchange Act of 1934, as amended. REDACTED PORTIONS OF THIS EXHIBIT ARE MARKED BY AN *.**

EXHIBIT B

Alternative Search Queries

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The text redacted from this Exhibit constituted three pages.

EXHIBIT C

Client Application Guidelines

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The text redacted from this Exhibit constituted six pages.

<u>APPENDIX A</u>

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APPENDIX B

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APPENDIX C-1

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APPENDIX C-2

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EXHIBIT D

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EXHIBIT E

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EXHIBIT F

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EXHIBIT G

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EXHIBIT H

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LEASE TERMINATION AGREEMENT

This Lease Termination Agreement (the "Agreement") is made and entered into as of this 25th day of January, 2013 by and between CAPITAL GROWTH OF CLEARWATER, LLC, a Florida limited liability company ("Landlord") and INUVO, INC., a Nevada corporation ("Tenant").

WHEREAS, Lightwave Drive, L.L.C. ("Lightwave") as the landlord and Tenant (then known as Think Partnership Inc. and by change of name now known as Inuvo, Inc.) as tenant entered into that certain Lease (the "Original Lease") dated August 10, 2007 , as amended by First Amendment To Lease Agreement (the "First Amendment") dated June__, 2008 and Second Amendment to Lease Agreement (the "Second Amendment") dated July 25, 2012 (the Original Lease as amended by the First Amendment and the Second Amendment is hereinafter referred to as the "Lease") pursuant to which Tenant leased certain premises in the building (the "Building") known as and numbered 15550 Lightwave Drive, Clearwater, Florida, all as more particularly described in the Lease; and

WHEREAS, Landlord purchased the Building from Lightwave and is the successor landlord under the Lease; and

WHEREAS, pursuant to the Second Amendment, Tenant is obligated to pay the Space Reduction Fee (as such term is defined in the Second Amendment) and Tenant has paid the First Installment of the Space Reduction Fee (as such term is defined in the Second Amendment) but the Second Installment of the Space Reduction Fee (as such term is defined in the Second Amendment), namely One Hundred Eighty Eight Thousand Thirty Seven and 50/100 ($188,037.50) Dollars is due and payable on or before March 1, 2013; and

WHEREAS, the term of the Lease is presently schedule to expire on November 30, 2013 (the "Current Expiration Date") but Tenant (i) has requested that Landlord agree to terminate the Lease effective as of the Early Termination Date (as such term is hereinafter defined) and (ii) has agreed to pay Landlord the sum of Four Hundred Twenty Seven Thousand and 00/100ths ($427,000.00) Dollars (the "Early Termination Payment") in order to induce Landlord to agree to such early termination of the Lease, all as more particularly hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt whereof is hereby acknowledged by the parties hereto, the Landlord and Tenant hereby agree as follows:

1. Payment of Second Installment of Space Reduction Fee and Payment of Early Termination Payment. Tenant shall continue to be obligated to pay, and hereby ratifies and confirms that Tenant will pay, the Second Installment of the Space Reduction Fee (namely One Hundred Eighty Eight Thousand Thirty Seven and 50/100 ($188,037.50) Dollars) on March 1, 2013. In addition, Tenant shall pay the Early Termination Payment to Landlord, in two installments as follows: (a) Three Hundred Fifteen Thousand and 00/100 ($315,000.00) Dollars (the "First Installment") on or before February 1, 2013 and (b) the balance, namely One Hundred Twelve Thousand and 00/100 ($112,000.00) Dollars on or before March 1, 2013. The Early Termination Payments shall represent payment in full of all unpaid Base Rent through and including the Current Expiration Date.

2. Payment of Additional Rent and Utilities. Tenant shall also pay to Landlord through and including the month of March, 2013 the monthly installments of Additional Rent

on account of Excess Taxes (as such term is defined in the Lease) and Excess Expenses (as such term is defined in the Lease) due and payable under the Lease and such payments shall be in addition to the Early Termination Payment and the Second Installment of the Space Reduction Fee and no part of the Early Termination Payment or the Second Installment of the Space Reduction Fee shall be credited or applied to or reduce such Additional Rent, provided, however, the foregoing monthly installments shall not exceed $500 per month.

Tenant shall also continue to be obligated to pay for (a) all HVAC usage outside of Business Hours as set forth in Section 5.3A of the Lease in accordance with the terms thereof through and including the Early Termination Date and for such additional periods as Tenant makes use of the Premises or any part thereof and (b) for all electricity used or consumed at, or in connection with, the Premises through the Early Termination Date and for such additional periods as Tenant make use of the Premises or any part thereof.

3. Payment of Sales Taxes. Tenant shall pay to Landlord for remittance to the appropriate taxing authority all sales, use or other similar tax on the Second Installment of the Space Reduction Fee, the Early Termination Payment, the Additional Rent and other sums and charges payable to Landlord by Tenant under this Agreement and/or the Lease (including, without limitation, the so-called Florida Sales and Use Tax, in each case, when the related payments of the Second Installment of Space Reduction Fee, Early Termination Payment, Additional Rent or other sums and charges are payable by Tenant under this Agreement and/or the Lease).

4. Early Termination. The Lease and the Term thereof shall expire and terminate effective as of the Early Termination Date as if such date were the date originally set forth in the Lease as the Expiration Date of the. As used herein, the term "Early Termination Date" shall mean March 31, 2013.

5. Condition of Premises. On or before the Early Termination Date, Tenant shall surrender and deliver up the Premises to Landlord in the condition required by the Lease with respect to the delivery and surrender of the Premises upon expiration or earlier termination of the Lease. Effective as of the Early Termination Date, Tenant shall have no further rights to use or occupy the Premises or any rights with respect to the Premises of any kind or nature.

6. No Reconciliation or Refund for Operating Expenses or Real Estate Taxes. Tenant shall not be entitled to received any reconciliation or refund on account of any overpayments of monthly installments of Additional Rent on account of Excess Taxes or Excess Expenses under the Lease nor shall Landlord be entitled to any additional payment from Tenant on account of Excess Taxes or Excess Expenses if the actual Excess Taxes or Excess Expenses for any period exceed the current estimated monthly installments paid by Tenant (but Tenant shall nevertheless be obligated to continue to pay the current estimated monthly payments required by the Lease on account of Excess Taxes and Excess Expenses allocable to the period through and including the Early Termination Date) nor shall Landlord have any obligation to provide any reconciliation to Tenant on account of or related to any Excess Taxes or Excess Expenses nor shall Tenant have any right to inspect or review Landlord's books or records with respect to the same.

7. Representations of Tenant. Tenant represents and warrant to Landlord, that (a) it has not assigned the Lease or sublet the Premises or any portion thereof and (b) the execution and delivery of this Agreement has been duly authorized by all necessary action on the part of Tenant.

8. Broker. Landlord and Tenant each warrant and represent to the other that it has dealt with no broker in connection with the consummation of this Agreement. In the event of any such brokerage claims against Landlord predicated upon prior dealings with Tenant, Tenant agrees to defend the same and indemnify Landlord against any such claim. In the event of any such brokerage claims against Tenant predicated on prior dealings with Landlord, Landlord agrees to defend the same and indemnify Tenant against any such claim.

9. Tenant hereby agrees that (a) it has no defenses or offsets against the enforcement of the Lease by Landlord, (b) it has no claims against the Lightwave (or Landlord) regarding the Lease or the Premises, (c) the Lease is in full force and effect and has not been amended or modified except as set forth herein, (d) Landlord has observed and performed all its obligations under the Lease through the date hereof and Tenant has no pending or threatened claims of any kind or nature against Lightwave or the Landlord and (e) any and all tenant improvements allowances and other tenant inducements and other payments payable or available to Tenant under the Lease have been paid in full.

10. Governing Law. This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Florida.

11. Entire Agreement. This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and there are no other understandings, written or oral, between the parties relating to the subject matter of this Agreement.

12. Counterparts. This Termination Agreement may be executed in two or more counterparts, which when taken together shall constitute one and the same instrument. Facsimile signatures and electronically transmitted signatures may be treated as original signatures.

13. Collection. All obligation and agreements of the Landlord under this Agreement shall be subject to the full collection by Landlord of all sums paid by certified check or otherwise hereunder.

14. All capitalized terms used herein and not otherwise defined herein shall have the meaning as set forth in the Lease. Time is of the essence with respect to all the payments, terms and provisions of this Agreement.

15. Except as modified herein, all the terms, covenants, provisions and conditions contained in the Lease are hereby affirmed and ratified.

[Remainder of page intentionally left blank. Signatures appear on next following page.]

IN WITNESS WHEREOF, the parties hereto have executed this Lease Termination Agreement as of the day and year first above written.

LANDLORD:

CAPITAL GROWTH OF CLEARWATER, LLC

By: CapGrow of Clearwater, Inc.
Its: Manager

____
Witness

By: /s/ Stephen P. Lipkins
Its:

____
Witness

TENANT:

INUVO, INC.

____
Witness

By: /s/ Wallace D. Ruiz
Its: CFO

____
Witness

JSK0064/3

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

Inuvo, Inc.		Nevada Corporation
	Morex Marketing Group, LLC / BabytoBee	New York Limited Liability Company
	Kidzadu, Inc.	Florida Corporation
	ValidClick	Missouri Corporation
	Check-Up Marketing, Inc.	North Carolina Corporation
	MarketSmart Advertising, 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
	Real Estate School Online, Inc.	Florida Corporation
	iLead Media, LLC	Delaware Limited Liability Company
	Kowabunga Marketing, Inc.	Michigan Corporation
	PrimaryAds, Inc.	New Jersey Corporation
	Vertro, Inc.	Delaware Corporation
	ALOT, Inc.	Delaware Corporation
	Varick & Spring I, Inc.	Delaware Corporation
	Varick & Spring (MSB), Inc.	Delaware Corporation
	Who Midco Corporation	Delaware Corporation
	Varick and Spring II, Inc.	Delaware Corporation
	Varick and Spring UK, Limited	United Kingdom
	Varick and Spring (Deutschland) GmbH	Germany

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, 2012 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 our 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 13, 2013 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, 2012 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 our 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 13, 2013

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, 2012 as filed with the Securities and Exchange Commission (the "Report"), I, Richard K. Howe, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

2. The information contained in the Report fairly presents, in all material respects, the financial conditions and results of operations of the Company.

March 13, 2013	By: */s/ Richard K. Howe*
	Richard K. Howe,
	Chief Executive Officer, principal executive officer

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

EXHIBIT 32.2

Section 1350 Certification

In connection with the Annual Report of Inuvo, Inc. (the "Company") on Form 10-K for the year ended December 31, 2012 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 13, 2013

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

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