

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, 2016

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

INUVO, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

87-0450450

(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

72201

(Zip Code)

Registrant's telephone number, including area code (501) 205-8508

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, 2016 (the last business day of the registrant's most recently completed second quarter), as reported on the NYSE MKT, was approximately \$28.9 million.

As of February 10, 2017, there were 28,443,577 shares of common stock of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2017 Annual Meeting of Stockholders, to be filed within 120 days of the year ended December 31, 2016, 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 (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "will," "should," "intend," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue," or the negative of such terms or other comparable terminology. This report includes, among others, statements regarding our:

- material dependence on our relationships with Yahoo! and Google;
- dependence of our Partner Network segment on relationships with distribution partners, and on the introduction of new products and services, which require significant investment;
- dependence of our Owned and Operated Network segment on our ability to effectively market and attract traffic;
- need to keep pace with technology changes;
- fluctuations of quarterly financial results and the trading price of our common stock;
- vulnerability to interruptions of services;
- dependence on key personnel;
- vulnerability to regulatory and legal uncertainties and our ability to comply with applicable laws and regulations;
- need to protect our intellectual property;
- vulnerability to publishers who could fabricate clicks;
- vulnerability to a downturn and to uncertainty in global economic conditions;
- integration of our recent NetSeer asset acquisition.
- dependence on our financing arrangements with Western Alliance Bank, which is collateralized by our assets;
- requirement to adhere to the covenants and restrictions in our grant agreement with the state of Arkansas;
- the dilutive impact to our stockholders from outstanding restricted stock grants, warrants and options; and
- the seasonality of our business.

These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this report in its entirety, including the risks described in 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 refer to Inuvo, Inc., a Nevada corporation, and its subsidiaries. When used in this report, "2015" means the fiscal year ended December 31, 2015, "2016" means the fiscal year ended December 31, 2016, and "2017" means the fiscal year ending December 31, 2017. The information which appears on our corporate web site at www.inuvo.com is not part of this report.

PART I

ITEM 1. BUSINESS.

Company Overview

Inuvo, Inc. is an internet advertising technology and digital publishing company incorporated in the state of Nevada. Our corporate office is located in Little Rock, Arkansas. Our common stock is listed on the NYSE MKT under the symbol “INUV.”

We develop technology that delivers content and advertisements over the internet. We develop direct to consumer marketing technology to acquire consumers for our content. We develop analytics and optimization technologies to align advertisements with consumers. We generate revenue when an end user clicks on or views the advertisements we delivered. We manage our business as two segments, the Partner Network (advertising technology) and the Owned and Operated Network (digital publishing). In 2016 and 2015, the Partner Network represented 36% and 43% of total revenue and the Owned and Operated Network 64% and 57%, respectively.

Within the Partner Network, we recruit online publishers and provide them an advertising delivery service, the primary brands for which are ValidClick and SearchLinks[®]. This service allows publishers the ability to place Inuvo ad-technology in various locations and configurations within their website or app for either a desktop or mobile implementation. We generate revenue in this segment when an advertisement that is delivered is subsequently clicked on by a consumer. Advertisements can be served by either Inuvo or a third party depending on the needs of the publisher. Typically, we collect revenue from advertisers when an advertisement is clicked and then share a portion of the revenue with the publisher. We deliver well in excess of a billion such advertisements annually.

The Owned and Operated Network designs, builds and markets consumer websites and applications. This segment consists of our main online property marketed under the ALOT brand and a number of other websites targeted at specific demographics like EARNSPENDLIVE and sites designed specifically for generating leads in a specific market vertical like ASKTHIS for automotive. The majority of revenue generated by this segment is derived from advertisements that have been delivered on web pages that include both ALOT content and advertisements. Our ALOT branded websites and applications have a broad appeal focusing on popular topics such as health, finance, careers, local search, travel, living, education and auto.

We have a number of highly differentiated and proprietary strengths that include long standing advertising relationships with Yahoo and Google from whom we source advertising inventory which we distribute through our own online properties or through those of third party publishers;

- the ability to serve hundreds of millions of advertisements to any device or browser in milliseconds;
- the power to both self-market and self-monetize our own publishing business;
- the capability to test advertising technology within our own publishing business;
- the power to target advertisements based on website content, past behavior or to redirect users back to Inuvo content when the economics and alignment are optimized;
- the capacity to expand to other geographies where appropriate;
- the capability to develop and publish content just-in-time to meet demand from advertisers;
- and
- a low cost operation in central Arkansas with access to numerous universities, and a proprietary technology infrastructure developed by, and in some cases patented by Inuvo.

We plan to continue growing our website and mobile application business by expanding the ALOT brand and acquiring new websites where appropriate. We plan to continue to distribute SearchLinks broadly throughout the Internet by growing our network of publishers. Financially, we are focused on growth while maintaining a positive cash flow. We expect to continue to make strategic investments principally in these areas: marketing technology associated with direct to consumer acquisition; the SearchLinks platform, and advertising targeting analytics.

Products and Services

- SearchLinks: A proprietary platform to deliver ads to digital publisher webpages and apps using natural language technology to identify a site's content, subject matter and context. It serves advertisements with text, images or video with a high relevancy to the identified content. The technology decides whether to serve the contextual advertisement or a behavioral advertisement based upon the greater monetization. The platform allows publishers to visualize the performance of advertising on their pages and manages the remuneration associated with that advertising.

- ValidClick: A legacy software as a service and delivery platform that is being replaced by the SearchLinks platform. It offers a pay-per-click solution where advertisements are targeted to consumers based on content and behaviors.
- MYAP: A proprietary online affiliate management solution that provides advertisers with the ability to sign up, manage and track the activities of publishers through a privately-branded platform with full data transparency. Typically, each MYAP customer is supported by a customized software implementation.
- ALOT: Branded web properties with content developed, edited and published by ALOT in categories like health, finance, travel, entertainment, careers, education and automotive.

Key Relationships

We maintain long-standing relationships with Yahoo! and Google that provide access to hundreds of thousands of advertisers from which the revenue we generate originates. When an advertisement within either our Partner Network or Owned and Operated Network is clicked, we effectively sell that click to these partners who then sell it to the advertisers. We maintain multi-year service contracts with both companies. We have extended the Google agreement through February 2017 and the Yahoo! agreement, through May 31, 2018. In 2016, these two customers accounted for 98.3% of our total revenue.

In addition to our key customer relationships, in the Partner Network we maintain important distribution relationships with owners and publishers of websites and mobile applications. Through our relationship with Yahoo! we provide these partners with advertisements through which they monetize their websites and mobile applications. We continuously monitor our partners' traffic with a variety of proprietary and patent protected software tools that can determine the quality of the traffic that is viewing and clicking on served advertisements.

Strategy

We believe we have a competitive advantage due to possessing three essential components of the end-to-end digital advertising ecosystem. *Content:* Virtually all the content we display on our sites is owned and developed by us. Our in-house team of writers and marketers develop material that attracts traffic to our internet properties. *Marketing:* The marketing of web properties and apps is a sophisticated, data-driven, statistical endeavor that requires expert analysts and statisticians as well as experienced marketing professionals. We believe our team and our marketing partners are among the best in the industry. *Technology:* We have state-of-the-art ad serving technology developed over the past ten years by our expert team of IT professionals. The technology assures instant ad serving of targeted ads which we believe yields high returns on investment, or ROIs, for publishers and more sales for advertisers. Owning these three assets gives us better control over our business and higher margins as we do not have the expense of outsourcing.

Our strategy has been to build an audience for our content so we can use our digital publishing business as a factory for sophisticated ad-technology development. By owning our own websites, we can adapt our ad-technology to any configuration while optimizing ad-targeting algorithms. Once we are satisfied that this ad-technology works well in our environment, we then commercialize it, selling it to other website publishers like us. This approach to ad-technology development reduces the time to market and improves the odds of success in-market.

Our ad-technology strategy has been to 1) develop technology that can target ads based on the content of a page; 2) develop technology that can target ads based on a past behavior, and 3) develop technology capable of redirecting ads to our branded digital content.

Sales and Marketing

We drive general awareness of our brands through various marketing channels including our websites, social media, blogs, public relations, trade shows, conferences and similar means. Marketing for our products differs by segment.

The Partner Network employs sales professionals that build and maintain relationships with advertisers and partners. Owners and publishers of websites and mobile applications are recruited into our network, serving as a delivery vehicle for the advertisements within this segment.

The Owned and Operated Network uses various marketing and optimization techniques to drive traffic and build awareness for the sites, engaging with various direct and indirect advertisers whose offers are placed on the sites and within the apps.

Competition

We face significant competition in our industry. Competitors are increasing their suite of offerings across marketing channels as a means to better compete for total advertising dollars.

A significant number of our competitors in both segments 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.

Partner Network

Success in the Partner Network is dependent on recruiting and retaining owners and publishers of websites and mobile applications who display our advertisements. We believe our proprietary software platform, the ability to quickly implement and provide new services, and the access to thousands of advertisements are significant advantages for us in building our partner base. Our competitors include companies with direct access to advertisers, such as Yahoo! and Google, Criteo SA, Media.net Advertising FZ-LLC, Taboola, Inc., Outbrain Inc. and a number of companies like ours with access to advertisers. Our partners face few barriers to switching advertising technology providers, so to compete effectively we must offer a better service than our competitors with a competitive rate of return for our partners.

Owned and Operated Network

Consumers have many choices in online content, and we believe that our success in the Owned and Operated Network is directly tied to our ability to provide easy access to valuable content and market it effectively. Our experience in search engine marketing, social media advertising and the creation of proprietary content helps us compete in this segment. We have many direct competitors, including Google, Yahoo!, WebMD LLC, Internet Brands, Inc., Leaf Group Ltd. and others, all of which offer online media or entertainment through websites, mobile apps or software products.

Technology Platforms

Our proprietary applications are constructed from established, readily available technologies. Some of the basic elements our products are built on components 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 controls into our critical components. We deliver our hosted solutions from facilities, geographically disbursed throughout the United States. Our 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.

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™, Yellowwise™, SearchLinks™ and trade and service registrations related to our products or services, including U.S. Federal Registration for ALOT® in the United States.

As of the date of this report we own two patents issued by the United States Patent and Trademark Office and have applied for a provisional patent to protect the technology that drives the SearchLinks process and algorithms:

- "System and Method for Enabling Information Associations" which was issued on April 1, 2008, and the expiration date of which as determined based on patent term adjustment as calculated by the U.S. Patent and Trademark Office ("USPTO") is September 11, 2021.
- "Method for Preventing Real Time Click Fraud Detection, Prevention and Reporting for Online Advertising" which was issued on November 27, 2012, and the expiration date of which is January 22, 2030, as determined based on patent term adjustment as calculated by the USPTO.
- The applied for SearchLinks provisional patent relates to pairing relevant advertisements with established web page content and more particularly to processing page content and retrieving relevant advertisements based on optimal comparisons and scoring criteria.

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.

Employees

As of January 31, 2017, we had 61 full-time employees, none of which are covered by a collective bargaining agreement.

Seasonality

Our future results of operations may be subject to fluctuation as a result of seasonality. Historically, in the later part of the fourth quarter and the earlier part of the first quarter we experience lower Revenue Per Click ("RPC") due to a decline in demand for inventory on websites and apps and the recalibrating of advertiser's marketing budgets after the holiday selling season. If we are not able to appropriately adjust to seasonal or other factors, it could have a material adverse effect on our financial results.

History

We were incorporated under the laws of the state of Nevada in October 1987 and operated within the oil and gas industry. This endeavor was not profitable, and from 1993 to 1997 we had essentially no operations. In 1997 we reorganized and through 2006 we acquired a number of companies involved in advertising and internet marketing. In 2009, following the weakness in the economy, a new team was called in to assess the array of businesses that had been acquired in the preceding years and as a result between 2009 and 2011, we sold or retired eleven businesses.

In March 2012, as part of a long-term strategy, we acquired Vertro, Inc. ("Vertro"), which owns and operates the ALOT product portfolio. This acquisition included the ALOT brand, as well as a long-standing relationship with Google. In 2013, with a grant funded by the State of Arkansas, we moved the headquarters to Arkansas where we have remained.

More Information

Our web site address is www.inuvo.com. We file with, or furnish to, the Securities and Exchange Commission (the "SEC") annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, as well as various other information. This information can be found on the SEC website at www.sec.gov. In addition, we make available free of charge through the Investor Relations page of our web site our annual reports, quarterly reports, and current reports, and all amendments to any of those reports, as soon as reasonably practicable after providing such reports to the SEC.

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.

We rely on two customers for a significant portion of our revenues. We are reliant upon Yahoo! and Google for most of our revenue. During 2016 they accounted for 68.6% and 29.7% of our revenues, respectively, and during 2015 they accounted for 64.8% and 33.2%, respectively. The amount of revenue we receive from these customers is dependent on a number of factors outside of our control, including the amount they charge for advertisements, the depth of advertisements available from them, and their ability to display relevant ads in response to our end-user queries.

We would likely experience a significant decline in revenue and our business operations could be significantly harmed if these customers do not approve our new websites and applications, or if we violate their guidelines or they change their guidelines. In addition, if any of these preceding circumstances were to occur, we may not be able to find a suitable alternate paid search results provider or otherwise replace the lost revenues. The loss of either of these customers or a material change in the revenue or gross profit they generate would have a material adverse impact on our business, results of operations and financial condition in future periods.

We are dependent upon relationships with and the success of our distribution partners. Our distribution partners are very important to the success of the Partner Network segment. We must recruit and maintain partners who are able to drive traffic successfully to their websites and mobile applications, resulting in clicks on advertisements we have delivered. These partners may experience difficulty in attracting and maintaining users for a number of reasons, including competition, rapidly changing markets and technology, industry consolidation and changing consumer preferences. Further, we may not be able to further develop and maintain relationships with distribution partners. They may be able to make their own deals directly with advertisers, may view us as competitors or may find our competitors offerings more desirable. Any of these potential events could have a material adverse effect on our business, financial position and results of operations.

The success of our Owned and Operated Network business is dependent on our ability to acquire traffic in a profitable manner. The Owned and Operated Network operates our ALOT-branded websites. This segment is dependent on our ability to attract traffic to our sites in a profitable manner. We use a predictive model to calculate the rate of return for marketing campaigns, which includes estimates and assumptions. If these estimates and assumptions are not accurate, we may not be able to effectively manage our marketing decisions and could acquire traffic in an unprofitable manner. In addition, we may not be able to maintain and grow our traffic for a number of reasons, including, but not limited to, acceptance of our websites by consumers, the availability of advertising to promote our websites, competition, and sufficiency of capital to purchase advertising. We advertise on search engine websites to drive traffic to our owned and operated websites. Our keyword advertising is done primarily with Google, but also with Yahoo! and Bing. If we are unable to maintain and grow traffic to our sites in a profitable manner, it could have a material adverse effect on our business, financial condition, and results of operations.

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. This includes making our products and services compatible and maintaining compatibility with multiple operating systems, desktop and mobile devices, and evolving network infrastructure. If we fail to do this, our results of operations and financial position could be adversely affected.

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 distribution partners and key customers 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 distribution partners. Quarterly fluctuations in our operating results also might be due to numerous other factors, including:

- our ability to attract new distribution partners, including the length of our sales cycles, or to sell increased usage of our service to existing distribution partners;

- technical difficulties or interruptions in our services;
- changes in privacy protection and other governmental regulations applicable to our industry;
- changes in our pricing policies or the pricing policies of our competitors;
- the financial condition and business success of our distribution partners;
- purchasing and budgeting cycles of our distribution partners;
- 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 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.

Our services may be interrupted if we experience problems with our network infrastructure. The performance of our network infrastructure is critical to our business and reputation. Because our services are delivered solely through the internet, our network infrastructure could be disrupted by a number of factors, including, but not limited to:

- unexpected increases in usage of our services;
- computer viruses and other security issues;
- interruption or other loss of connectivity provided by third-party internet service providers;
- natural disasters or other catastrophic events;
- and
- server failures or other hardware problems.

While we have data centers in multiple, geographically dispersed locations and active back-up and disaster recovery plans, we cannot assure you that serious interruptions will not occur in the future. If our services were to be interrupted, it could cause loss of users, customers and business partners, which could have a material adverse effect on our results of operations and financial position.

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 business operations. Loss of key personnel may result in disruption of operations, loss of key business relationships or expertise, additional recruiting and training costs, and diminished anticipated benefits of acquisitions. Our future success is substantially dependent on the continued service of our key senior management. We have experienced difficulty from time to time in attracting or retaining the personnel necessary to support the growth of our business, and we may experience similar difficulties in the future.

Regulatory and legal uncertainties could harm our business. While there are currently relatively few laws or regulations directly applicable to internet-based commerce or commercial search activity, there is increasing awareness of such activity and interest from state and federal lawmakers in regulating these services. New regulation of activities in which we are involved or the extension of existing laws and regulations to internet-based services could have a material adverse effect on our business, results of operations and financial position.

Failure to comply with federal, state and international privacy laws and regulations, or the expansion of current or the enactment of new privacy laws or regulations, could adversely affect our business. A variety of federal, state and international laws and regulations govern the collection, use, retention, sharing and security of consumer data. The existing privacy-related laws and regulations are evolving and subject to potentially differing interpretations. In addition, various federal, state and foreign legislative and regulatory bodies may expand current or enact new laws regarding privacy matters. For example, recently there have been Congressional hearings and increased attention to the capture and use of location-based information relating to users of smartphones and other mobile devices. We have posted privacy policies and practices concerning the collection, use and disclosure of subscriber data on our websites and applications. Several Internet companies have incurred penalties for failing to abide by the representations made in their privacy policies and practices. In addition, several states have adopted legislation that requires businesses to implement and maintain reasonable security procedures and practices to protect sensitive personal information and to provide notice to consumers in the event of a security breach. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, FTC requirements or orders or other federal, state or international privacy or consumer protection-related laws, regulations or industry self-regulatory principles could

result in claims, proceedings or actions against us by governmental entities or others or other liabilities, which could adversely affect our business.

We may face third party intellectual property infringement claims that could be costly to defend and result in the loss of significant rights. From time to time third parties have asserted infringement claims against us including copyright, trademark and patent infringement, among other things. 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 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 and publishers. 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. Although we have click fraud detection software in place, we cannot guarantee that we will identify all fraudulent clicks or be able to recover funds distributed for fabricated clicks. This risk could materially impact our ability to borrow, our cash flow and the stability of our business.

Our business is seasonal and our financial results may vary significantly from period to period. Our future results of operations may vary significantly from quarter to quarter and year to year because of numerous factors, including seasonality. Historically, in the later part of the fourth quarter and the earlier part of the first quarter we experience lower Revenue Per Click ("RPC") due to a decline in demand for inventory on website and app space and the recalibrating of advertiser's marketing budgets after the holiday selling season. If we are not able to appropriately adjust to seasonal or other factors, it could have a material adverse effect on our financial results.

A downturn or uncertainty in global economic conditions may have a significant negative effect on our access to credit and our ability to raise capital and may impact our business, operating results or financial condition. A future downturn or uncertainty in global economic conditions, may result in significant reductions in, and heightened credit quality standards for, available capital and liquidity from banks and other providers of credit and substantial reductions and/or fluctuations in equity and currency values worldwide, which may make it difficult for us to raise additional capital or obtain additional credit, when needed, on acceptable terms or at all. Moreover, deteriorated economic conditions, or the threat of a prolonged recessionary period, may cause disruptions and volatility in global financial markets, increased rates of default and bankruptcy and have a negative impact on the levels of consumer spending. These macroeconomic developments could negatively affect our business, operating results or financial condition in a number of ways. For example, current or potential customers, such as advertisers, may delay or decrease spending with us or may not pay us or may delay paying us for previously performed services. In addition, if consumer spending decreases, this may result in fewer clicks on our advertisers' ads displayed on our Owned and Operated Network websites or our Partner Network websites.

We must successfully integrate the business of NetSeer.

We have recently purchased substantially all the assets of Silicon Valley based NetSeer, Inc., a provider of visual monetization solutions for advertisers and publishers. The integration of the NetSeer businesses may be difficult, time consuming and costly. The integration may divert our management's time and resources from the operation of our core businesses. Our integration efforts may not be completed as planned, may take longer to complete or may be more costly than anticipated, or the acquired business may not achieve its expected results, any of which would have a material adverse effect on our business and results of operations. Additionally, if the acquired business is unable to achieve its expected results, there is risk of an impairment of the assets acquired, which in turn could have an adverse effect on our results of operations.

Failure to comply with the covenants and restrictions in our credit facility could impact our ability to access capital as needed. We have a credit facility with Western Alliance Bank ("Western Alliance Bank"), the parent company of Bridge Bank, N.A. our original lender, under which we had zero in debt outstanding as of December 31, 2016. The credit facility contains a number of covenants that requires us and certain of our subsidiaries to, among other things:

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

We have historically had difficulties meeting the financial covenants set forth in our credit agreement. Our lender has given us waivers in the past and reset our financial covenants several times. In the event of a breach of our covenants we cannot provide any assurance that our lender would provide a waiver or reset our covenants. A breach in our covenants could result in a default under the credit facility, and in such event Western Alliance Bank could elect to declare all borrowings outstanding, if any, to be due and payable. If this occurs and we have outstanding obligations and are not able to repay, Western Alliance Bank could require us to apply all of our available cash to repay the debt amounts and could then proceed against the underlying collateral. Should this occur, we cannot assure you that our assets would be sufficient to repay our debt in full, we would be able to borrow sufficient funds to refinance the debt, or that we would be able to obtain a waiver to cure any such default. In such an event, our ability to conduct our business as it is currently conducted would be in jeopardy.

Failure to comply with the covenants and restrictions in our grant agreement with the State of Arkansas could result in the repayment of a portion of the grant, which we may not be able to repay or finance on favorable terms. In January 2013, we entered into an agreement with the State of Arkansas whereby we were granted \$1,750,000 for the relocation of the Company to Arkansas and for the purchase of equipment. The grant was contingent upon us having at least 50 full-time equivalent permanent positions within four years, maintaining at least 50 full-time equivalent permanent positions for the following six years and paying those positions an average total compensation of \$90,000 per year. As of December 31, 2016, the grant required we have 50 employees located in Arkansas and on December 31, 2016 we had 52 employees located in Arkansas.

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. Should this occur, we cannot assure you that our assets would be sufficient to repay our grant in full, we would be able to borrow sufficient funds to refinance the grant, or that we would be able to obtain a waiver to cure any such default. In such an event, our ability to conduct our business as it is currently conducted would be in jeopardy.

Significant dilution will occur if outstanding warrants and options are exercised or restricted stock unit grants vest. As of December 31, 2016, we had warrants and stock options outstanding to purchase a total of 315,970 shares with exercise prices ranging from \$0.56 to \$3.70 per share, with a weighted average exercise price of \$2.52. We also had 755,507 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. See Note 2 to the financial statements for more details.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable to a smaller reporting company.

ITEM 2. PROPERTIES.

Our corporate headquarters are located in Little Rock, Arkansas. We entered into a five-year agreement to lease office space on October 1, 2015. The lease is for 12,245 square feet.

In addition to our office space, we maintain data center operations in third-party collocation facilities in Little Rock, AR and San Jose, CA.

ITEM 3. LEGAL PROCEEDINGS.

None

ITEM 4. Mine Safety 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 prices for our common stock for the following periods.

	<u>High</u>	<u>Low</u>
<i>Year Ended December 31, 2016:</i>		
First Quarter	\$ 2.77	\$ 1.67
Second Quarter	\$ 2.13	\$ 1.33
Third Quarter	\$ 1.78	\$ 1.05
Fourth Quarter	\$ 2.31	\$ 1.00
<i>Year Ended December 31, 2015</i>		
First Quarter	\$ 2.14	\$ 1.04
Second Quarter	\$ 3.57	\$ 1.81
Third Quarter	\$ 3.29	\$ 2.19
Fourth Quarter	\$ 3.25	\$ 2.55

As of February 10, 2017, the last reported sale price of the common stock on NYSE MKT was \$1.60 and there were approximately 403 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. 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, it currently does not anticipate that we will pay any cash dividends in the foreseeable future.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers⁽¹⁾

The following tabular summary reflects the Company's share repurchase activity during the year ended December 31, 2016:

<i>Period</i>	<i>Total Number of Shares Purchased</i>	<i>Average Price Paid per Share</i>	<i>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</i>	<i>Maximum number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs⁽²⁾</i>
December 9 - December 31	15,883	\$ 1.42	15,883	\$ 477,498
Total	15,883		15,883	477,498

⁽¹⁾ All shares were purchased under the Company's current share repurchase program, which was announced on December 9, 2016 and authorizes the repurchase of the Company's common stock totaling \$500,000. Under the authorization, the Company may purchase shares from time to time in the open market or in privately negotiated transactions in compliance with the applicable rules and regulations of the SEC. However, the timing and amount of such purchases, if any, would be at the discretion of management and would depend upon market conditions and other considerations.

⁽²⁾ This amount reflects the dollar value of shares remaining available to repurchase under the previously announced plan.

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

Company Overview

Inuvo, Inc. is an internet advertising technology and digital publishing company.

We develop technology that delivers content and advertisements over the internet. We develop direct to consumer marketing technology to acquire consumers for our content. We develop analytics and optimization technologies to align advertisements with consumers. We generate revenue when an end user clicks on the advertisements we delivered. We manage our business as two segments, the Partner Network (advertising technology) and the Owned and Operated Network (digital publishing).

Within the Partner Network, we recruit online publishers and provide them an advertising delivery service, the primary brand for which is SearchLinks[®]. This service allows publishers the ability to place Inuvo ad-technology in various locations and configurations within their website or app for either a desktop or mobile implementation. We generate revenue in this segment when an advertisement that is delivered is subsequently clicked on by a consumer. Advertisements can be served by either Inuvo or a third party depending on the needs of the publisher. Typically, we collect revenue from advertisers when an advertisement is clicked and then share a portion of the revenue with the publisher. We deliver well in excess of a billion such advertisements annually.

The Owned and Operated Network designs, builds and markets consumer websites and applications. This segment consists of our main online property marketed under the ALOT brand and a number of other websites targeted at specific demographics like EARNSPENDLIVE and sites designed specifically for generating leads in a specific market vertical like ASKTHIS for automotive. The majority of revenue generated by this segment is derived from advertisements that have been delivered on web pages that include both Inuvo content and advertisements. Our ALOT branded websites and applications have a broad appeal focusing on popular topics such as health, finance, careers, local search, travel, living, education and auto.

We have a number of highly differentiated and proprietary strengths that include; long standing advertising relationships with Yahoo and Google from whom we source advertising inventory which we distribute through our own online properties or through those of third party publishers; the ability to serve hundreds of millions of advertisements to any device or browser in milliseconds; the ability to both self-market and self-monetize our own publishing business; the ability to test advertising technology within our own publishing business; the ability to target advertisements based on website content, past behavior or to redirect users back to Inuvo content when the economics and alignment are optimized; the ability to expand to other geographies where appropriate; the ability to develop and publish content just-in-time to meet demand from advertisers; a low cost operation in central Arkansas with access to numerous universities, and a proprietary technology infrastructure developed by, and in some cases patented by Inuvo.

We plan to continue growing our website and mobile application business by expanding the ALOT brand and acquiring new websites where appropriate. We will continue to distribute SearchLinks broadly throughout the Internet by growing our network of publishers. Financially, we are focused on growth while maintaining a positive cash flow. We expect to continue to make strategic investments principally in these areas; marketing technology associated with direct to consumer acquisition; the SearchLinks platform, and advertising targeting analytics.

2016 Overview

After a year of very significant growth in 2015, 42% over the prior year, we experienced a soft second quarter in 2016. Changes in advertiser demand increased in the third quarter and we reported a 12% sequential growth rate in both our third and fourth quarters. During 2016, we:

- expanded the technology in our native advertising solution, SearchLinks, by including a behavioral target decision matrix;
- launched the performance marketing management platform for merchants, MYAP10;
- expanded the ALOT.com brand introducing an auto site;
and
- renewed our Yahoo agreement.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reported periods. The more critical accounting estimates include estimates related to revenue recognition and accounts receivable allowances. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results, which are described in Note 2 to our audited financial statements for 2016 and 2015 appearing elsewhere in this report.

Results of Operations

Net Revenue

	For the Years Ended December 31,			
	2016	2015	Change	% Change
Partner Network	\$ 26,011,543	\$ 30,298,532	\$ (4,286,989)	(14.1%)
Owned and Operated Network	45,518,559	40,139,584	5,378,975	13.4%
Total net revenue	\$ 71,530,102	\$ 70,438,116	\$ 1,091,986	1.6%

Net revenue for the year ended December 31, 2016 was \$71.5 million compared to \$70.4 million for the year ended December 31, 2015. Partner Network decreased 14% to \$26.0 million and the Owned and Operated Network increased 13.4% to \$45.5 million.

The Partner Network, which represents 36% of our total net revenue, delivers advertisements to our partners' websites and applications. Revenue in this segment is both a function of the total number of transactions processed through the ValidClick platform and the revenue we receive per transaction. At the end of the first quarter, we experienced fluctuations in demand from advertisers, which translated into a reduction in revenue received for ads we delivered. The result was both a lower number of transactions and a lower average RPC ("Revenue Per Click"). This fluctuation persisted into the third quarter 2016 and by the middle of the third quarter, both volume of transactions and RPCs improved. Despite this fluctuation, the Partner Network grew 58% in the fourth quarter over the same quarter last year; and grew sequentially 59% in the fourth quarter over the third quarter of the same year.

The Owned and Operated Network generates revenue through our consumer-facing ALOT branded websites and applications and through acquired websites. Our ALOT web properties include ALOT Health, ALOT Finance, ALOT Careers, ALOT Local, ALOT Travel, ALOT Living, ALOT Education, and ALOT Auto. These websites are content-rich and optimized for mobile and desktop devices, and are designed to capitalize on a growing consumer demand for content, delivered both on the desktop and on mobile devices. The increased revenue in this segment is from additional advertisements served to a growing user base of our owned and operated web properties. The revenue in this segment increased 13% in 2016 over 2015. The increased revenue is due to additional advertisements served to a growing user base of our owned and operated web properties. The increase in advertisements served and users engaged was due in part to increased marketing activity associated with our web properties where we are continuously expanding content. The lower revenue in the fourth quarter 2016 compared to the same quarter in the prior year was due in part to a reduction in advertiser demand we experienced in the ALOT sites. We intend to continue to expand our Owned and Operated Network by enhancing our current websites and mobile applications, launching additional mobile applications under the ALOT brand, expanding the content of the ALOT sites and acquiring additional web properties.

During the first quarter of 2016, the accrued sales allowance was adjusted as a result of not having an advertiser chargeback over the course of the previous year. The adjustment increased net revenue in the first quarter of 2016 by \$250,000.

Cost of Revenue

For the Year Ended December 31,

	2016	2015	Change	% Change
Partner Network	\$ 21,277,303	\$ 23,652,942	\$ (2,375,639)	(10.0%)
Owned and Operated Network	87,492	69,054	18,438	26.7%
Cost of revenue	<u>\$ 21,364,795</u>	<u>\$ 23,721,996</u>	<u>\$ (2,357,201)</u>	<u>(9.9%)</u>

Cost of revenue in the Partner Network is generated by payments to website and application publishers who host our advertisements. The decrease in cost of revenue in 2016 compared to 2015 is directly associated with the lower revenue reported in the Partner Network.

Owned and Operated Network cost of revenue consists of charges for web searches and content acquisition.

Operating Expenses

For the Year Ended December 31,

	2016	2015	Change	% Change
Marketing costs	\$ 39,195,653	\$ 34,324,646	\$ 4,871,007	14.2%
Compensation	6,830,338	5,598,804	1,231,534	22.0%
Selling, general and administrative	4,996,482	4,645,697	350,785	7.6%
Operating expenses	<u>\$ 51,022,473</u>	<u>\$ 44,569,147</u>	<u>\$ 6,453,326</u>	<u>14.5%</u>

Operating expenses increased in the twelve months ended December 31, 2016 as compared to the same period of the prior year. All operating expense categories reported higher expense.

Marketing costs include those expenses required to attract traffic to our owned and operated websites. Marketing costs increased in the twelve months ended December 31, 2016 as a result of the growth within the owned and operated website and application business. We expect marketing costs to continue to increase proportionally as we expand the ALOT branded websites and mobile applications and acquired sites.

Compensation expense increased 22.0 % in the twelve months ended December 31, 2016 to \$6.8 million as compared to the same period of 2015 due primarily to an increase in the number of employees. Our total employment, both full-time and part-time was 72 at December 31, 2016 compared to 63 at December 31, 2015. We expect compensation expense to increase in 2017 as we hire additional developers and sales personnel to support the SearchLinks product.

Selling, general and administrative costs were \$5.0 million, an increase of 7.6% over 2015. The primary reasons for the higher cost in the twelve months ended December 31, 2016 compared to the same period last year are approximately \$402,000 higher amortization and depreciation expense; \$70,000 higher facilities cost; \$53,000 higher travel and entertainment costs; partially offset by \$172,000 lower professional fees. We expect selling, general and administrative costs to remain relatively flat in 2017.

Interest Expense, net

Interest expense, net was \$99,965 and \$141,311 for the years ended December 31, 2016 and 2015, respectively. This is interest expense on the bank credit facility where average outstanding loan balances were significantly lower in 2016 compared to 2015.

Income tax benefit

In 2016, we recognized an income tax benefit of \$29,260.

In 2015, we recognized a tax benefit of approximately \$300,000 due to settling a disputed income tax claim with the State of New Jersey. The claim related to the 2007-2009 tax years and was settled for \$100,000. As a result, the remaining long-term taxes payable liability was adjusted and resulted in a one-time \$406,000 income tax benefit. The tax benefit in 2015 is partially offset by expense of approximately \$106,000 for state income tax.

Income (loss) from Discontinued Operations

Certain of our subsidiaries previously operated in the European Union ("EU"). Though operations ceased in 2009, statutory requirements required a continued presence in the EU for varying terms until November 2015. Profits and losses generated from the remaining assets and liabilities are accounted for as discontinued operations.

In the third quarter of 2016, our petition with the UK (United Kingdom) Companies House to strike off and dissolve the remaining subsidiary in the EU was approved. As a result, for the twelve months ended December 31, 2016 and December 31, 2015, we recognized income from discontinued operations of \$155,287 and \$33,969, respectively, due primarily to the adjustment of certain accrued liabilities originating in 2009 and earlier.

Liquidity and Capital Resources

On September 27, 2016, we renewed our Business Financing Agreement with Western Alliance Bank, the parent company of Bridge Bank, our original lender (see Note 6, "Notes Payable"). The renewal provided continued access to the revolving line of credit up to \$10 million through September 2018. As of December 31, 2016, the balance of the revolving line of credit was zero and had approximately \$6.0 million in availability.

In May 2015, we acquired websites from a publisher that had previously been a client on our ValidClick network. The purchase was structured as an earn-out payable in up to 500,000 shares of our common stock over a three-year period dependent upon achieving certain minimum levels of volume. The fair value of the transaction was determined to be \$715,874. The transaction was recorded as an intangible asset on our balance sheet offset by a contingent liability of the same amount. On May 8, 2016, the seller achieved the specific performance target for the first year and as a result, we distributed 166,667 shares of our common stock. The accrued contingent liability and the related intangible asset, domain websites were adjusted by approximately \$46 thousand to reflect the lower price paid as compared to the contingent liability recorded as a result of the change in the price of Inuvo stock from the date of acquisition to the first contingent release of shares.

During the first quarter of 2014, we filed an S-3 registration statement with the Securities and Exchange Commission ("SEC") to replace the existing, expiring S-3 "shelf" registration statement, which permits us to offer and sell up to \$15 million of our securities from time to time in one or more offerings. To date, we have not taken down any sales from this shelf registration statement. Though we believe the revolving line of credit and cash generated by operations will provide sufficient cash for operations over the next twelve months, we may still elect to sell securities to the public or to selected investors, or borrow under the current or any replacement line of credit or other debt instruments in order to fund the development of our technologies, make acquisitions, pursue new business opportunities or grow existing businesses.

During December 2016, 15,833 shares of our common stock were repurchased at an average price of \$1.42 per shares under the Company's current share repurchase program, which was announced on December 9, 2016 and authorizes the repurchase of the Company's common stock totaling \$500,000. Under the authorization, the Company may purchase shares from time to time in the open market or in privately negotiated transactions in compliance with the applicable rules and regulations of the SEC.

Cash Flows - Operating

Net cash provided by operating activities was \$1,053,019 during 2016. We reported a net loss of \$772,584, which included the non-cash expenses of depreciation and amortization of \$2,209,738 and stock-based compensation of \$1,264,266. The change in operating assets and liabilities was a net use of cash of \$1,441,713 primarily due to a decrease in the accounts payable balance by \$623,000 and an increase to the accounts receivable balance by \$583,000. Our terms are such that we generally collect receivables prior to paying trade payables. The increase in the accounts receivable balance was due to greater revenue in 2016 over 2015. The decrease in the accounts payable balance in 2016 over 2015 was due to lower traffic acquisition costs in the fourth quarter of 2016.

During 2015, we generated cash from operating activities of \$6,106,272 and a net income of \$2,339,774, which included the non-cash expenses of depreciation and amortization of \$1,807,350 and stock-based compensation expenses of \$707,544, partially offset by a reduction of an accrued state income tax liability of \$406,453. The change in operating assets and liabilities was a net provision of \$1,470,560.

Cash Flows - Investing

Net cash used in investing activities was \$1,116,371 and \$1,525,888 for 2016 and 2015, respectively. Cash used in investing activities in both years has primarily consisted of capitalized internal development costs.

Cash Flows - Financing

Net cash used in financing activities was \$247,048 during 2016.

During 2015, we used \$4,037,705 to pay off the outstanding balance of the bank term loan and pay down the revolving credit facility to zero.

Off Balance Sheet Arrangements

As of December 31, 2016, 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, 2016, 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, 2016. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the 2013 Treadway Commission (“COSO”) in *Internal Control-Integrated Framework*. Based upon this assessment, our management concluded that as of December 31, 2016 our internal control over financial reporting was effective.

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 year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

Compensatory Arrangements of Certain Executive Officers

On February 15, 2017, the Nominating, Corporate Governance and Compensation Committee of the Board of Directors, adopted the 2017 Management Incentive Program. The program established a cash incentive pool which may be awarded to executive officers and our employees, including our Chief Executive Officer Richard K. Howe. Up to \$700,000 of the cash incentive pool is based on our achieving certain revenue and adjusted EBITDA levels as determined by our 2017 financial results and up to an additional \$150,000 may be added to the pool at the discretion of the Nominating, Corporate Governance and Compensation Committee. The program provides that the total incentive pool which may be available for distribution will be divided between our executive officers (75% in the aggregate) and other employees (25% in the aggregate), subject to their continued employment with our company. The percentage of pool participation by each of our individual executive officers is fixed by the program and the amount of individual awards to our employees, other than our executive officers, will be determined by Mr. Howe.

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 2017 Annual Meeting of Shareholders to be filed on or prior to April 30, 2017 (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” beginning on page F-1 and included on pages F-2 through F-19.

2. Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the SEC 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 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.)
2.2	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 filed 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 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.)
4.2	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.)
4.3	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.)
4.4	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	2015 Long Term Equity Incentive Program (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on July 29, 2015.)

- 10.3 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.)
- 10.4 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.)
- 10.5 Consent to Sublease with Trinity Church effective April 12, 2013 regarding the Company's New York office. (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on May 9, 2013).
- 10.6 Third Business Financing Modification Agreement, dated March 29, 2013, effective May 1, 2013, with Bridge Bank, National Association. (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on May 9, 2013).
- 10.7 Lease with First Orion Corp. effective March 1, 2013 regarding the Company's Conway, AR office. (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on May 9, 2013).
- 10.8 Amendment No. 8 to Yahoo! Publisher Network Contract effective as of September 1, 2013, executed and delivered October 10, 2013. (Incorporated by reference to Registrant's Amendment No. 1 to Quarterly Report on Form 10-Q as filed on January 17, 2014).
- 10.9 2010 Equity Compensation Plan (Incorporated by reference to the Registrant's definitive proxy statement on Schedule 14A as filed on April 30, 2010.)
- 10.10 Lease Agreement, dated April 8, 2015, with Arkansas Democrat-Gazette, Inc. (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on April 29, 2015.)
- 10.11 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.)
- 10.12 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.)
- 10.13 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.)
- 10.14 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.)
- 10.15 Employment Agreement dated March 1, 2012 between Inuvo, Inc. and John B. Pizaris (Incorporated by reference to the Registrant's Current Report on Form 8-K as filed on March 6, 2012.)
- 10.16 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.)
- 10.17 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.)
- 10.18 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.)
- 10.19 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.)
- 10.20 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.)
- 10.21 Quick Action Closing Fund Grant Agreement, dated January 25, 2013, with the Arkansas Economic Development Commission. (Incorporated by reference to Form 10-K filed with the Securities and Exchange Commission on March 13, 2013).
- 10.22 Grant Reimbursement Agreement, dated January 25, 2013, with the Arkansas Economic Development Commission. (Incorporated by reference to Form 10-K filed with the Securities and Exchange Commission on March 13, 2013).
- 10.23 Google Services Agreement, effective February 1, 2015, with Google, Inc. (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed on April 29, 2015.)
- 10.24 Amendment #11 to Yahoo! Publisher Network Contract, effective January 15, 2016, executed and delivered January 26, 2015.(Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2015).

10.25	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).
10.26	Fourth Business Financing Modification Agreement, dated March 6, 2014, with Bridge Bank, National Association. (Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2013).
10.27	Fifth Business Financing Modification Agreement, dated September 29, 2014 with Bridge Bank N.A. (Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended September 30, 2014).
10.28	Bridge Bank BFA Modification, dated October 9, 2014 (Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended September 30, 2014).
10.29	Amendment #12 to Yahoo! Publisher Network Contract, effective March 2, 2016. (Incorporated by reference to Form 10-Q for the period ended March 31, 2016).
10.30	Sixth Business Financing Modification Agreement, dated September 27, 2016 with Bridge Bank N.A. (Incorporated by reference to the quarterly report on Form 10-Q for the period ended September 30, 2016).
10.31	Seventh Business Financing Modification Agreement, dated December 9, 2016 with Bridge Bank N.A.*
10.32	Google Services Agreement, dated February 28, 2017.*
21.1	Subsidiaries of the Registrant (Incorporated by reference to Form 10-K filed with the Securities and Exchange Commission on March 13, 2013).*
23.1	Consent of Mayer Hoffman McCann P.C.*
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

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.

February 16, 2017

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Richard K. Howe</u> Richard K. Howe	Chairman of the Board of Directors, Chief Executive Officer, and principal executive officer	February 16, 2017
<u>/s/ Wallace D. Ruiz</u> Wallace D. Ruiz	Chief Financial Officer, principal financial and accounting officer	February 16, 2017
<u>/s/ G. Kent Burnett</u> G. Kent Burnett	Director	February 16, 2017
<u>/s/ Gordon J. Cameron</u> Gordon J. Cameron	Director	February 16, 2017
<u>/s/ Charles D. Morgan</u> Charles D. Morgan	Director	February 16, 2017
<u>/s/ Charles L. Pope</u> Charles L. Pope	Director	February 16, 2017
<u>/s/ Patrick Terrell</u> Patrick Terrell	Director	February 16, 2017

INUVO, INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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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, 2016 and 2015 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2016. 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, 2016 and 2015 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

/s/ Mayer Hoffman McCann P.C.

Clearwater, Florida

February 16, 2017

Inuvo, Inc.
Consolidated Balance Sheets
For the Years Ended December 31,

	2016	2015
Assets		
Current assets		
Cash	\$ 3,946,804	\$ 4,257,204
Accounts receivable, net of allowance for doubtful accounts of \$23,000 and \$17,200, respectively	7,586,129	7,001,337
Unbilled revenue	8,644	16,154
Prepaid expenses and other current assets	284,469	345,752
Total current assets	11,826,046	11,620,447
Property and equipment, net	1,615,223	1,805,561
Other assets		
Goodwill	5,760,808	5,760,808
Intangible assets, net of accumulated amortization	8,343,876	9,320,951
Other assets	15,186	224,759
Total other assets	14,119,870	15,306,518
Total assets	\$ 27,561,139	\$ 28,732,526
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 9,280,779	\$ 10,080,315
Accrued expenses and other current liabilities	2,689,640	3,169,445
Total current liabilities	11,970,419	13,249,760
Long-term liabilities		
Deferred tax liability	3,738,500	3,799,600
Other long-term liabilities	326,428	722,722
Total long-term liabilities	4,064,928	4,522,322
Stockholders' equity		
Preferred stock, \$.001 par value:		
Authorized shares 500,000, none issued and outstanding	—	—
Common stock, \$.001 par value:		
Authorized shares 40,000,000; issued shares 25,300,189 and 24,752,408 respectively; outstanding shares 24,923,662 and 24,375,881, respectively	25,300	24,752
Additional paid-in capital	130,418,413	129,081,029
Accumulated deficit	(117,521,362)	(116,748,778)
Treasury stock, at cost - 376,527 shares	(1,396,559)	(1,396,559)
Total stockholders' equity	11,525,792	10,960,444
Total liabilities and stockholders' equity	\$ 27,561,139	\$ 28,732,526

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

Inuvo, Inc.
Consolidated Statements Operations

	For the Years Ended December 31,	
	2016	2015
Net revenue	\$ 71,530,102	\$ 70,438,116
Cost of revenue	21,364,795	23,721,996
Gross profit	50,165,307	46,716,120
Operating expenses		
Marketing costs	39,195,653	34,324,646
Compensation	6,830,338	5,598,804
Selling, general and administrative	4,996,482	4,645,697
Total operating expenses	51,022,473	44,569,147
Operating (loss) income	(857,166)	2,146,973
Interest expense, net	(99,965)	(141,311)
(Loss) income from continuing operations before taxes	(957,131)	2,005,662
Income tax benefit	29,260	300,143
Net (loss) income from continuing operations	(927,871)	2,305,805
Net income from discontinued operations	155,287	33,969
Net (loss) income	\$ (772,584)	\$ 2,339,774
Per common share data		
Basic and diluted		
Net (loss) income from continuing operations	\$ (0.04)	\$ 0.10
Net income from discontinued operations	0.01	—
Net (loss) income	\$ (0.03)	\$ 0.10
Weighted average shares		
Basic	24,660,995	24,249,852
Diluted	24,660,995	24,539,555

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

Inuvo, Inc.
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2016 and 2015

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	Stock				
Balances as of December 31, 2014	23,711,100	\$ 24,087	\$ 128,734,759	\$ (119,088,552)	\$ (1,396,559)	\$ 8,273,735
Net income	—	—	—	2,339,774	—	2,339,774
Stock-based compensation	—	—	707,544	—	—	707,544
Stock issued for vested restricted stock awards	664,781	665	(110,192)	—	—	(109,527)
Taxes withheld on vested restricted stock	—	—	(251,082)	—	—	(251,082)
Balances as of December 31, 2015	24,375,881	\$ 24,752	\$ 129,081,029	\$ (116,748,778)	\$ (1,396,559)	\$ 10,960,444
Net (loss)	—	—	—	(772,584)	—	(772,584)
Stock-based compensation	—	—	1,264,266	—	—	1,264,266
Stock issued for vested restricted stock awards	396,997	397	(397)	—	—	—
Taxes withheld on vested restricted stock	—	—	(203,836)	—	—	(203,836)
Contingent stock issuance	166,667	167	299,834	—	—	300,001
Treasury Stock Repurchase	(15,883)	(16)	(22,483)	—	—	(22,499)
Balances as of December 31, 2016	24,923,662	\$ 25,300	\$ 130,418,413	\$ (117,521,362)	\$ (1,396,559)	\$ 11,525,792

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

Inuvo, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating activities:		
Net (loss) income	\$ (772,584)	\$ 2,339,774
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	2,209,738	1,807,350
Stock based compensation	1,264,266	707,544
Provision (Recovery) for doubtful accounts	5,800	(6,036)
Adjustment of European liabilities related to discontinued operations	(176,988)	(59,751)
Deferred income taxes	(61,100)	233,480
Amortization of financing fees	25,600	19,804
Settlement of tax liability	—	(406,453)
Change in operating assets and liabilities:		
Prepaid expenses and other assets	219,656	(19,370)
Accounts payable	(622,548)	4,545,906
Accounts receivable and unbilled revenue	(583,082)	(2,001,613)
Accrued expenses and other liabilities	(420,875)	(1,054,363)
Other	(34,864)	—
Net cash provided by operating activities	1,053,019	6,106,272
Investing activities:		
Purchases of equipment and capitalized development costs	(1,116,371)	(1,525,888)
Net cash used in investing activities	(1,116,371)	(1,525,888)
Financing activities:		
Proceeds from revolving line of credit	7,950,000	4,000,000
Prepaid financing fees	25,600	25,600
Payments on revolving line of credit	(7,950,000)	(5,793,275)
Net taxes paid on RSU grants exercised	(203,836)	(360,608)
Payments on term note payable and capital leases	(46,313)	(1,909,422)
Treasury Stock Repurchase	(22,499)	—
Net cash used in financing activities	(247,048)	(4,037,705)
Net change – cash	(310,400)	542,679
Cash, beginning of year	4,257,204	3,714,525
Cash, end of year	\$ 3,946,804	\$ 4,257,204
Supplemental information:		
Interest paid	\$ 72,751	\$ 122,136
Income taxes paid, net of refund	\$ 26,000	\$ 280,453
Cash received from construction allowance	\$ —	200,000
Non-cash investing and financing activities:		
Purchase of property and equipment under capital lease	\$ —	\$ 103,609
Purchase of intangible assets through a contingent liability	\$ —	\$ 715,874
Stock issuance for partial settlement of contingent liability	\$ 300,001	\$ —
Write-down of domain names due to partial settlement of contingent liability	\$ 46,367	\$ —

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

Inuvo, Inc.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 1 – Organization and Business

Company Overview

Inuvo, Inc. is an internet advertising technology and digital publishing company.

We develop technology that delivers content and advertisements over the internet. We develop direct to consumer marketing technology to acquire consumers for our content. We develop analytics and optimization technologies to align advertisements with consumers. We generate revenue when an end user clicks on the advertisements we delivered. We manage our business as two segments, the Partner Network (advertising technology) and the Owned and Operated Network (digital publishing).

Within the Partner Network, we recruit online publishers and provide them an advertising delivery service, the primary brand for which is SearchLinks[®]. This service allows publishers the ability to place Inuvo ad-technology in various locations and configurations within their website or app for either a desktop or mobile implementation. We generate revenue in this segment when an advertisement that is delivered is subsequently clicked on by a consumer. Advertisements can be served by either Inuvo or a third party depending on the needs of the publisher. Typically, we collect revenue from advertisers when an advertisement is clicked and then share a portion of the revenue with the publisher. We deliver well in excess of a billion such advertisements annually.

The Owned and Operated Network designs, builds and markets consumer websites and applications. This segment consists of our main online property marketed under the ALOT brand and a number of other websites targeted at specific demographics like EARNSPENDLIVE and sites designed specifically for generating leads in a specific market vertical like ASKTHIS for automotive. The majority of revenue generated by this segment is derived from advertisements that have been delivered on web pages that include both Inuvo content and advertisements. Our ALOT branded websites and applications have a broad appeal focusing on popular topics such as health, finance, careers, local search, travel, living, education and auto.

We have a number of highly differentiated and proprietary strengths that include; long standing advertising relationships with Yahoo and Google from whom we source advertising inventory which we distribute through our own online properties or through those of third party publishers; the ability to serve hundreds of millions of advertisements to any device or browser in milliseconds; the ability to both self-market and self-monetize our own publishing business; the ability to test advertising technology within our own publishing business; the ability to target advertisements based on website content, past behavior or to redirect users back to Inuvo content when the economics and alignment are optimized; the ability to expand to other geographies where appropriate; the ability to develop and publish content just-in-time to meet demand from advertisers; a low cost operation in central Arkansas with access to numerous universities, and a proprietary technology infrastructure developed by, and in some cases patented by Inuvo.

We plan to continue growing our website and mobile application business by expanding the ALOT brand and acquiring new websites where appropriate. We will continue to distribute SearchLinks broadly throughout the Internet by growing our network of publishers. Financially, we are focused on growth while maintaining a positive cash flow. We expect to continue to make strategic investments principally in these areas; marketing technology associated with direct to consumer acquisition; the SearchLinks platform, and advertising targeting analytics.

Liquidity

On September 27, 2016, we renewed our Business Financing Agreement with Western Alliance Bank ("Western Alliance Bank"), the parent company of Bridge Bank, N.A., our original lender (see Note 6, "Notes Payable"). The renewal provided continued access to the revolving line of credit up to \$10 million through September 2018. As of December 31, 2016, the balance of the revolving line of credit was zero. The revolving line of credit had approximately \$6.0 million in availability at December 31, 2016. During the first quarter of 2014, we filed an S-3 registration statement with the Securities and Exchange Commission ("SEC") to replace the existing, expiring S-3 "shelf" registration statement. Though we believe the revolving line of credit and cash generated by operations will provide sufficient cash for operations over the next twelve months, we may still elect to sell stock to the public or to selected investors, or borrow under the current or any replacement line of credit or other debt instruments in order to fund the development of our technologies, make acquisitions, pursue new business opportunities or grow existing businesses.

Note 2 – Summary of Significant Accounting Policies

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.

Cash and cash equivalents - Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

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

Most of our revenue is generated through clicks on advertisements presented on our properties or those of our partners. We recognize revenue from clicks in the period in which the click occurs. Payments to partners who display advertisements on our behalf are recognized as cost of revenue. Revenue from data sales and commissions is recognized in the period in which the transaction occurs and the other revenue recognition criteria are met.

Accounts receivable - Accounts receivable consists of trade receivables from customers. We record accounts receivable at its net realizable value, recognizing an allowance for doubtful accounts based on our best estimate of probable credit losses on our existing accounts receivable. Balances are written off against the allowance after all means of collection have been exhausted and the possibility of recovery is considered remote.

Marketing costs - Marketing costs include the purchase of sponsored listings from search engines and is our primary method of attracting consumers to our owned and operated applications and websites. We expense these costs as incurred and present them as a separate line item in operating expenses on the consolidated statements of operations.

Property and equipment - Property and equipment are stated at cost, net of accumulated depreciation and amortization. Major renewals and improvements are capitalized while 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 are eliminated from accounts and the net gain or loss is reflected as an operating expense in the statements of operations.

Property and equipment are depreciated on a straight-line basis over three years for equipment, five to seven years for furniture and fixtures and two to three 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 expense was \$1,279,030 and \$882,105, respectively, for the years ended December 31, 2016 and 2015.

Capitalized Software Costs - We capitalize certain costs related to internally developed software and amortize these costs using the straight-line method over the estimated useful life of the software, generally two years. 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.

Goodwill - 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).

During 2016 and 2015, we elected to proceed directly to the two-step testing process. We determined there was no impairment of goodwill during 2016 and 2015.

See Note 5, Intangible Assets and Goodwill, for more information.

Intangible Assets - We allocate a portion of the purchase price of acquisitions to identifiable intangible assets and we amortize definite-lived assets over their estimated useful lives. We consider our indefinite-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

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. Trade names are not amortized as they are believed to have an indefinite life. Trade names are reviewed annually for impairment under ASC 350.

As a result of our acquisition of Vertro, Inc. ("Vertro") in March 2012, we recognized an asset for the customer relationship with Google of \$8,820,000 and assigned it a useful life of 20 years. A primary reason for acquiring Vertro was its relationship with Google. Up to the time of the acquisition, we principally had access to the Yahoo! inventory of advertisements. Among the many valuable assets acquired in the Vertro transaction was this Google relationship and the access it provided to an enormous inventory of advertisements. In addition, we acquired the ALOT brand, whose products are monetized through Google and has historically produced a better margin than monetization through Yahoo!. In determining the useful life of this asset, we considered the strategic importance of Vertro's strong relationship with Google. Vertro and its predecessor company had contracts and successful renewals with Google that date back to 2006. The Google contract has been extended through February 28, 2017. We expect the relationship with Google to continue through the 20-year amortization period and beyond.

At the time of the Vertro acquisition, we engaged a third party valuation service to determine the fair value of the acquired assets. At the close of the 2016 and 2015 fiscal years, we again engaged a third party valuation service to reassess the fair value of the acquired assets.

From time to time, both search marketplaces, Google and Yahoo!, may implement policy or marketplace changes. In January 2013 Google requested changes to our agreement that impacted marketing programs for one of our ALOT products, the Appbar, the result of which was a decline in the number of product installs. Since acquiring the ALOT brand in the Vertro acquisition, we have materially expanded the brand into a number of additional owned and operated websites and applications. We expect products within the brand to ebb and flow as customer preferences change and Google adjusts its marketplace policies. At the close of 2013, we considered the Google change and decided to transition out of the Appbar product and replace it with web properties that we develop. At the close of 2014, we determined that the asset continued to be recoverable despite the impact to the Appbar product and our decision to transition away from it. We made this determination in part because during 2014 we completely replaced the revenue and margin from the Appbar product with other ALOT-branded and Google monetized products. Between websites and applications, we have launched more than 20 new ALOT-branded products beginning in 2013 and we expect to continue aggressively building out our Owned and Operated Network segment into the future.

In May 2015, we purchased two domain websites and recorded the purchase at \$715,874.

We recorded no impairment of intangible assets during 2016 or 2015.

See Note 5, Intangible Assets and Goodwill, for more information.

Income taxes - 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, which 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 believe it is more likely than not that essentially none of our deferred tax assets will be realized, and we have recorded a full valuation for the net deferred tax assets as of December 31, 2016 and 2015.

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.

Impairment of long-lived assets - In accordance with *ASC 360, Property, Plant and Equipment*, long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the asset is measured by comparison of 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.

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 stock awards over the requisite employee service period.

The fair value of restricted stock awards is based on the market price of our common stock on the date of the grant. To value stock option awards, we use the Black-Scholes-Merton option pricing model. This model involves assumptions including the expected life of the option, stock price volatility, risk-free interest rate, dividend yield and exercise price. We recognize compensation expense in earnings over the requisite service period, applying a forfeiture rate to account for expected forfeitures of awards.

See Note 10, Stock-Based Compensation, for further details on our stock awards.

Government Grant- During the first quarter of 2013, we received a grant from the state of Arkansas to relocate our corporate headquarters to Conway, AR. We recognize the grant funds into income as a reduction of the related expense in the period in which those expenses are recognized. We defer grant funds related to capitalized costs and classify them as current or long-term liabilities on the balance sheet according to the classification of the associated asset. Grant funds received are presented on the consolidated statements of cash flows as operating or investing cash flows depending on the classification of the underlying spend.

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

Earnings 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. We reported a net loss for 2016 and therefore, 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.

For the year ended December 31, 2015, options to purchase 312,331 shares with a weighted average exercise price of \$4.51 per share and warrants to purchase 656,112 shares with a weighted average exercise price of \$2.45 per share were excluded from the diluted shares calculation for 2015 because their exercise price was higher than the average stock price for the period. In addition, restricted stock units totaling 971,055 shares with a weighted average grant date price of \$3.41 were also excluded because the effect of their inclusion would have been anti-dilutive.

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, the Partner Network and the Owned and Operated Network. See Note 16 for additional segment information.

Concentration of credit risk - We are exposed to concentrations of risk primarily in 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. At times, deposits may exceed FDIC limits.

Customer concentrations - At December 31, 2016, we had two individual customers with accounts receivable balances greater than 10% of the gross accounts receivable from continuing operations. These customers combined owed approximately 98.6% of our gross accounts receivable balance as of December 31, 2016 and 2015. The same two customers accounted for 98.3% and 98.0% of our revenue for the years ended December 31, 2016 and 2015, respectively.

Use of estimates - The preparation of financial statements, in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), requires management to make estimates and assumptions that affect the reported amounts of

assets, liabilities, net revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's regular evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements. We regularly evaluate estimates and assumptions related to allowances for returns and redemptions, allowances for doubtful accounts, goodwill and purchased intangible asset valuations, lives of intangible assets, deferred income tax asset valuation allowances, contingent liabilities, including the Arkansas grant contingency, and stock compensation. Actual results may differ from the estimates and assumptions used in preparing the accompanying consolidated financial statements, and such differences could be material.

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 15 for additional information.

Recent accounting pronouncements not yet adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition" and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers by one year the effective date of ASU 2014-09. Accordingly, this guidance is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted for interim and annual periods beginning after December 15, 2016. The Company plans to adopt this guidance on January 1, 2018. The Company is currently evaluating the effects, if any, that the adoption of this guidance will have on the Company's financial position, results of operations and cash flows.

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

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*. This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of ASU 2016-15 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

Note 3 – Allowance for Doubtful Accounts

The activity in the allowance for doubtful accounts was as follows during the years ended December 31, 2016 and 2015:

	2016	2015
Balance at the beginning of the year	\$ 17,200	\$ 86,722
Provision for bad debts	6,557	(6,036)
Charge-offs	(874)	(67,126)
Recoveries	117	3,640
Balance at the end of the year	<u>\$ 23,000</u>	<u>\$ 17,200</u>

Note 4— Property and Equipment

The net carrying value of property and equipment at December 31, 2016 and 2015 was as follows:

	2016	2015
Furniture and fixtures	\$ 241,876	\$ 230,637
Equipment	811,948	2,815,748
Software	6,132,626	9,856,947
Leasehold improvements	441,382	436,311
Subtotal	\$ 7,627,832	\$ 13,339,643
Less: accumulated depreciation and amortization	(6,012,609)	(11,534,082)
Total	\$ 1,615,223	\$ 1,805,561

Note 5 – Intangible Assets and Goodwill

During 2016 and 2015, we evaluated our intangible assets and goodwill for impairment at the reporting unit level. We elected to omit the qualitative assessment of impairment factors and proceed directly to impairment testing with the assistance of a third-party valuation firm. No indication of impairment was noted.

The following is a schedule of intangible assets and goodwill from continuing operations as of December 31, 2016:

	Term	Carrying Value	Accumulated Amortization	Net Carrying Value	2016 Amortization
Customer list, Google	20 years	\$ 8,820,000	\$ (2,131,500)	\$ 6,688,500	\$ 441,000
Customer list, all other	10 years	1,610,000	(778,186)	831,814	161,004
Exclusivity agreement	1 year	120,000	(120,000)	—	—
Trade names, ALOT (1)	5 years	960,000	(928,000)	32,000	192,000
Domain websites (2)	5 years	669,507	(267,945)	401,562	136,704
Trade names, web properties (1)	-	390,000	—	390,000	—
Intangible assets classified as long-term		\$ 12,569,507	\$ (4,225,631)	\$ 8,343,876	\$ 930,708
Goodwill, Partner Network		\$ 1,776,544	\$ —	\$ 1,776,544	\$ —
Goodwill, Owned and Operated Network		3,984,264	—	3,984,264	—
Goodwill, total		\$ 5,760,808	\$ —	\$ 5,760,808	\$ —

The following is a schedule of intangible assets and goodwill from continuing operations as of December 31, 2015:

	Term	Carrying Value	Accumulated Amortization	Net Carrying Value	2015 Amortization
Names database	9 months	\$ 17,417,397	\$ (17,417,397)	\$ —	\$ —
Bundled downloads	4.5 months	2,447,075	(2,447,075)	—	—
Intangible assets classified as current		19,864,472	(19,864,472)	—	—
Customer list, Google	20 years	\$ 8,820,000	\$ (1,690,500)	\$ 7,129,500	\$ 441,000
Customer list, all other	10 years	1,610,000	(617,182)	992,818	161,004
Exclusivity agreement	1 year	120,000	(120,000)	—	—
Trade names, ALOT (1)	5 years	960,000	(736,000)	224,000	192,000
Domain websites (2)	5 years	715,874	(131,241)	584,633	131,241
Tradenames, web properties (1)	-	390,000	—	390,000	—
Intangible assets classified as long-term		\$ 12,615,874	\$ (3,294,923)	\$ 9,320,951	\$ 925,245
Goodwill, Partner Network		\$ 1,776,544	\$ —	\$ 1,776,544	\$ —
Goodwill, Owned and Operated Network		3,984,264	—	3,984,264	—
Goodwill, total		\$ 5,760,808	\$ —	\$ 5,760,808	\$ —

- (1) We have determined ALOT trade name should be amortized over five years and the trade names related to our web properties have an indefinite life and as such are not amortized.
- (2) On May 8, 2015, we purchased two domain websites with a fair value of \$715,874. We determined they should be amortized over 5 years (see Note 8). On May 8, 2016, the carrying value was adjusted by approximately \$46,000 to reflect the lower price paid as compared to the contingent liability recorded as a result of the change in the price of Inuvo stock from the date of acquisition to the first contingent release of shares.

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

2017	\$ 764,240
2018	732,240
2019	732,240
2020	612,858
2021	602,004
Thereafter	\$ 4,510,294
Total	\$ 7,953,876

Note 6 - Notes Payable

On March 1, 2012 we entered into a Business Financing Agreement with Bridge Bank, which is now owned by Western Alliance Bank. The agreement provided us with a \$5 million term loan and access to a revolving credit line of up to \$10 million which we use to help satisfy our working capital needs. We have provided Western Alliance with a first priority perfected security interest in all of our accounts and personal property as collateral for the credit facility. Available funds under the revolving credit line are 80% of eligible accounts receivable balances plus \$1 million up to a limit of \$10 million. Eligible accounts receivable is generally defined as those from United States based customers that are not more than 90 days from the date of the invoice. We had approximately \$6.0 million available under the credit line as of December 31, 2016. The term loan was paid in full at September 2015.

In September 27, 2016, the Company entered into the Sixth Business Financing Modification Agreement with Western Alliance Bank, the parent company of Bridge Bank, our original lender, that renewed the existing Agreement and modified some terms. The modified terms require a monthly quick ratio of not less than .75 to 1.00; quarterly consolidated revenue shall not negatively deviate more than 20% from projections; and quarterly consolidated Adjusted EBITDA shall not negatively deviate

more than \$500,000 from projections. The renewed agreement extended the revolving line of credit to September 2018. While we periodically utilize our line of credit for operating needs, as of December 31, 2016, the balance of the revolving line of credit was zero. We were in compliance with all bank covenants as of December 31, 2016.

Note 7 – Accrued Expenses and Other Current Liabilities

The accrued expenses and other current liabilities consist of the following at December 31, 2016 and 2015:

	2016	2015
Accrued marketing costs	\$ 1,622,737	\$ 1,404,488
Accrued expenses and other	289,435	294,629
Accrued payroll and commission liabilities	250,000	643,908
Accrued sales allowance	250,000	500,000
Contingent stock due for acquired domains, current portion	222,477	238,625
Capital leases, current portion	31,210	46,313
Deferred Arkansas grant, current portion and accrued reserve	13,468	27,679
Accrued taxes	10,313	13,803
Total	\$ 2,689,640	\$ 3,169,445

Note 8 – Other Long-Term Liabilities

Other long-term liabilities consist of the following at December 31, 2016 and 2015:

	2016	2015
Deferred rent	\$ 163,165	\$ 198,323
Contingent stock due for acquired domains, less current portion	147,029	477,249
Accrued taxes, less current portion	13,763	—
Deferred Arkansas grant, less current portion	2,471	15,940
Capital leases, less current portion	—	31,210
Total	\$ 326,428	\$ 722,722

On May 8, 2015, we purchased two domain websites with a fair value of \$715,874 (see Note 5). The purchase consideration is our common stock and is contingent upon the seller attaining specific performance targets over three years. On May 8, 2016, the seller achieved the specific performance target for the first year and as a result, we issued 166,667 shares of common stock. The accrued contingent liability and the related intangible asset, domain websites, were adjusted by approximately \$46 thousand to reflect the lower price paid as compared to the contingent liability recorded as a result of the change in the price of Inuvo stock from the date of acquisition to the first contingent release of shares.

Note 9 – Income Taxes

The provision for income taxes consists of the following:

	2016	2015
Current tax provision	\$ 5,180	\$ 4,081
Deferred tax benefit	(34,440)	(304,224)
Total tax benefit	\$ (29,260)	\$ (300,143)

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

	<u>2016</u>	<u>2015</u>
Federal statutory rate	34%	34%
State income tax rate, net of federal benefit	(1%)	—%
Permanent differences	(2%)	1%
Temporary differences	(5%)	4%
New Jersey tax settlement and other	—%	11%
Change in valuation allowance	(22%)	(65%)
	<u>4%</u>	<u>(15%)</u>

Deferred Income Taxes

Deferred income taxes are the result of temporary 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 on a regular basis, an exercise that requires significant judgment. In the course of this evaluation we considered our recent history of tax losses, the economic conditions in which we operate, recent organizational changes and our forecasts and projections. We believe it is more likely than not that essentially none of our deferred tax assets will be realized, and we have recorded a valuation allowance for the net deferred tax assets that may not be realized as of December 31, 2016 and 2015.

The following is a schedule of the deferred tax assets and liabilities as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Net operating loss carry forward	\$ 27,202,348	\$ 34,164,267
Intangible assets	2,239,700	3,909,300
Stock based expenses	1,484,900	1,201,800
Accrued expense	311,000	552,500
Deferred rent	69,300	2,200
Other	14,200	15,000
Allowance for doubtful accounts	9,800	6,900
Subtotal	<u>31,331,248</u>	<u>39,851,967</u>
Less valuation allowance	<u>(31,331,248)</u>	<u>(39,838,347)</u>
Total	—	13,620
Deferred tax liabilities:		
Intangibles and Property and Equipment	3,702,300	3,435,700
Other	36,200	363,900
Total	<u>3,738,500</u>	<u>3,799,600</u>
Total deferred tax assets (liabilities)	<u>\$ (3,738,500)</u>	<u>\$ (3,785,980)</u>

The net operating losses amounted to approximately \$78,678,000 and expire beginning 2021 through 2036. Pursuant to Internal Revenue Service Code Section 382, the use of certain of the Company's net operating loss carry forwards are limited due to a cumulative change in ownership.

We are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2013 through 2015. Our state income tax returns are open to audit under the statute of limitations for the same periods.

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, 2016 and 2015.

Note 10 - Stock-Based Compensation

We maintain a stock-based compensation program intended to attract, retain and provide incentives for talented employees and directors and align stockholder and employee interests. Currently, we grant options and restricted stock units ("RSUs") from the 2010 Equity Compensation Plan ("2010 ECP"). Option and restricted stock unit vesting periods are generally up to three years.

Compensation Expense

We recorded stock-based compensation expense for all equity incentive plans of approximately \$1,264,266 and \$707,544 for the years ended December 31, 2016 and 2015, respectively. Total compensation cost not yet recognized at December 31, 2016 was \$1,616,631 to be recognized over a weighted-average recognition period of 1.2 years.

Significant Grants and Cancellations

2016

On April 1, 2016, we granted members of our board of directors a total of 63,160 RSUs with a weighted average fair value of \$1.90 a share which fully vest on March 31, 2017.

On November 1, 2016 we granted two new members of our board of directors a total of 22,936 RSUs with a weighted average fair value of \$1.02 a share which fully vest on March 31, 2017.

2015

On April 20, 2015, we granted members of our board of directors a total of 51,948 RSUs with a weighted average fair value of \$2.31 a share which fully vested on March 31, 2016.

On July 27, 2015 and August 4, 2015, we granted certain employees service and performance RSUs totaling 965,500 shares with a weighted average fair value \$3.03 per share. The service RSUs vest annually over a three-year period, commencing in July 2016, at the rate of 25% of the grant in year one and year two and the remaining 50% of the grant vesting on the third anniversary of the grant date. The awarding of the performance RSUs is contingent upon achieving certain revenue and profit targets and vest annually, one-third upon each anniversary of the grant date. On July 27, 2016, August 4, 2016, and August 5, 2016, the first measurement period targets were achieved and the number of shares issued totaled 297,690 with a weighted average fair value of \$1.32.

Award Information and Activity

The following table summarizes the stock grants outstanding under our 2005 Long-Term Incentive Plan ("2005 LTIP") and 2010 ECP plans as of December 31, 2016:

	Options Outstanding	RSUs Outstanding	Options and RSUs Exercised	Available Shares	Total
2010 ECP	250,498	755,507	2,365,373	614,567	3,985,945
2005 LTIP (*)	13,748	—	950,085	—	963,833
Total	264,246	755,507	3,315,458	614,567	4,949,778

(*) Expired June 2015

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. 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 0% 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.

At December 31, 2016, the 2005 LTIP and 2010 ECP plans had outstanding options of 264,246 options and all were exercisable with an aggregate intrinsic value of \$0, a weighted average exercise price of \$2.84 and a weighted average remaining contractual term of 4.2 years.

The following table summarizes our stock option activity under the 2005 LTIP and 2010 ECP plans during 2016:

	Options	Weighted Average Exercise Price
Outstanding, beginning of year	284,246	\$ 2.78
Granted	—	\$ —
Forfeited, expired or cancelled	(20,000)	\$ 2.05
Exercised	—	\$ —
Outstanding, end of year	264,246	\$ 2.84
Exercisable, end of year	264,246	\$ 2.84

We also have a separate plan which we acquired from Vertro. This plan is not authorized to issue any additional shares. During 2016, the remaining options in the amount of 38,650 shares with a weighted average exercise price of \$16.01 expired.

No options were granted during 2016 or 2015.

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 restricted stock activity for 2016:

	Restricted Stock	Weighted Average Fair Value
Outstanding, beginning of year	1,229,769	\$ 1.02
Granted	96,096	\$ 1.71
Exercised	(539,612)	\$ 2.34
Forfeited	(30,746)	\$ 2.10
Outstanding, end of year	755,507	\$ 2.84

Note 11 – Stockholders Equity

As of December 31, 2016, we have an outstanding warrant for the potential issuance of 51,724 shares of common stock with an exercise price of \$0.87. This warrant was issued in connection with debt issuance. The weighted average remaining contractual life of the warrant outstanding at December 31, 2016 is less than 1.0 year.

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

On December 9, 2016, our Board of Directors authorized a stock repurchase program under which we may repurchase up to \$500,000 of our outstanding common stock. The stock repurchase program will expire on November 30, 2017. During December, we purchased 15,883 shares of treasury stock with a weighted average exercise price of \$1.42.

Note 12 – Discontinued Operations

Certain of our subsidiaries previously operated in the European Union ("EU"). Though operations ceased in 2009, statutory requirements require a continued presence in the EU for varying terms until November 2015. Profits and losses generated from the remaining assets and liabilities are accounted for as discontinued operations.

In the third quarter of 2016, our petition with the UK (United Kingdom) Companies House to strike off and dissolve the remaining subsidiary in the EU was approved. As a result, for the twelve months ended December 31, 2016 and December 31, 2015, we recognized income from discontinued operations of \$155,287 and \$33,969, respectively, due primarily to the adjustment of certain accrued liabilities originating in 2009 and earlier.

Note 13 – Retirement Plan Costs

We provide a 401(k) plan to help our employees prepare for retirement. We match each employee's contributions to the plan up to the first four percent of the employee's annual salary. The matching contribution for the years ended December 31, 2016 and 2015 was \$146,033 and \$109,029, respectively.

Note 14 - Leases

We lease certain office space and equipment. As leases expire, it can be expected that they will be renewed or replaced in the normal course of business. Rent expense from continuing operations was approximately \$175,469 and \$105,446 for the year ended December 31, 2016 and December 31, 2015, respectively.

Minimum lease payments under non-cancelable operating leases as of December 31, 2016 are:

	Lease Payments
2017	\$ 182,456
2018	183,858
2019	184,852
2020	140,749
Total	<u>\$ 691,915</u>

In 2013, we entered into an agreement to lease office space in Conway, Arkansas for two years in the total amount of \$193,200 which was prepaid. The lease terminated in February 2015 and continued on a month to month basis through November 2015. First Orion Corp., the lessor of this space, is partially owned by a director and shareholder of Inuvo.

In April 2015, we entered into a five-year agreement to lease office space in Little Rock, Arkansas commencing October 1, 2015, to serve as our headquarters. The new lease is for 12,245 square feet and will cost approximately \$171,000 during its first year. Thereafter, the lease payment will increase by 2%. We vacated the Conway, Arkansas premises November 30, 2015.

Note 15 - Commitments and Contingencies

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:

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. On August 18, 2016, the case was dismissed by a Consent Order whereby the case was dismissed without costs to the Company.

Note 16 - Segments

We operate our business as two segments, Partner Network and Owned and Operated Network, which are described in Note 1.

Listed below is a presentation of net revenue and gross profit for all reportable segments for the years ended December 31, 2016 and 2015. We currently only track certain assets at the segment level and therefore assets by segment are not presented below.

Revenue by Segment

	2016		2015	
	\$	% of Revenue	\$	% of Revenue
Partner Network	26,011,543	36.4%	30,298,532	43.0%
Owned and Operated Network	45,518,559	63.6%	40,139,584	57.0%
Total net revenue	71,530,102	100.0%	70,438,116	100.0%

Gross Profit by Segment

	2016		2015	
	\$	Gross Profit %	\$	Gross Profit %
Partner Network	4,734,240	18.2%	6,645,590	21.9%
Owned and Operated Network	45,431,067	99.8%	40,070,530	99.8%
Total gross profit	50,165,307	70.1%	46,716,120	66.3%

Note 17 - Related Party Transactions

In 2016 and 2015, the Company received a total of \$101,884 and \$107,196, respectively from First Orion Corp., which is partially owned by a director and shareholder of Inuvo, for providing IT services.

Note 18 - Subsequent Events

Google Extension

Inuvo, Inc., through its wholly owned subsidiary Vertro, Inc., and Google Inc. entered into Amendment Number One to Google Services Agreement (the "Amendment") effective as of February 1, 2017. The Amendment extends the term of the underlying Google Services Agreement through February 28, 2017.

NetSeer Acquisition

On February 6, 2017 we entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") by and among the Company, NetSeer Acquisition, Inc., a Nevada corporation and wholly-owned subsidiary of the Company, and NetSeer, as seller. NetSeer provides visual monetization solutions for advertisers and publishers. Under the terms of the Asset Purchase Agreement, we acquired substantially all of the assets of NetSeer in exchange for 3,529,000 shares of our common stock and assumption of outstanding liabilities of approximately \$4.2 million related to the acquired business. The total consideration was approximately \$9.8 million. Under the terms of an Escrow Agreement (the "Escrow Agreement") 529,350 shares of our common stock issued in the transaction were deposited into escrow pending possible post-closing adjustments to the purchase price related to working capital and audited financial statement adjustments, as well as in connection with possible indemnification claims post-closing. As of the year ending December 31, 2016, NetSeer reported revenue of approximately \$20.9 million (unaudited) and assets of \$4.5 million (unaudited).

SEVENTH BUSINESS FINANCING MODIFICATION AGREEMENT

This Seventh Business Financing Modification Agreement (“**Business Financing Modification Agreement**”) is entered into as of December 9, 2016, by and between WESTERN ALLIANCE BANK, an Arizona corporation (“**Lender**”) INUVO, INC., a Nevada corporation (“**Parent**”), BABYTOBEE, LLC, a New York limited liability company (“**Babytobee**”), KOWABUNGA MARKETING, INC., a Michigan corporation (“**Kowabunga**”), VERTRO, INC., a Delaware corporation (“**Vertro**”), and ALOT, INC., a Delaware corporation (“**A LOT**”) and together with Parent, Babytobee, Kowabunga and Vertro, each a “**Borrower**” and collectively, “**Borrowers**”).

1. **DESCRIPTION OF EXISTING INDEBTEDNESS:** Among other indebtedness which may be owing by Borrowers to Lender, Borrowers are indebted to Lender pursuant to, among other documents, a Business Financing Agreement, dated March 1, 2012, by and between Borrowers and Lender, as may be amended from time to time, including by that certain First Business Financing Modification Agreement dated as of June 29, 2012, that certain Second Business Financing Modification Agreement dated as of October 11, 2012, that certain Business Financing Modification Agreement dated March 8, 2013, that certain Third Business Financing Modification Agreement dated as of March 29, 2013, that certain Fourth Business Financing Modification Agreement dated as of March 6, 2014, that certain Fifth Business Financing Modification Agreement dated as of September 20, 2014 and that certain Sixth Business Financing Modification Agreement dated as of September 27, 2016 (collectively, the “**Business Financing Agreement**”). Capitalized terms used without definition herein shall have the meanings assigned to them in the Business Financing Agreement.

Hereinafter, all indebtedness owing by Borrowers to Lender shall be referred to as the “**Indebtedness**” and the Business Financing Agreement and any and all other documents executed by Borrowers in favor of Lender shall be referred to as the “**Existing Documents**.”

2. DESCRIPTION OF CHANGE IN TERMS.

A. Modifications to Business Financing Agreement:

i) The defined term “Permitted Investment” set forth in Section 12.1 of the Business Financing Agreement hereby is amended and restated in its entirety to read as follows:

““**Permitted Investments**” are:

- (a) Investments existing on the date hereof and disclosed to Lender in writing;
 - (b) Investments consisting of deposit accounts in which Lender has a perfected security interest;
-

(c) an Investment by Borrowers consisting of the repurchase by Borrowers of up to \$500,000 in the aggregate of Inuvo, Inc.'s common stock during the period beginning on December 1, 2016 and ending on November 30, 2017; and

(c) Investments of one Borrower in another Borrower.

3. CONSISTENT CHANGES. The Existing Documents are each hereby amended wherever necessary to reflect the changes described above.

4. NO DEFENSES OF BORROWERS/GENERAL RELEASE. Each Borrower agrees that, as of this date, it has no defenses against the obligations to pay any amounts under the Indebtedness. Each Borrower (each, a "**Releasing Party**") acknowledges that Lender would not enter into this Business Financing Modification Agreement without Releasing Party's assurance that it has no claims against Lender or any of Lender's officers, directors, employees or agents. Except for the obligations arising hereafter under this Business Financing Modification Agreement, each Releasing Party releases Lender, and each of Lender's and entity's officers, directors and employees from any known or unknown claims that Releasing Party now has against Lender of any nature, including any claims that Releasing Party, its successors, counsel, and advisors may in the future discover they would have now had if they had known facts not now known to them, whether founded in contract, in tort or pursuant to any other theory of liability, including but not limited to any claims arising out of or related to the Agreement or the transactions contemplated thereby. Releasing Party waives the provisions of California Civil Code section 1542, which states:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER, MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

The provisions, waivers and releases set forth in this section are binding upon each Releasing Party and its shareholders, agents, employees, assigns and successors in interest. The provisions, waivers and releases of this section shall inure to the benefit of Lender and its agents, employees, officers, directors, assigns and successors in interest. The provisions of this section shall survive payment in full of the Obligations, full performance of all the terms of this Business Financing Modification Agreement and the Business Financing Agreement, and/or Lender's actions to exercise any remedy available under the Business Financing Agreement or otherwise.

5. CONTINUING VALIDITY. Each Borrower understands and agrees that in modifying the existing Indebtedness, Lender is relying upon such Borrower's representations, warranties, and agreements, as set forth in the Existing Documents. Except as expressly modified pursuant to this Business Financing Modification Agreement, the terms of the Existing Documents remain unchanged and in full force and effect. Lender's agreement to modifications to the existing Indebtedness pursuant to this Business Financing Modification Agreement in no way shall obligate Lender to make any future modifications to the Indebtedness. Nothing in this Business Financing Modification Agreement shall constitute a satisfaction of the Indebtedness. It is the intention of

Lender and Borrowers to retain as liable parties all makers and endorsers of Existing Documents, unless the party is expressly released by Lender in writing. No maker, endorser, or guarantor will be released by virtue of this Business Financing Modification Agreement. The terms of this paragraph apply not only to this Business Financing Modification Agreement, but also to any subsequent Business Financing modification agreements.

6. CONDITIONS. The effectiveness of this Business Financing Modification Agreement is conditioned upon (i) payment by Borrowers of all legal fees and expenses in connection with this Business Financing Modification Agreement, and (ii) delivery by each Borrower of updated Corporate Resolutions to Borrow.

7. NOTICE OF FINAL AGREEMENT. BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (C) THIS WRITTEN AGREEMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES.

8. COUNTERSIGNATURE. This Business Financing Modification Agreement shall become effective only when executed by Lender and each Borrower.

[Balance of Page Intentionally Left Blank]

IN WITNESS WHEREOF, Borrowers and Lender have executed this Business Financing Modification Agreement on the day and year above written.

BORROWERS:

LENDER:

INUVO, INC.

WESTERN ALLIANCE BANK, an Arizona corporation

By: __
Name: __
Title: __

By: __
Name
Title: __

BABYTOBEE, LLC

By: __
Name: __
Title: __

KOWABUNGA MARKETING, INC.

By: __
Name: __
Title: __

VERTRO, INC.

By: __
Name: __
Title: __

ALOT, INC.

By: __
Name: __
Title: __

[Signature Page to Seventh Business Financing Modification Agreement]

AMENDMENT NUMBER ONE TO GOOGLE SERVICES AGREEMENT

This Amendment Number One to the Google Services Agreement (“**Amendment**”), effective as of February 1, 2017 (“**Amendment Effective Date**”), is between Vertro, Inc. (“**Company**”) and Google Inc. (“**Google**”) and amends the Google Services Agreement that has an effective date of February 1, 2015, as amended (“**Agreement**”). Capitalized terms not defined in this Amendment have the meanings given to those terms in the Agreement. The parties agree as follows:

1. **1-Month Extension.** The term set forth on the cover page of the Agreement is extended through February 28, 2017.
2. **General.** The parties may execute this Amendment in counterparts, including facsimile, PDF, or other electronic copies, which taken together will constitute one instrument. Except as expressly modified herein, the terms of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the Amendment Effective Date by persons duly authorized.

GOOGLE

By: _____
Name: _____
Title: _____
Date: _____

COMPANY

By: _____
Name: _____
Title: _____
Date: _____

**EXHIBIT 21.1-SUBSIDIARIES OF THE
REGISTRANT**

Inuvo, Inc.	Nevada Corporation
ValidClick	Missouri Corporation
Vintacom Florida, Inc.	Florida Corporation
iLead Media, LLC	Delaware Limited Liability Company
Kowabunga Marketing, Inc.	Michigan Corporation
Vertro, Inc.	Delaware Corporation
ALOT, Inc.	Delaware Corporation
Varick & Spring I, Inc.	Delaware Corporation
Who Midco Corporation	Delaware Corporation
Varick and Spring II, Inc.	Delaware Corporation
Think Relevant Media, LLC.	Arkansas Corporation
Bonfire Publishing Group, LLC.	Florida Corporation
NetSeer Acquisition, Inc.	Nevada Corporation



Consent of Independent Registered Public Accounting Firm

We have issued our report dated February 16, 2017 on the 2016 and 2015 consolidated financial statements included in the Annual Report of Inuvo, Inc. on Form 10-K for each of the years in the two-year period ended December 31, 2016. We hereby consent to the incorporation by reference of said report in the Registration Statements of Inuvo, Inc. on Forms S-3 (File No. 333-212434 effective July 21, 2016, File No. 333-194798 effective April 15, 2014, File No. 333-175682, effective July 26, 2011, and File No. 333-172571, effective April 4, 2011) and on Forms S-8 (File No. 333-137666, effective September 29, 2006, File No. 333-169158, effective September 2, 2010, File No. 333-179790, effective February 29, 2012, and File No. 333-203732 effective April 29, 2015).

Major Hoffman McCann P.C.

February 16, 2017
Clearwater, Florida



Member of Kreston International – a global network of independent accounting firms

Rule 13a-14(a)/15d-14(a) Certification

I, Richard K. Howe, certify that:

1. I have reviewed this annual report on Form 10-K of Inuvo, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 16, 2017

/s/ Richard K. Howe

Richard K. Howe

Chief Executive Officer, principal executive officer

Rule 13a-14(a)/15d-14(a) Certification

I, Wallace D. Ruiz, certify that:

1. I have reviewed this annual report on Form 10-K of Inuvo, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 16, 2017

/s/ Wallace D. Ruiz

Wallace D. Ruiz

Chief Financial Officer, principal financial and accounting officer

Section 1350 Certification

In connection with the Annual Report of Inuvo, Inc. (the "Company") on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Richard K. Howe, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial conditions and results of operations of the Company.

Date: February 16, 2017

/s/ Richard K. Howe

Richard K. Howe

Chief Executive Officer, principal executive officer

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

Section 1350 Certification

In connection with the Annual Report of Inuvo, Inc. (the "Company") on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Wallace D. Ruiz, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial conditions and results of operations of the Company.

Date: February 16, 2017

/s/ Wallace D. Ruiz

Wallace D. Ruiz

Chief Financial Officer, principal financial and accounting officer

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