

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

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)

**(501) 205-8508**

Registrant's telephone number, including area code

**not applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has not elected to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 7(a)(2)(B) of the Securities Act:

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Title of Class**

**April 28, 2017**

Common Stock

28,544,272

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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 on relationships with distribution partners, and on the introduction of new products and services, which require significant investment;
- dependence 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 Part II, Item 1A. Risk Factors appearing in this report, together with those appearing in Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2016 and our subsequent filings with the Securities and Exchange Commission.

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, "first quarter 2017" means for the three months ended March 31, 2017, "first quarter 2016" means for the three months ended March 31, 2016, "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](http://www.inuvo.com) is not part of this report.

**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**INUVO, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2017 (Unaudited) and December 31, 2016**

<b>Assets</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets		
Cash	\$ 3,923,517	\$ 3,946,804
Accounts receivable, net of allowance for doubtful accounts of \$23,000.	7,138,288	7,586,129
Prepaid expenses and other current assets	341,978	293,113
Total current assets	11,403,783	11,826,046
Property and equipment, net	1,554,099	1,615,223
Other assets		
Goodwill	9,773,842	5,760,808
Intangible assets, net of accumulated amortization	12,116,278	8,343,876
Other assets	86,507	15,186
Total other assets	21,976,627	14,119,870
Total assets	<u>\$ 34,934,509</u>	<u>\$ 27,561,139</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 10,016,747	\$ 9,280,779
Accrued expenses and other current liabilities	2,633,628	2,689,640
Revolving credit line - current portion	1,100,000	—
Total current liabilities	13,750,375	11,970,419
Long-term liabilities		
Deferred tax liability	3,738,500	3,738,500
Revolving credit line - long term	2,500,000	—
Other long-term liabilities	361,317	326,428
Total long-term liabilities	6,599,817	4,064,928
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 28,901,161 and 25,300,189, respectively; outstanding shares 28,524,634 and 24,923,662, respectively	28,901	25,300
Additional paid-in capital	135,166,391	130,418,413
Accumulated deficit	(119,214,416)	(117,521,362)
Treasury stock, at cost - 376,527 shares	(1,396,559)	(1,396,559)
Total stockholders' equity	14,584,317	11,525,792
Total liabilities and stockholders' equity	<u>\$ 34,934,509</u>	<u>\$ 27,561,139</u>

See accompanying notes to the consolidated financial statements.

**INUVO, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Three Months Ended March 31, 2017 and 2016**  
**(Unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net revenue	\$ 17,215,862	\$ 18,730,449
Cost of revenue	7,891,723	4,285,270
Gross profit	9,324,139	14,445,179
Operating expenses		
Marketing costs	6,467,311	11,065,666
Compensation	2,387,711	1,716,880
Selling, general and administrative	2,118,118	1,259,626
Total operating expenses	10,973,140	14,042,172
Operating (loss) income	(1,649,001)	403,007
Interest expense, net	(42,944)	(23,608)
(Loss) income from continuing operations before taxes	(1,691,945)	379,399
Income tax expense	—	(7,235)
Net (loss) income from continuing operations	(1,691,945)	372,164
Net (loss) income from discontinued operations	(1,109)	2,110
Net (loss) income	(1,693,054)	374,274
<b>Per common share data</b>		
Basic and diluted:		
Net (loss) income from continuing operations	\$ (0.06)	\$ 0.02
Net (loss) income from discontinued operations	—	—
Net (loss) income	\$ (0.06)	\$ 0.02
<b>Weighted average shares</b>		
Basic	27,025,763	24,381,497
Diluted	27,025,763	24,566,288

See accompanying notes to the consolidated financial statements.

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Operating activities:		
Net (loss) income	\$ (1,693,054)	\$ 374,274
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	693,175	540,562
Stock based compensation	292,334	359,338
Amortization of financing fees	6,400	6,400
Adjustment of European liabilities related to discontinued operations	1,109	(5,144)
Recovery of doubtful accounts	—	(464)
Change in operating assets and liabilities:		
Accounts receivable	2,740,326	1,944,137
Prepaid expenses and other assets	109,577	64,747
Accounts payable	(2,844,928)	(2,411,075)
Accrued expenses and other liabilities	(989,738)	(299,033)
Net cash (used in) provided by operating activities	<u>(1,684,799)</u>	<u>573,742</u>
Investing activities:		
Purchases of equipment and capitalized development costs	(151,424)	(372,598)
Net cash received from NetSeer Asset Acquisition	235,763	—
Net cash provided by (used in) investing activities	<u>84,339</u>	<u>(372,598)</u>
Financing activities:		
Payoff of NetSeer debt acquired	(2,015,577)	—
Net proceeds on revolving line of credit	3,600,000	—
Payments on capital leases	(7,250)	(12,859)
Net taxes paid on RSU grants exercised	—	(11,952)
Net cash provided by (used in) financing activities	<u>1,577,173</u>	<u>(24,811)</u>
Net change – cash	(23,287)	176,333
<b>Cash, beginning of year</b>	<u>3,946,804</u>	<u>4,257,204</u>
<b>Cash, end of period</b>	<u>\$ 3,923,517</u>	<u>\$ 4,433,537</u>
Supplemental information:		
Interest paid	\$ 25,317	\$ 18,063
NetSeer stock issuance (See Note 13)	\$ 4,459,244	\$ —
Write-down of domain names and corresponding contingent liability	\$ 222,477	\$ —

See accompanying notes to the consolidated financial statements.

**Inuvo, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1 – Organization and Business**

**Company Overview**

We develop technology that connects advertisers with consumers through interactions with Inuvo ad-units on websites and apps across devices. The Inuvo MarketPlace provides the means to interact with tens of thousands of advertisers (Demand) and tens of thousands of online publishers (Supply). We interact with Demand/Supply constituents directly and indirectly. We serve ads within content, video and images. We target ads to consumers using our proprietary ConceptGraph machine learning technology that includes a database of 800 million machine profiles. We earn revenue when consumers view and click on our ads. We touch 90% of all US households weekly. Our business scales as we add Demand and Supply relationships with many barriers to entry including the ability to process hundreds of thousands of transactions per second.

Our intellectual property is protected by eleven issued and eight pending patents. We count among our many contractual relationships, three clients who collectively manage over 50% of all US digital advertising budgets. Included within our Supply portfolio is a collection of owned websites such as alot.com and earnspendlive.com, where we create content in health, finance, travel, careers, auto, education and living categories. These sites provide the means to test ad-tech, while also delivering high quality consumers to advertisers through interaction with proprietary content in the form of images, videos, slideshows and the written word.

In February 2017, we entered into an Asset Purchase Agreement with NetSeer, Inc. ("NetSeer") which allowed us to advance our technology strategy while increasing both the number of advertisers and publishers within the Inuvo MarketPlace. We exchanged 3,529,000 shares of Inuvo common stock and assumed approximately \$6.8 million of specified liabilities in this business combination (See Note 13).

We are focused on growth and expect to maintain a positive cash flow for the long term. We expect to continue to make strategic investments principally in these areas; marketing technology that helps drive traffic to our owned websites; ad-units that perform better for publishers; demand technology that optimizes advertiser choices; supply technology that optimizes publisher yield; audience targeting technology that improves the alignment of advertising with consumer and yield.

Through December 31, 2016, we reported our business as two segments. Both business segments recognize revenue identically. Virtually all the revenue generated within digital publishing comes from our advertising technology. Operationally, these websites are no different from any other website we serve ads to and in this regard, have always been managed internally as an additional source of supply for our ad serving technology. As a result, starting in 2017 we will report as a single segment. We believe this will in fact bring more clarity to shareholders as we provide enhanced consolidated metrics and other information more germane to the company's business model.

*Liquidity*

On March 27, 2017, we amended our Business Financing Agreement with Western Alliance Bank ("Western Alliance Bank"), the parent company of Bridge Bank, N.A., our original lender (see Note 5, "Notes Payable"). The amendment, while providing continued access to the revolving line of credit up to \$10 million through September 2018, included the collateral acquired in the NetSeer asset acquisition and modified certain financial covenants. As of March 31, 2017, the balance of the revolving line of credit was \$3.6 million and had approximately \$2.9 million of available credit. Though the revolving line of credit and cash generated by operations is expected to 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.

*Customer concentration*

We generate the majority of our revenue from two Demand side customers, Yahoo! and Google. At March 31, 2017 and December 31, 2016, these two customers combined accounted for 68.7% and 98.6%, respectively, of our gross accounts receivable balance. For the three months ended March 31, 2017 and March 31, 2016, these two customers combined accounted for 88.3% and 97.4% of net revenue, respectively. The reduction in the Yahoo! and Google concentration is the result of additional sources of Demand, primarily due to the NetSeer acquisition.

We still source the majority of our Demand through relationships with Yahoo! and Google where we have access to advertiser budgets indirectly. While this strategy creates a concentration risk, it also provides upside opportunities not the least of which include; access to hundreds of thousands of advertisers across geographies; the ability to scale our business across verticals; an avoidance of the sales costs associated with a large direct to advertisers' sales force; access to innovation; and macro level market insight.

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

### *Basis of presentation*

The consolidated financial statements presented are for Inuvo, Inc. and its consolidated subsidiaries. The accompanying unaudited consolidated financial statements have been prepared based upon SEC rules that permit reduced disclosure for interim periods. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The accompanying consolidated balance sheet as of December 31, 2016, was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States ("GAAP"). In our opinion, these consolidated financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year. For a more complete discussion of significant accounting policies and certain other information, this report should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on February 16, 2017.

### *Use of estimates*

The preparation of financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's regular evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements. We regularly evaluate estimates and assumptions related to allowances for doubtful accounts, accrued sales reserve, 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.

### *Revenue Recognition*

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

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 we serve 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.

### *Recent accounting pronouncements*

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 consolidated financial position or 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.

In January 2017, ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* was issued by the FASB. The new guidance simplifies the accounting for goodwill impairments by eliminating Step 2 from the goodwill impairment test. The guidance requires, among other things, recognition of an impairment loss when the carrying value of a reporting unit exceeds its fair value. The loss recognized is limited to the total amount of goodwill allocated to that reporting unit. The guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of this guidance to have a material effect on its financial statements.

### Note 3— Property and Equipment

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

	March 31, 2017	December 31, 2016
Furniture and fixtures	\$ 250,160	\$ 241,876
Equipment	930,984	811,948
Software	6,275,830	6,132,626
Leasehold improvements	441,382	441,382
Subtotal	<u>7,898,356</u>	<u>7,627,832</u>
Less: accumulated depreciation and amortization	<u>(6,344,257)</u>	<u>(6,012,609)</u>
Total	<u>\$ 1,554,099</u>	<u>\$ 1,615,223</u>

During the three months ended March 31, 2017 and March 31, 2016, depreciation expense was \$328,054 and \$306,268, respectively.

### Note 4 – Other Intangible Assets and Goodwill

The following is a schedule of intangible assets as of March 31, 2017:

	Term	Carrying Value	Accumulated Amortization and Impairment	Net Carrying Value	Year-to-date Amortization
Customer list, Google Technology, NetSeer	20 years	\$ 8,820,000	\$ (2,241,750)	\$ 6,578,250	\$ 110,250
Customer list, all other	5 years	3,600,000	(120,000)	3,480,000	120,000
Trade names, ALOT	10 years	1,610,000	(818,437)	791,563	40,251
Customer Relationships, NetSeer	5 years	960,000	(960,000)	—	32,000
Domain websites (2)	20 years	570,000	(4,750)	565,250	4,750
Trade names, web properties (1)	5 years	447,030	(294,148)	152,882	26,203
Brand, NetSeer	-	390,000	—	390,000	—
Non-Competition Agreements, NetSeer	1 year	121,000	(20,167)	100,833	20,167
Intangible assets classified as long-term	1 year	69,000	(11,500)	57,500	11,500
		<u>\$ 16,587,030</u>	<u>\$ (4,470,752)</u>	<u>\$ 12,116,278</u>	<u>\$ 365,121</u>
Goodwill, total	-	\$ 9,773,842	\$ —	\$ 9,773,842	\$ —

- The trade names related to our web properties have an indefinite life, and as such are not amortized.
- On May 8, 2015, we purchased two domain websites with a fair value of \$715,874. In May 2016, the carrying value was 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. In March 2017, we determined that the seller would not meet the specific performance target for the second year and therefore, we adjusted the carrying value of the intangible asset by \$222,477.

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

2017	\$ 1,195,851
2018	1,420,301
2019	1,404,468
2020	1,354,985
2021	1,350,504
Thereafter	5,000,169
<b>Total</b>	<b>\$ 11,726,278</b>

#### Note 5 - Revolving credit line

The following table summarizes our notes payable balances as of:

	March 31, 2017	March 31, 2016
Revolving credit line - 4.50 percent at March 31, 2017 (prime plus 0.5 percent), due September 29, 2018 - current portion	\$ 1,100,000	\$ —
Revolving credit line - long-term portion	2,500,000	—
<b>Total</b>	<b>\$ 3,600,000</b>	<b>\$ —</b>

On March 1, 2012, we entered into a Business Financing Agreement with Bridge Bank, which is now owned by Western Alliance Bank. The agreement provided us with a revolving credit line of up to \$10 million which we use to help satisfy our working capital needs. We have provided Western Alliance Bank 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 invoice. We had approximately \$2.9 million available under the revolving credit line as of March 31, 2017.

On March 27, 2017, the Company entered into the Eighth Business Financing Modification Agreement with Western Alliance Bank, the parent company of Bridge Bank, our original lender, that modified the existing Agreement. The modified terms require a monthly quick ratio of not less than .65 to 1.00 from February 1, 2017 through December 31, 2017; and a monthly quick ratio of not less than .75 to 1.00 on and after January 1, 2018; and quarterly consolidated Adjusted EBITDA shall not negatively deviate more than \$300,000 from projections for the quarter ending March 31, 2017, by more than \$400,000 for the quarters ending June 30, 2017, September 30, 2017, and December 31, 2017, or with respect to any quarter in 2018 and beyond, by more than 25% from projections. The revolving line of credit is effective to September 2018. While we periodically utilize our line of credit for operating needs, as of March 31, 2017, the balance of the revolving line of credit was \$3.6 million. We were in compliance with all bank covenants as of March 31, 2017.

#### Note 6 – Accrued Expenses and Other Current Liabilities

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

	March 31, 2017	December 31, 2016
Accrued marketing costs	\$ 1,034,059	\$ 1,622,737
Accrued payroll and commission liabilities	710,574	250,000
Accrued expenses and other	546,056	289,435
Accrued sales allowance	250,000	250,000
Capital leases, current portion	65,734	31,210
Accrued taxes	14,859	10,313
Deferred Arkansas grant, current portion	12,346	13,468
Contingent stock due for acquired domains, current portion	—	222,477
<b>Total</b>	<b>\$ 2,633,628</b>	<b>\$ 2,689,640</b>

#### Note 7 – Other Long-Term Liabilities

Other long-term liabilities consist of the following as of:

	March 31, 2017	December 31, 2016
Deferred rent	\$ 153,725	\$ 163,165
Contingent stock due for acquired domains, less current portion	147,029	147,029
Capital leases, less current portion	46,801	—
Accrued taxes, less current portion	13,762	\$ 13,763
Deferred Arkansas grant, less current portion	—	2,471
<b>Total</b>	<b>\$ 361,317</b>	<b>\$ 326,428</b>

On May 8, 2015, we purchased two domain websites with a fair value of \$715,874 (see Note 4). The purchase consideration was 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. In March 2017, we determined that the seller would not meet the specific performance target for the second year and therefore, we adjusted the carrying value of the related intangible asset and contingent liability by \$222,477.

#### Note 8 – Income Taxes

We have a deferred tax liability of \$3,738,500 as of March 31, 2017, related to intangible assets acquired in March 2012.

We also have a net deferred tax asset of approximately \$31,331,248. 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 March 31, 2017.

## Note 9 - 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 RSUs vesting periods are generally up to three years.

### Compensation Expense

For the three months ended March 31, 2017 and March 31, 2016, we recorded stock-based compensation expense for all equity incentive plans of \$292,334 and \$359,338, respectively. Total compensation cost not yet recognized at March 31, 2017 was \$1,649,396 to be recognized over a weighted-average recognition period of 1.2 years.

### Significant Grants and Cancellations

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 of \$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.

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 vested on March 31, 2017.

On February 7, 2017, we granted certain NetSeer employees service RSUs totaling 186,828 shares with a weighted average fair value of \$1.65 per share which vest annually over a three year period.

On February 15, 2017, we granted an employee 20,520 RSUs with a weighted average fair value of \$1.62 which fully vest on August 6, 2017.

The following table summarizes the stock grants outstanding under our 2005 Long-Term Incentive Plan ("2005 LTIP") and 2010 ECP plans as of March 31, 2017:

	Options Outstanding	RSUs Outstanding	Options and RSUs Exercised	Available Shares	Total
2010 ECP	250,498	890,049	2,446,556	548,842	4,135,945
2005 LTIP (*)	13,748	—	950,085	—	963,833
Total	264,246	890,049	3,396,641	548,842	5,099,778

(\*) Expired June 2015

## Note 10 – Discontinued Operations

Certain of our subsidiaries previously operated in the European Union ("EU"). Though our 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 our remaining subsidiary in the EU was approved. As a result, for the three months ended March 31, 2017 and March 31, 2016 respectively, we recorded a net loss of \$1,109 and net income of \$2,110 largely due to invoices from service providers.

## Note 11 - Earnings per Share

During the three month period ended March 31, 2017, we generated a net loss from continuing operations and as a result, all of our shares are anti-dilutive. During the three month period ended March 31, 2016, we generated net income from continuing operations. Accordingly, some of our outstanding stock options, warrants and restricted stock awards have a dilutive impact for

the 2016 period, illustrated in the following table. We generated basic and diluted earnings per share from net income of \$0.02 for the three month period ending March 31, 2016

	<b>For the Three Months Ended</b>	
	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Weighted average shares outstanding for basic EPS	27,025,763	24,381,497
Effect of dilutive securities		
Options	—	7,926
RSUs	—	131,032
Warrants	—	45,833
Weighted average shares outstanding for diluted EPS	<u>27,025,763</u>	<u>24,566,288</u>

In addition, the weighted average number of securities that were anti-dilutive for the three months ended March 31, 2016, but which could potentially dilute EPS in the future were 276,320 outstanding stock options with a weighted average exercise price of \$2.86; 997,806 outstanding restricted stock units with a weighted average price of \$3.20; and 675,000 outstanding warrants with a weighted average exercise price of \$2.20.

#### **Note 12 - 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 \$107,299 and \$49,030 for the three months ended March 31, 2017 and March 31, 2016, respectively.

Minimum future lease payments under non-cancelable operating leases as of March 31, 2017 are:

2017	\$ 238,650
2018	183,858
2019	184,852
2020	140,749
2021	—
Total	<u>\$ 748,109</u>

As part of the NetSeer asset acquisition, Inuvo assumed the office space lease that served as NetSeer's headquarters in Sunnyvale, CA. The lease is for 15,717 square feet and will cost approximately \$95,000 for the remaining term of the lease which will expire in July 2017.

#### **Note 13 - NetSeer Acquisition**

On February 6, 2017, we entered into an Asset Purchase Agreement to acquire the assets of NetSeer. Under the terms of the agreement, we acquired substantially all of the assets of NetSeer, and assumed certain liabilities and personnel obligations, in exchange for 3,529,000 shares of our common stock. The operating results of this acquisition have been included in the consolidated statements of operations since the acquisition date. As a result of the business acquisition, the Company recognized goodwill in the amount of \$4,013,034. The factors contributing to the recognition of the amount of goodwill are based on strategic benefits that are expected to be realized from acquiring NetSeer's assembled workforce in addition to other synergies gained from integrating NetSeer's operations into the Company's consolidated structure. The Company incurred approximately \$350,000 in acquisition related costs, which are recorded in selling, general and administrative expenses in the accompanying consolidated statements of operations.

The Company has not yet completed its evaluation and determination of certain assets and liabilities acquired. The Company expects the final valuations and assessments may result in adjustments to the preliminary values included in the following table:

	<b>March 31, 2017</b>
<b>Total consideration paid in common stock (with marketability discount applied)</b>	<b>\$ 4,459,244</b>
<b>Fair value of assets acquired:</b>	
Accounts receivable, net	(2,292,485)
Prepaid expenses and other current assets	(236,163)
Property and equipment, net	(119,101)
Goodwill	(4,013,034)
Intangible assets	(4,360,000)
<b>Fair value of liabilities assumed:</b>	
Accounts payable	\$ 3,579,787
Accrued expenses and other current liabilities	1,152,789
Other long-term liabilities	49,149
Debt	2,015,577
Cash received in acquisition	<u>\$ 235,763</u>

In accordance with ASC guidance related to business combinations, net consideration was first allocated to the fair value of assets acquired, including specifically identifiable intangible assets and liabilities assumed, with the excess being recorded as goodwill. Goodwill related to this acquisition is not deductible for tax purposes and is not amortized, but instead is subject to periodic impairment tests.

The purchase includes the assumption of gross customer accounts receivable totaling \$2,292,485. The Company estimates that 100% of these receivables will be collected. Therefore, the receivables are recorded at the estimated fair value, which equals the gross contractual amount. Specifically identifiable intangible assets consist of \$4,360,000 and are amortized on a straight-line basis over the estimated useful life. Additionally, revenue and earnings of NetSeer totaling approximately \$1.9 million since the acquisition date are included in the consolidated statements of operations.

#### **Note 14 - Segments**

In accordance with ASC 280 - *Segment reporting*, segment information reported is built on the basis of internal management data used for performance analysis of businesses and for the allocation of resources. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker, its chief executive officer, reviews financial information presented on a consolidated basis and no expense or operating income is evaluated at a segment level. Given the consolidated level of review by the Company's chief executive officer, the Company operates as one reportable segment. Most net revenue is earned in the United States and all long-lived assets are located in the United States.

#### **Note 15 - Related Party Transactions**

For the three months ended March 31, 2017 and March 31, 2016, the Company received a total of \$34,986 and \$25,156, respectively, from First Orion Corp., which is partially owned by two directors and shareholders of Inuvo, for providing IT services.

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

### **Company Overview**

We develop technology that connects advertisers with consumers through interactions with Inuvo ad-units on websites and apps across devices. The Inuvo MarketPlace provides the means to interact with tens of thousands of advertisers (Demand) and tens of thousands of online publishers (Supply). We interact with Demand/Supply constituents directly and indirectly. We serve ads

within content, video and images. We target ads to consumers using our proprietary ConceptGraph machine learning technology that includes a database of 800 million machine profiles. We earn revenue when consumers view and click on our ads. We touch 90% of all US households weekly. Our business scales as we add Demand and Supply relationships with many barriers to entry including the ability to process hundreds of thousands of transactions per second.

Intellectual property is protected by eleven issued and eight pending patents. We count among our many contractual relationships, three clients who collectively manage over 50% of all US digital advertising budgets. Included within our Supply portfolio is a collection of owned websites such as alot.com and earnspendlive.com where we create content in health, finance, travel, careers, auto, education and living categories. These sites provide the means to test ad-tech, while also delivering high quality consumers to advertisers through interaction with proprietary content in the form of images, videos, slideshows and the written word.

In February 2017, we acquired the assets of NetSeer which allowed us to advance our technology strategy while increasing both the number of advertisers and publishers within the Inuvo MarketPlace. We exchanged 3,529,000 shares of Inuvo common stock and assumed approximately \$6.8 million of specified liabilities to acquire the assets. Of this amount, 529,350 shares were deposited into escrow with our counsel under the terms of an escrow agreement pending possible post-closing adjustments in the purchase price related to working capital and audited financial statement adjustments, as well as in connection with possible indemnification claims post-closing (See Note 13).

We are focused on growth and expect to maintain a positive cash flow for the long term. We expect to continue to make strategic investments principally in these areas; marketing technology that helps drive traffic to our owned websites; ad-units that perform better for publishers; demand technology that optimizes advertiser choices; supply technology that optimizes publisher yield; audience targeting technology that improves the alignment of advertising with consumer and yield.

Through December 31, 2016, we reported our business as two segments. Both business segments recognize revenue identically. Virtually all the revenue generated within digital publishing comes from our advertising technology. Operationally, these websites are no different from any other website we serve ads to and in this regard, have always been managed internally as an additional source of supply for our ad serving technology. As a result, starting in 2017 we will report as a single segment. We believe this will in fact bring more clarity to shareholders as we provide enhanced consolidated metrics and other information more germane to the company's business model.

### Critical Accounting Policies and Estimates

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

### Results of Operations

	For the Three Months Ended March 31,			
	2017	2016	Change	% Change
Net Revenue	\$ 17,215,862	\$ 18,730,449	\$ (1,514,587)	(8.1%)
Cost of Revenue	7,891,723	4,285,270	3,606,453	84.2%
Gross Profit	\$ 9,324,139	\$ 14,445,179	(5,121,040)	(35.5%)

#### Net Revenue

Net revenue for the first quarter 2017 was approximately \$1.5 million lower than the same quarter last year due in part to a relatively strong January 2016 and to a lower marketing spend. These two factors resulted in a lower revenue from the Alot.com properties partially offset by \$2.8 million higher revenue from serving ads to third party publishers and by \$1.9 million of revenue attributable to the NetSeer asset acquisition.

### *Cost of Revenue*

Cost of revenue is primarily generated by payments to website publishers and application owners who host advertisements we serve. The increase in the cost of revenue in the first quarter 2017 compared to the same quarter in 2016 is due to the higher revenue noted above created by more transactions to partner sites and to the NetSeer acquisition.

### *Operating Expenses*

	<b>For the Three Months Ended March 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>Change</b>	<b>% Change</b>
Marketing costs	\$ 6,467,311	\$ 11,065,666	\$ (4,598,355)	(41.6%)
Compensation	2,387,711	1,716,880	670,831	39.1%
Selling, general and administrative	2,118,118	1,259,626	858,492	68.2%
Operating expenses	<u>\$ 10,973,140</u>	<u>\$ 14,042,172</u>	<u>\$ (3,069,032)</u>	<u>(21.9%)</u>

Overall, our operating expenses for the three months ended March 31, 2017, decreased compared to the same period in 2016.

Marketing costs include those expenses required to attract traffic to our websites. The decrease in marketing costs in the three months ended March 31, 2017 compared to the same period in the prior year was due to the decision to focus available funds on the Inuvo Marketplace and the integration of the NetSeer acquisition rather than driving traffic to owned websites.

Compensation expense increased \$670,831 for the three month period ended March 31, 2017 as compared to the same period in 2016, due primarily to an increase in the number of employees. Our total employment, both full-time and part-time, was 93 at March 31, 2017 compared to 71 at the same time last year. The increase is primarily due to the addition of 21 employees who joined from the NetSeer acquisition. We expect compensation expense to increase, though moderately, in the coming quarters as we hire additional developers and sales personnel to support the anticipated growth.

Selling, general and administrative expenses increased approximately \$858,000 for the three months ended March 31, 2017 compared to same period in 2016, respectively, primarily due to \$264,000 of transaction costs related to the NetSeer asset acquisition as well as to increases associated with the acquisition including \$255,000 higher IT costs, \$153,000 higher depreciation and amortization expense, \$83,000 higher travel and entertainment expense and \$62,000 higher facilities expense. These expenses are expected to decrease in future quarters as we integrate the NetSeer operations.

### *Interest expense, net*

Interest expense, net, which represents interest expense on the bank credit facility, increased in the first quarter of 2017 compared to the same period in 2016 as a result of higher average outstanding loan balances and higher interest rates this year compared to last year.

### *Income tax expense*

For the three months ended March 31, 2016, income tax expense was \$7,235 for state income tax expense. Due to net operating loss carryovers, we have not incurred a federal income tax expense for the three months ended March 31, 2017.

### *Income from Discontinued Operations*

In the third quarter of 2016, our petition with the UK (United Kingdom) Companies House to strike off and dissolve our remaining subsidiary in the EU was approved. As a result, for the three months ended March 31, 2017 and March 31, 2016 respectively, we recorded a net loss of \$1,109 and net income of \$2,110 largely due to receiving invoices from service providers.

### **Liquidity and Capital Resources**

On March 27, 2017, we amended our Business Financing Agreement with Western Alliance Bank, the parent company of Bridge Bank, our original lender (see Note 5, "Notes Payable"). The amendment provided for the collateral of the assets acquired from NetSeer and modified a number of financial covenants. As of March 31, 2017, the balance of the revolving line of credit was \$3.6 million and had approximately \$2.9 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 issued 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. In March 2017, we determined that the seller would not meet the specific performance target for the second year and therefore, we adjusted the carrying value of the related intangible asset and contingent liability by \$222,477.

#### *Cash Flows - Operating*

Net cash used in operating activities was \$1,684,799 during the three months ended March 31, 2017. We reported a net loss of \$1,693,054, which included non-cash expenses; depreciation and amortization expense of \$693,175 and stock-based compensation expense of \$292,334. The change in operating assets and liabilities during the three months ended March 31, 2017 was a net use of cash of \$984,763 primarily due to a change in the accounts payable balance of \$2,844,928 partially offset by a change in the accounts receivable balance of \$2,740,326 largely due to the NetSeer acquisition. Our terms are such that we generally collect receivables prior to paying trade payables, however with the NetSeer acquisition, we have a higher percentage of media sales that typically have terms equal to or greater than the related payables.

During the comparable period in 2016, cash provided by operating activities was \$573,742 from a net income of \$374,274, which included several non-cash expenses; depreciation and amortization of \$540,562, stock-based compensation of \$359,338.

#### *Cash Flows - Investing*

Net cash provided by investing activities was \$84,339 for the three months ended March 31, 2017 and is primarily due to the cash received from the NetSeer acquisition of \$235,763. During the comparable period in 2016, net cash used in investing activities was \$372,598 and consisted primarily of capitalized internal development costs.

#### *Cash Flows - Financing*

Net cash provided by financing activities was \$1,577,173 during 2017 which largely consisted of proceeds from the revolving credit facility used to pay off the debt acquired in the NetSeer acquisition.

In 2016, net cash used in financing activities was \$24,811 and was used 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 March 31, 2017, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable to a smaller reporting company.

## **ITEM 4. CONTROLS AND PROCEDURES.**

### **Evaluation of Disclosure Controls and Procedures**

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

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

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of March 31, 2017, 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.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the period ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II**

### **ITEM 1. LEGAL PROCEEDINGS.**

None.

### **ITEM 1A. RISK FACTORS.**

We desire to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Accordingly, we incorporate by reference the risk factors disclosed in Part I, Item 1A of our Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on February 16, 2017 subject to the new or modified risk factors appearing below that should be read in conjunction with the risk factors disclosed in such Form 10-K.

*We rely on two customers for a significant portion of our revenues.* We are reliant upon Yahoo! and Google for most of our revenue. During the first quarter of 2017 they accounted for 75.4% and 12.9% of our revenues, respectively, and during the same period 2016 they accounted for 59.9% and 37.5%, respectively. The amount of revenue we receive from these customers is dependent on a number of factors outside of our control, including the amount they charge for advertisements, the depth of advertisements available from them, and their ability to display relevant ads in response to end-user queries.

We would likely experience a significant decline in revenue and our business operations could be significantly harmed if these customers do not approve our new websites and applications, or if we violate their guidelines or they change their guidelines. In addition, if any of these preceding circumstances were to occur, we may not be able to find a suitable alternate paid search

results provider or otherwise replace the lost revenues. The loss of 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.

***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 \$3.6 million in debt outstanding and \$2.9 million of available credit as of March 31, 2017. 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 Bridge 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, Bridge 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.

***The failure to integrate successfully the businesses of NetSeer in the expected timeframe could adversely affect our future results following the completion of the acquisition.*** The success of the acquisition of NetSeer will depend, in large part, on the ability of the combined company following the completion of the acquisition to realize the anticipated benefits from combining the businesses. The failure to integrate successfully and to manage successfully the challenges presented by the integration process may result in our failure to achieve some or all of the anticipated benefits of the acquisition. 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. Potential difficulties that may be encountered in the integration process include the following:

- using the combined company's cash and other assets efficiently to develop the business of the combined company;
- appropriately managing the liabilities of the combined company;
- potential unknown or currently unquantifiable liabilities associated with the merger and the operations of the combined company; and
- performance shortfalls at one or both of the companies as a result of the diversion of management's attention caused by completing the acquisition and integrating the companies' operations.

There are no assurances that all of the expected benefits of the acquisition of NetSeer will be realized.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

None

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

## **ITEM 4. MINE SAFETY AND DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

None

**ITEM 6. EXHIBITS.**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.26	Eight Business Financing Modification Agreement dated March 27, 2017 by and among Western Alliance Bank, Inuvo, Inc., BabytoBee LLC, Kowabunga Marketing, Inc., Vertro, Inc. and Alot, Inc. *
10.27	Asset Purchase Agreement dated February 6, 2017 by and among Inuvo, Inc., NetSeer Acquisition, Inc. and NetSeer, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 7, 2017)
10.28	Escrow Agreement dated February 6, 2017 by and among Inuvo, Inc., NetSeer Acquisition, Inc., NetSeer, Inc. and Pearlman Law Group LLP (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed February 7, 2017)
10.29	Registration Rights Agreement dated February 6, 2017 by and among Inuvo, Inc. and NetSeer, Inc. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed February 7, 2017)
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 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.**

May 5, 2017

By: /s/ Richard K. Howe  
Richard K. Howe,  
Chief Executive Officer, principal executive  
officer

May 5, 2017

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

## EIGHTH BUSINESS FINANCING MODIFICATION AGREEMENT

This Eighth Business Financing Modification Agreement (the "Amendment") is entered into as of March \_\_, 2017 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"), ALOT, INC., a Delaware corporation ("A LOT"), and NETSEER, INC., a Nevada corporation formerly known as NETSEER ACQUISITION, INC. ("NetSeer" and together with Parent, Babytobee, Kowabunga Vertro and A LOT, 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, that certain Business Financing Modification Agreement dated as of October 9, 2014, that certain Sixth Business Financing Modification Agreement dated as of September 27, 2016, that certain Seventh Business Financing Modification Agreement dated as of December 9, 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 Borrower to Lender shall be referred to as the "Indebtedness" and the Business Financing Agreement and any and all other documents executed by Borrower in favor of Lender shall be referred to as the "Existing Documents."

2. ADDITION OF CO-BORROWER. NetSeer is hereby added to the Business Financing Agreement as a "Borrower" thereunder and hereunder, and each reference to "Borrower" or "the Borrower" in the Business Financing Agreement and any other of the Existing Documents shall mean and refer to each of the existing Borrowers and NetSeer, individually and collectively. Parent, Babytobee, Kowabunga, Vertro, A LOT, and NetSeer, collectively, shall also be referred to as Borrowers. NetSeer assumes, as a joint and several obligor thereunder, all of the Obligations, liabilities and indemnities of a Borrower under the Business Financing Agreement and all other Existing Documents; and covenants and agrees to be bound by and adhere to all of the terms, covenants, waivers, releases, agreements and conditions of or respecting a Borrower with respect to the Business Financing Agreement and the other Existing Documents and all of the representations and warranties contained in the Business Financing Agreement and the other Existing Documents with respect to a Borrower. Without limiting the generality of the foregoing, NetSeer grants Lender a security interest in the Collateral described in the Business Financing Agreement to secure performance and payment of all Obligations under the Existing Documents, as such may be amended from time to time, and authorizes Lender to file financing statements with all appropriate jurisdictions to perfect or protect Lender's interest or rights hereunder and under the Existing Documents.

3. MODIFICATION(S) TO BUSINESS FINANCING AGREEMENT.

A. Section 4.15(a) is amended and restated in its entirety to read as follows:

(a) Quick Ratio, measured monthly of not less than 0.65 to 1.00 for each monthly measuring period from February 1, 2017 through December 31, 2017; and not less than 0.75 to 1.00 for each monthly measuring period on and after January 1, 2018.

B. Section 4.15(b)(ii) is amended and restated in its entirety to read as follows:

(ii) Adjusted EBITDA, measured quarterly on a consolidated basis, shall not negatively deviate (x) by more than \$300,000 for quarter ending March 31, 2017, (y) by more than \$400,000 for quarters ending June 30, 2017, September 30, 2017 and December 31, 2017, or (z) with respect to any quarter in 2018 and beyond, by more than twenty five percent (25%) from the projected Adjusted EBITDA set forth in the financial projections delivered to Lender in accordance with Section 4.9(e) of the Business Financing Agreement.

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

5. NO DEFENSES OF BORROWER/GENERAL RELEASE. Borrower agrees that, as of this date, it has no defenses against the obligations to pay any amounts under the Indebtedness. Each of Borrower and its affiliates (each, a "Releasing Party") acknowledges that Lender would not enter into this Amendment 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 Amendment, each Releasing Party releases Lender, and each of Lender'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 Business Financing 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 Amendment and the Business Financing Agreement, and/or Lender's actions to exercise any remedy available under the Business Financing Agreement or otherwise.

6. CONTINUING VALIDITY. Borrower understands and agrees that in modifying the existing Indebtedness, Lender is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Documents, and Borrower hereby represents and warrants that the representations and warranties contained in the Existing Documents are true and correct as of the date of hereof, and that no Event of Default has occurred and is continuing. Except as expressly modified pursuant to this Amendment, 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 Amendment in no way shall obligate Lender to make any future modifications to the Indebtedness. Nothing in this Amendment shall constitute a satisfaction of the Indebtedness. It is the intention of Lender and Borrower 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 Amendment. The terms of this paragraph apply not only to this Amendment, but also to any subsequent Business Financing Modification agreements.

7. CONDITIONS. The effectiveness of this Amendment is conditioned upon:

(a) Lender's receipt of an Intellectual Property Security Agreement, Insurance Authorization Letter, and Corporate Resolutions and Incumbency Certificate duly executed by NetSeer; and

(b) payment of an amendment fee in the amount of \$5,000 plus all of Lender's out of pocket expenses incurred in connection herewith.

8. 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.

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

**BORROWER:**

**LENDER:**

INUVO, INC.

WESTERN ALLIANCE BANK

By: \_\_\_\_\_ By: \_\_\_\_\_

Name: \_\_\_\_\_ Name: \_\_\_\_\_

Title: \_\_\_\_\_ Title: \_\_\_\_\_

BABYTOBEE, LLC

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

KOWABUNGA MARKETING, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

VERTRO, INC

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

ALOT, INC.



By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

NETSEER, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**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: May 5, 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: May 5, 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 March 31, 2017 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: May 5, 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 March 31, 2017 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: May 5, 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.