

**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, 2014

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

For the transition period from [] to []

Commission file number 333-177463



AudioEye, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

20-2939845
(I.R.S. Employer Identification No.)

5210 E. Williams Circle, Suite 500, Tucson, Arizona
(Address of principal executive offices)

85711
(Zip Code)

Registrant's telephone number, including area code: **866-331-5324**

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

Title of Each Class	Name of Each Exchange On Which Registered
N/A	N/A

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

N/A
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 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 last 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 (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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. See definition 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

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 voting and non-voting equity held by non-affiliates of the registrant as of June 30, 2014 was \$18,369,451.

As of June 30, 2015, 81,323,176 shares of the registrant's common stock were issued and outstanding.

Documents Incorporated by Reference: **None**

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PART I

Item 1. Business

This annual report contains forward-looking statements. These statements relate to either future events or our future financial performance. In some cases, you may be able to identify forward-looking statements by terms such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue,” the negative of these terms or other synonymous terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled “Risk Factors,” that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend, and we do not undertake any obligation, to revise or update any of the forward-looking statements to match actual results. Readers are urged to carefully review and consider the various disclosures made in this report, which aim to inform interested parties of the risks factors that may affect our business, financial condition, results of operations and prospects.

Our financial statements are stated in United States Dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

As used in this annual report, the terms “we,” “us,” “our” and similar references refer to AudioEye, Inc.

Overview

AudioEye, Inc. was formed as a Delaware corporation on May 20, 2005. We focus on providing our customers with the most complete and inclusive web accessibility solution available. Our suite of technologies allows our customers to provide their site visitors with an enhanced web experience. When implemented, we believe that our solutions offer businesses the opportunity to reach more customers, improve brand image, and build additional brand loyalty. In addition, our solutions provide organizations with the ability to comply with internationally accepted web content accessibility guidelines (WCAG) as well as US, Canadian, and United Kingdom accessibility laws.

We generate revenues through the sale of our software as a service (SaaS) technology platform, called the AudioEye Ally Platform, to website owners, publishers, developers, and operators and through the licensing of our intellectual property. When adopting our technology, clients implement the Ally+ Toolbar into their website. The Ally+ Toolbar helps an organization put a face on the issue of web accessibility. It provides site visitors with access to a dedicated web accessibility Help Desk, WCAG-compliant and enhanced accessibility for individuals utilizing their own assistive technologies, as well as the optional Reader in the cloud.

Whether a user has a vision impairment, hearing impairment, color blindness, is learning to read, or simply wants to hear the website read to them, our Reader is a fully-scalable, cloud-based technology that utilizes patented architecture to deliver a fully-accessible audio-enabled user experience that can be navigated, utilized, interacted with, and transacted from, without the use of a monitor or mouse. Using the Reader, site visitors can customize their user experience by listening to the website, using their keyboard to navigate, enlarging text, changing background and foreground colors, clicking to listen, among several other customizations.

For organizations that do not want a managed SaaS solution and prefer to achieve WCAG 2.0 Level AA compliance on their own, our cloud-based Developer Portal provides them with a comprehensive single-source solution for tracking and maintaining a compliance audit of their web environments. The self-service solution allows client developers to detect compliance issues and fix those issues through the implementation of the AudioEye JavaScript library in the client's front-end web environment. The system is also able to automatically fix specific compliance issues, vastly reducing the number of outstanding issues that require manual remediation, inherently reducing cost and time to market. The same Software-as-a-Service (SaaS) Developer Portal is utilized by our developers when servicing our clients through our Ally+ managed service offering.

We provide our customers with detailed remediation (compliance fix) statistics and analytics that demonstrate Reader usage. Organizations are thereby provided insight into the different ways in which site visitors are engaging with their website from a web accessibility perspective.

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Our technology development was initiated at the University of Arizona Science & Technology Park in Tucson, Arizona. In 2006, we received technology development venture funding from the Maryland Technology Development Corporation (TEDCO), which contributed to the development of our platform strategy. TEDCO was created by the Maryland State Legislature in 1998 to facilitate the transfer and commercialization of technology from Maryland's research universities and federal labs into the marketplace and to assist in the creation and growth of technology-based businesses in all regions of the State of Maryland, where we formerly had a technology development and administration office. Beginning in 2009, we engaged in a multi-year technology development program with the Eller College of Management's Department of Management Information Systems at the University of Arizona. In connection with our proprietary technology, our company has been issued a number of U.S. patents in two distinct patent families. Today, an experienced team of in-house engineers, designers, and developers in our Atlanta, GA, and Tucson, AZ, offices develop the Company's technology & software.

Our patented technology was a 2013 Edison Gold Award winner for innovation in the category of "Quality of Life."

Intellectual Property

Our intellectual property is primarily comprised of trade secrets, trademarks, issued and pending patents, copyrights and technological innovation. We have a patent portfolio comprised of six patents issued in the United States, we have received a notice of allowance from the U.S. Patent and Trademark Office for a seventh patent, and we have several additional patents that are either pending or are being prepared for filing in the United States and internationally.

The U.S. Patent Act secures for a limited time to inventors the exclusive right to their discoveries. A patent is a document issued by the federal government that grants to its owner a legally enforceable right to exclude others from practicing the invention described and claimed in the document. The value of a patent is closely tied to the value of the technological contribution of the material disclosed within the patent. Over the past three decades, patents have become the major asset class for many large corporations. These intellectual property assets are an essential part of such corporations' competitive advantage and the foundation for new products and even new industries.

Conventional solutions have been developed to help visually impaired users use websites, but these systems often require software and hardware to be installed on the user's computer. Many of these solutions simply use screen reading technology alone or in combination with print magnifying software applications. These systems can be costly, unwieldy and inconvenient. Furthermore, the assistive software's ability to understand, process, and interpret complex and dynamic web applications that are prevalent across the web, today, is dependent on the quality in which the code was designed and developed, including the level to which the website adheres to best practices. For these reasons, our technology was built to not only provide users with a cloud-based assistive toolset that gets embedded and made freely available to users within our client websites, but to also improve the code in a way that optimizes the user experience for users of existing third-party assistive technologies, such as screen readers.

Our patented invention relates to a server-side method and apparatus that enables users to audibly navigate websites and hear high-quality streaming audio narration and descriptions of websites. This patented invention involves creating an audio-enabled web experience by utilizing voice talent and automated text-to-speech conversion methods to read and describe web content and create audio files for each section within a website, and then assigning a hierarchy and navigation system in line with the website design. To implement the system, a script is installed across the pages of the website and, when loaded, plays an audible tone upon a user's visit indicating that the website is enhanced with our proprietary technology. Upon hearing the tone, a user presses a key on the keyboard to enter the audible website. Audible narration is played through the user's computer, reading text and describing non-text information, such as images. The narration includes menus for navigating the site which have a hierarchy substantially similar to that of the original website. Users navigate the website menus and move from webpage to webpage by making keystrokes or using a mouse.

Our technology recognizes the possibility to operate the Internet as a spoken medium by cataloging each section of a website into an audio "filing cabinet." All the menu items and corresponding content on a given website can be easily converted to a series of audio files using web-based media creation software. Site owners have the option of personalizing content by reading and recording specific sections via the human voice or relying on state-of-the-art computer generated voices. Once all content is converted accordingly, all the individual audio files are woven together and connected by our AudioEye Ally Platform. Within the Reader, an intuitive keystroke navigation system allows users to *surf-by-sound*. Since the solution is network-based, users can seamlessly utilize our software across all their potential Internet points of entry — school, home, office, library or mobile device. We believe that this is a major advantage over local devices and provides portability while removing technical boundaries.

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Business Plan and Strategy

We are in the business of the development and commercial exploitation of our intellectual property both through the license of the AudioEye Ally Platform and the license of the intellectual property itself. Functionally the business is organized into Technology, Operations, Sales and Marketing, and Intellectual Property Development. Intellectual Property Development is tasked with the development of additional intellectual property, the implementation of a licensing strategy for the intellectual property itself, and the prosecution and enforcement of our existing patent portfolio.

Our business model is to generating revenue from multiple business channels:

- The license of products and sale of services to corporate website owners, publishers, developers, and operators.
- The license of products and sale of services to educational institutions and e-learning websites.
- The license of products and sale of services to federal, state and local governments.
- The license of products and sale of service to not-for-profit organizations.
- Royalties from direct licensees of our intellectual property.

Our strategy is to establish our company as the leading provider of accessible technologies with revenues derived through technology licensing, platform software as a service (SaaS) product sales, technology support services and a comprehensive technology enforcement strategy. Key operational objectives currently include:

- Generate revenues from cash sales of our core AudioEye Ally Platform managed service and self-service offerings.
- Commercialize and manage existing licenses of our intellectual property, including our patented technology.
- Receive license royalties from organizations that utilize our patented technology and systems, which may potentially include taking equity in or entering into joint ventures with such organizations.
- Deliver on custom development projects or products that leverage our technology or intellectual property.

License and Service Offerings

We offer a diversified portfolio of license and service offerings. These can be broken into four broad business categories:

- **Web Accessibility Technology Platform (The AudioEye Ally Platform) — Offered as Internet Cloud Software as a Service (SaaS)**

AudioEye offers three distinct web accessibility solutions:

- Developer Portal
- AudioEye Ally+ Standard Package
- AudioEye Ally+ Premium Package

Developer Portal:

- For self-service users who want to own the accessibility process from beginning to end
- The *Developer Portal* solution makes the developer's job much simpler because, not only can it automatically correct issues, but it also gives the developer the tools to gain complete control over what needs to be fixed.

AudioEye Ally+ Standard Package:

- Client's websites will be certified WCAG 2.0 Level AA compliant (with limited exclusions)
- **Help Desk** provides support for end users who have issues accessing content
- Detailed reporting that show the client results of remediation efforts

AudioEye Ally+ Premium Package:

- All items in the Standard Package, plus state of the art **Reader**

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- The AudioEye Ally+ Premium Package has a variable component that requires premium pricing. This solution also includes analytics.
- **Technology Licensing — Offered on an Equity and/or Royalty Licensing Basis**
- Digital Coupon

- Mobile Advertising Solutions
- Mobile Marketing Solutions
- Counseling/ Behavioral Health Care
- Medical Applications
- Content Delivery Networks (CDN)
- Mobile Networks
- Others
- **Patent Enforcement and Patent Portfolio Licensing Program**
 - Establishing Enforcement and Licensing Protocols to Combat Infringement
 - Pricing Models / Early Adopter License Strategy
 - Mobile Device Manufacturers
 - Mobile Marketing Providers
 - Other Device and Hardware Manufacturers
- **Support and Interactive Services**
 - Support Infrastructure for SaaS Model — Operated as a Revenue Center
 - Customized Software and Development — Operated as a Revenue Center
 - Sales and Commercialization Support for all Divisions

Customers

Our potential customer base includes a broad range of private and public sector customers including but not limited to:

- Corporate Enterprise
- Educational Institutions
- Federal, State and Local Governments and Agencies
- Not-for-Profit Organizations

If we are unable to establish, maintain or replace our relationships with customers and develop a diversified customer base, our revenues may fluctuate and our growth may be limited. Two major customers generated 81%, or 10% and 71%, respectively, of total sales for the year ended December 31, 2013. For the year ended December 31, 2014, two customers generated 87% of total sales, or 10% and 77%, respectively.

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Enterprise and Education Market

Our management believes that corporate enterprise is a large market for our products and services. Not only do we believe that consumers are good to businesses that do good, but we also believe that the AudioEye Ally+ Premium product uniquely empowers our clients to reach the large population of customers who are not able to gain equal access to our client's content, products and services delivered via their websites. In addition, we believe that the education market is significant and important and that it is vital for educational institutions to make all of their content fully accessible.

Title III of the Americans with Disabilities Act was enacted to help eliminate barriers to access. Just as building owners must implement physical accommodations to remove any physical barrier to access, transportation, or communication, website owners must adhere to web accessibility best practices in order to ensure barrier-free access to their websites and online materials. Over time, a website owner must maintain and prove their implementation of those techniques, such as those outlined within the globally recognized *Web Content Accessibility Guidelines (WCAG) 2.0* standard.

Internet technologies have the potential to give persons with disabilities the means to live on a more equitable basis within the global community in a manner that previously was not possible. We believe that there is significant market opportunity for our services as most websites are developed with the assumption that users can see the site. According to a study commissioned by Microsoft, conducted by Forester Research, Inc., 22% (37.2 million) of working-age adults are very likely to benefit from the use of accessible technology due to a severe difficulties and impairments. Persons with disabilities form the world's largest minority according to the United Nations. One billion people are estimated by the World Health Organization to have a disability. According to a 2012 report from the United States Census Bureau, the overall percentage of people with a disability in the United States was 12.1 percent.

Equally significant to this analysis of market size are the studies surrounding the market influence of this demographic. Consumers are good to businesses that do good and through cause related marketing strategies, there exists a non-trivial business opportunity. The disability market represents an annual disposable income of \$1 trillion—and \$544 billion in the U.S. alone. When you include friends and family, this adds another 2.3 billion people who control an incremental \$6.9 trillion in annual disposable income.

Government and Not-for-Profit Organizations Market

Federal and state laws require that the information and services made available across government agency websites meet the diverse and unique needs of all site visitors. Conforming to web accessibility best practices and guidelines helps ensure public access to government information and improves the value of agency investment in their websites and online services.

The Rehabilitation Act of 1973 requires that individuals with disabilities, who are members of the public seeking information or services from a federal department or agency, have access to and use of information and data that is comparable to that provided to the public without disabilities. The federal government also requires vendors selling to the government to be compliant under Section 508 of the Rehabilitation Act of 1973, unless covered by a provable exception. Canada and the European Union have similar requirements.

Elderly and print-impaired individuals need the Internet's critical access to fundamental state, local and federal government services and information such as tax forms, social programs, emergency services and legislative representatives. In addition, the roughly 120,000 federal employees with disabilities require Internet accessibility for workplace productivity. The AudioEye Reader in the cloud provides an intuitive Internet experience across all Internet-enabled devices without imposing any additional costs on end users. For government site administrators, our developer tools are designed to be user-friendly so that sites can be made accessible and maintained as part of any web management process.

In October 2010, Congress passed and the President signed into law the Twenty-First Century Communication and Video Accessibility Act of 2010, which mandates that all government websites (city, state and federal) be compliant and provide accessibility to persons with disabilities. Since this time, a growing number of legal mandates point to the WCAG 2.0 standard — sources range from the Department of Justice, the U.S. Access Board, and the Office of Civil Rights. We can help alleviate the risk that comes with non-conformance to these accepted guidelines and principles. Over 100 governments have signed and ratified the UN Convention on the Rights of Persons with Disabilities. Our certification seal demonstrates that

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websites meet internationally accepted accessibility standards (limited exclusions apply). As a result, our management believes that providing accessibility services for website owners and developers has become a significant market opportunity in view of the potential demand for our patented solutions.

Our solutions are sold by our direct sales team and through marketing partnerships and resellers and licensed operations. This strategy enables us to address all of the broad markets covered by our technology and allows for a depth and market penetration that we could never approach on our own.

Our management believes that a fertile market exists within the U.S. government, which we can pursue and develop directly. Further, our management believes that this direct connection with the government market will allow us to improve reseller and partner-based channel support services in a more efficient manner. We believe this tactic provides our management the ability to better anticipate the needs of and respond to our reseller network and partners with improvements and innovations in our products and services.

Our management believes that the government market imposes certain barriers to entry to new potential entrants. However, our management believes that the potential for recurring revenue generation, the data value appreciation that occurs over time, and low turnover upon establishment of government business all contribute to ideal long term conditions that make this a good market for us to conduct direct sales.

The federal government boasts nearly 2,000 top-level .gov domains and 24,000 websites of varying purpose, design, navigation, usability and accessibility. Including the 50 states and all local government websites, there are over 600,000 government websites in the United States.

Marketing and Sales

In addition to direct sales with industry specialization and geographical diversification, we use sales referral partners, channel partners and resellers. Success in these sales efforts is not only critical in order to meet our sales objectives, but they also raise market awareness of our products and brand. In addition, we attend selected accessibility and industry trade conferences, use paid search for those looking to learn about or purchase accessibility products or services, and employ a variety of other conventional marketing techniques.

Competition

Our management believes that our technology and solutions will primarily compete against the following:

1. **Web Accessibility Assessment Technology Providers.** There are a small number of web accessibility audit and tracking platform providers but we do not believe their technology solutions offer the specific functionality offered through the AudioEye Developer Portal. Furthermore, their solutions are currently more standalone in that they are not combined with a full suite of comparable assistive tools for end-users.
2. **Web Accessibility Remediation Technology Providers.** Currently, other technology provider(s) that utilize technology to apply compliance remediation through a server-side technology does not pair their solution with a full suite of assistive tools for end-users and are, therefore, limited in their capacity to provide a fully inclusive user experience for the customers adopting the technology.
3. **Web Accessibility Consulting Service Providers.** There is a substantial number of consulting service providers in the web accessibility industry. Each generally provides an analysis of the various compliance issues associated with their client's websites. They ultimately provide resources and assistance in applying fixes and changes at the source. While the we provide these services, we also provide tools that empower a fully managed service, as well as tools that empower self-directed developers to fix issues without requiring source-code remediation.

4. Cloud-Based Assistive Technology Providers. There are other cloud-based assistive technology providers. However, they do not offer a screen-reader-like experience with mouse-less navigation and do not offer a solution with compliance detection and remediation for users of existing, native assistive technologies, such as screen readers. Our patent portfolio should also help prevent competition as it pertains to this category.

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Patent Enforcement and Licensing

Our patent portfolio provides ownership of claims within the field of Internet-based and device-embedded audio navigation technologies. We currently license and may continue to license the exclusive ability to provide these products in a broad array of industry and product verticals. More specifically, throughout 2014, we entered into a number of non-monetary intellectual agreements. We expect that they will facilitate the growth of our company in the future.

Our technology, with its applications and our issued and pending patents, is intended to serve a broad landscape of clientele. Our strategy is to hire, partner with, and secure relationships with licensing professionals and value added reseller operations that specialize in addressing various market verticals. Through value added resellers, licensing operations and strategic partnerships, we plan to license our technology, software and patents in a highly scalable, profitable and sustainable infrastructure.

The licensing offering is also tailored for startup and emerging technology service companies that desire a license to our technology in exchange for equity and ongoing royalty payments to us. We plan to secure customized software development and service contracts that add specialized revenue streams from these partner organizations.

- Mobile Device Manufacturers
- Mobile Device Software Providers
- Mobile Device Operating System Providers
- Mobile Marketing Operations
- Mobile Internet Access Providers
- Internet Device Manufacturers
- Satellite, GPS and Automotive Device Manufacturers
- Internet Browser Providers
- Internet Media Service Providers
- Internet Content Publishers
- Internet Media Publishers
- Internet Service Providers
- Internet Search Providers
- Internet E-commerce Providers
- Internet Marketing Operations
- Internet Accessibility Services Providers
- U.S. Federal Government Internet Operations
- U.S. State Governments Internet Operations
- U.S. Departments, Bureaus, Agencies and Territories Internet Operations
- Native American Business Operations
- Native American Governments
- Content Delivery Networks (CDN)

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- Foreign Governments

- Appliance Manufacturers
- Healthcare Products Manufacturers
- Prescription Medication Pharmacy Operations
- Pharmaceutical Companies
- “How To” Operations
- User Manual Publishers

Our technology, with its applications and our issued and pending patents, is intended to serve a broad landscape of clientele. Our strategy is to hire, partner with, and secure relationships with licensing professionals and value added reseller operations that specialize in addressing each of the above mentioned market verticals. Through value added resellers, licensing operations and strategic partnerships, we plan to license our technology, software and patents in a highly scalable, profitable and sustainable infrastructure.

The licensing offering is also tailored for startup and emerging technology service companies that desire a license to our technology in exchange for equity and ongoing royalty payments to us. We plan to secure customized software development and service contracts that add specialized revenue streams from these partner organizations.

Progression of Equity, Royalty and Service Contract Licensing Model

We have developed, along with the Eller College of Management’s Department of Management Information Systems at the University of Arizona, a technology and vertical sales strategy targeted at post-secondary educational institutions. The business opportunity is focused on marketing our solutions and technology to approximately 10,000 higher education organizations in the United States. We have completed a trial implementation of the technology and are developing a joint venture with the Management Information Systems department, which is expected to commence in 2015.

We have entered into non-cash exchanges of licenses of our intellectual property for cross licenses from certain of our customers and other non-cash exchanges of our licenses for services to be provided by customers. For the first three quarters of 2014, we initially recognized revenue from such exchanges, but upon a subsequent internal review we restated our financial statements for these periods by, among other things, not recognizing these exchanges as revenues. Notwithstanding the restatements, our management believes that, in the future, the exchanges may benefit us from services to be provided or intellectual property being licensed to us. However, we are unable to estimate at the present time the extent of the benefit or the value, if anything, of these exchanges.

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Patent and Trademark Rights

We have a portfolio comprised of six patents in the United States, we have received a notice of allowance from the U.S. Patent and Trademark Office for a seventh patent, and we have several additional patents that are either pending or are being prepared for filing in the United States and internationally. Our portfolio includes a number of patents that describe unique systems and methods for navigating devices and Internet content, as well as publication and automated solutions that connect to any content management system, and can deliver a mobile, usable, and accessible user experience to any consumer device. Our software and technology solutions also have direct sales potential that can be expanded but are currently focused on the U.S. government market. We have extensive indirect sales channels developed through a network of value added resellers, partners and licensed operations that make up the majority of the projected sales volume.

The following is a list of our patents, both issued and pending. The patents have been extended and cover a period from 2002 through 2026.

No.	I.D.	Status	Title
1	US7966184	Issued	System and method for audible website navigation
2	US7653544	Issued	Method and apparatus for website navigation by the visually impaired
3	US8260616	Issued	System and method for audio content generation
4	US8046229	Issued	Method and apparatus for website navigation by the visually impaired
5	US8296150	Issued	System and method for audio content navigation
6	US8589169	Issued	System and method for creating audio files
7	13/483758	Notice of Allowance	System and method for generating audio content
8	13/280184	Pending	System and method for audio content management

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9	14/055366	Pending	System and method for communicating audio files
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We have also registered the following trademarks with the U.S. Patent and Trademark Office:

- AUDIO INTERNET - U.S. Trademark Application Serial No. 85/396,756
- AUDIOEYE - U.S. Trademark Application Serial No. 85/676,991
- WHAT ACCESSIBILITY SHOULD BE - U.S. Trademark Application Serial No. 86/413,160

Government Regulation

Government regulation in the United States that affects the market and commercial potential for our products and services includes the Rehabilitation Act of 1973, the American with Disabilities Act of 1990 and the Twenty-First Century Communications and Video Accessibility Act of 2010.

The Rehabilitation Act of 1973 requires that individuals with disabilities, who are members of the public seeking information or services from a federal department or agency, have access to and use of information and data that is comparable to that provided to the public without disabilities. The federal government also requires vendors selling to the government be compliant under Section 508 of the Rehabilitation Act of 1973, unless covered by a provable exception. Canada and the European Union have similar requirements.

The Americans with Disabilities Act of 1990 includes provisions that require that all telecommunications companies in the United States take steps to ensure functionally equivalent services for consumers with disabilities. The applicability of these provisions is relevant to today's environment where an increasing amount of voice and video communications occur over the Internet.

In October 2010, Congress passed and the President signed into law the Twenty-First Century Communications and Video Accessibility Act of 2010 to update existing federal laws requiring communications and video programming accessibility and to fill in any current gaps in accessibility so as to ensure the full inclusion of people with disabilities in all aspects of daily living through accessible, affordable and usable communication and video programming technologies.

Our management believes that our patents are pertinent to the development of the government-accessible market as well as the solution for Internet publishers and device manufactures requiring compliance with Sections 504 and 508 of the Rehabilitation Act of 1973. Our product positioning is centered in audio technology that enables mobility, usability and accessibility. In addition to the federal mandates for technology adoption, we have focused on providing comprehensive features and capabilities that bolster our value propositions and product demand creation through distribution of our proprietary enabling technologies.

Competitive Strengths

Our management believes the following competitive strengths will enable our success in the marketplace:

- **Unique patented technology.** We are focused on developing innovations in the field of networked and device-embedded audio technology. Our first patent family entitled "Method and Apparatus for Website Navigation by the Visually Impaired" U.S. patent #7,653,544 filed in 2003 and issued on January 29, 2010 provides technology claims that cover audio content navigation. Our second family of patents is entitled "System and Method for Audible Web Site Navigation." Our key foundational patent, U.S. patent #7,966,184 filed in 2007 and issued on June 23, 2011, includes additional mobile smartphone navigation and audio publishing capabilities. We have filed continuations within both patent families keeping both open for the filing of continuations and continuations in part. We own a unique patent portfolio comprised of six issued patents in the United States, we have received a notice of allowance from the U.S. Patent and Trademark Office for a seventh patent, and have additional U.S. patents pending. Our portfolio includes patents and pending patent applications in the United States with over 60 issued claims that encompass Internet and mobile markets that support our business and technology licensing process,
- **Licensing business model.** We are pursuing agreements under which we will license our technology within key identified vertical end-markets including but not limited to the U.S. government, mobile carrier, higher education, digital couponing, content delivery networks, marketing organizations, e-learning organizations, e-commerce operations, device manufactures, internet technology and communications.

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- **Highly experienced inventors, technologists and product development team.** Our team is comprised of experienced software, e-commerce, mobile marketing and Internet broadcasting developers and technologists that have worked together for over fifteen years. During their careers, this team has developed several technologies programs for Fortune 500 organizations; federal, state and local governments in the United States; and several leading organizations in a wide range of end-markets.

Employees

As of June 15, 2015, we had 30 full-time employees. None of our employees are subject to a collective bargaining agreement and we believe that relations with our employees are very good.

Corporate Information and Background

AudioEye, Inc. was formed as a Delaware corporation on May 20, 2005. On March 31, 2010, CMG Holdings Group, Inc. ("CMGO") acquired our company. In connection with the acquisition, the former stockholders of our company retained rights to receive cash from the exploitation of our technology (the "Rights") consisting of 50% of any cash received from income earned, settlements or judgments directly resulting from our patent strategy and a share of our net income for 2010, 2011 and 2012 from the exploitation of our technology. The Rights were then contributed to a newly formed Nevada corporation, AudioEye Acquisition Corporation ("AEAC") in exchange for shares of AEAC. During the period as a wholly-owned subsidiary of CMGO, we continued to expand our patent portfolio to protect our proprietary Internet content publication and distribution technology.

On June 22, 2011, CMGO entered into a Master Agreement with AEAC pursuant to which: (i) the stockholders of AEAC would acquire from the CMGO 80% of our capital stock (the "Separation") and (ii) CMGO would distribute to its stockholders, in the form of a dividend, 5% of our capital stock (the "Spin-off"). Pursuant to the Master Agreement, AEAC was required to arrange for the release of senior secured notes (the "Senior Notes") issued by CMGO in an aggregate principal amount of \$1,025,000, which CMGO had been unable to service. On August 17, 2012, we, CMGO and AEAC completed the Separation. In connection with the Separation, AEAC arranged for the release of CMGO under the Senior Notes by payment to the holders thereof of

\$700,000, the delivery of a secured promissory note in the principal amount of \$425,000 and the issuance of 1,500,000 shares of the common stock of AEAC. On February 6, 2013, the note was paid in full. On January 29, 2013, the Securities and Exchange Commission declared effective our registration statement on Form S-1 with respect to 1,500,259 shares of our common stock to be issued in the Spin-off. On February 22, 2013, CMGO completed the Spin-off.

In connection with the Separation, we entered into a Royalty Agreement with CMGO. Pursuant to the Royalty Agreement, for a period of five years, we would pay to CMGO 10% of cash received from income earned or settlements on judgments directly resulting from our patent enforcement and licensing strategy, whether received by us on any of our affiliates, net in either case of any direct costs or tax implications incurred in pursuit of such strategy as they relate to the patents described in the Master Agreement. Additionally, we entered into a Services Agreement with CMGO whereby, without duplication to the amounts payable under the Royalty Agreement, for a period of 5 years, CMGO will receive a commission of 7.5% of all revenues received by us after the Separation from all business, clients or other sources of revenue procured by CMGO or its employees, officers or subsidiaries and directed to us and 10% of net revenues obtained from a specified customer.

On March 22, 2013, we and AEAC entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which AEAC would be merged with and into our company (the "Merger") with our company being the surviving entity. Pursuant to the Merger Agreement, each share of AEAC common stock issued and outstanding immediately prior to the Merger effective date would be converted into .94134 share of our common stock and the outstanding convertible debentures of AEAC (the "AEAC Debentures") in the aggregate principal amount of \$1,400,200, together with accrued interest thereon, would be assumed by us and then exchanged for convertible debentures of our company (the "AE Debentures").

Effective March 25, 2013, the Merger was completed. In connection with the Merger, the stockholders of AEAC received on a pro rata basis the 24,004,143 shares of our common stock that were held by AEAC, and the former holders of the AEAC Debentures received an aggregate of 5,871,752 shares of our common stock pursuant to their conversion of all of the AE Debentures issued to replace the AEAC Debentures. The principal assets of AEAC were the Rights that had been contributed to AEAC by the former stockholders of our company. As a result of the Merger, the Rights have been extinguished.

On November 12, 2013, we and CMGO terminated the Royalty Agreement.

On December 30, 2013, we completed the repurchase of 2,184,583 shares of our common stock owned by CMGO which shares were transferred to us in January, 2014 and retired to treasury. In connection, with the repurchase, we paid CMGO \$573,022 and forgave a \$50,000 payable from an affiliate of CMGO.

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Reports to Security Holders

We are not required to deliver an annual report to our stockholders, but will voluntarily send an annual report, together with our annual audited financial statements upon request. We are required to file annual, quarterly and current reports, proxy statements, and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>.

The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Internet address of the site is <http://www.sec.gov>.

Item 1A. Risk Factors

In addition to the other information included in this Annual Report, the following factors should be carefully considered in evaluating our business, financial position and future prospects. Any of the following risks, either alone or taken together, could materially and adversely affect our business, financial position or future prospects. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from what we have projected. Investing in our common stock is highly speculative and involves a high degree of risk. Any potential investor should carefully consider the risks and uncertainties described below before purchasing any shares of our common stock. There may be additional risks that we do not presently know or that we currently believe are immaterial which could also materially adversely affect our business, financial position or future prospects. As a result, the trading price of our stock could decline, and you might lose all or part of your investment. Our business, financial condition and operating results, or the value of any investment you make in the stock of our company, or both, could be adversely affected by any of the factors listed and described below.

Risks Relating to Our Business and Industry

We have a history of generating significant losses and may not be able to achieve and sustain profitability.

To date, we have not been profitable, and we may never achieve profitability on a full-year or consistent basis. We incurred net losses of \$9,750,813 for the year ended December 31, 2014. As of December 31, 2014, we have an accumulated deficit of \$17,030,286 and working capital of \$2,117,283. If we continue to experience losses, we may not be able to continue our operations, and investors may lose their entire investment.

Our future development requires substantial capital, and we may be unable to obtain needed capital or financing on satisfactory terms, which would prevent us from fully developing our business and generating revenues.

As of December 31, 2014, our cash available was \$1,672,901. Our business is capital intensive and we anticipate that we will need to raise significant amounts of capital to meet our funding requirements. We expect our capital outlays to increase substantially over at least the next several years as we implement our business plan. We expect that we will need to raise substantial additional capital, through future private or public equity offerings, strategic alliances or debt financing. Our future capital requirements will depend on many factors, including: market conditions, sales force cost, cost of litigation in enforcing our patents, and information technology (IT) development and acquisition costs.

We do not currently have any commitments for future external funding. Additional financing may not be available on favorable terms, or at all. Even if we succeed in selling additional securities to raise funds, at such time, the ownership percentage of our existing stockholders would be diluted, and new investors may demand rights, preferences or privileges senior to those of existing stockholders. If we raise additional capital through debt financing, the financing may involve covenants that restrict our business activities. If we are not able to obtain financing when needed, we may be unable to carry out our business plan.

Current economic and credit conditions could adversely affect our plan of operations.

Our ability to secure additional financing and satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, which is subject to the prevailing general economic and credit market conditions, including interest rate levels and the availability of credit generally, and financial, business and other factors, many of which are beyond our control. The prolonged continuation or worsening of current credit market conditions would have a material adverse effect on our ability to secure financing on favorable terms, if at all.

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Our revenue and collections may be materially adversely affected by the economic downturn.

A continuation or worsening of the previous economic downturn could result in reduced demand for our services and products, which could have a material adverse effect on our business financial position or results of operations.

An increase in market interest rates could increase our interest costs on future debt and could adversely affect our stock price.

If interest rates increase, so could our interest costs for any new debt. This increased cost could make the financing of any acquisition more costly. We may incur variable interest rate indebtedness in the future. Rising interest rates could limit our ability to refinance debt when it matures, or cause us to pay higher interest rates upon refinancing and increased interest expense on refinanced indebtedness.

We are dependent on certain members of our management and technical team.

Investors in our common stock must rely upon the ability, expertise, judgment and discretion of our management and the success of our technical team in exploiting our technology. Our performance and success are dependent, in part, upon key members of our management and technical team, including Carr Bettis, Executive Chairman/Chairman of the Board; Nathaniel Bradley, Founder, Chief Innovation Officer and Treasurer; and Sean Bradley, President, Chief Technical Officer and Secretary. The departure of such key persons could be detrimental to our future success. Members of our management hold a significant percentage of our common stock. We cannot assure you that our management will remain in place. The loss of any of our management and technical team members could have a material adverse effect on our results of operations and financial condition, as well as on the market price of our common stock.

We intend to seek acquisitions and other strategic opportunities, which may result in the use of a significant amount of our management resources or significant costs, and we may not be able to fully realize the potential benefit of such transactions.

We intend to seek acquisitions and other strategic opportunities. Accordingly, we may often be engaged in evaluating potential transactions and other strategic alternatives. In addition, from time to time, we may engage in discussions that may result in one or more transactions. Although there would be uncertainty that any of these discussions would result in definitive agreements or the completion of any transaction, we may devote a significant amount of our management resources to such a transaction, which could negatively impact our operations. In addition, we may incur significant costs in connection with seeking acquisitions or other strategic opportunities regardless of whether the transaction is completed and in combining its operations if such a transaction is completed. In the event that we consummate an acquisition or strategic alternative in the future, we cannot assure you that we would fully realize the potential benefit of such a transaction.

Our business plan may not be realized. If our business plan proves to be unsuccessful, our business may fail and you may lose your entire investment.

Our operations are subject to all of the risks inherent in the establishment of a new business enterprise with a limited operating history. The likelihood of our success must be considered in light of the problems, expenses, complications and delays frequently encountered in connection with the development of a new business. Unanticipated events may occur that could affect the actual results achieved during the forecast periods. Consequently, the actual results of operations during the forecast periods will vary from the forecasts, and such variations may be material. In addition, the degree of uncertainty increases with each successive year presented. We cannot assure you that we will succeed in the anticipated operation of our business plan. If our business plan proves to be unsuccessful, our business may fail and you may lose your entire investment.

If we are not able to adequately protect our patented rights, our operations would be negatively impacted.

Our ability to compete largely depends on the superiority, uniqueness and value of our technology and intellectual property. To protect our intellectual property rights, we will rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with our employees and third parties, and protective contractual provisions. We cannot assure you that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against us or that any such assertions or prosecutions will not materially adversely affect our business.

Regardless of whether these or any future claims are valid or can be successfully asserted, defending against such claims could cause us to incur significant costs, could jeopardize or substantially delay a successful outcome in any future litigation, and could divert resources away from our other activities. In addition, assertion of infringement claims could result in injunctions that prevent us from distributing our products. In addition to challenges against our existing patents, any of the following could also reduce the value of our intellectual property now, or in the future:

- our applications for patents, trademarks and copyrights relating to our business may not be granted and, if granted, may be challenged or invalidated;
- issued trademarks, copyrights or patents may not provide us with any competitive advantages;
- our efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology; or
- our efforts may not prevent the development and design by others of products or technologies similar to, competitive with, or superior to those that we develop.

Also, we may not be able to effectively protect our intellectual property rights in certain foreign countries where we may do business in the future or from which competitors may operate. Obtaining patents will not necessarily protect our technology or prevent our international competitors from developing similar products or technologies. Our inability to adequately protect our patented rights would have a negative impact on our operations and revenues.

In addition, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related businesses are uncertain and still evolving. Because of the growth of the Internet and Internet-related businesses, patent applications are continuously and simultaneously being filed in connection with Internet-related technology. There are a significant number of U.S. and foreign patents and patent applications in our areas of interest, and we believe that there has been, and is likely to continue to be, significant litigation in the industry regarding patent and other intellectual property rights.

We may commence legal proceedings against third parties who we believe are infringing on our intellectual property rights, and if we are forced to litigate to defend our intellectual property rights, or to defend claims by third parties against us relating to intellectual property rights, legal fees and court injunctions could adversely affect our financial condition or potentially end our business.

At present, we do not have any active or pending litigation related to the violation of our patents. However, we believe that certain third parties may be violating our patents. We expect the number of third parties violating our patents to grow in number as the market develops new uses of voice controlled Internet usage and consumers begin to increase their adoption of the technology and integrate it into their daily lives. We foresee the potential need to enter into active litigation to defend the enforcement of our patents. We anticipate that these legal proceedings could continue for several years and may require significant expenditures for legal fees and other expenses. In the event we are not successful through appeal and do not subsequently obtain monetary and injunctive relief, these litigation matters may significantly reduce our financial resources and have a material impact on our ability to continue our operations. The time and effort required of our management to effectively pursue these litigation matters may adversely affect our ability to operate our business, since time spent on matters related to the lawsuits will take away from the time spent on managing and operating the business. We cannot assure you that any such potential lawsuits will result in a final outcome that is favorable to our stockholders or us.

We may or may not be able to capitalize on potential market opportunities related to our licensing strategy or our patent portfolio.

In order to capitalize on our patent portfolio, our business strategy calls for us to enter into licensing relationships with leading companies in our target markets in order to reach a larger end-user base than we could reach through direct sales and marketing efforts. Although we may enter into certain license agreements, we cannot assure you that we will be able to continue to capitalize on our patent portfolio or any potential market opportunity in the foreseeable future. Our inability to generate licensing revenues associated with the potential market opportunities could result from a number of factors, including, but not limited to:

- we may not be successful in entering into licensing relationships with our targeted customers on commercially acceptable terms; and
- challenges to the validity of certain of our patents that underlie the licensing opportunities.

We have experienced and will continue to experience competition as more companies seek to provide products and services similar to our products and services; and because larger and better-financed competitors may affect our ability to operate our business and achieve profitability, our business may fail.

We expect competition for our products and services to be intense. We expect to compete directly against other companies offering similar products and services that will compete directly with our proposed products and services. We also expect that we will

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compete against established vendors in our markets. These companies may incorporate other competitive technologies into their product offerings, whether developed internally or by third parties. For the foreseeable future, substantially all of our competitors are likely to be larger, better-financed companies that may develop products superior to our current and proposed products, which could create significant competitive advantages for those companies. Our future success depends on our ability to compete effectively with our competitors. As a result, we may have difficulty competing with larger, established competitors. Generally, these competitors have:

- substantially greater financial, technical and marketing resources;
- a larger customer base;
- better name recognition; and
- more expansive product offerings.

These competitors are likely to command a larger market share than us, which may enable them to establish a stronger competitive position, in part, through greater marketing opportunities. Further, our competitors may be able to respond more quickly to new or emerging technologies and changes in user

preferences and to devote greater resources to developing new products and offering new services. These competitors may develop products or services that are comparable or superior to ours. If we fail to address competitive developments quickly and effectively, we may not be able to remain a viable business.

The burdens of being a public company may adversely affect our ability to develop our business and pursue a litigation strategy.

As a public company, our management must devote substantial time, attention and financial resources to comply with U.S. securities laws. This may have a material adverse effect on our management's ability to effectively and efficiently develop our business initiatives. In addition, our disclosure obligations under U.S. securities laws may require us to disclose information publicly that could have a material adverse effect on our potential litigation strategies.

The current regulatory environment for our products and services remains unclear.

We cannot assure you that our existing or planned product and service offerings will be in compliance with local, state and/or federal U.S. laws or the laws of any foreign jurisdiction where we may operate in the future. Further, we cannot assure you that we will not unintentionally violate such laws or that such laws will not be modified, or that new laws will not be enacted in the future, which would cause us to be in violation of such laws. More aggressive domestic or international regulation of the Internet may materially and adversely affect our business, financial condition, operating results and future prospects.

Our business greatly depends on the growth of mobile services, streaming, file transfer, remote desktop and other next-generation Internet-based applications.

The Internet may ultimately prove not to be a viable commercial marketplace for such applications for a number of reasons, including:

- unwillingness of consumers to shift to and use other such next-generation Internet-based audio applications;
- refusal to purchase our products and services;
- perception by the licensees with respect to product and service quality and performance;
- limitations on access and ease of use;
- congestion leading to delayed or extended response times;
- inadequate development of Internet infrastructure to keep pace with increased levels of use; and
- increased government regulations.

If the market for our mobile services, audio control of the Internet browser, file transfer and remote desktop does not grow as anticipated, our business would be adversely affected.

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While other next-generation Internet-based applications have grown rapidly in personal and professional use, we cannot assure you that the adoption of our products and services will grow at a comparable rate, or grow at all.

We expect that we will experience long and unpredictable sales cycles, which may impact our operating results.

We expect that our sales cycles will be long and unpredictable due to a number of uncertainties such as:

- the need to educate potential customers about our patent rights and our product and service capabilities;
- customers' willingness to invest potentially substantial resources and infrastructures to take advantage of our products and services;
- customers' budgetary constraints;
- the timing of customers' budget cycles; and
- delays caused by customers' internal review processes.

We expect that we will be substantially dependent on a concentrated number of customers.

As of December 31, 2014, two major customers generated 87% of our revenue. If we are unable to establish, maintain, grow or replace our relationships with customers and develop a diversified customer base, our revenues may fluctuate and our growth may be limited.

If we do not successfully develop our planned products and services in a cost-effective manner to customer demand in the rapidly evolving market for next-generation Internet-based applications and services, our business may fail.

The market for next-generation Internet-based applications and services is characterized by rapidly changing technology, evolving industry standards, changes in customer needs, and frequent new service and product introductions. Our future success will depend, in part, on our ability to use new technologies effectively, to continue to develop our technical expertise and proprietary technology, to enhance our existing products and services, and to develop new products and services that meet changing customer needs on a timely and cost-effective basis. We may not be able to adapt quickly enough to changing technology, customer requirements and industry standards. If we fail to use new technologies effectively, to develop our technical expertise and

new products and services, or to enhance existing products and services in a timely basis, either internally or through arrangements with third parties, our product and service offerings may fail to meet customer needs, which would adversely affect our revenues and prospects for growth.

In addition, if we are unable, for technological, legal, financial or other reasons, to adapt in a timely manner to changing market conditions or customer requirements, we could lose customers, strategic alliances and market share. Sudden changes in user and customer requirements and preferences, the frequent introduction of new products and services embodying new technologies and the emergence of new industry standards and practices could render our existing products, services and systems obsolete. The emerging nature of products and services in the technology and communications industry and their rapid evolution will require that we continually improve the performance, features and reliability of our products and services. Our survival and success will depend, in part, on our ability to:

- design, develop, launch and/or license our planned products, services and technologies that address the increasingly sophisticated and varied needs of our prospective customers; and
- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

The development of our planned products and services and other patented technology involves significant technological and business risks and requires substantial expenditures and lead-time. We may be unable to use new technologies effectively. Updating our technology internally and licensing new technology from third parties may also require us to incur significant additional expenditures.

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If our products and services do not gain market acceptance, we may not be able to fund future operations.

A number of factors may affect the market acceptance of our products or services or any other products or services we develop or acquire, including, among others:

- the price of our products or services relative to other competitive products;
- the perception by users of the effectiveness of our products and services;
- our ability to fund our sales and marketing efforts; and
- the effectiveness of our sales and marketing efforts.

If our products and services do not gain market acceptance, we may not be able to fund future operations, including the development of new products and services and/or our sales and marketing efforts for our current products and services, which inability would have a material adverse effect on our business, financial condition and operating results.

Our products and services are highly technical and may contain undetected errors, which could cause harm to our reputation and adversely affect our business.

Our products and services are highly technical and complex and, when deployed, may contain errors or defects. Despite testing, some errors in our products and services may only be discovered after they have been installed and used by customers. Any errors or defects discovered in our products and services after commercial release could result in failure to achieve market acceptance, loss of revenue or delay in revenue recognition, loss of customers, and increased service and warranty cost, any of which could adversely affect our business, operating results and financial condition. In addition, we could face claims for product liability, tort or breach of warranty. The performance of our products and services could have unforeseen or unknown adverse effects on the networks over which they are delivered as well as on third-party applications and services that utilize our products and services, which could result in legal claims against us, harming our business. Furthermore, we expect to provide implementation, consulting and other technical services in connection with the implementation and ongoing maintenance of our products and services, which typically involves working with sophisticated software, computing and communications systems. We expect that our contracts with customers will contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert our management's attention and adversely affect the market's perception of us and our products and services. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, operating results and financial condition could be adversely impacted.

Malfunctions of third-party communications infrastructure, hardware and software expose us to a variety of risks we cannot control.

Our business will depend upon the capacity, reliability and security of the infrastructure owned by third parties over which our offerings would be deployed. We have no control over the operation, quality or maintenance of a significant portion of that infrastructure or whether or not those third parties will upgrade or improve their equipment. We depend on these companies to maintain the operational integrity of our connections. If one or more of these companies is unable or unwilling to supply or expand its levels of service in the future, our operations could be adversely impacted. Also, to the extent the number of users of networks utilizing our future products and services suddenly increases, the technology platform and secure hosting services which will be required to accommodate a higher volume of traffic may result in slower response times or service interruptions. System interruptions or increases in response time could result in a loss of potential or existing users and, if sustained or repeated, could reduce the appeal of the networks to users. In addition, users depend on real-time communications; outages caused by increased traffic could result in delays and system failures. These types of occurrences could cause users to perceive that our products and services do not function properly and could therefore adversely affect our ability to attract and retain licensees, strategic partners and customers.

System failure or interruption or our failure to meet increasing demands on our systems could harm our business.

The success of our product and service offerings will depend on the uninterrupted operation of various systems, secure data centers, and other computer and communication networks that we use or establish. To the extent the number of users of networks utilizing our future products and services suddenly increases, the technology platform and hosting services which will be required to accommodate a higher volume of traffic may result in slower

response times, service interruptions or delays or system failures. The deployment of our products, services, systems and operations will also be vulnerable to damage or interruption from:

- power loss, transmission cable cuts and other telecommunications failures;
- damage or interruption caused by fire, earthquake and other natural disasters;

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- computer viruses or software defects; and
- physical or electronic break-ins, sabotage, intentional acts of vandalism, terrorist attacks and other events beyond our control.

System interruptions or failures and increases or delays in response time could result in a loss of potential or existing users and, if sustained or repeated, could reduce the appeal of our products and services to users. These types of occurrences could cause users to perceive that our products and services do not function properly and could therefore adversely affect our ability to attract and retain licensees, strategic partners and customers.

Our ability to sell our solutions will be dependent on the quality of our technical support and our failure to deliver high-quality technical support services could have a material adverse effect on our sales and results of operations.

If we do not effectively assist our customers in deploying our products and services, succeed in helping our customers quickly resolve post-deployment issues and provide effective ongoing support, or if potential customers perceive that we may not be able to successfully deliver the foregoing, our ability to sell our products and services would be adversely affected, and our reputation with potential customers could be harmed. In addition, if we expand our operations internationally, our technical support team will face additional challenges, including those associated with delivering support, training and documentation in languages other than the English language. As a result, our failure to deliver and maintain high-quality technical support services to our customers could result in customers choosing to use our competitors' products or services in the future.

We will need to recruit and retain additional qualified personnel to successfully grow our business.

Our future success will depend in part on our ability to attract and retain qualified operations, marketing and sales personnel as well as technical personnel. Inability to attract and retain such personnel could adversely affect our business. Competition for technical, sales, marketing and executive personnel is intense, particularly in the technology and Internet sectors. We cannot assure you that we will be able to attract or retain such personnel.

Growth of internal operations and business may strain our financial resources.

We may need to significantly expand the scope of our operating and financial systems in order to build our business. Our growth rate may place a significant strain on our financial resources for a number of reasons, including, but not limited to, the following:

- the need for continued development of our financial and information management systems;
- the need to manage relationships with future licensees, resellers, distributors and strategic partners;
- the need to hire and retain skilled management, technical and other personnel necessary to support and manage our business; and
- the need to train and manage our employee base.

The addition of products and services and the attention they demand, may also strain our management resources.

We do not expect to pay any dividends for the foreseeable future, which will affect the extent to which our investors realize any future gains on their investment.

We do not anticipate that we will pay any dividends to holders of our common stock in the foreseeable future. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

We have identified material weaknesses in our internal control over financial reporting, which have resulted in a restatement of our previously issued financial statements. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain errors and we could be required to further restate our financial results, which could adversely affect our stock price.

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We have concluded that there are material weaknesses in our internal control over financial reporting, as we did not maintain effective controls over the application of accounting principles generally accepted in the United States ("GAAP") related to revenue recognition for certain non-monetary transactions. Specifically, the members of our management team with the requisite level of accounting knowledge, experience and training commensurate with our financial reporting requirements did not analyze certain accounting issues at the level of detail required to ensure the proper application of GAAP in certain circumstances. One material weakness related to our failure to maintain effective internal controls over the accounting for revenue recognition. Our quarterly reports on Form 10-Q for the periods ended March 31, June 30 and September 31, 2014 have been amended to reflect the restatement of our financial statements for the restated periods and the change in management's conclusion regarding the effectiveness of our disclosure controls and procedures and internal control over financial reporting.

Risks Related to the Market for Our Common Stock

Our stock price may be volatile, and purchasers of our common stock could incur substantial losses.

Since April 25, 2013, our common shares were quoted on the OTCQB and OTC Bulletin Board services. Beginning on April 15, 2015, our common shares are quoted on the OTC Pink marketplace. This move was necessitated by our inability to timely file certain documents with the SEC. Upon updating our filings, we expect to be traded again on the OTCQB, however the date of the change is unknown at this time.

Since April 25, 2013, our stock price has been volatile and may continue to be so. The stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their common stock. The market price for our common stock may be influenced by many factors, including, but not limited to:

- regulatory developments in the United States and any foreign countries where we may operate;
- the recruitment or departure of key personnel;
- quarterly or annual variations in our financial results or those of companies that are perceived to be similar to us;
- market conditions in the industries in which we compete and issuance of new or changed securities;
- analysts' reports or recommendations;
- the failure of securities analysts to cover our common stock or changes in financial estimates by analysts;
- the inability to meet the financial estimates of analysts who follow our common stock;
- the issuance of any additional securities by us;
- investor perception of us and of the industry in which we compete; and
- general economic, political and market conditions.

Trading on the OTCQB and OTC Bulletin Board may be volatile and sporadic, which could depress the market price of our common shares and make it difficult for our stockholders to resell their shares.

Since April 25, 2013, our common shares began being quoted on the OTCQB and OTC Bulletin Board services. Beginning on April 15, 2015, our common shares are quoted on the OTC Pink marketplace. This move was necessitated by our inability to timely file certain documents with the SEC. Upon updating our filings, we expect to be traded again on the OTCQB, however the date of the change is unknown at this time.

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Trading in shares quoted on the OTCQB and OTC Bulletin Board is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with our operations or business prospects. This volatility could depress the market price of shares of our common stock for reasons unrelated to operating performance. Moreover, the OTCQB and OTC Bulletin Board are not stock exchanges, and trading of securities on the OTCQB and OTC Bulletin Board are often more sporadic than the trading of securities listed on a quotation system like NASDAQ or a stock exchange like NYSE MKT. Accordingly, stockholders may have difficulty reselling shares of our common stock.

The material weakness identified in our internal controls over financial reporting, discussed in more detail above, may result in restatements of previously issued financial statements or delays in timely filing materials with the SEC. Such restatements or delays can impact the trading of our shares.

We have concluded that there are material weaknesses in our internal control over financial reporting, as we did not maintain effective controls over the application of accounting principles generally accepted in the United States ("GAAP") related to revenue recognition for certain non-monetary transactions. Restatements or delays in filing the requisite materials with the SEC may impact our ability to be allowed to trade on various trading platforms. Such limitation may impact the trading price of our shares.

A substantial number of shares of our common stock may be sold into the market at any time. This could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

Our stock is a penny stock; trading of shares of our common stock may be restricted by the SEC's penny stock regulations, which may limit a stockholder's ability to buy and sell our shares.

Our stock is a penny stock. The SEC has adopted Rule 15c-9 which generally defines "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors." The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson

compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the shares that are subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common shares.

FINRA sales practice requirements may also limit a stockholder's ability to buy and sell shares of our common stock.

In addition to the "penny stock" rules promulgated by the SEC, the Financial Industry Regulatory Authority, or the FINRA, has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for

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believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some brokerage customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy shares of our common stock, which may limit your ability to buy and sell shares of our common stock.

When we issue additional shares in the future, it will likely result in the dilution of our existing stockholders.

Our certificate of incorporation authorizes the issuance of up to 250,000,000 shares of common stock with a \$0.00001 par value and 10,000,000 preferred shares with a par value of \$0.00001, of which 78,740,216 common shares were issued and outstanding as of March 31, 2015 and 175,000 shares of Series A Convertible Preferred Stock (convertible into 9,977,195 shares of common stock) were issued and outstanding as of June 30, 2015. From time to time we may increase the number of shares available for issuance in connection with our equity compensation plans. Our board of directors may fix and determine the designations, rights, preferences or other variations of each class or series within each class of preferred stock and may choose to issue some or all of such shares to provide additional financing or acquire more businesses in the future.

Moreover, as of March 31, 2015 we had warrants and options to purchase an aggregate of 20,894,206 shares of our common stock, the exercise of which would further increase the number of outstanding shares. The issuance of any shares for acquisition, licensing or financing efforts, upon conversion of any preferred stock or exercise of warrants and options, pursuant to our equity compensation plans, or otherwise may result in a reduction of the book value and market price of the outstanding shares of our common stock. If we issue any such additional shares, such issuance will cause a reduction in the proportionate ownership and voting power of all current stockholders.

Sales of a substantial number of shares of our common stock into the public market may result in significant downward pressure on the price of our common stock and could affect your ability to realize the current trading price of our common stock.

Sales of a substantial number of shares of our common stock in the public market could cause a reduction in the market price of our common stock. To the extent stockholders sell shares of common stock, the price of our common stock may decrease due to the additional shares of common stock in the market.

Any significant downward pressure on the price of our common stock as stockholders sell their shares could encourage short sales of our common stock. Any such short sales could place further downward pressure on the price of our common stock.

Risks Relating to Our Charter Documents and Capital Structure

We are close to being controlled by a small number of "insider" stockholders.

Our directors and executive officers currently beneficially own approximately 36.47% of our outstanding common stock. Accordingly, through their collective ownership of our outstanding common stock, if they act together, they will be close to controlling the voting of our shares at all meetings of stockholders and, because the common stock does not have cumulative voting rights, will be close to determining the outcome of the election of all of our directors and determining corporate and stockholder action on other matters.

Provisions of our certificate of incorporation and by-laws could discourage potential acquisition proposals and could deter or prevent a change in control.

Some provisions in our certificate of incorporation and by-laws, as well as statutes, may have the effect of delaying, deferring or preventing a change in control. These provisions, including those providing for the possible issuance of shares of our preferred stock, which may be divided into series and with the preferences, limitations and relative rights to be determined by our board of directors, and the right of the board of directors to amend the by-laws, may make it more difficult for other persons, without the approval of our board of directors, to make a tender offer or otherwise acquire a substantial number of shares of our common stock or to launch other takeover attempts that a stockholder might consider to be in his or her best interest. These provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock.

Delaware law may delay or prevent takeover attempts by third parties and therefore inhibit our stockholders from realizing a premium on their stock.

We are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, or the DGCL. This section prevents any stockholder who owns 15% or more of our outstanding common stock from engaging in certain business

combinations with us for a period of three years following the time that the stockholder acquired such stock ownership unless certain approvals were or are obtained from our board of directors or the holders of 66 2/3% of our outstanding common stock (excluding the shares of our common stock owned by the 15% or more stockholder). Our board of directors can use these and other provisions to discourage, delay or prevent a change in the control of our company or a change in our management. Any delay or prevention of a change of control transaction or a change in our board of directors or management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then current market price for their shares. These provisions could also limit the price that investors might be willing to pay for shares of our common stock.

Failure to manage growth effectively could adversely affect our business, results of operations and financial condition.

The success of our future operating activities will depend upon our ability to expand our support system to meet the demands of our growing business. Any failure by our management to effectively anticipate, implement, and manage changes required to sustain our growth would have a material adverse effect on our business, financial condition, and results of operations. We cannot assure you that we will be able to successfully operate acquired businesses, become profitable in the future, or effectively manage any other change.

The elimination of monetary liability against our directors, officers and employees under Delaware law and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by us and may discourage lawsuits against our directors, officers and employees.

Our by-laws contain specific provisions that eliminate the liability of our directors for monetary damages to our company and stockholders, and permit indemnification of our directors and officers to the extent provided by Delaware law. We may also have contractual indemnification obligations under our employment agreements with our officers. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers even though such actions, if successful, might otherwise benefit our company and stockholders.

Item 1B. Unresolved Staff Comments

As a “smaller reporting company,” we are not required to provide the information required by this Item.

Item 2. Properties

Our principal executive offices are located at 5210 E. Williams Circle, Suite 500, Tucson, Arizona 85711, consisting of approximately 6,003 square feet. We also have offices in Atlanta at 1855 Piedmont Road, Suite 200, Marietta, Georgia. Our total rent expense was approximately \$302,230 and \$38,388 under rent for the years ended December 31, 2014 and 2013, respectively.

We believe our current premises are adequate for our current operations although we may require additional premises in the foreseeable future.

Item 3. Legal Proceedings

We are currently involved in various routine disputes and allegations incidental to our business operations. While it is not possible to determine the ultimate disposition of these matters, our management believes that the resolution of all such pending or threatened litigation is not likely to have a material adverse effect on our financial position or results of operations.

In April 2015, two purported shareholder class action lawsuits were filed against us and our officer Nathaniel Bradley and former officer Edward O’Donnell in the U.S. District Court for the District of Arizona. The plaintiffs allege various causes of action against the defendants arising from our announcement that our previously issued financial results for the first three quarters of 2014 and the guidance for the fourth quarter of 2014 and the full year of 2014 could no longer be relied upon. The complaints seek, among other relief, compensatory damages and plaintiff’s counsel’s fees and experts’ fees. The Court has not yet appointed a lead plaintiff or lead counsel, and we have not yet responded to the complaints. We believe that the lawsuits have no merit and intend to mount a vigorous defense. Given the current stage of the proceedings in this case, our management currently cannot assess the probability of losses, or reasonably estimate the range of losses, related to these matters.

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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

Common Stock Information

Our common stock started being listed on the OTCQB and the OTC Bulletin Board effective April 15, 2013 under the symbol “AEYE.” Beginning on April 15, 2015, our common shares are quoted on the OTC Pink marketplace. This move was necessitated by our inability to timely file certain documents with the SEC. Upon updating our filings, we expect to be traded again on the OTCQB, however the date of the change is unknown at this time.

The following table sets forth the high and low sale prices of our common stock on the OTC Bulletin Board for the periods indicated:

	High		Low	
Quarter ended June 30, 2013	\$	1.40	\$	0.30
Quarter ended September 30, 2013	\$	0.53	\$	0.34
Quarter ended December 31, 2013	\$	0.51	\$	0.25

Quarter ended March 31, 2014	\$	0.53	\$	0.26
Quarter ended June 30, 2014	\$	0.65	\$	0.28
Quarter ended September 30, 2014	\$	1.07	\$	0.43
Quarter ended December 31, 2014	\$	0.70	\$	0.42
Quarter ended March 31, 2015	\$	0.60	\$	0.40

As of June 19, 2015, we had approximately 248 stockholders of record and a greater number of beneficial holders for whom shares are held in a “nominee” or “street” name.

The transfer agent of our common stock is Corporate Stock Transfer, 3200 Cherry Creek Drive, Suite 430, Denver, Colorado 80209, telephone number: (303) 282-4800.

Dividend Policy

Holders of our common stock are entitled to receive ratably such dividends, if any, as may be declared by our board of directors out of funds legally available. We have not paid any dividends since our inception, and we presently anticipate that all earnings, if any, will be retained for development of our business. There are no restrictions in our certificate of incorporation or by-laws that prevent us from declaring dividends. Any future disposition of dividends will be at the discretion of our board of directors and will depend upon, among other things, our future earnings, operating and financial condition, capital requirements, and other factors.

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Item 6. Selected Financial Data

We derived the selected financial data presented below for the periods or dates indicated from our financial statements. An independent registered public accounting firm audited our financial statements for these periods. You should read the data below in conjunction with our financial statements, related notes and other financial information appearing in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8. Financial Statements and Supplementary Data.” These historical results are not necessarily indicative of results that may be expected for future periods.

	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Statement of Operations Data					
Revenue	\$ 516,807	\$ 1,449,660	\$ 279,062	\$ 125,521	\$ 328,397
Revenue from related parties	6,500	108,500	3,000	12,500	19,850
Total revenues	523,307	1,558,160	282,062	138,021	348,247
Cost of revenues	1,197,936	404,088	265,330	641,124	429,705
Gross profit	(674,629)	1,154,072	16,732	(503,103)	(81,458)
OPERATING EXPENSES:					
Selling & marketing	1,537,732	301,280	—	—	—
Research and development	610,329	56,515	—	—	—
General and administrative	6,455,327	3,243,382	904,347	689,447	644,908
Patent impairment expense	—	—	—	147,908	—
Amortization and depreciation	416,009	359,414	149,179	153,461	—
Total operating expenses	9,019,397	3,960,591	1,053,526	990,816	644,908
Operating (loss)	(9,694,026)	(2,806,519)	(1,036,794)	(1,493,919)	(726,366)
OTHER INCOME (EXPENSE)					
Realized gain (loss) on marketable securities	—	(19,500)	12,000	(3,000)	(78,000)
Unrealized loss on investments	(10,200)	—	—	—	—
Loss on conversion of accounts receivables to marketable securities	(36,000)	—	—	—	—
Loss attributable to non-controlling interest	—	—	—	—	14,701
Interest expense	(10,587)	(56,607)	(141,495)	(280,050)	(42,641)
Total other income (expense)	(56,787)	(76,107)	(129,495)	(283,050)	(105,940)
Net (loss)	\$ (9,750,813)	\$ (2,882,626)	\$ (1,166,289)	\$ (1,776,969)	\$ (832,306)
Net (loss) per common share - basic and diluted	\$ (0.16)	\$ (0.07)	\$ (0.04)	\$ (0.06)	\$ (0.33)
Weighted average common shares outstanding — basic and diluted	61,962,359	42,514,610	30,161,501	30,005,184	2,510,568

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December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
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Balance Sheet Data:

Cash and cash equivalents	\$ 1,672,901	\$ 1,847,004	\$ 11,710	\$ 32,156	\$ 3,611
Total assets	7,072,537	6,276,871	4,200,283	82,916	106,344
Current liabilities, net of deferred revenue	1,156,782	832,800	2,794,484	813,357	577,585
Deferred revenue, current	—	—	54,823	13,195	—
Accumulated deficit	(17,030,286)	(7,279,473)	(4,396,847)	(3,230,558)	(1,453,589)
Total stockholders' equity	5,863,955	5,329,271	1,243,176	(2,126,276)	(471,241)
Total liabilities and stockholders' equity	7,072,537	6,276,871	4,200,283	82,916	106,344

Summarized quarterly financial information for the years ended December 31, 2014 and December 31, 2013 is as follows:

	First (restated)	Second (restated)	Third (restated)	Fourth	Total
Quarterly Financial Data					
2014 quarter:					
Total revenues	\$ 45,652	\$ 51,320	\$ 187,766	\$ 238,569	\$ 523,307
Operating loss	\$ (2,163,381)	\$ (1,895,367)	\$ (2,457,101)	\$ (3,178,177)	\$ (9,694,026)
Net loss	\$ (2,170,364)	\$ (1,895,828)	\$ (2,469,517)	\$ (3,215,104)	\$ (9,750,813)
Basic and diluted	\$ (0.04)	\$ (0.03)	\$ (0.04)	\$ (0.05)	\$ (0.16)
2013 quarter:					
Total revenues	\$ 224,297	\$ 200,232	\$ 381,539	\$ 752,092	\$ 1,558,160
Operating loss	\$ (362,119)	\$ (529,701)	\$ (846,043)	\$ (1,068,656)	\$ (2,806,519)
Net loss	\$ (396,086)	\$ (529,900)	\$ (870,810)	\$ (1,085,830)	\$ (2,882,626)
Basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.07)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated audited financial statements and the related notes for the years ended December 31, 2014 and 2013 that appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed below and elsewhere in this annual report, particularly in the section entitled "Risk Factors."

Background

AudioEye, Inc. was formed as a Delaware corporation on May 20, 2005. On March 31, 2010, CMG Holdings Group, Inc. ("CMGO") acquired our company. In connection with the acquisition, our former stockholders retained rights to receive cash from the exploitation of our technology (the "Rights") consisting of 50% of any cash received from income earned, settlements or judgments directly resulting from our patent strategy and a share of our net income for 2010, 2011 and 2012 from the exploitation of our technology. The Rights were then contributed to a newly formed Nevada corporation, AudioEye Acquisition Corporation ("AEAC") in exchange for shares of AEAC. During the period as a wholly-owned subsidiary of CMGO, we continued to expand our patent portfolio to protect our proprietary Internet content publication and distribution technology.

On June 22, 2011, CMGO entered into a Master Agreement with AEAC pursuant to which: (i) the stockholders of AEAC would acquire from the CMGO 80% of our capital stock (the "Separation") and (ii) CMGO would distribute to its stockholders, in the form of a dividend, 5% of our capital stock (the "Spin-off"). Pursuant to the Master Agreement, AEAC was required to arrange for the release of senior secured notes (the "Senior Notes") issued by CMGO in an aggregate principal amount of \$1,025,000, which CMGO had been unable to service. On August 15, 2012, we, CMGO and AEAC completed the Separation. In connection with the Separation, AEAC arranged for the release of CMGO under the Senior Notes by payment to the holders thereof of \$700,000, the delivery of a secured promissory note in the principal amount of \$425,000 and the issuance of 1,500,000 shares of the common stock of AEAC. On February 6, 2013, the note was paid in full. On January 29, 2013, the Securities and Exchange Commission declared effective our registration statement on Form S-1 with respect to 1,500,259 shares of our common stock to be issued in the Spin-off. On February 22, 2013, CMGO completed the Spin-off.

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In connection with the Separation, we entered into a Royalty Agreement with CMGO. Pursuant to the Royalty Agreement, for a period of five years, we would pay to CMGO 10% of cash received from income earned or settlements on judgments directly resulting from our patent enforcement and licensing strategy, whether received by us on any of our affiliates, net in either case of any direct costs or tax implications incurred in pursuit of such strategy as they relate to the patents described in the Master Agreement. Additionally, we entered into a Services Agreement with CMGO whereby, without duplication to the amounts payable under the Royalty Agreement, for a period of 5 years, CMGO will receive a commission of 7.5% of all revenues received by us after the Separation from all business, clients or other sources of revenue procured by CMGO or its employees, officers or subsidiaries and directed to us and 10% of net revenues obtained from a specified customer.

On March 22, 2013, we and AEAC entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which AEAC would be merged with and into our company (the "Merger") with our company being the surviving entity. Pursuant to the Merger Agreement, each share of AEAC common stock issued and outstanding immediately prior to the Merger effective date would be converted into .94134 share of our common stock and the outstanding convertible debentures of AEAC (the "AEAC Debentures") in the aggregate principal amount of \$1,400,200, together with accrued interest thereon, would be assumed by us and then exchanged for convertible debentures of our company (the "AE Debentures").

Effective March 25, 2013, the Merger was completed. In connection with the Merger, the stockholders of AEAC received on a pro rata basis the 24,004,143 shares of our common stock that were held by AEAC, and the former holders of the AEAC Debentures received an aggregate of 5,871,752 shares of our common stock pursuant to their conversion of all of the AE Debentures issued to replace the AEAC Debentures. The principal assets of AEAC were the Rights that had been contributed to AEAC by the former stockholders of our company. As a result of the Merger, the Rights have been extinguished.

On November 12, 2013, we and CMGO terminated the Royalty Agreement.

On December 30, 2013, we completed the repurchase of 2,184,583 shares of our common stock owned by CMGO which shares were transferred to us in January, 2014 and retired to treasury. In connection, with the repurchase, we paid CMGO \$573,022 and forgave a \$50,000 payable from an affiliate of CMGO.

Overview

AudioEye, Inc. was formed as a Delaware corporation on May 20, 2005. We focus on providing our customers with the most complete and inclusive web accessibility solution available in today's marketplace. Our suite of technologies allows our customers to provide their site visitors with an enhanced web experience. When implemented, we believe that these solutions offer businesses the opportunity to reach more customers, improve brand image and build additional brand loyalty. In addition, our solutions provide organizations with peace-of-mind allowing them to comply with internationally-accepted web accessibility guidelines as well as U.S., Canadian and United Kingdom accessibility laws.

Complete with an ever-growing suite of utilities tailored to the needs of different disabled users, the AudioEye Ally Platform is a fully-scalable cloud-based solution designed and developed to meet the needs and compliance mandates for an ever-growing demographic.

We have developed patented Internet content publication and distribution software that enables conversion of any media into accessible formats and allows for real time distribution to end users on any Internet-connected device. We have a patent portfolio comprised of six patents in the United States, a notice of allowance for a seventh patent in the United States, as well as several pending patents in the United States and internationally. Our portfolio includes a number of patents that describe unique systems and methods for navigating devices and Internet content, as well as publication and automated solutions that connect to any content management system, and can deliver a mobile, usable, and accessible user experience to any consumer device. This patented technology is the foundation of our mission to become a leader in Internet accessibility.

Internet technologies have the potential to give persons with disabilities the means to live on a more equitable basis within the global community in a manner that previously was not possible. Our management believes that there is significant market opportunity for our services as most websites are developed with the assumption that users can see the site. According to a study commissioned by Microsoft, conducted by Forester Research, Inc., 22% (37.2 million) of working-age adults are very likely to benefit from the use of accessible technology due to a severe difficulties and impairments. Persons with disabilities form the world's largest minority according to the United Nations. One billion people are estimated by the World Health Organization to have a disability. According to a 2012 report from the United States Census Bureau, the overall percentage of people with a disability in the United States was 12.1 percent.

Equally significant to this analysis of market size are the studies surrounding the market influence of this demographic. We believe that consumers are good to businesses that do good; and through cause-related marketing strategies, we believe that there exists a non-trivial business opportunity. The disability market represents an annual disposable income of \$1 trillion - with \$544 billion in the United States alone. When you include friends and family, this adds another 2.3 billion people who control an incremental \$6.9 trillion in annual disposable income.

In October 2010, Congress passed and the President signed into law the Twenty-First Century Communication and Video Accessibility Act of 2010, which mandates that all government websites (city, state and federal) be compliant and provide accessibility to persons with disabilities. Since this time, a growing number of legal mandates point to the WCAG 2.0 standard – sources range from the Department of Justice, the U.S. Access Board and the Office of Civil Rights. Our technology can help alleviate the risk that comes with non-conformance to these accepted guidelines and principles. Over 100 governments have signed and ratified the UN Convention on the Rights of Persons with Disabilities. Our certification seal demonstrates that websites meet internationally accepted accessibility standards (limited exclusions apply). As a result, our management believes that providing accessibility services for website owners and developers has become a significant market opportunity in view of the potential demand for our patented solutions.

Results of Operations

Our consolidated audited financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP").

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Results of Operations	Year Ended December 31,	
	2014	2013
Revenue	\$ 516,807	\$ 1,449,660
Revenue from related party	6,500	108,500
Total revenues	523,307	1,558,160
Cost of sales	1,197,936	404,088
Gross profit (loss)	(674,629)	1,154,072
Selling and marketing expenses	1,537,732	301,280
Research and development expenses	610,329	56,515
General and administrative expenses	6,455,327	3,243,382
Amortization and depreciation	416,009	359,414
Operating (loss)	(9,694,026)	(2,806,519)
Realized gain (loss) on marketable securities	—	(19,500)
Unrealized loss on investments	(10,200)	—
Loss on conversion of accounts receivable to marketable securities	(36,000)	—
Interest expense	(10,587)	(56,607)
Net (loss)	\$ (9,750,813)	\$ (2,882,626)
Net (loss) per weighted average common shares outstanding — basic and diluted	\$ (0.16)	\$ (0.07)

In 2014, our net loss increased from \$2,882,626 in 2013 to \$9,750,813 primarily as a result of the following:

Revenue

For the years ended December 31, 2014 and 2013, revenue in the amount of \$516,807 and \$1,449,660, respectively, consisted primarily of various levels of software development, website design and maintenance. Revenues decreased due to decreased demand for our services from our largest customer. Additionally, for the years ended December 31, 2014 and 2013, revenue from related party in the amount of \$6,500 and 108,500, respectively, consisted primarily of various levels of software development, website design and maintenance.

Cost of Sales

For the years ended December 31, 2014 and 2013, cost of sales in the amount of \$1,197,936 and \$404,088, respectively, consisted primarily of sub-contracting to outside sources, direct labor and direct technology costs. Cost of sales increased due to a higher costs to complete certain fixed price contracts.

Gross Profit

The decrease in revenue and increase in sub-contracting and direct labor resulted in a gross profit/(loss) of \$(674,629) and \$1,154,072 for the years ended December 31, 2014 and 2013, respectively. Gross profit decreased as a result of decreasing sales combined with an increase in sub-contracting costs and efficient implementation of our products.

Selling and Marketing Expenses

Selling and marketing expenses were \$1,537,732 and \$301,280 for the years ended December 31, 2014 and 2013, respectively. The increase results from the establishment of dedicated resources to actively sell and market our products and services.

Research and Development Expenses

Research and development expenses were \$610,329 and \$56,515 for the years ended December 31, 2014 and 2013, respectively. Research and development expenses increased as a result of the full year impact from the establishment of a dedicated resources group in 2013.

General and Administrative Expenses

General and administrative expenses were \$6,455,327 and \$3,243,382 for the years ended December 31, 2014 and 2013, respectively. General and administrative expenses increased as a result of additional professional fees, headcount and the associated wages and benefit charges.

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Amortization and Depreciation

Amortization and depreciation expenses were \$416,009 and \$359,414 for the years ended December 31, 2014 and 2013, respectively. The increase in expense was primarily related to a substantial increase in intellectual property amortization and amortization of options, warrants and stock based grants.

Other Income/Expenses

Other income and expenses were charges of \$56,787 and \$76,107 for the years ended December 31, 2014 and 2013, respectively. The resulting change to expense was increases in realized losses from marketable and non-marketable equity securities and a substantial decrease in interest expense.

Liquidity and Capital Resources

Working Capital

	<u>At December 31,</u>	
	<u>2014</u>	<u>2013</u>
Current Assets	\$ 3,274,065	\$ 2,498,551
Current Liabilities	1,156,782	832,800
Working Capital (Deficit)	<u>\$ 2,117,283</u>	<u>\$ 1,665,751</u>

The working capital for the years ended December 31, 2014 and 2013 was \$2,117,283 and 1,665,751, respectively. The change in working capital was primarily due to raising additional capital, increasing accounts receivables and paying down current liabilities.

Cash Flows

	<u>For the year ended</u> <u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Net Cash (Used in) Operating Activities	\$ (5,801,600)	\$ (1,398,384)
Net Cash Provided by (Used in) Investing Activities	(486,162)	(11,542)
Net Cash Provided by Financing Activities	6,113,659	3,245,220
Increase (Decrease) in Cash	<u>\$ (174,103)</u>	<u>\$ 1,835,294</u>

We had cash in the amount of \$1,672,901 and \$1,847,004 as of December 31, 2014 and December 31, 2013, respectively.

On January 30, 2014 we sold an aggregate of 666,667 units for gross proceeds of \$200,000 to two accredited investors in a private placement. The units consisted of 666,667 shares of common stock and warrants to purchase an additional 666,667 shares of common stock, and we also issued warrants to

purchase 53,334 shares of common stock to the placement agent in connection with their services. The warrants in the private placement are for a term of five years and have an exercise price of \$0.40 per share. We paid \$16,000 in commissions to a placement agent.

On June 30, 2014, we sold an aggregate of 2,766,667 units to three accredited investors for gross proceeds of \$830,000 in a private placement. The units consisted of 2,766,667 shares of common stock and warrants to purchase an additional 2,766,667 shares of common stock, and we also issued warrants to purchase 168,000 shares of common stock to the placement agent in connection with their services. The warrants in the private placement are for a term of five years and have an exercise price of \$0.40 per share. We paid \$50,400 in commissions to a placement agent.

In July 2014, we offered holders of a series of our warrants the opportunity to exercise their warrants for a 10% discount to the stated exercise price in exchange for their agreement to exercise their warrants in full and for cash on or before July 31, 2014. Under the warrant exercise offer, in July 2014 we issued 10,027,002 shares of common stock pursuant to exercise of warrants for gross proceeds of \$3,632,801 and net proceeds of \$3,501,521 after investment banking fees of \$131,280.

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On September 30, 2014, we sold an aggregate of 700,000 units to two accredited investors for gross proceeds of \$350,000 in a private placement. The units consisted of 700,000 shares of common stock and warrants to purchase an additional 175,000 shares of common stock. The warrants in the private placement have a term of five years and an exercise price of \$0.60 per share.

In December 2014, we offered holders of a series of our warrants the opportunity to exercise their warrants for a 10% discount to the stated exercise price in exchange for their agreement to exercise their warrants in full and for cash on or before December 31, 2014. Under the warrant exercise offer, in December 2014 we issued 331,804 shares of common stock pursuant to exercise of warrants for gross proceeds of \$119,449.

On December 31, 2014, we sold an aggregate of 6,687,500 units to 11 accredited investors for gross proceeds of \$2,675,000 in a private placement. The units consisted of 6,687,500 shares of common stock and warrants to purchase an additional 2,507,812 shares of common stock, and we also issued warrants to purchase 307,500 shares of common stock to the placement agent in connection with their services. The warrants in the private placement are for a term of five years and have an exercise price of \$0.60 per share. We paid \$123,000 in commissions to a placement agent.

We may raise additional capital through the sale of equity or debt securities or borrowings from financial institutions or third parties or a combination of the foregoing. Capital raised will be used to implement our business plan, grow current operations, make acquisitions or start new vertical businesses among some of the possible uses.

Contractual Obligations

Our principal executive offices are located at 5210 E. Williams Circle, Fifth Floor, Tucson, Arizona 85711, consisting of approximately 6,003 square feet as of January 24, 2014. Our office is leased for an aggregate amount of \$12,927 per month. Our total rent expense was approximately \$302,230 and \$38,388 under office leases for the years ended December 31, 2014 and 2013, respectively.

On August 7, 2013, we entered into agreements with the following executive officers:

Nathaniel Bradley. Pursuant to an Executive Employment Agreement, Nathaniel Bradley was employed as our Chief Executive Officer. The term of the Executive Employment Agreement is three years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$200,000 during the employment period. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Bradley is also entitled to equity awards under our incentive compensation plans. In connection with entry into the Executive Employment Agreement, we and Mr. Bradley terminated the existing employment agreement, dated April 1, 2010, between us and Mr. Bradley effective as of August 7, 2013.

Effective April 24, 2015, Nathaniel Bradley resigned as Chief Executive Officer and President of our company. Effective with his resignation as Chief Executive Officer and President, our board of directors appointed Mr. Bradley to serve as Founder and Chief Innovation Officer as well as Treasurer of our company. Effective May 1, 2015, Mr. Bradley agreed to reduce his annual base salary to \$125,000.

Sean Bradley. Pursuant to an Executive Employment Agreement, Sean Bradley was employed as our Chief Technology Officer. The term of the Executive Employment Agreement is three years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$195,000 during the employment period. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Bradley is also entitled to equity awards under our incentive compensation plans. In connection with entry into the Executive Employment Agreement, we and Mr. Bradley terminated the existing employment agreement, dated April 1, 2010, between us and Mr. Bradley effective as of August 7, 2013.

Effective April 24, 2015, our board of directors appointed Sean Bradley to serve as President of our company as well as continuing as Chief Technology Officer and Secretary. Effective May 1, 2015, Mr. Bradley agreed to reduce his annual base salary to \$150,000.

James Crawford. Pursuant to an Executive Employment Agreement, James Crawford was employed as our Chief Operating Officer. The term of the Executive Employment Agreement is three years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$185,000 during the employment period. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Crawford is also entitled to equity awards under our incentive compensation plans.

Effective April 24, 2015, James Crawford resigned as Chief Operating Officer and Treasurer of our company.

Also on April 24, 2015, we and Crawdad, LLC. (“Crawdad”), a limited liability company wholly owned by Mr. Crawford, entered into a Consulting Agreement pursuant to which Crawdad, through Mr. Crawford, is to provide certain consulting services to us for a period of 12 months for a consulting fee of \$5,000 per month.

Edward O’Donnell. Pursuant to an Executive Employment Agreement, Mr. O’Donnell was employed as our Chief Financial Officer. The term of the Executive Employment Agreement is two years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$165,000 during the employment period. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. O’Donnell is also entitled to equity awards under our incentive compensation plan.

Effective March 29, 2015, Edward O’Donnell resigned from his position as our Chief Financial Officer.

Constantine Potamianos. Pursuant to an Executive Employment Agreement, Constantine Potamianos was employed as our Chief Legal Officer and General Counsel. The term of the Executive Employment Agreement is two years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$150,000 during the employment period. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Potamianos is also entitled to equity awards under our incentive compensation plan.

On January 27, 2014, we entered into agreements with Paul Arena. Under an Executive Employment Agreement dated as of January 27, 2014, Mr. Arena has direct responsibility working in conjunction with our Chief Executive Officer, over operations, sales marketing, financial accounting and SEC reporting, operational budgeting, sales costing analysis, billing and auditor interfacing. The initial term of Mr. Arena’s employment is two years. Mr. Arena’s base salary is \$275,000 per year. Mr. Arena received a signing bonus of \$35,000 and is entitled to a quarterly bonus of up to \$50,000 based on recognized revenues for the applicable quarter and additional bonuses at the discretion of our board of directors or compensation committee. Mr. Arena has been granted five year warrants to purchase 250,000 shares of our common stock at an exercise price of \$0.40 per share and stock options to purchase 1,500,000 shares at an exercise price of \$0.40 per share subject to vesting as set forth in the Executive Employment Agreement. Pursuant to a separate Performance Share Unit Agreement dated as of January 27, 2014, we granted to Mr. Arena an award of up to 3,000,000 PSUs. Each PSU represents the right to receive one share of common stock. The number of PSUs that Mr. Arena actually earns will be determined by the level of achievement of the performance goals set forth in the Performance Share Unit Agreement. Mr. Arena was granted an award of an aggregate of 1,500,000 PSUs at target value of established goals. 35% of these awards are tied to targeted revenue goals over the years ended January 31, 2015 and January 31, 2016. 35% of these awards are tied to targeted cash flow goals over the years, and 30% are tied to discretionary goals. The award will pay above or below the target number of shares based on performance. In order to receive any shares the threshold value of goals is 75% of the target, which will payout at 1,000,000 shares. The maximum share payout is 3,000,000 shares if 125% of performance targets are met. We use interpolation to determine share payouts if the performance metric values achieved are between the thresholds, target and maximum goal levels.

On March 5, 2015, we and Paul Arena entered into a Separation and Release Agreement (the “Separation Agreement”) pursuant to which Mr. Arena resigned as Executive Chairman/Chairman of the Board and a member of our board of directors. Under the Separation Agreement, we and Mr. Arena agreed that, pursuant to his Stock Option Agreement with us, options to purchase 500,000 common shares were vested, options to purchase an additional 500,000 shares (the “Second Tranche”) vested and options to purchase 500,000 shares were forfeited. Fifty percent of the options under the Second Tranche are subject to certain clawback provisions as set forth in the Separation Agreement. Additionally, Mr. Arena was granted 500,000 shares of our restricted common stock (the “Restricted Shares”) with 250,000 shares to be deposited in escrow to cover the clawback rights of our company. The Restricted Shares are being issued to Mr. Arena in lieu of any issuances which may be due him under his Performance Share Unit Agreement. The Restricted Shares and shares issuable pursuant to options described above are subject to a Lock-up/Leakage Agreement under which Mr. Arena is limited to a cap of \$50,000 in gross proceeds from the sale of such shares in any month.

Also on March 5, 2015, we and AIM Group, Inc. (“AIM”), a corporation wholly owned by Mr. Arena, entered into a Consulting Agreement (the “Consulting Agreement”) pursuant to which AIM, through Mr. Arena, is to provide certain consulting services to us for a period of one year. Under the Consulting Agreement, AIM received a one-time net payment of \$267,000.

Pursuant to an Executive Employment Agreement dated as of July 1, 2015, Carr Bettis was employed as our Executive Chairman/Chairman of the Board. The term of the Executive Employment Agreement is one year commencing July 1, 2015, terminable at will by either us or Dr. Bettis and subject to extension upon mutual agreement. He is to receive a base annual salary of \$175,000 during the employment period, paid at the end of every calendar quarter in the form of options to purchase shares of our common stock. The number of options to be issued for each quarterly period will be determined by means of a Black Scholes valuation whereby the number of options issued would have a value at the time of issuance equal to the dollar value of Dr. Bettis’ base salary for each calendar quarter. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Dr. Bettis is also entitled to equity awards under our incentive compensation plans.

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Off-Balance Sheet Arrangements

We have no 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 stockholders.

Seasonality

We do not have a seasonal business cycle. Our revenues and operating profits are generally derived evenly throughout the months of the year.

Climate Change

We do not believe there is anything unique to our business which would result in climate change regulations having a disproportional effect on us as compared to U.S. industry overall.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the years ended December 31, 2014 and 2013. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with the accounting principles generally accepted in the United States. Preparing financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by our management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our financial statements is critical to an understanding of our financial statements.

Revenue Recognition

Revenue is recognized when all applicable recognition criteria have been met, which generally include (a) persuasive evidence of an existing arrangement; (b) fixed or determinable price; (c) delivery has occurred or service has been rendered; and (d) collectability of the sales price is reasonably assured. For software and technology development contracts the company recognizes revenues on a percentage of completion method based upon several factors including but not limited to (a) estimate of total hours and milestones to complete; (b) total hours completed; (c) delivery of services rendered; (d) change in estimates; and (e) collectability of the contract.

Recently Issued Accounting Standards

In June 2011, the Financial Accounting Standards Board (the "FASB") issued ASU 2011-05, Presentation of Comprehensive Income, which revises the manner in which entities present comprehensive income in their financial statements by removing the existing options available for the presentation of comprehensive income but rather requiring comprehensive income to be reported in either a single continuous statement of comprehensive income or in a two statement presentation format that would highlight the components of income as the first statement and then a separate but yet consecutive statement presenting the components and totals of comprehensive income. In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05, which indefinitely defers the effective date of certain provisions under ASU 2011-05, Presentation of Comprehensive Income. The amendments in ASU 2011-12 defer the requirement under ASU 2011-05 to present reclassification adjustments by component in both the statement where net income is presented and the statement where other comprehensive income is presented. This deferral was prompted by constituents' concerns that the presentation requirements would be costly to implement and could add unnecessary complexity to financial statements. All other requirements in ASU 2011-05 remain effective for fiscal years, and for interim periods within those years, beginning after December 15, 2011.

In September 2011, the FASB issued new guidance that simplified how entities test goodwill for impairment. After assessment of certain qualitative factors, if it is determined to be more likely than not that the fair value of a reporting unit is less than its carrying amount, entities must perform the quantitative analysis of the goodwill impairment test. Otherwise, the quantitative test becomes optional. We adopted this new guidance in the first quarter of fiscal year 2013. Goodwill is tested for impairment on an annual basis in the second fiscal quarter, or sooner if an indicator of impairment occurs. The adoption of this guidance did not impact our financial statements.

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In July 2012, the FASB issued amended guidance that simplifies how entities test indefinite-lived intangible assets other than goodwill for impairment. After assessment of certain qualitative factors, if it is determined to be more likely than not that an indefinite-lived asset is impaired, entities must perform the quantitative impairment test. Otherwise, the quantitative test becomes optional. The amended guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this guidance did not impact our financial statements.

In January 2013, the FASB issued amended guidance that will enhance disclosure requirements about the nature of an entity's right to offset and related arrangements associated with its derivative instruments, repurchase agreements and securities lending transactions. This new guidance requires the disclosure of the gross amounts subject to rights of offset, amounts offset in accordance with the accounting standards followed, and the related net exposure. This new guidance will be effective for the first quarter of the fiscal year ending December 31, 2013. Early adoption is not permitted. Other than requiring potential additional disclosures, we do not expect this new guidance to impact our financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a "smaller reporting company," we are not required to provide the information required by this Item.

Item 8. Financial Statements and Supplementary Data

The response to this Item is submitted as a separate section of this report beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Management's Report on Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management

recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this annual report, being December 31, 2014, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Principal Executive Officer and Principal Financial Officer. Based upon that evaluation, our company's Principal Executive Officer and Principal Financial Officer concluded that our company's disclosure controls and procedures are not effective as at the end of the period covered by this report as noted below in management's report on internal control over financial reporting. There have been no changes in our internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our Principal Executive Officer, to allow timely decisions regarding required disclosure.

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Our management, including our Principal Executive Officer and Principal Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error or fraud. Further, 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. Due to 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, have been detected.

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 Rule 13a-15(f) of the Securities Exchange Act of 1934. Our management has assessed the effectiveness of our internal control over financial reporting as at December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with generally accepted accounting principles; providing reasonable assurance that receipts and expenditures are made in accordance with authorizations of management and our directors; and providing reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. As a result of this assessment, our management concluded that, as at December 31, 2014, our internal control over financial reporting was not effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles due to the presence of the following material weakness.

- Errors in the application of the accounting principles for revenue recognition and costing of non-monetary transactions related to our intellectual property portfolio;
- Errors associated with the timing of revenues recognized under certain contracts in terms of the percentage of completion methodology;
- Errors which impacted revenues recognized where collection of the sales price was not reasonably assured; and
- Material inconsistencies and omissions related to financial reporting related to certain equity transactions; and
- Lack of formalized documented internal policies that provide for multiple levels of supervision and review.

This annual report does not include an attestation report of our independent auditors regarding internal control over financial reporting. Management's report was not subject to attestation by our independent auditors pursuant to temporary rules of the SEC that permit our company to provide only management's report in this annual report.

Inherent Limitations on Effectiveness of Controls

Internal control over financial reporting has inherent limitations which include but is not limited to the use of independent professionals for advice and guidance, interpretation of existing and/or changing rules and principles, segregation of management duties, scale of organization, and personnel factors. Internal control over financial reporting is a process, which involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis, however these inherent limitations are known features of the financial reporting process and it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

Changes in Internal Control over Financial Reporting

There have been significant improvements in our internal controls over financial reporting that occurred during the year ended December 31, 2014. In the first quarter of 2014, we remediated inconsistencies and omissions related to certain equity transactions by identifying potential issues in a timely manner and properly classifying those transactions by adding an additional layer of review to equity transactions. In the first quarter of 2015, we implemented the processes to effectively and accurately compute the revenues associated with non cash transactions and the revenues earned under the percentage of completion methodology. Additionally, we implemented processes to mitigate the issues of sales to customers where collections were not reasonably assured.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following information is as of June 30, 2015 with respect to those persons who are serving as our directors and executive officers.

Name	Age	Director/Position
Dr. Carr Bettis	50	Executive Chairman/Chairman of the Board, and Director
Nathaniel Bradley	37	Founder, Chief Innovation Officer, Treasurer and Director
Sean Bradley	32	President, Chief Technology Officer, Secretary and Director
Constantine Potamianos	49	Chief Legal Officer, General Counsel
Donald Weinstein	50	Chief Financial Officer
Anthony Coelho	72	Director
Ernest Purcell	63	Director
Edward Withrow, III	48	Director

The following is a brief account of the education and business experience of each director and executive officer during at least the past five years, indicating each person's principal occupation during the period, and the name and principal business of the organization by which he was employed.

Dr. Carr Bettis. Dr. Bettis has served as a director of ours since December 2012, and previously served as a director of ours from July 2007 to April 2010. Dr. Bettis has served as Executive Chairman/Chairman of the Board since March 2015. Dr. Bettis founded and has been the Chief Architect of numerous financial technology innovations and businesses over the last 15 years that have been acquired by Merrill Lynch, Thomson Financial, Primark/Disclosure and Advanced Equities/GreenBrook Financial. From 1996 to 2011, Dr. Bettis was the Chairman and Founder of Gradient Analytics, one of the largest independent equity research firms in the United States. He has served as Chairman and Co-Founder of Verus Analytics, a quantitative compensation, proxy intelligence and behavioral governance firm since 1996. He also serves on the board of directors of iMemories, an Arizona-founded technology company. Since 2007, he has also managed his family's private equity portfolio via his firm, Fathom Lab. Dr. Bettis is a former tenured professor and maintains a clinical-affiliation with Arizona State University as Research Professor of Finance at the W.P. Carey School of Business. He is frequently cited in national and international financial media. His research has been published in academic and professional journals such as the Journal of Financial Economics, Review of Financial Studies, Journal of Financial and Quantitative Analysis, and the Financial Analyst Journal. Dr. Bettis holds undergraduate degrees in finance and accounting, and received his Ph.D. from Indiana University in 1992. We believe that Dr. Bettis' extensive education and background in finance makes him qualified to serve as our Executive Chairman/Chairman of the Board and as a director.

Nathaniel Bradley. Mr. Bradley served as a director of ours from our company's founding in 2005 to the present, as Chief Executive Officer and President from July 2007 to April 2015, and as Founder, Chief Innovation Officer and Treasurer since April 2015. Mr. Bradley is a recognized pioneer and active expert in the new media Internet technology sector. He is the named inventor of several Internet technology patents and patents pending with U.S. Patent and Trademark Office. Over the past decade, Mr. Bradley has been involved in the invention, reduction to practice, commercial licensing, and enforcement of foundational Internet and mobile technology patents. In addition to managing the growth of AudioEye's patent portfolio through invention, Mr. Bradley is developing an intellectual property operation in Tucson, Arizona. Prior to AudioEye, Mr. Bradley was Chairman of the Board of Modavox®, founder and Managing Member of Kino Digital, Kino Communications and Kino Interactive and currently serves as a managing member of Bradley Brothers, LLC, an Arizona-based investment company. We believe that Mr. Bradley's executive management experience with companies that do business over the Internet and background in financial business transactions makes him qualified to serve as our Chief Innovation Officer, Treasurer and as a director.

Sean Bradley. Mr. Bradley has been involved with us from our founding in 2005 to the present and has served as Secretary since April 2010, as Vice President from April 2010 to April 2015, as a director from August 2012 to June 2014, and as Chief Technology Officer since August 2012, and as President since April 2015. Mr. Bradley has co-founded several technology companies, including Kino Digital, LLC, and Kino Communications, LLC, from 1999-2005. Over the past nine years, he has led an international team of software developers, has produced global webcasting technologies, and planned, designed and managed the fulfillment of intellectual property assets, including the next generation mobile marketing solutions for industry leading Hipcricket. In the past, Mr. Bradley was chief architect of AdLife, BoomBox® Video and Audio Platforms for Augme Technologies, Inc. Mr. Bradley is proficient in several programming and web development languages and has engineered online communications systems for IBM, General Dynamics, Avnet and many others. In 2005, he was recognized by Arizona State's WP Carey School of Business as a leader in his field for work he completed for the Arizona Department of Health and Human Services. In addition to his role at our

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company, Mr. Bradley is a managing member of Bradley Brothers, LLC, an Arizona-based investment company. We believe that Mr. Bradley's extensive education and background in business and technology make him qualified to serve as our President, Chief Technology Officer and Secretary. In 2003 Mr. Bradley obtained his BA from Arizona International College at the University of Arizona, graduating summa cum laude and with highest academic distinction for all eight undergraduate semesters.

Constantine Potamianos. Mr. Potamianos has served as our outside corporate counsel from our company's founding in 2005 and as Chief Legal Officer and General Counsel since January 2012. From June 2009 to December 2011, Mr. Potamianos was a partner at Duval & Stachenfeld, LLP, a noted New York law firm that primarily works with large institutional investors and hedge funds. Mr. Potamianos served as the co-leader of the firm's Corporate Practice. Prior to that, from March 2005 to May 2009, Mr. Potamianos was part of the Corporate and Securities group in the New York office of international

law firm Greenberg Traurig, LLP. Mr. Potamianos is an experienced business lawyer who has assisted numerous public and private companies with a broad range of matters including corporate governance, public and private financings, commercial transactions, mergers and acquisitions, securities registration, SEC reporting, technology licensing, litigation, and bankruptcy and corporate restructurings. In the late 1990's, Mr. Potamianos also served as Vice President — Investment Banking and team leader for the Internet/Networking Group for a New York-based merchant banking firm where he negotiated and structured acquisitions, principal transactions as well as private equity placements with numerous public and private companies, during which time he also served on the boards of directors of various portfolio companies. In addition to his legal and finance experience, Mr. Potamianos has experience in private sector business operations as well as government. Following initial military service, Mr. Potamianos gained experience in systems analysis, business operations and administration, serving as an administrative officer in the federal government and afterwards founding and managing an information systems consulting company and a RF (radio frequency) engineering services company. Mr. Potamianos earned a BA degree, magna cum laude, in Economics and Government from Georgetown University in 1990 as well as a BS degree in Computer and Information Science from the University of Maryland in 1992. Mr. Potamianos received his JD degree as well as his MBA from Georgetown University in 1997, during which he also completed the Landegger Honors Program in International Business Diplomacy through the School of Foreign Service, served as an editor on law review, and was also inducted into Beta Gamma Sigma, the national business school honor society. We believe that Mr. Potamianos's extensive education and background in law and finance makes him qualified to serve as our Chief Legal Officer and General Counsel.

Donald Weinstein: Mr. Weinstein has served as Chief Financial Officer since March 2015, and fulfills the role pursuant to an Interim Services Agreement dated as of March 29, 2015 between our company and Randstad Professionals US, LP, d/b/a Tatum ("Tatum") (the "Services Agreement"). The Services Agreement may be terminated by either party at any time for any reason upon notice to the other party; provided, however, the parties will endeavor to provide as much notice as possible prior to termination (preferably two business weeks). Under the Services Agreement, we pay Tatum a fee of \$250 per hour for Mr. Weinstein's services. Mr. Weinstein has worked for Tatum, an executive staffing firm, since March 2015. From July 2013 through February 2015, Mr. Weinstein was CFO of AccessMedia 3. From September 2004 until July 2013, Mr. Weinstein was self-employed as a contract Chief Financial Officer primarily for private-equity-backed, middle market companies including Woods Restoration Services, TextbookX.com and BountyJobs, Inc. Prior to that, from 2002 until 2004, Mr. Weinstein served as Executive Vice President & Chief Financial Officer of MasTec, Inc., a New York Stock Exchange listed company that was the second largest international specialty contractor for telecommunications and energy infrastructure construction to telecom vendors, wireless providers, cable TV operators and energy companies. From 1999 to 2001, Mr. Weinstein served as Senior Vice President & Chief Financial Officer of AGL Resources, Inc., a New York Stock Exchange listed company that was the largest U.S. natural gas distribution company. Mr. Weinstein holds a Bachelor's degree in Accounting from the University of Connecticut. We believe that Mr. Weinstein's extensive education and background in finance makes him qualified to serve as our Chief Financial Officer.

Anthony Coelho. Mr. Coelho has served as a director of ours since June 2014. Mr. Coelho was a member of the U.S. House of Representatives from 1978 to 1989. After leaving Congress, he joined Wertheim Schroder & Company, an investment banking firm in New York and became President and CEO of Wertheim Schroder Financial Services from 1990 to 1995. From 1995 to 1997, he served as Chairman and CEO of an education and training technology company that he established and subsequently sold. He served as general chairman of the presidential campaign of former Vice President Al Gore from April 1999 until June 2000. Since 1997, Mr. Coelho has worked independently as a business and political consultant. Mr. Coelho also served as Chairman of the President's Committee on Employment of People with Disabilities from 1994 to 2001. He previously served as Chairman of the Board of the Epilepsy Foundation. Mr. Coelho has served on a number of corporate boards. In the last five years he has served on the boards of CepTor Corporation, Cyberonics, Inc., Stem Cell Innovation, Inc., Universal Access Global Holdings, Inc. and since 1991, he has been a member of the board of Service Corporation International, a publicly traded company, and since 2001, he has been a member of the board of Warren Resources, Inc., a publicly traded company. Mr. Coelho earned a Bachelor of Arts degree in Political Science from Loyola Marymount University in 1964. We believe that Mr. Coelho's political acumen and contacts as well as his extensive executive, financial and business experience makes him qualified to serve as a director

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Ernest Purcell. Mr. Purcell has served as a director of ours since March 2014. Mr. Purcell has more than two decades of experience in the financial services and advisory industries and has been involved in providing fairness and solvency opinions on numerous U.S. and European transactions. He has technical expertise in financial due diligence, strategic business valuation, financial restructurings and divestitures. Since 1997, Mr. Purcell has been employed by Houlihan Lokey, Inc., where he is currently a Senior Managing Director, a member of the Board of Directors, and the Head of International Financial Advisory Services. Houlihan Lokey is an international investment bank with expertise in mergers and acquisitions, capital markets, financial restructuring, and valuation. The firm serves corporations, institutions, and governments worldwide with offices in the United States, Europe, and Asia. Houlihan Lokey is ranked as the No. 1 global restructuring advisor, the No. 1 M&A fairness opinion advisor for U.S. transactions over the past 10 years, and the No. 1 M&A advisor for U.S. transactions under \$3 billion, according to Thomson Reuters. Mr. Purcell is based in Houlihan Lokey's Miami office, having recently returned to the U.S. after serving more than six years in the London office. With significant experience in the valuation of securitized vehicles and structured investment vehicles, Mr. Purcell has advised numerous hedge fund and private equity sponsors on the valuation of their portfolio assets. He has structured, negotiated, and closed complex financial and capital transactions in many industries, including transportation, financial services, telecommunications, energy, aviation, consumer products and industrial products. From 1989 to 1996, Mr. Purcell served in a number of positions with Valuemetrics, Inc. / VM Equity Partners, where he specialized in the valuation of publicly owned and privately held companies, strategic financial planning, and bankruptcy analysis. Mr. Purcell earned bachelor's degree in Economics and Finance from the University of Florida in 1973 and earned his MBA, with concentrations in Finance and Statistics, from the University of Chicago. He is a member of the Institute of Directors, British American Business and the Corporate Development Association. He is also a member of the Valuation Special Interest Group of the Institute of Chartered Financial Accountants in England and Wales, the Society of Share and Business Valuers, and the Business Valuation Association. We believe that Mr. Purcell's extensive education and background in finance makes him qualified to serve as a director.

Edward Withrow III. Mr. Withrow has served as a director of ours since August 2012. With over 20 years' experience as a financier, broker, manager, marketer and developer of innovations in various industries, Mr. Withrow has developed an expertise in finding small undervalued and underfunded companies and building them up through his leadership in strategic initiatives and business development activities. In 2000, Mr. Withrow founded Huntington Chase Financial Group, LLC, and Huntington Chase, Ltd. to engage in venture capital, private equity and merchant banking activities. From 2000 until the present, Mr. Withrow acquired, restructured, merged, created and was a senior advisor to approximately 10 companies. In 2002, Mr. Withrow became the CEO of Reward Enterprises, Inc., a public company and early adopter of Voice over Internet Protocol (VoIP) technology. Mr. Withrow also founded Symphony Card, LLC, an issuer of stored value debit cards. In 2004, Mr. Withrow became the CEO of Addison-Davis Diagnostics, Ltd., a leading edge point-of-care diagnostic company. In 2005, he was the President of The Cabo Group, Ltd., a publicly traded company whose primary functions were wholesale marketing and distribution of retail products. In 2006, Mr. Withrow became the President and CEO of Montecito Bio Sciences, Ltd., a multi-faceted medical diagnostics company. In 2008, Mr. Withrow founded Ecologic Transportation, Inc., a publicly traded company and is presently its Chairman. Mr. Withrow also founded Parallax Diagnostics, Inc., a fully reporting company headquartered in Cambridge, Massachusetts, currently in its developmental

stage. He works with Planet Hope a Los Angeles based foundation that works with abused children and battered women. We believe that Mr. Withrow's background in finance makes him qualified to serve as a director.

All of our directors hold office until the next annual meeting of the stockholders or until their successors have been elected and qualified. Our officers are appointed by our board of directors and hold office until their death, resignation or removal from office.

Family Relationships

Nathaniel Bradley and Sean Bradley are brothers. Other than that, there are no family relationships among our directors or executive officers.

Item 11 Executive Compensation

The table below summarizes the compensation paid to the following persons:

(a) our principal executive officer;

(b) each of our two most highly compensated executive officers who were serving as executive officers at the end of the year ended December 31, 2014; and

(c) up to two additional individuals for whom disclosure would have been provided under (b) but for the fact that the individual was not serving as our executive officer at the end of the years ended December 31, 2014, who we will collectively refer to as the named executive officers of our company, are set out in the following summary compensation table, except that no disclosure is provided for any named executive officer, other than our principal executive officer, whose total compensation did not exceed \$100,000 for the respective fiscal year:

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SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Nathaniel Bradley Chief Executive Officer, and Director	2014	\$ 227,525	None	None	None	None	None	None	\$ 227,525
	2013	\$ 75,000	None	None	None	None	None	\$ 627,287(5)(9)	\$ 702,287
	2012	\$ 211,250	None	None	\$ 30,502(1)	None	None	None	\$ 241,752
	2011	\$ 206,539	None	None	None	None	None	None	\$ 206,536
Sean Bradley Chief Technology Officer, Vice President, Secretary and Director	2014	\$ 207,816	None	None	None	None	None	None	\$ 207,816
	2013	\$ 87,159	None	None	None	None	None	\$ 524,058(6)(10)	\$ 611,217
	2012	\$ 176,042	None	None	\$ 30,502(2)	None	None	None	\$ 206,544
	2011	\$ 191,734	None	None	None	None	None	None	\$ 191,734
James Crawford Chief Operating Officer, Treasurer and Director	2014	\$ 183,150	None	None	None	None	None	\$ 21,514(15)	\$ 204,664
	2013	\$ 69,375	None	None	None	None	None	\$ 281,157(7)(11)	\$ 350,532
	2012	\$ 74,111	None	None	\$ 146,409(3)	None	None	None	\$ 220,520
	2011	\$ 39,537	None	None	None	None	None	None	\$ 39,537
Paul Arena Executive Chairman, Chairman of the Board	2014	\$ 310,000	None	None	\$ 303,562(13)	None	None	\$ 990,000(12)	\$ 1,603,562
Edward O'Donnell, Chief Financial Officer	2014	\$ 160,000	None	None	\$ 95,604(14)	None	None	None	\$ 255,604
	2013	\$ 137,500	None	None	\$ 30,991(4)	None	None	\$ 5,119(8)	\$ 173,610

(1) Nathaniel Bradley was granted 125,000 options on December 19, 2012, with a total value of \$30,502.

(2) Sean Bradley was granted 125,000 options on December 19, 2012, with a total value of \$30,502.

(3) James Crawford was granted 600,000 options on December 19, 2012, with a total value of \$146,409.

(4) Edward O'Donnell was granted 150,000 options on July 29 2013, with a value of \$30,991

(5) Nathaniel Bradley was granted 1,671,155, 25,000, 32,500 and 103,128 warrants on March, 19, 2013, March 31, 2013, June 30, 2013 and September 30, 2013, with values of \$409,818, \$6,131, \$12,723 and \$18,615, respectively, with a total value of \$447,287.

(6) Sean Bradley was granted 1,471,091, 20,833, 28,333 and 67,033 warrants on March, 19, 2013, March 31, 2013, June 30, 2013 and September 30, 2013, with values of \$360,757, \$5,109, \$11,092 and \$12,100, respectively, with a total value of \$389,058.

(7) James Crawford was granted 454,593, 10,000, 38,333 and 95,394 warrants on March, 19, 2013, March 31, 2013, June 30, 2013 and September 30, 2013, with values of \$111,480, \$2,452, \$15,006 and \$17,219, respectively, with a total value of \$146,157.

(8) Edward O'Donnell was granted 28,360 warrants on September 30, 2013, with a total value of \$5,119.

(9) Nathaniel Bradley was granted 400,000 performance share units on August 1, 2013, with a total value of \$180,000.

(10) Sean Bradley was granted 300,000 performance share units on August 1, 2013, with a total value of \$135,000.

(11) James Crawford was granted 300,000 performance share units on August 1, 2013, with a total value of \$135,000.

(12) Paul Arena was granted 3,000,000 performance share units on January 27,2014, with a total value of \$990,000.

(13) Paul Arena was granted 1,500,000 options on January 27, 2014, with a total value of \$303,562.

(14) Edward O'Donnell was granted 330,000 options on March 24, 2014 with a total value of \$95,604.

(15) James Crawford was granted 53,036 warrants with a value of \$21,514.

Director Compensation

We have no formal plan for compensating our directors for their service in their capacity as directors and have not paid any director's fees or other cash compensation for services rendered as a director since our inception. Although no director received and or/acrued any compensation specifically related

to services as a director, directors may receive options at the discretion of our board of directors or a committee, which may be established in the future. Edward Withrow III, one of our directors, was granted options to purchase 225,000 shares on December 19, 2012 as remuneration for services not related to his service as a director. The options have an exercise price of \$0.25 per share with an aggregate fair market value of \$54,903. On August 20, 2013, we granted options to purchase 200,000 shares to each of Craig Columbus (a former director of ours), Dr. Carr Bettis and Edward Withrow III. The options have an exercise price of \$0.50 per share and a term of five years with an aggregate fair market of \$130,591. In connection with the

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election of Ernest Purcell to our board, Mr. Purcell was granted five year options to purchase up to 250,000 shares of our common stock at an exercise price of \$0.40 per share with an aggregate fair market value of \$37,805.

In connection with the election of Anthony Coelho to our board, Mr. Coelho was granted five-year options to purchase up to 250,000 shares of our common stock at an exercise price of \$0.35 per share with an aggregate fair market value of \$44,503. In connection with the election of Matthew Mellon II (a former director of ours) to our board, Mr. Mellon was granted five-year options to purchase up to 250,000 shares of our common stock at an exercise price of \$0.65 per share with an aggregate fair market value of \$101,248. Mr. Mellon returned these options to our company when he resigned in April 2015.

In June 2015, our board of directors granted to Dr. Carr Bettis in connection with his service as Executive Chairman/Chairman of the Board 1,250,000 shares of our common stock and five-year warrants to purchase up to 2,000,000 shares of our common stock at an exercise price of \$0.16 per share with an aggregate fair market value of \$328,309. In June 2015, our board of directors granted to Ernest Purcell in connection with his service as Chairman of the Audit Committee 800,000 shares of our common stock and five-year warrants to purchase up to 1,000,000 shares of our common stock at an exercise price of \$0.16 per share with an aggregate fair market value of \$190,608.

Employment Contracts with Executive Officers

Our objective is to align the compensation of our senior executives with long term value creation for our stockholders. As such, we use certain performance goals to determine the number of shares that they are eligible to receive each year.

On August 7, 2013, we entered into agreements with the following executive officers:

Nathaniel Bradley. Pursuant to an Executive Employment Agreement, Nathaniel Bradley was employed as our Chief Executive Officer. The term of the Executive Employment Agreement is three years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$200,000 during the employment period. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Bradley is also entitled to equity awards under the AudioEye, Inc. 2012 Incentive Compensation Plan, the AudioEye, Inc. 2013 Incentive Compensation Plan and the AudioEye, Inc. 2014 Incentive Compensation Plan. In connection with entry into the Executive Employment Agreement, we and Mr. Bradley terminated the existing employment agreement, dated April 1, 2010, between us and Mr. Bradley effective as of August 7, 2013.

Pursuant to a Performance Share Unit Agreement, Mr. Bradley was granted an award of an aggregate of 200,000 Performance Share Units (“PSUs”) at target value of established goals. Each PSU represents the right to receive one share of our common stock. 37.5% of these awards are tied to targeted revenue goals of approximately \$1.7 million, \$8.0 million and \$22 million over the years ended March 31, 2014, March 31, 2015 and March 31, 2016, respectively. 37.5% of these awards are tied to targeted cash flow goals over the three years, and 25% are tied to discretionary goals. The award will pay above or below the target number of shares based on performance. In order to receive any shares the threshold value of goals is 75% of the target, which will payout at 100,000 shares. The maximum share payout is 400,000 shares if 125% of performance targets are met. We use interpolation to determine share payouts if the performance metric values achieved are between the threshold, target and maximum goal levels.

Effective April 24, 2015, Nathaniel Bradley resigned as Chief Executive Officer and President of our company. Effective with his resignation as Chief Executive Officer and President, our board of directors appointed Mr. Bradley to serve as Founder and Chief Innovation Officer as well as Treasurer of our company. Effective May 1, 2015, Mr. Bradley agreed to reduce his annual base salary to \$125,000.

Sean Bradley. Pursuant to an Executive Employment Agreement, Sean Bradley was employed as our Chief Technology Officer. The term of the Executive Employment Agreement is three years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$195,000 during the employment period. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Bradley is also entitled to equity awards under the AudioEye, Inc. 2012 Incentive Compensation Plan, the AudioEye, Inc. 2013 Incentive Compensation Plan and the AudioEye, Inc. 2014 Incentive Compensation Plan. In connection with entry into the Executive Employment Agreement, we and Mr. Bradley terminated the existing employment agreement, dated April 1, 2010, between us and Mr. Bradley effective as of August 7, 2013.

Pursuant to a Performance Share Unit Agreement, Mr. Bradley was granted an award of an aggregate of 200,000 PSUs at target value of established goals. 37.5% of these awards are tied to targeted revenue goals of approximately \$1.7 million, \$8.0 million and \$22 million over the years ended March 31, 2014, March 31, 2015 and March 31, 2016, respectively. 37.5% of these awards are tied to a project plan deliverable schedule and related project budget, and 25% are tied to discretionary goals. The award will pay above or below the target number of shares based on performance. In order to receive any shares the threshold value of goals is 75%

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of the target, which will payout at 100,000 shares. The maximum share payout is 300,000 shares if 125% of performance targets are met. We use interpolation to determine share payouts if the performance metric values achieved are between the threshold, target and maximum goal levels.

Effective April 24, 2015, our board of directors appointed Sean Bradley to serve as President of our company as well as continuing as Chief Technology Officer and Secretary. Effective May 1, 2015, Mr. Bradley agreed to reduce his annual base salary to \$150,000.

James Crawford. Pursuant to an Executive Employment Agreement, James Crawford was employed as our Chief Operating Officer. The term of the Executive Employment Agreement is three years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$185,000 during the employment period. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Crawford is also entitled to equity awards under the AudioEye, Inc. 2012 Incentive Compensation Plan, the AudioEye, Inc. 2013 Incentive Compensation Plan and the AudioEye, Inc. 2014 Incentive Compensation Plan.

Pursuant to a Performance Share Unit Agreement, Mr. Crawford was granted an award of an aggregate of 200,000 PSUs at target value of established goals. 75% of these awards are tied to targeted revenue goals of approximately \$1.7 million, \$8.0 million and \$22 million over the years ended March 31, 2014, March 31, 2015 and March 31, 2016, respectively and 25% are tied to discretionary goals. The award will pay above or below the target number of shares based on performance. In order to receive any shares the threshold value of goals is 75% of the target, which will payout at 100,000 shares. The maximum share payout is 300,000 shares if 125% of performance targets are met. We use interpolation to determine share payouts if the performance metric values achieved are between the threshold, target and maximum goal levels.

Effective April 24, 2015, James Crawford resigned as Chief Operating Officer and Treasurer of our company.

Also on April 24, 2015, we and Crawdad, LLC. (“Crawdad”), a limited liability company wholly owned by Mr. Crawford, entered into a Consulting Agreement pursuant to which Crawdad, through Mr. Crawford, is to provide certain consulting services to us for a period of 12 months for a consulting fee of \$5,000 per month.

Edward O’Donnell. Pursuant to an Executive Employment Agreement, Mr. O’Donnell was employed as our Chief Financial Officer. The term of the Executive Employment Agreement is two years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$165,000 during the employment period. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. O’Donnell is also entitled to equity awards under our incentive compensation plan.

Effective March 29, 2015, Edward O’Donnell resigned from his position as our Chief Financial Officer.

Constantine Potamianos. Pursuant to an Executive Employment Agreement, Constantine Potamianos was employed as our Chief Legal Officer and General Counsel. The term of the Executive Employment Agreement is two years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$150,000 during the employment period. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Potamianos is also entitled to equity awards under the AudioEye, Inc. 2012 Incentive Compensation Plan, the AudioEye, Inc. 2013 Incentive Compensation Plan and the AudioEye, Inc. 2014 Incentive Compensation Plan.

On January 27, 2014, we entered into agreements with Paul Arena. Under an Executive Employment Agreement dated as of January 27, 2014, Mr. Arena has direct responsibility working in conjunction with our Chief Executive Officer, over operations, sales marketing, financial accounting and SEC reporting, operational budgeting, sales costing analysis, billing and auditor interfacing. The initial term of Mr. Arena’s employment is two years. Mr. Arena’s base salary is \$275,000 per year. Mr. Arena received a signing bonus of \$35,000 and is entitled to a quarterly bonus of up to \$50,000 based on recognized revenues for the applicable quarter and additional bonuses at the discretion of our board of directors or compensation committee. Mr. Arena has been granted five year warrants to purchase 250,000 shares of our common stock at an exercise price of \$0.40 per share and stock options to purchase 1,500,000 shares at an exercise price of \$0.40 per share subject to vesting as set forth in the Executive Employment Agreement. Pursuant to a separate Performance Share Unit Agreement dated as of January 27, 2014, we granted to Mr. Arena an award of up to 3,000,000 PSUs. Each PSU represents the right to receive one share of common stock. The number of PSUs that Mr. Arena actually earns will be determined by the level of achievement of the performance goals set forth in the Performance Share Unit Agreement. Mr. Arena was granted an award of an aggregate of 1,500,000 PSUs at target value of established goals. 35% of these awards are tied to targeted revenue goals over the years ended January 31, 2015 and January 31, 2016. 35% of these awards are tied to targeted cash flow goals over the years, and 30% are tied to discretionary goals. The award will pay above or below the target number of shares based on performance. In order to receive any shares the threshold value of goals is 75% of the

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target, which will payout at 1,000,000 shares. The maximum share payout is 3,000,000 shares if 125% of performance targets are met. We use interpolation to determine share payouts if the performance metric values achieved are between the threshold, target and maximum goal levels.

On March 5, 2015, we and Paul Arena entered into a Separation and Release Agreement (the “Separation Agreement”) pursuant to which Mr. Arena resigned as Executive Chairman/Chairman of the Board and a member of our board of directors. Under the Separation Agreement, we and Mr. Arena agreed that, pursuant to his Stock Option Agreement with us, options to purchase 500,000 common shares were vested, options to purchase an additional 500,000 shares (the “Second Tranche”) vested and options to purchase 500,000 shares were forfeited. Fifty percent of the options under the Second Tranche are subject to certain clawback provisions as set forth in the Separation Agreement. Additionally, Mr. Arena was granted 500,000 shares of our restricted common stock (the “Restricted Shares”) with 250,000 shares to be deposited in escrow to cover the clawback rights of our company. The Restricted Shares are being issued to Mr. Arena in lieu of any issuances which may be due him under his Performance Share Unit Agreement. The Restricted Shares and shares issuable pursuant to options described above are subject to a Lock-up/Leakage Agreement under which Mr. Arena is limited to a cap of \$50,000 in gross proceeds from the sale of such shares in any month.

Also on March 5, 2015, we and AIM Group, Inc. (“AIM”), a corporation wholly owned by Mr. Arena, entered into a Consulting Agreement (the “Consulting Agreement”) pursuant to which AIM, through Mr. Arena, is to provide certain consulting services to us for a period of one year. Under the Consulting Agreement, AIM received a one-time net payment of \$267,000.

Pursuant to an Executive Employment Agreement dated as of July 1, 2015, Carr Bettis was employed as our Executive Chairman. The term of the Executive Employment Agreement is one year commencing July 1, 2015, terminable at will by either us or Dr. Bettis and subject to extension upon mutual agreement. He is to receive a base annual salary of \$175,000 during the employment period, paid at the end of every calendar quarter in the form of options to purchase shares of our common stock. The number of options to be issued for each quarterly period will be determined by means of a Black Scholes valuation whereby the number of options issued would have a value at the time of issuance equal to the dollar value of Dr. Bettis’ base salary for each calendar quarter. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Dr. Bettis is also entitled to equity awards under our incentive compensation plans.

On December 19, 2012, our board of directors and holders of a majority of our outstanding shares of common stock adopted and approved the AudioEye, Inc. 2012 Incentive Compensation Plan (the “2012 Plan”); on August 20, 2013, our board of directors and holders of a majority of our outstanding shares of common stock adopted and approved the AudioEye, Inc. 2013 Incentive Compensation Plan (the “2013 Plan”); on January 27, 2014, our board of directors adopted and approved and on March 5, 2014 holders of a majority of our outstanding shares of common stock adopted and approved the AudioEye, Inc. 2014 Incentive Compensation Plan (the “2014 Plan”); and on September 5, 2014, our board of directors adopted and approved and, on September 10, 2014, holders of a majority of our outstanding shares of common stock adopted and approved the AudioEye, Inc. 2015 Incentive Compensation Plan (the “2015 Plan”, and together with the 2014 Plan, 2013 Plan and the 2012 Plan, the “Plans”). The purpose of the Plans is to assist us in attracting, motivating, retaining and rewarding high-quality executives and other employees, officers, directors, consultants and other persons who provide services to us. The following summary of the Plans is qualified in its entirety by the specific language of the Plans.

Administration. The Plans are to be administered by a committee elected by the board of directors, provided, however, that except as otherwise expressly provided in the Plans, the board of directors may exercise any power or authority granted to the committee upon formation under the Plans. Subject to the terms of the Plans, the committee is authorized to select eligible persons to receive awards, determine the type, number and other terms and conditions of, and all other matters relating to, awards, prescribe award agreements (which need not be identical for each participant), and the rules and regulations for the administration of the Plans, construe and interpret the Plans and award agreements, and correct defects, supply omissions or reconcile inconsistencies in them, and make all other decisions and determinations as the committee may deem necessary or advisable for the administration of the Plans.

Eligibility. The persons eligible to receive awards under the Plans are the officers, directors, employees, consultants and other persons who provide services to us. An employee on leave of absence may be considered as still in the employ of ours for purposes of eligibility for participation in the Plans.

Types of Awards. The Plans provide for the issuance of stock options, performance stock units, stock appreciation rights, or SARs, restricted stock, deferred stock, warrants, dividend equivalents, bonus stock and awards in lieu of cash compensation, other stock-based awards and performance awards. Performance awards may be based on the achievement of specified business or personal criteria or goals, as determined by the committee.

Shares Available for Awards; Annual Per Person Limitations. The total number of shares of common stock that may be subject to the granting of awards under each of the Plans at any time during the term of each of the Plans is equal to 5,000,000 shares. This limit will be increased by the number of shares with respect to which awards previously granted under the Plans that are forfeited, expire or otherwise terminate without issuance of shares, or that are settled for cash or otherwise do not result in the issuance of shares, and the number of shares that are tendered (either actually or by attestation) or withheld upon exercise of an award to pay the exercise price or any tax withholding requirements.

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The Plans impose individual limitations on the amount of certain awards. Under these limitations, during any fiscal year of ours, the number of options, stock appreciation rights, shares of restricted stock, shares of deferred stock, performance shares and other stock based-awards granted to any one participant under the Plans may not exceed 500,000 shares, subject to adjustment in certain circumstances. The maximum amount that may be paid out as performance units in any 12-month performance period is \$250,000, and the maximum amount that may be paid out as performance units in any performance period greater than 12 months is \$500,000.

The board of directors is authorized to adjust the limitations described in the two preceding paragraphs. The board of directors is also authorized to adjust performance conditions and other terms of awards in response to these kinds of events or in response to changes in applicable laws, regulations or accounting principles.

Stock Options and Stock Appreciation Rights. The board of directors is authorized to grant stock options, including both incentive stock options, or ISOs, which can result in potentially favorable tax treatment to the participant, and non-qualified stock options, and stock appreciation rights entitling the participant to receive the amount by which the fair market value of a share of common stock on the date of exercise exceeds the grant price of the stock appreciation right. The exercise price per share subject to an option and the grant price of a stock appreciation rights are determined by the board of directors, but in the case of an ISO must not be less than the fair market value of a share of common stock on the date of grant. For purposes of the Plans, the term “fair market value” means the fair market value of common stock, awards or other property as determined by the board of directors or under procedures established by the committee upon formation. The maximum term of each option or stock appreciation right, the times at which each option or stock appreciation right will be exercisable, and provisions requiring forfeiture of unexercised options or stock appreciation rights at or following termination of employment generally are fixed by the committee, except that no option or stock appreciation right may have a term exceeding ten years.

Restricted and Deferred Stock. The board of directors is authorized to grant restricted stock and deferred stock. Restricted stock is a grant of shares of common stock which may not be sold or disposed of, and which may be forfeited in the event of certain terminations of employment, prior to the end of a restricted period specified by the committee. A participant granted restricted stock generally has all of the rights of a stockholder of ours, unless otherwise determined by the board of directors. An award of deferred stock confers upon a participant the right to receive shares of common stock at the end of a specified deferral period, subject to possible forfeiture of the award in the event of certain terminations of employment prior to the end of a specified restricted period. Prior to settlement, an award of deferred stock carries no voting or dividend rights or other rights associated with share ownership, although dividend equivalents may be granted, as discussed below.

Dividend Equivalents. The board of directors is authorized to grant dividend equivalents conferring on participants the right to receive, currently or on a deferred basis, cash, shares of common stock, other awards or other property equal in value to dividends paid on a specific number of shares of common stock or other periodic payments. Dividend equivalents may be granted alone or in connection with another award, may be paid currently or on a deferred basis and, if deferred, may be deemed to have been reinvested in additional shares of common stock, awards or otherwise as specified by the board of directors.

Bonus Stock and Awards in Lieu of Cash Obligations. The board of directors is authorized to grant shares of common stock as a bonus free of restrictions, or to grant shares of common stock or other awards in lieu of our obligations to pay cash under the Plans or other plans or compensatory arrangements, subject to such terms as the board of directors may specify.

Other Stock Based Awards. The board of directors is authorized to grant awards that are denominated or payable in, valued by reference to, or otherwise based on or related to shares of common stock. The board of directors determines the terms and conditions of such awards.

Performance Awards. The board of directors is authorized to grant performance awards to participants on terms and conditions established by the board of directors. Performance awards may be settled by delivery of cash, shares or other property, or any combination thereof, as determined by the board of directors. Performance awards granted to persons whom the committee expects will, for the year in which a deduction arises, be “covered employees” (as defined below) will, if and to the extent intended by the board of directors, be subject to provisions that should qualify such awards as “performance based compensation” not subject to the limitation on tax deductibility by us under Internal Revenue Code Section 162(m).

The board of directors may, in its discretion, determine that the amount payable as a performance award will be reduced from the amount of any potential award.

Other Terms of Awards. Awards may be settled in the form of cash, shares of common stock, other awards or other property, in the discretion of the board of directors. The board of directors may require or permit participants to defer the settlement of all or part of an award in accordance with such terms and conditions as the committee may establish, including payment or crediting of

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interest or dividend equivalents on deferred amounts, and the crediting of earnings, gains and losses based on deemed investment of deferred amounts in specified investment vehicles. The board of directors is authorized to place cash, shares of common stock or other property in trusts or make other arrangements to provide for payment of our obligations under the Plan.

Awards under the Plans are generally granted without a requirement that the participant pay consideration in the form of cash or property for the grant (as distinguished from the exercise), except to the extent required by law. The committee may, however, grant awards in exchange for other awards under the Plan, awards under other company plans or other rights to payment from us, and may grant awards in addition to and in tandem with such other awards, rights or other awards.

Acceleration of Vesting; Change in Control. The board of directors may, in its discretion, accelerate the exercisability, the lapsing of restrictions or the expiration of deferral or vesting periods of any award, and such accelerated exercisability, lapse, expiration and if so provided in the award agreement or otherwise determined by the committee, vesting will occur automatically in the case of a “change in control” of our company, as defined in the Plans (including the cash settlement of stock appreciation rights which may be exercisable in the event of a change in control). In addition, the board of directors may provide in an award agreement that the performance goals relating to any performance award will be deemed to have been met upon the occurrence of any “change in control.”

Amendment and Termination. The board of directors may amend, alter, suspend, discontinue or terminate the Plans or upon formation determine the committee’s authority to grant awards without further stockholder approval, except stockholder approval must be obtained for any amendment or alteration if such approval is required by law or regulation or under the rules of any stock exchange or quotation system on which shares of common stock are then listed or quoted. Thus, stockholder approval may not necessarily be required for every amendment to the Plans, which might increase the cost of the Plans or alter the eligibility of persons to receive awards. Stockholder approval will not be deemed to be required under laws or regulations, such as those relating to ISOs, that condition favorable treatment of participants on such approval, although the board of directors may, in its discretion, seek stockholder approval in any circumstance in which it deems such approval advisable. The Plans will terminate at the earliest of (a) such time as no shares of common stock remain available for issuance under the Plans, (b) termination of the applicable Plan by the board of directors, or (c) the tenth anniversary of the effective date of the applicable Plan. Awards outstanding upon expiration of the applicable Plan will remain in effect until they have been exercised or terminated, or have expired.

INCENTIVE COMPENSATION PLAN

Grants of Plan-Based Awards

The following table sets forth information regarding grants of plan-based awards to each of our named executive officers at December 31, 2014.

Name	Grant Date	Estimated Future Payments under Equity Incentive Plan Awards (1) Target (\$)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Shares Underlying Options (#)(1)	Exercise Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards \$(2)
Edward O’Donnell	7/29/13			150,000	\$ 0.35	\$ 30,991
	3/24/14	—	—	330,000	\$ 0.45	\$ 95,604
Paul Arena	1/27/14	—	—	1,000,000	\$ 0.40	\$ 303,562

(1) The amounts in the column under “All Other Option Awards” represent shares underlying options awarded, each of which vest over time.

(2) The amounts in the column under “Grant Date Fair Value of Option Awards” represent the fair value of the awards on the date of grant, as computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation — Stock Compensation.

Outstanding Equity Awards

The following table sets forth certain information concerning unexercised stock options for each of our named executive officers at December 31, 2014:

Named Executive Officer	Number of securities underlying unexercised options (#) Exercisable	Number of securities underlying unexercised options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested (\$)
Nathaniel Bradley (1)	62,500	31,260	\$ 0.275	12/18/2017	31,260	\$ 5,001
Sean Bradley (2)	62,500	31,260	\$ 0.275	12/18/2017	31,260	\$ 5,001
James Crawford (3)(6)	300,000	177,750	\$ 0.25	12/18/2017	177,750	\$ 28,440
Edward O'Donnell (4)	75,000	75,000	\$ 0.39	7/28/2018	75,000	\$ 12,000
Paul Arena (5)	—	1,500,000	\$ 0.40	3/27/17	1,500,000	\$ 240,000

(1) Nathaniel Bradley was granted 400,000 performance share units on August 1, 2013, with a total value of \$180,000. These performance share units are a part of the 2012 Plan.

(2) Sean Bradley was granted 300,000 performance share units on August 1, 2013, with a total value of \$135,000. These performance share units are a part of the 2012 Plan.

(3) James Crawford was granted 300,000 performance share units on August 1, 2013, with a total value of \$135,000. These performance share units are a part of the 2012 Plan.

(4) Edward O'Donnell resigned from his position as our Chief Financial Officer effective March 29, 2015.

(5) Paul Arena and the Company on March 5, 2015, entered into a Separation and Release Agreement.

(6) Effective April 24, 2015, James Crawford resigned as Chief Operating Officer and Treasurer of our Company.

Change in Control

There are no arrangements currently in effect, which may result in our "change in control," as that term is defined by the provisions of Item 403(c) of Regulation S-K.

Equity Compensation Plan Information

The following table gives the information about common stock that may be issued upon exercise of options, warrants and rights under all of our equity compensation plans as of December 31, 2014:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	16,054,350	\$ 0.52	3,555,900
Equity compensation plans not approved by security holders	—	—	—
Total	16,054,350	\$ 0.52	3,555,900

Item 12. Security Ownership of Certain Beneficial Owners, Management and Related Stockholder Matters

The following table sets forth information regarding the beneficial ownership of our common stock as of June 10, 2015 by:

- each person known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock;

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- each of our named executive officers and directors; and
- all of our officers and directors as a group.

Unless otherwise indicated, we believe that all persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them.

For purposes of this table, "beneficial ownership" is determined in accordance with Rule 13d-3(d) promulgated by the Securities Exchange Act pursuant to which a person is deemed to have beneficial ownership of any shares of common stock that such stockholder has the right to acquire within 60 days of June 30, 2015. Unless otherwise noted, each person or group identified possesses sole voting and investment power with respect to the shares, subject to community property laws where applicable. The inclusion of any securities in the following table does not constitute an admission of beneficial ownership by the persons named below.

Name of Beneficial Owner (1)	Amount of Beneficial Ownership	Approximate Percentage of Outstanding Common Stock (2)
David Moradi (3)	8,726,669(4)	9.99%
Dr. Carr Bettis	6,145,855(5)	7.55%
Nathaniel Bradley	10,399,569(6)	12.78%
Sean Bradley	7,294,118(7)	8.96%
Anthony Coelho (8)	250,000(9)	*
Constantine Potamianos	506,250(10)	*
Ernest Purcell (11)	4,456,919(12)	5.48%
Donald Weinstein	-0-	*
Edward Withrow III (13)	606,250(14)	*
All directors and executive officers as a group (8 individuals)	29,658,961	36.47%

* Less than one percent.

- (1) Unless otherwise indicated, the business address of each of the individuals is 5210 E. Williams Circle, Suite 500, Tucson, Arizona 85711.
- (2) Based on 81,323,176 shares of our common stock issued and outstanding as of June 30, 2015.
- (3) Mr. Moradi's business address is c/o Anthion Management LLC, 379 West Broadway, New York, New York 10012.
- (4) In connection with investment in our private placements, Mr. Moradi holds warrants to purchase up to 2,839,583 shares. The warrants contain a provision restricting their exercise if after giving effect to such exercise, Mr. Moradi would beneficially own in excess of 9.99% of our shares outstanding except as otherwise provided in the warrants. Includes 50,000 shares of Series A Convertible Preferred Stock convertible into 2,850,627 common shares.
- (5) Dr. Bettis is the Managing Member of CSB IV US Holdings, LLC, the record owner of 2,800,927 shares. Dr. Bettis is also co-trustee of the J. Carr & Stephanie V. Bettis Revocable Trust, the record owner of 564,803 shares and warrants to purchase up to 46,875 shares. Includes 210,000 shares in two discretionary accounts of Dr. Bettis. Includes stock options to purchase up to 381,250 shares. Includes warrants to purchase up to 2,000,000 shares. Includes 10,000 shares of Series A Convertible Preferred Stock convertible into 570,125 common shares held by the J. Carr & Stephanie V. Bettis Revocable Trust.
- (6) Includes 6,644,700 shares held by Bradley Brothers, LLC, the beneficial owner of 13,332,929 shares, which includes warrants to purchase up to 996,667 shares. Nathaniel Bradley and Sean Bradley are each 50% owners of Bradley Brothers, LLC, and share investment power with respect to such shares. Does not include 5,186,860 shares issued on December 20, 2012 related to the conversion of our debt owed to Nathaniel Bradley. The conversion shares were issued to Mr. Bradley's designees. Mr. Bradley has no investment or voting power over said shares and is not deemed to be the beneficial owner thereof. Includes warrants to purchase up to 1,294,798 shares and stock options to purchase up to 93,750 shares.
- (7) Includes 6,644,700 shares held by Bradley Brothers, LLC, the beneficial owner of 13,332,929 shares, which includes warrants to purchase up to 996,667 shares. Nathaniel Bradley and Sean Bradley are each 50% owners of Bradley Brothers, LLC, and share investment power with respect to such shares. Includes warrants to purchase up to 1,093,182 shares and stock options to purchase up to 93,750 shares. Includes 4,107 shares of Series A Convertible Preferred Stock convertible into 234,151 common shares.
- (8) Mr. Coelho's business address is 51 Baltimore Ave, #2, Rehoboth Beach, DE 19971.
- (9) Consists of stock options to purchase up to 250,000 shares. Includes warrants to purchase up to 1,000,000 shares. Includes 10,000 shares of Series A Convertible Preferred Stock convertible into 570,125 common shares.
- (10) Consists of stock options to purchase up to 506,250 shares. Does not include 604,640 shares and warrants to purchase up to 100,000 shares held by Mr. Potamianos' spouse individually, to which shares Mr. Potamianos disavows any interest.
- (11) Mr. Purcell's business address is c/o Houlihan Lokey, Inc., 1395 Brickell Avenue, Suite 1130, Miami, FL 33131.
- (12) Includes stock options to purchase up to 250,000 shares.
- (13) Mr. Withrow's business address is c/o Huntington Chase Financial Group, LLC, 1327 Ocean Avenue, Suite M, Santa Monica, CA 90401.

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- (14) Consists of stock options to purchase up to 606,250 shares.

Item 13. Certain Relationships and Related Transactions and Director Independence

Other than employment agreements with our executive officers and other payments made to our executive officers, all as described above under the section entitled "Management - Executive Compensation," and compensation paid to our directors as described above under the section entitled "Management - Director Compensation," there have been no transactions in which the amount involved exceeds \$120,000 in which any of our directors, executive officers or beneficial holders of more than 5% of the outstanding shares of our common stock, or any of their respective relatives, spouses, associates or affiliates, has had or will have any direct or material indirect interest.

Item 14: Principal Accountants Fees and Services

The firm of MaloneBailey, LLP acts as our independent registered public accounting firm. The aggregate fees billed or to be billed for the most recently completed fiscal year ended December 31, 2014 and for fiscal year ended December 31, 2013 for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our financial reports on Form S-1, Form 10-Qs in the future and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows:

	Year Ended	
	December 31, 2014	December 31, 2013
Audit Fees	\$ 48,300	\$ 45,500
All Other Fees	7,800	8,355
Total	<u>\$ 56,100</u>	<u>\$ 53,855</u>

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Our board of directors has considered the nature and amount of fees billed by our independent auditors and believes that the provision of services for activities unrelated to the audit is compatible with maintaining our independent auditors' independence.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Financial Statements — See Index to Consolidated Financial Statements on page F-1 below and the financial pages that follow.

(2) Financial Statements Schedules — Schedule II - Valuation and Qualifying Accounts. All schedules other than those listed above are omitted because of the absence of conditions under which they are required or because the required information is presented in the financial statements or related notes thereto.

(3) Exhibits — The following exhibits are either filed herewith or have previously been filed with the Securities and Exchange Commission and are referred to and incorporated herein by reference to such filings:

<u>Exhibit No.</u>	<u>Description</u>
3.1	Certificate of Incorporation of AudioEye, Inc. (1)
3.2	Certificate of Amendment of the Certificate of Incorporation of AudioEye, Inc. (1)
3.3	Certificate of Amendment of the Certificate of Incorporation of AudioEye, Inc. (2)
3.4	Certificate of Amendment of the Certificate of Incorporation of AudioEye, Inc. (12)
3.5	By-laws of AudioEye, Inc. (1)
4.1	Form of Warrant (9)
4.2	Form of Warrant (9)
4.3	Form of Warrant (13)
4.4	Form of Warrant (14)
4.4	Certificate of Designations — Series A Convertible Preferred Stock (17)
10.1	Master Agreement dated as of September 22, 2011 between CMG Holdings Group, Inc. and AudioEye Acquisition Corporation (1)
10.2	Form of Services Agreement between CMG Holdings Group, Inc. and AudioEye, Inc. (1)
10.3	Termination and Release Agreement dated October 24, 2011 between Maryland Technology Development Corp. and AudioEye, Inc. (3)
10.4	Promissory Note dated October 24, 2011 between Maryland Technology Development Corp. and AudioEye, Inc. (4)
10.5	AudioEye, Inc. 2012 Incentive Compensation Plan effective December 19, 2012 (4)
10.6	AudioEye, Inc. 2013 Incentive Compensation Plan effective August 20, 2013 (8)
10.7	Agreement and Plan of Merger dated as of March 22, 2013 between AudioEye, Inc. and AudioEye Acquisition Corporation (5)

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10.8 Executive Employment Agreement dated August 7, 2013 between Nathaniel Bradley and AudioEye, Inc. (7)

10.9 Executive Employment Agreement dated August 7, 2013 between Sean Bradley and AudioEye, Inc. (7)

10.10 Executive Employment Agreement dated August 7, 2013 between James Crawford and AudioEye, Inc. (7)

10.11 Executive Employment Agreement dated August 7, 2013 between Edward O'Donnell and AudioEye, Inc. (7)

10.12 Executive Employment Agreement dated August 7, 2013 between Constantine Potamianos and AudioEye, Inc. (7)

10.13	Performance Share Unit Agreement dated August 7, 2013 between Nathaniel Bradley and AudioEye, Inc. (7)
10.14	Performance Share Unit Agreement dated August 7, 2013 between Sean Bradley and AudioEye, Inc. (7)
10.15	Performance Share Unit Agreement dated August 7, 2013 between James Crawford and AudioEye, Inc. (7)
10.16	Registration Rights Agreement dated as of November 13, 2013 by and among the Company and the investors identified on the signature pages thereto (First Private Placement) (9)
10.17	Registration Rights Agreement dated as of December 23, 2013 by and among the Company and the investors identified on the signature pages thereto (Second Private Placement) (9)
10.18	Executive Employment Agreement dated January 27, 2014 between Paul Arena and AudioEye, Inc. (10)
10.19	Performance Share Unit Agreement dated January 27, 2014 between Paul Arena and AudioEye, Inc. (10)
10.20	AudioEye, Inc. 2014 Incentive Compensation Plan effective January 27, 2014 (11)
10.21	AudioEye, Inc. 2015 Incentive Compensation Plan effective September 5, 2014 (13)
10.22	Separation and Release Agreement dated March 5, 2015 between Paul Arena and AudioEye, Inc. (15)
10.23	Consulting Agreement dated March 5, 2015 between AIM Group, Inc. and AudioEye, Inc. (15)
10.24	Separation and Release Agreement dated March 29, 2015 between Edward O'Donnell and AudioEye, Inc. (16)
10.25	Executive Employment Agreement dated July 1, 2015 between Carr Bettis and AudioEye, Inc. (18)
14.1	Code of Ethics (6)
21.1*	Subsidiaries of AudioEye, Inc.
31.1*	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
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* Filed herewith.

- (1) Incorporated by reference to Form S-1, filed with the U.S. Securities and Exchange Commission (the "SEC") on October 21, 2011.
- (2) Incorporated by reference to Form S-1/A, filed with the SEC on October 1, 2012.
- (3) Incorporated by reference to Form S-1/A, filed with the SEC on February 10, 2012.
- (4) Incorporated by reference to Form S-1/A, filed with the SEC on January 11, 2013.
- (5) Incorporated by reference to Form 8-K, filed with the SEC on March 27, 2013.
- (6) Incorporated by reference to Form 10-K, filed with the SEC on April 15, 2013.
- (7) Incorporated by reference to Form 10-Q, filed with the SEC on August 9, 2013.

- (8) Incorporated by reference to Form S-8, filed with the SEC on August 28, 2013.
- (9) Incorporated by reference to Form 8-K, filed with the SEC on December 26, 2013.
- (10) Incorporated by reference to Form 8-K, filed with the SEC on January 30, 2014.
- (11) Incorporated by reference to Form S-1/A, filed with the SEC on February 4, 2014.
- (12) Incorporated by reference to Form 10-K, filed with the SEC on March 31, 2014.
- (13) Incorporated by reference to Form 10-Q, filed with the SEC on November 7, 2014.
- (14) Incorporated by reference to Form 8-K, filed with the SEC on January 7, 2015.
- (15) Incorporated by reference to Form 8-K, filed with the SEC on March 6, 2015.
- (16) Incorporated by reference to Form 8-K, filed with the SEC on April 1, 2015.
- (17) Incorporated by reference to Form 8-K, filed with the SEC on May 7, 2015.
- (18) Incorporated by reference to Form 8-K, filed with the SEC on July 8, 2015.

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SIGNATURES

Pursuant to the requirements of the Section 13 or 15 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 on the 10th day of July 2015.

AUDIOEYE, INC.

By: /s/ SeanBradley
 Sean Bradley
 President (Principal Executive Officer)

By: /s/ Donald Weinstein
 Donald Weinstein
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)

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

Signature	Title	Date
<u>/s/ Dr. Carr Bettis</u> Dr. Carr Bettis	Executive Chairman/Chairman of the Board and Director	July 10, 2015
<u>/s/ Nathaniel Bradley</u> Nathaniel Bradley	Founder, Chief Innovation Officer, Treasurer and Director	July 10, 2015
<u>/s/ Sean Bradley</u> Sean Bradley	President, Chief Technology Officer, President, Secretary and Director	July 10, 2015
<u>/s/ Donald Weinstein</u> Donald Weinstein	Chief Financial Officer	July 10, 2015
<u>/s/ Anthony Coehlo</u> Anthony Coehlo	Director	July 10, 2015
<u>/s/ Ernest Purcell</u> Ernest Purcell	Director	July 10, 2015
<u>/s/ Edward Withrow III</u> Edward Withrow III	Director	July 10, 2015

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Board of Directors
 AudioEye, Inc.
 Tucson, Arizona

We have audited the accompanying consolidated balance sheets of AudioEye, Inc. and its subsidiary (collectively, the “Company”) as of December 31, 2014 and 2013 and the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 an audit to obtain reasonable assurance about whether the 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 on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AudioEye, Inc. and its subsidiary as of December 31, 2014 and 2013 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ MaloneBailey, LLP

www.malonebailey.com
 Houston, Texas

July 10, 2015

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**AUDIOEYE, INC.
 CONSOLIDATED BALANCE SHEETS**

	December 31, 2014	December 31, 2013
<u>ASSETS</u>		
Current Assets		
Cash	\$ 1,672,901	\$ 1,847,004
Accounts receivable, net	261,676	569,297
Related party receivables	10,000	82,250
Marketable securities held in related party	13,800	—
Non-marketable securities held in related party	50,000	—
Subscription receivable	1,175,000	—
Prepaid expenses and other current assets	90,688	—
Total Current Assets	<u>3,274,065</u>	<u>2,498,551</u>
Property and equipment, net	651	3,847
Intangible assets, net	3,097,293	3,073,945
Goodwill	700,528	700,528
Total Assets	<u>\$ 7,072,537</u>	<u>\$ 6,276,871</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 779,891	\$ 416,531
Billings in excess of revenues	123,908	—
Notes and loans payable-current	24,000	172,845
Related party payables	228,983	243,424
Total Current Liabilities	<u>1,156,782</u>	<u>832,800</u>
Long Term Liabilities		
Notes and loans payable-long term	51,800	79,800
Related party loans	—	35,000
Total Long Term Liabilities	<u>51,800</u>	<u>114,800</u>
Total Liabilities	<u>1,208,582</u>	<u>947,600</u>
STOCKHOLDERS' EQUITY		
Preferred Stock, \$0.00001 par value, 10,000,000 shares authorized, none issued and outstanding as of December 31, 2014 and 2013, respectively		—
Common stock, \$0.00001 par value, 250,000,000 shares authorized, 77,817,861 and 53,239,369 issued and	778	532

outstanding, as of December 31, 2014 and 2013, respectively

Treasury stock	(623,000)	(623,000)
Additional paid-in capital	23,516,463	13,231,212
Accumulated deficit	(17,030,286)	(7,279,473)
Total Stockholders' Equity	5,863,955	5,329,271
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,072,537	\$ 6,276,871

See Notes to Consolidated Financial Statements

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**AUDIOEYE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the year ended	
	December 31, 2014	December 31, 2013
Revenues	\$516,807	\$1,449,660
Revenues from related parties	6,500	108,500
Total revenues	523,307	1,558,160
Cost of services	1,197,936	404,088
Gross (Loss)/Profit	(674,629)	1,154,072
Selling and marketing expenses	1,537,732	301,280
Research and technology expenses	610,329	56,515
General and administrative expenses	6,455,327	3,243,382
Amortization and depreciation	416,009	359,414
Total operating expenses	9,019,397	3,960,591
Operating loss	(9,694,026)	(2,806,519)
Other income (expense)		
Realized loss on marketable securities	—	(19,500)
Unrealized loss on marketable securities	(10,200)	—
Loss on conversion of accounts receivable to marketable securities	(36,000)	—
Interest expense	(10,587)	(56,607)
Total other expense	(56,787)	(76,107)
Net loss	\$(9,750,813)	\$(2,882,626)
Net loss per common share — basic and diluted	\$(0.16)	\$(0.07)
Weighted average common shares outstanding — basic and diluted	61,962,359	42,514,610

See Notes to Consolidated Financial Statements

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**AUDIOEYE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	COMMON STOCK		PAID IN CAPITAL	NON-CONTROLLING INTEREST /TREASURY STOCK	ACCUMULATED (DEFICIT)	TOTAL
	SHARES	AMOUNT				
Balance, December 31, 2012	35,192,045	\$ 352	\$ 5,639,671	\$ —	\$ (4,396,847)	\$ 1,243,176
Common stock issued for debt and interest	7,870,154	79	1,709,212	—	—	1,709,291
Common stock issued for cash, net	11,130,336	111	3,231,881	—	—	3,231,992
Common stock issued for related party debt	746,667	7	223,993	—	—	224,000
Common stock issued for services	200,000	2	49,998	—	—	50,000

Common stock issued for related party accounts payable	100,000	1	49,999	—	—	50,000
Options exercised	184,750	2	47,748	—	—	47,750
Warrants issued for conversion of accrued salary	—	—	1,022,751	—	—	1,022,751
Warrants issued for conversion of accounts payable	—	—	51,000	—	—	51,000
Warrants, Options and PSU issued for services	—	—	1,191,128	—	—	1,191,128
Debt discount for warrants issued with debt	—	—	13,831	—	—	13,831
Less: Treasury stock: at cost	(2,184,583)	(22)	—	(623,000)	—	(623,022)
Net loss	—	—	—	—	(2,882,626)	(2,882,626)
Balance, December 31, 2013	<u>53,239,369</u>	<u>\$ 532</u>	<u>\$ 13,231,212</u>	<u>\$ (623,000)</u>	<u>\$ (7,279,473)</u>	<u>\$ 5,329,271</u>
Common stock issued for cash and subscription receivables, net	10,820,834	108	3,857,581	—	—	3,857,689
Common stock issued for exercise of warrants	11,678,806	117	3,643,853	—	—	3,643,970
Common stock issued for services	1,963,537	20	918,295	—	—	918,315
Cashless exercise of options and warrants	115,315	1	(1)	—	—	—
Warrants, Options and PSU issued for services	—	—	1,844,009	—	—	1,844,009
Warrants issued for conversion of accrued salary	—	—	21,514	—	—	21,514
Net loss	—	—	—	—	(9,750,813)	(9,750,813)
Balance, December 31, 2014	<u>77,817,861</u>	<u>\$ 778</u>	<u>\$ 23,516,463</u>	<u>\$ (623,000)</u>	<u>\$ (17,030,286)</u>	<u>\$ 5,863,955</u>

See Notes to Consolidated Financial Statements

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AUDIOEYE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended	
	December 31, 2014	December 31, 2013
Cash Flows from operating activities:		
Net loss	\$ (9,750,813)	\$ (2,882,626)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	416,009	359,414
Stock, option and warrant expense	1,844,009	1,241,128
Amortization of debt discount	1,155	12,676
Realized loss on marketable securities	—	19,500
Unrealized loss on marketable securities	10,200	—
Stock issued for services	918,315	—
Bad debt expense	108,320	—
Loss on conversion of accounts receivable to marketable securities	36,000	—
Changes in operating assets and liabilities:		
Accounts receivable	139,301	(603,041)
Related party receivable	72,250	(66,125)
Other current assets	(90,688)	—
Accounts payable and accruals	384,875	53,256
Billings in excess of revenues	123,908	(54,823)
Related party payables	(14,441)	522,257
Net cash (used in) operating activities	<u>(5,801,600)</u>	<u>(1,398,384)</u>
Cash Flows from investing activities:		
Cash (paid for) intellectual property	(48,037)	(11,542)
Investment in non-marketable securities held in related party	(50,000)	—
Software development costs	(388,125)	—

Net cash (used in) investing activities	(486,162)	(11,542)
Cash Flows from financing activities:		
Payments on related party loans	(35,000)	—
Payments on debt	(178,000)	(218,000)
Repurchase of treasury stock	—	(573,022)
Issuance of common stock for cash	2,682,689	3,231,992
Proceeds from exercise of warrants	3,643,970	47,750
Borrowings on related party debt	—	224,000
Borrowings on debt	—	532,500
Net cash provided by financing activities	6,113,659	3,245,220
Increase (decrease) in cash	(174,103)	1,835,294
Cash - beginning of period	1,847,004	11,710
Cash - end of period	\$ 1,672,901	\$ 1,847,004

NON-CASH FINANCING ACTIVITIES

Debt discount for warrants issued with debt	\$ —	\$ 13,831
Payment of related party debt in exchange for available for sale securities	—	10,500
Repayment of debt with common stock	—	1,709,291
Repayment of related party debt with common stock	—	224,000
Common stock issued for subscription receivable	1,175,000	—
Conversion of accounts receivable to marketable securities	60,000	—
Common stock issued for cashless exercise of options and warrants	1	—
Warrants issued for accrued salary	21,514	1,022,751
Warrants issued for accounts payable	—	51,000
Repayment of related party payables with common stock	—	50,000
Treasury stock purchased in exchange for reduction of accounts receivable	—	50,000

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Interest paid	\$ 11,301	\$ 12,213
Income taxes paid	\$ —	\$ —

See Notes to Consolidated Financial Statements

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AUDIOEYE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: OVERVIEW

AudioEye, Inc. (the “Company”) was incorporated on May 20, 2005 in the state of Delaware. On March 31, 2010, the Company was acquired by CMG Holdings Group, Inc., a Nevada corporation (“CMG”). Effective August 17, 2012, AudioEye Acquisition Corporation, a Nevada corporation (“AEAC”), acquired 80% of the Company’s then-outstanding common stock from CMG.

The Company has developed patented, Internet content publication and distribution software that enables conversion of any media into accessible formats and allows for real time distribution to end users on any Internet connected device. The Company’s focus is to create more comprehensive access to Internet, print, broadcast and other media to all people regardless of their network connection, device, location, or disabilities.

The Company is focused on developing innovations in the field of networked and device embedded audio technology. The Company owns a unique patent portfolio comprised of six issued patents in the United States, a notice of allowance from the U.S. Patent and Trademark Office for a seventh patent, and two U.S. patents pending with additional patents being drafted for filing with the U.S. Patent and Trademark Office and internationally.

On August 17, 2012, AEAC acquired 80% of the Company from CMG. Pursuant to the agreement:

1. CMG would retain 15% of the Company.
2. CMG would distribute to its stockholders, in the form of a dividend, 5% of the capital stock of the Company.
3. The Company entered into a Royalty Agreement with CMG to pay to CMG 10% of cash received from income earned, settlements or judgments directly resulting from the Company’s patent enforcement and licensing strategy whether received by the Company or any of its affiliates, net of any direct costs or tax implications incurred in pursuit of such strategy pertaining to the patents.
4. The Company entered into a Services Agreement with CMG whereby CMG will receive a commission of not less than 7.5% of all revenues received by the Company after the closing date from all business, clients, or other sources of revenue procured by CMG or its employees, officers or subsidiaries, and directed to the Company, and 10% of net revenues obtained from a third party described in the agreement.

On March 22, 2013, the Company and AEAC entered into the Merger Agreement. Pursuant to the Merger Agreement, each share of AEAC common stock issued and outstanding immediately prior to the Merger effective date would be converted into .94134 share of the Company’s common stock and the outstanding convertible debentures of AEAC (the “AEAC Debentures”) in the aggregate principal amount of \$1,400,200, together with accrued interest thereon of \$67,732, would be assumed by the Company and then exchanged for convertible debentures of the Company (the “AE Debentures”).

Effective March 25, 2013, the Merger was completed. In connection with the Merger, the stockholders of AEAC received on a pro rata basis the 24,004,143 shares of the Company's common stock that were held by AEAC, and the former holders of the AEAC Debentures received an aggregate of 5,871,752 shares of the Company's common stock pursuant to their conversion of all of the AE Debentures issued to replace the AEAC Debentures.

On November 12, 2013, the Company and CMG terminated the Royalty Agreement.

On December 30, 2013, the Company completed the repurchase of 2,184,583 shares of its common stock owned by CMG which shares were transferred to the Company in January, 2014 and retired to treasury. In connection, with the repurchase, the Company paid CMG \$573,022 and forgave a \$50,000 payable from an affiliate of CMG.

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

This summary of significant accounting policies is presented to assist in understanding the Company's financial statements. These accounting policies conform to accounting principles, generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

Principles of Consolidation and Non-Controlling Interest

The consolidated financial statements include the accounts of the Company and its subsidiary, Empire Technologies, LLC ("Empire"). All significant inter-company accounts and transactions have been eliminated. In October 2010, the Company formed Empire as part of a joint venture with LVS Health Innovations, Inc. ("LVS") whereby the Company owned 50% of Empire. Empire is considered a variable interest entity as defined by ASC 805-10 "Business Combinations" and the primary beneficiary of Empire as defined by ASC 805-10 and therefore consolidates the accounts of Empire for the year ending December 31, 2011. On April 30, 2012, LVS agreed to sell its 50% membership interest in Empire to the Company for consideration of \$10 and the sum of previous LVS capital contributions paid in cash to Empire. The non-controlling interest was then eliminated and Empire is now treated as a 100% owned consolidated subsidiary.

During the years ended December 31, 2014 and 2013, Empire had no activity. Empire had no assets or liabilities as of December 31, 2014 and December 31, 2013.

The Company acquired 19.5 % of Couponicate for a nominal cost in the year ended December 31, 2012. The entity has no assets or liabilities and has no net income or loss.

Capitalization of Software Development Costs

The Company expenses development costs for research and development until such time as the software became technologically feasible. The Company's software became technologically feasible at the end of 2013. The software development was substantially completed by the end of August, 2014. The Company further determined that the life of the capitalized software development costs is three years.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Research and Technology Expenses

Research and technology expenses are expensed in the period costs are incurred. For the year ended December 31, 2014 and 2013 research and technology expenses totaled \$610,329 and \$56,515, respectively.

Revenue Recognition

Revenue is recognized when all applicable recognition criteria have been met, which generally include (a) persuasive evidence of an existing arrangement; (b) fixed or determinable price; (c) delivery has occurred or service has been rendered; and (d) collectability of the sales price is reasonably assured. For software and technology development contracts the company recognizes revenues on a percentage of completion method based upon several factors including but not limited to (a) estimate of total hours and milestones to complete; (b) total hours completed; (c) delivery of services rendered; (d) change in estimates; and (e) collectability of the contract.

The Company had two major customers generate 87% (77% and 10%) and 81% (71% and 10%) of its revenue in the fiscal years ended December 31, 2014 and 2013, respectively.

Billings in Excess of Revenues

The Company applies percentage of completion accounting to long term contracts. There are times when elements of the contract are billed in advance of the revenue being earned. Revenue is recorded as billings are posted, thus a timing difference requires an adjustment to the level of revenue recorded.

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Certain website hosting contracts are prepared and invoiced on an annual basis. Any funds received for hosting services not provided yet are held in deferred revenue, and are recorded as revenue is earned.

Fiscal Year End

The Company has a fiscal year ending on December 31.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

Marketable Securities

The Company has elected the fair value option under ASC 825 for its marketable securities. Marketable securities are classified as available for sale and consist of common stock holdings of publicly traded companies. These securities are marked to market at the end of each reporting period based on the closing price of the security at each balance sheet date. Changes in fair value are recorded as unrealized gains or losses in the consolidated statement of operations in accordance with ASC 320.

Non-marketable Securities

From time to time, the Company invests in the securities of other entities where there exists no active market for the securities held. Non-marketable securities are recorded at the cost of the investment.

Allowance for Doubtful Accounts

The Company establishes an allowance for bad debts through a review of several factors including historical collection experience, current aging status of the customer accounts, and financial condition of the Company's customers. The Company does not generally require collateral for its accounts receivable. There was an allowance for doubtful accounts of \$19,675 and \$0 as of December 31, 2014 and 2013, respectively. Bad debt expense was \$108,320 and \$0 as of December 31, 2014 and 2013, respectively.

Property, Plant and Equipment

Property and equipment are carried at the cost of acquisition or construction and depreciated over the estimated useful lives of the assets. Costs associated with repairs and maintenance are expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency of the Company's property and equipment are capitalized and depreciated over the remaining life of the related asset. Gains and losses on dispositions of equipment are reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are 5 to 7 years.

Goodwill, Intangible Assets, and Long-Lived Assets

Goodwill is carried at cost and is not amortized. The Company tests goodwill for impairment on an annual basis at the end of each fiscal year, relying on a number of factors including operating results, business plans, economic projections, anticipated future cash flows and marketplace data. Company management uses its judgment in assessing whether goodwill has become impaired between annual impairment tests according to specifications set forth in ASC 350. The Company completed an evaluation of goodwill at December 31, 2014 and 2013 and determined that there was no impairment.

The fair value of the Company's reporting unit is dependent upon the Company's estimate of future cash flows and other factors. The Company's estimates of future cash flows include assumptions concerning future operating performance and economic conditions and may differ from actual future cash flows. Estimated future cash flows are adjusted by an appropriate discount rate derived from the Company's market capitalization plus a suitable control premium at date of the evaluation. The financial and credit market volatility directly impacts the Company's fair value measurement through the Company's weighted average cost of capital that the Company uses to determine its discount rate and through the Company's stock price that the Company uses to determine its market capitalization. Therefore, changes in the stock price may also affect the amount of impairment recorded. Market capitalization is determined by multiplying the shares outstanding on the assessment date by the average market price of the Company's common stock over a 30-day period before each assessment date. The Company's uses this 30-day duration to consider inherent market fluctuations that may affect any individual closing price.

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The Company recognizes an acquired intangible asset apart from goodwill whenever the intangible asset arises from contractual or other legal rights, or when it can be separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged, either individually or in combination with a related contract, asset or liability. Such intangibles are amortized over their useful lives. Impairment losses are recognized if the carrying amount of an intangible asset subject to amortization is not recoverable from expected future cash flows and its carrying amount exceeds its fair value.

The Company reviews its long-lived assets, including property and equipment, identifiable intangibles, and goodwill annually or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows will be less than the carrying amount of the assets.

Impairment of Long-Lived Assets

The Company's long-lived assets, including intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the historical-cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the asset by comparing the undiscounted

future net cash flows expected to result from the asset to its carrying value. If the carrying value exceeds the undiscounted future net cash flows of the asset, an impairment loss is measured and recognized. An impairment loss is measured as the difference between the net book value and the fair value of the long-lived asset.

Patents were evaluated for impairment and no impairment losses were incurred during the years ended December 31, 2014 and 2013, respectively.

Equity-Based Payments

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of ASC 505-50, "Equity-Based Payments to Non-Employees", which requires that such equity instruments are recorded at their fair value on the measurement date, with the measurement of such compensation being subject to periodic adjustment as the underlying equity instruments vest.

The Company account for equity instruments issued to employees in accordance with ASC 718 "Stock Compensation". Under this guidance, stock compensation expense is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the estimated service period (generally the vesting period) on the straight-line attribute method.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse.

The Company has net operating loss carryforwards available to reduce future taxable income. Future tax benefits for these net operating loss carryforwards are recognized to the extent that realization of these benefits is considered more likely than not. To the extent that the Company will not realize a future tax benefit, a valuation allowance is established.

Earnings (Loss) Per Share

Basic earnings (loss) per share are computed by dividing net income, or loss, by the weighted average number of shares of common stock outstanding for the period. Diluted earnings (loss) per share and basic earnings (loss) per share are not included in the net loss per share computation until the Company has Net Income. Diluted loss per share including the dilutive effects of common stock equivalents on an "as if converted" basis would reduce the loss per share and thereby be antidilutive.

Financial Instruments

The carrying amount of the Company's financial instruments, consisting of cash equivalents, short-term investments, account and notes receivable, accounts and notes payable, short-term borrowings and certain other liabilities, approximate their fair value due to their relatively short maturities. The carrying amount of the Company's long-term debt approximates fair value since the stated rate of interest approximates a market rate of interest.

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Fair Value Measurements

Fair value is an estimate of the exit price, representing the amount that would be received to, sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Fair value measurements are not adjusted for transaction cost. Fair value measurement under generally accepted accounting principles provides for use of a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company.

Level 3: Unobservable inputs reflect the assumptions that the Company develops based on available information about what market participants would use in valuing the asset or liability.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. The Company uses judgment in determining fair value of assets and liabilities and Level 3 assets and liabilities involve greater judgment than Level 1 and Level 2 assets or liabilities.

The following are the Company's assets and liabilities, measured at fair value on a recurring basis, as of December 31, 2014 and 2013:

	<u>Fair Value</u>	<u>Fair Value Hierarchy</u>
Marketable securities, December 31, 2014	\$ 13,800	Level 1
Marketable securities, December 31, 2013	\$ -0-	Level 1

New Accounting Standards

Management does not believe that any recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the accompanying financial statements.

NOTE 3: MARKETABLE AND NON-MARKETABLE SECURITIES

A realized loss of \$19,500 was recorded for the year ended December 31, 2013 on the Company's marketable securities.

During 2014, the Company converted \$60,000 of accounts receivable initially for a convertible note from Ecologic Transportation. Ecologic Transportation is affiliated with a related party. The note is convertible into 600,000 shares of Ecologic Transportation common stock. Subsequently, Ecologic Transportation merged into Peartrack Security Systems, Inc. As of December 31, 2014, the Company held 60,000 shares in Peartrack Security Systems, Inc. The fair value of the investment on the date of conversion was \$24,000 and as of December 31, 2014 was \$13,800. This resulted in a loss on the conversion of the accounts receivable of \$36,000 and a further unrealized loss on the reduction in value of the security of \$10,200 during 2014.

During 2014, the Company entered into a licensing transaction where it received 1,200,000 shares of Beta Music Group. This investment was deemed to be an investment in nonmarketable securities and the shares were recorded at cost of \$0. As of December 31, 2014, the Company continues to hold 1,200,000 shares of Beta Music Group.

During 2014, the Company invested \$50,000 in Cannonball Red in return for 97,500 shares with the expressed purpose of achieving new customers. Cannonball Red is affiliated with a related party. The Company recorded the investment at cost of \$50,000 and the investment was determined to be nonmarketable securities. Subsequent to the investment in 2014, the Company and Cannonball Red entered into an agreement where upon Cannonball Red would repurchase the investment for \$60,000 at an agreed upon future date. As of June 30, 2015, the parties have not agreed upon such date. As of December 31, 2014, the Company held 97,500 shares of Cannonball Red.

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	December 31, 2014	December 31, 2013
Computer & Peripherals	\$ 25,478	\$ 25,478
Accumulated Depreciation	(24,827)	(21,631)
Property Plant & Equipment, Net	\$ 651	\$ 3,847

Depreciation expense totaled \$3,196 and \$3,883 for the years ended December 31, 2014 and 2013, respectively.

NOTE 5: INTANGIBLE ASSETS

For the year ended December 31, 2014 and 2013, the Company invested in Patents in the amounts of \$48,037 and \$11,542, respectively.

Prior to December 31, 2014, patents, technology and other intangibles with contractual terms were generally amortized over their estimated useful lives of ten years. When certain events or changes in operating conditions occur, an impairment assessment is performed and lives of intangible assets with determinable lives may be adjusted.

For the year ended December 31, 2014 and 2013, the Company invested in software development in the amounts of \$388,125 and \$0, respectively. Software development costs are amortized over their estimated useful life of three years.

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Prior to any impairment adjustment, intangible assets consisted of the following:

	December 30, 2014	December 31, 2013
Patents	\$ 3,611,380	\$ 3,563,343
Capitalized Software Development	388,125	—
Accumulated Amortization	(902,212)	(489,398)
Intangible Assets, Net	\$ 3,097,293	\$ 3,073,945

Amortization expense for patents totaled \$346,690 and \$356,218 for the years ended December 31, 2014 and 2013, respectively. Amortization expense for software development totalled \$66,123 and \$0 for the years ended December 31, 2014 and 2013, respectively.

Total amortization expense totaled \$412,814 and \$354,368 for the year ended December 31, 2014 and 2013, respectively.

NOTE 6: RELATED PARTY TRANSACTIONS

CMG

On March 31, 2010, CMG Holdings Group, Inc. (“CMG”) acquired the Company. In connection with the acquisition, the Company’s former stockholders retained rights to receive cash from the exploitation of its technology (the “Rights”) consisting of 50% of any cash received from income earned, settlements or judgments directly resulting from the Company’s patent strategy and a share of its net income for 2010, 2011 and 2012 from the exploitation of its technology. The Rights were then contributed to a newly formed Nevada corporation, AudioEye Acquisition Corporation (“AEAC”) in exchange for shares of AEAC.

On June 22, 2011, CMG entered into a Master Agreement with AEAC pursuant to which: (i) the stockholders of AEAC would acquire from the CMG 80% of the Company’s capital stock (the “Separation”) and (ii) CMG would distribute to its stockholders, in the form of a dividend, 5% of the Company’s capital stock (the “Spin-off”). Pursuant to the Master Agreement, AEAC was required to arrange for the release of senior secured notes (the “Senior Notes”) issued by CMG in an aggregate principal amount of \$1,025,000, which CMG had been unable to service. On August 15, 2012, the Company, CMG and AEAC completed the Separation. In connection with the Separation, AEAC arranged for the release of CMG under the Senior Notes by payment to CMGO Investors LLC (“Investors”) the holder thereof of \$700,000, the delivery of a secured promissory note in the principal amount of \$425,000 and the issuance of 1,500,000 shares of the common stock of AEAC. On February 6, 2013, the note to Investors was paid in full. Payment consisted of cash payments of \$200,000 of which \$16,339 was interest and \$183,661 was principal. The balance of the principal of \$241,359 was repaid with the issuance to Investors of 1,998,402 common shares of the Company, which was 5.678562% of the outstanding shares on February 6, 2013. On January 29, 2013, the Securities and Exchange Commission declared effective the Company’s registration statement on Form S-1 with respect to 1,500,259 shares of its common stock to be issued in the Spin-off. On February 22, 2013, CMG completed the Spin-off.

In connection with the Separation, the Company entered into a Royalty Agreement with CMG. Pursuant to the Royalty Agreement, for a period of five years, the Company would pay to CMG 10% of cash received from income earned or settlements on judgments directly resulting from the Company's patent enforcement and licensing strategy, whether received by it on any of its affiliates, net in either case of any direct costs or tax implications incurred in pursuit of such strategy as they relate to the patents described in the Master Agreement. Additionally, the Company entered into a Services Agreement with CMG whereby, without duplication to the amounts payable under the Royalty Agreement, for a period of 5 years, CMG will receive a commission of 7.5% of all revenues received by the Company after the Separation from all business, clients or other sources of revenue procured by CMG or its employees, officers or subsidiaries and directed to us and 10% of net revenues obtained from a specified customer.

On November 12, 2013, the Company and CMG terminated the Royalty Agreement.

On December 30, 2013, the Company completed the repurchase of 2,184,583 shares of its common stock owned by CMG which shares were transferred to the Company in January, 2014 and retired to treasury. In connection, with the repurchase, the Company paid CMG \$573,022 and forgave a \$50,000 payable from an affiliate of CMG.

AEAC

On March 22, 2013, the Company and AEAC entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which AEAC would be merged with and into the Company (the "Merger") with the Company being the surviving entity. Pursuant to the Merger Agreement, each share of AEAC common stock issued and outstanding immediately prior to the Merger effective date would be converted into .94134 share of the Company's common stock and the outstanding convertible debentures of AEAC (the "AEAC Debentures") in the aggregate principal amount of \$1,400,200, together with accrued interest thereon, would be assumed by the Company and then exchanged for convertible debentures of the Company (the "AE Debentures").

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Effective March 25, 2013, the Merger was completed. In connection with the Merger, the stockholders of AEAC received on a pro rata basis the 24,004,143 shares of the Company's common stock that were held by AEAC, and the former holders of the AEAC Debentures received an aggregate of 5,871,752 shares of the Company's common stock pursuant to their conversion of all of the AE Debentures issued to replace the AEAC Debentures. The principal assets of AEAC were the Rights that had been contributed to AEAC by the former stockholders of the Company. As a result of the Merger, the Rights have been extinguished.

Nathaniel Bradley, Founder, Chief Innovation Officer, Treasurer and Director

As of December 31, 2012, the Company had an outstanding related party loan to Nathaniel Bradley totaling \$10,000.

During the year ended December 31, 2013, the Company borrowed a total of \$224,000, due on demand with a warrant to purchase 28,400 common shares, vesting immediately with a strike price of \$0.40. The 28,400 common share warrant was valued at \$6,901 on the date the note was granted using a closing price that day of \$0.35 through \$0.43, a strike price of \$0.40, term of 5 years, volatility of 100%, dividends of 0% and a discount rate of 1.37% through 1.43%. The value of the of \$6,901 is reflected as a discount which was then amortized to expense because the note is a demand note. In the same year, \$199,000 of principal balance and \$25,000 accrued salary was converted to 746,667 of the Company's common stock along with a warrant to purchase 746,667 shares of the Company's common stock. The warrant shall vest immediately with a strike price of \$0.40 and expire in 2018. As of December 31, 2013, related party loans due to Nathaniel Bradley totaled \$35,000. This amount was repaid by the Company in 2014.

As of December 31, 2014 and 2013, the Company owed \$0- and \$39,500 in accrued salary to Mr. Bradley. During 2013, the Company recognized additional of salary expense of which \$461,539 was converted to warrant to purchase 1,831,783 shares of the Company's common stock, \$25,000 was converted to common stock as discussed above and \$10,500 was exchanged for marketable securities the Company held as of December 31, 2012 which resulted a realized loss of \$19,500 during the period of 2013.

Sean Bradley, President, Chief Technology Officer, and Secretary

As of December 31, 2014 and 2013, the Company owed Sean Bradley \$0- and 24,375 in accrued salary. During 2013, the Company recognized additional salary expense of which \$399,648 was converted to a warrant to purchase 1,587,290 shares of the Company's common stock.

James Crawford, Chief Operating Officer, Treasurer and Director

During 2014, the Company awarded 53,036 warrants in lieu of cash compensation valued at \$21,514.

Others

The Company holds 60,000 shares in Peartrack Security Systems, formerly Ecologic Transportation, as of December 31, 2014 resulting from the conversion of a \$60,000 accounts receivable balance in 2014. In 2014, the Company invested \$50,000 in Cannonball Red in return for 97,500 shares held as of December 31, 2014.

As of December 31, 2014 and 2013, the Company had accrued salary due to other officer of \$0- and \$29,375. During 2013, the Company recognized additional salary expense of which \$161,564 was converted to a warrant to purchase 626,680 shares of the Company's common stock.

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In summary, as of December 31, 2014 and 2013, the total balances of related party payable were \$228,983 (see Note 8) and \$243,424, respectively.

As of December 31, 2014 and 2013, there were outstanding receivables of \$10,000 and \$82,250, respectively, for services performed for related parties.

For the year ended December 31, 2014 and 2013, there were revenues earned of \$6,500 and \$108,500, respectively, for services performed for related parties. The related parties are family members of certain officers of the Company.

NOTE 7: NOTES PAYABLE

As at December 31, 2014 and 2013, the Company has current and long term notes payable of \$24,000 and \$172,845 and \$51,800 and \$79,800, respectively as shown in the table below.

Notes and loans payable	December 31, 2014	December 31, 2013
Short Term		
Maryland TEDCO	\$ 24,000	\$ 24,000
Notes Payable (net of \$1,155 discount)	—	148,845
Total	\$ 24,000	\$ 172,845
Long Term		
Maryland TEDCO	\$ 51,800	\$ 79,800
Total	\$ 51,800	\$ 79,800

As of December 31, 2012, the Company had an outstanding loan to a third party in the amount of \$74,900, which was originally issued during 2006 as part of an Investment Agreement. The loan was unsecured and bore interest at 25% per year for four years. The Company had accrued interest of \$74,900, which was included in accounts payable and accrued expenses on the balance sheet. The note was in default until October 24, 2011, at which time the Company entered into a Termination and Release Agreement (“Release”) with the third party. The terms of the Release, among other things, terminated the Investment Agreement between the parties, and required the Company to issue a Promissory Note to the third-party in the combined amount of principal and accrued interest to date, for a total principal amount of \$149,800. The note is interest free, and is payable in monthly installments of \$2,000 beginning November 1, 2011. As of December 31, 2014 and 2013, the principal amount owing was \$75,800 and \$103,800, respectively, of which \$24,000 and \$24,000, respectively, has been recorded as the current portion of the note, and \$51,800 and \$79,800, respectively, as the long-term portion of the note, respectively. The Company has paid \$28,000 and \$24,000 in monthly installments for the year ended December 31, 2014 and 2013, respectively.

On August 15, 2012, the Company issued a Secured Promissory Note to CMGO Investors LLC, the agent for the former holders of CMG’s senior debt, in the amount of \$425,000, related to the separation of the Company from CMG, which took place on August 17, 2012. The note bore interest at 8% per annum. Pursuant to an extension granted by the noteholder, the note was due on February 6, 2013. The noteholder had the option to convert the principal and interest into 10% of the Company’s total issued and outstanding common shares as of the date of the notice to convert, but in no event more than 6,000,000 shares. On February 6, 2013, the Secured Promissory Note was repaid in full. Payment consisted of cash payments of \$200,000, of which \$16,339 was interest and \$183,661 was principal. The balance of the principal of \$241,359 was repaid with the issuance of 1,998,402 common shares of the Company, which represented 5.678562% of the outstanding shares on February 6, 2013.

For the period ending December 31, 2012, AEAC borrowed \$1,017,000 which was evidenced by the issuance of AEAC Debentures. These debentures bore interest at 8% per annum and were due one year from the date of issuance. The debenture holders had the option to convert the principal and interest at an exercise price \$0.25 per share. During 2013, AEAC borrowed an additional \$382,500 under the same term.

In connection with the Merger that occurred March 25, 2013, the Company assumed the obligations under the AEAC debentures and issued new AE Debentures which in turn were converted by the holders thereof into an aggregate of 5,871,752 shares of the Company’s common stock. These shares were issued for the conversion of total principal of \$1,400,200 and accrued interest of \$67,732 on the former AE Debentures.

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On August 3, 2013, the Company borrowed \$150,000 with a coupon rate of 10%, due on September 10, 2013 with a warrant to purchase 20,000 common shares, vesting immediately with a strike price of \$0.50. The 20,000 common share warrant was valued at \$6,930 on August 3, 2013 using a closing price that day of \$0.47, a strike price of \$0.50, term of 5 years, volatility of 100%, dividends of 0%, and a discount rate of 1.36%. The value of the warrant of \$6,930 is reflected as a discount to the note for a net amount of \$143,070. For the period ended December 31, 2013, interest was accrued in the amount of \$2,384 and \$5,755 was recognized as amortization expense. As of December 31, 2013, the note has a balance of \$148,845, net of discount of \$1,155, such discount amortized in 2014. As of December 31, 2014, the note has a balance of \$-0-.

NOTE 8: COMMITMENTS AND CONTINGENCIES

The Company’s principal executive offices are located at 5210 E. Williams Circle, Fifth Floor, Tucson, Arizona 85711, consisting of approximately 6,003 square feet as of June 30, 2015. The Company’s office is leased for an aggregate amount of \$13,676 per month. The Company’s total rent expense was approximately \$234,406 and \$38,388 under office leases for the years ended December 31, 2014 and 2013, respectively.

On August 7, 2013, the Company entered into agreements with the following executive officers:

Nathaniel Bradley. Pursuant to an Executive Employment Agreement, Nathaniel Bradley was employed as the Company’s Chief Executive Officer. The term of the Executive Employment Agreement is three years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$200,000 during the employment period. He is entitled to receive bonuses at the sole discretion of the Company’s board of directors or the compensation committee. Mr. Bradley is also entitled to equity awards under the Company’s incentive compensation plans. In connection with entry into the Executive Employment Agreement, the Company and Mr. Bradley terminated the existing employment agreement, dated April 1, 2010, between the Company and Mr. Bradley effective as of August 7, 2013.

Effective April 24, 2015, Nathaniel Bradley resigned as Chief Executive Officer and President of the Company. Effective with his resignation as Chief Executive Officer and President, the Company's board of directors appointed Mr. Bradley to serve as Founder and Chief Innovation Officer as well as Treasurer of the Company. Effective May 1, 2015, Mr. Bradley agreed to reduce his annual base salary to \$125,000.

Sean Bradley. Pursuant to an Executive Employment Agreement, Sean Bradley was employed as the Company's Chief Technology Officer. The term of the Executive Employment Agreement is three years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$195,000 during the employment period. He is entitled to receive bonuses at the sole discretion of the Company's board of directors or the compensation committee. Mr. Bradley is also entitled to equity awards under the Company's incentive compensation plans. In connection with entry into the Executive Employment Agreement, the Company and Mr. Bradley terminated the existing employment agreement, dated April 1, 2010, between the Company and Mr. Bradley effective as of August 7, 2013.

Effective April 24, 2015, the Company's board of directors appointed Sean Bradley to serve as President of the Company as well as continuing as Chief Technology Officer and Secretary. Effective May 1, 2015, Mr. Bradley agreed to reduce his annual base salary to \$150,000.

James Crawford. Pursuant to an Executive Employment Agreement, James Crawford was employed as the Company's Chief Operating Officer. The term of the Executive Employment Agreement is three years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$185,000 during the employment period. He is entitled to receive bonuses at the sole discretion of the Company's board of directors or the compensation committee. Mr. Crawford is also entitled to equity awards under the Company's incentive compensation plans.

Effective April 24, 2015, James Crawford resigned as Chief Operating Officer and Treasurer of the Company.

Also on April 24, 2015, the Company and Crawdad, LLC. ("Crawdad"), a limited liability company wholly owned by Mr. Crawford, entered into a Consulting Agreement pursuant to which Crawdad, through Mr. Crawford, is to provide certain consulting services to the Company for a period of 12 months for a consulting fee of \$5,000 per month.

Edward O'Donnell. Pursuant to an Executive Employment Agreement, Mr. O'Donnell was employed as the Company's Chief Financial Officer. The term of the Executive Employment Agreement is two years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$165,000 during the employment period. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. O'Donnell is also entitled to equity awards under our incentive compensation plan.

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Effective March 29, 2015, Edward O'Donnell resigned from his position as the Company's Chief Financial Officer.

Constantine Potamianos. Pursuant to an Executive Employment Agreement, Constantine Potamianos was employed as the Company's Chief Legal Officer and General Counsel. The term of the Executive Employment Agreement is two years commencing August 7, 2013, subject to extension upon mutual agreement. He is to receive a base annual salary of \$150,000 during the employment period. He is entitled to receive bonuses at the sole discretion of the Company's board of directors or the compensation committee. Mr. Potamianos is also entitled to equity awards under the Company's incentive compensation plan.

On January 27, 2014, the Company entered into agreements with Paul Arena. Under an Executive Employment Agreement dated as of January 27, 2014, Mr. Arena has direct responsibility working in conjunction with the Company's Chief Executive Officer, over operations, sales marketing, financial accounting and SEC reporting, operational budgeting, sales costing analysis, billing and auditor interfacing. The initial term of Mr. Arena's employment is two years. Mr. Arena's base salary is \$275,000 per year. Mr. Arena received a signing bonus of \$35,000 and is entitled to a quarterly bonus of up to \$50,000 based on recognized revenues for the applicable quarter and additional bonuses at the discretion of our board of directors or compensation committee. Mr. Arena has been granted five year warrants to purchase 250,000 shares of our common stock at an exercise price of \$0.40 per share and stock options to purchase 1,500,000 shares at an exercise price of \$0.40 per share subject to vesting as set forth in the Executive Employment Agreement. Pursuant to a separate Performance Share Unit Agreement dated as of January 27, 2014, the Company granted to Mr. Arena an award of up to 3,000,000 PSUs. Each PSU represents the right to receive one share of common stock. The number of PSUs that Mr. Arena actually earns will be determined by the level of achievement of the performance goals set forth in the Performance Share Unit Agreement. Mr. Arena was granted an award of an aggregate of 1,500,000 PSUs at target value of established goals. 35% of these awards are tied to targeted revenue goals over the years ended January 31, 2015 and January 31, 2016. 35% of these awards are tied to targeted cash flow goals over the years, and 30% are tied to discretionary goals. The award will pay above or below the target number of shares based on performance. In order to receive any shares the threshold value of goals is 75% of the target, which will payout at 1,000,000 shares. The maximum share payout is 3,000,000 shares if 125% of performance targets are met. The Company use interpolation to determine share payouts if the performance metric values achieved are between the thresholds, target and maximum goal levels.

On March 5, 2015, the Company and Paul Arena entered into a Separation and Release Agreement (the "Separation Agreement") pursuant to which Mr. Arena resigned as Executive Chairman/Chairman of the Board and a member of the Board of Directors. Under the Separation Agreement, the Company and Mr. Arena agreed that, pursuant to his Stock Option Agreement with the Company, options to purchase 500,000 common shares have been vested, options to purchase an additional 500,000 shares (the "Second Tranche") are vested and options to purchase 500,000 shares will be forfeited. Fifty percent of the options under the Second Tranche are subject to certain clawback provisions as set forth in the Separation Agreement. Additionally, Mr. Arena is being granted 500,000 shares of the Company's restricted Common Stock (the "Restricted Shares") with 250,000 shares being deposited in escrow to cover the clawback rights of the Company. The Restricted Shares are being issued to Mr. Arena in lieu of any issuances which may be due him under his Performance Share Unit Agreement. The Restricted Shares and shares issuable pursuant to options described above are subject to a Lock-up/Leakage Agreement under which Mr. Arena is limited to a cap of \$50,000 in gross proceeds from the sale of such shares in any month.

Also on March 5, 2015, the Company and AIM Group, Inc. ("AIM"), a corporation wholly owned by Mr. Arena, entered into a Consulting Agreement (the "Consulting Agreement") pursuant to which AIM, through Mr. Arena, is to provide certain consulting services to the Company for a period of one year. Under the Consulting Agreement, AIM is to receive a one-time net payment of \$267,000. The Company filed the Separation Agreement as an exhibit to an 8-K filing. The Separation and Release Agreement specifies that Mr. Arena is to receive a fee of \$425,000 as well as other consideration valued at \$54,892, for total consideration of \$479,892. \$250,909 was paid to Mr. Arena by the Company during 2014. As of December 31, 2014, the Company recorded a payable to Mr. Arena of \$228,983.

NOTE 9: STOCKHOLDERS' EQUITY

As of December 31, 2014 and December 31, 2013, the Company had 77,817,861 and 53,239,369 shares of common stock issued and outstanding, respectively.

On February 6, 2013, the Secured Promissory Note to CMGO Investors LLC was repaid in full. Payment consisted of cash payments of \$200,000 of which \$16,339 was interest and \$183,661 was principal. The balance of the principal of \$241,359 was repaid with the issuance of 1,998,402 common shares of the Company, which was 5.678562% of the outstanding shares on February 6, 2013.

In connection with the Merger that occurred March 22, 2013, the former holders of the AEAC Debentures received an aggregate of 5,871,752 shares of the Company's common stock pursuant to their conversion of all of the AE Debentures issued to

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replace the AEAC Debentures totalling \$1,400,200 of principal and \$67,732 of interest. These shares were issued for the conversion of total principal and accrued interest on the former AE Debentures.

On April 5, 2013 the Company issued 200,000 shares of the Company's common stock for services valued at \$50,000. The shares were valued at the market price of the respective dates of issuance.

On September 10, 2013, the Company issued 142,500 common shares for the exercise of options and received proceeds of \$37,188.

On October 10, 2013, the Company issued 42,250 common shares for the exercise of options and received proceeds of \$10,562.

In the quarter ended June 30, 2013, pursuant to a private placement, the Company sold to a group of accredited investors 1,092,000 units for gross aggregate proceeds of \$496,000 net of private placement cost of \$39,100 and of which 100,000 of the units was for \$50,000 of accounts payable to related party that was forgiven. Each unit consists of one share of the Company's common stock and a three-year warrant to purchase one share of the Company's common stock. The warrants included in the units have an exercise price of \$0.50 per share. The purchase price of each unit was \$0.50. On August 8, 2013, the Company issued a total of 1,092,000 shares of its common stock in connection with the private placement subscriptions received through June 30, 2013. As of September 30, 2013, warrants to purchase up to a total of 1,092,000 shares of the Company's common stock were to be issued in connection with the sale of units through the private placement (the "Private Placement"). These warrants will not be issued until the final closing of the Private Placement.

On November 25, 2013, the Company conducted a final closing of the Private Placement pursuant to which an additional 50,000 units were sold to an affiliate of a director. Each unit consisted of one share of the Company's common stock and a three-year warrant to purchase one share of the Company's common stock. The warrants included in the units have an exercise price of \$0.50 per share. The purchase price of each unit was \$0.50 for a total of \$25,000.

On December 23, 2013, the Company sold an aggregate of 10,088,336 units to 15 accredited investors for gross proceeds of \$3,026,500 net of private placement cost of \$276,408 in a separate private placement (the "Second Private Placement"). The units in the Second Private Placement consisted of 10,088,336 shares of the Company's common stock and warrants to purchase an additional 10,088,336 shares of the Company's common stock, which warrants include warrants to purchase 952,564 shares of the Company's common stock issued to the placement agent in connection with their services. The warrants in the Second Private Placement are for a term of five years and have an exercise price of \$0.40 per share.

During the year ended December 31, 2013, \$199,000 of principal balance and \$25,000 accrued salary was converted to 746,667 of the Company's common stock along with warrant to purchase 746,677 shares of the Company's common stock. See Note 6.

On December 30, 2013, the Company completed the repurchase of 2,184,583 shares of the Company's common stock owned by CMG which shares were transferred to the Company in January, 2014 and retired to treasury. In connection, with the repurchase, the Company paid CMG \$573,022 and forgave a \$50,000 payable to the Company from an affiliate of CMG.

During the year ended December 31, 2013, 4,054,753 of the Company's warrants were issued to convert \$1,022,751 of accrued salary. See note 6 and 12.

During the year ended December 31, 2013, 41,872 of the Company's warrants were issued to convert \$51,000 of accounts payable. See note 12.

During the year ended December 31, 2013, \$1,191,128 was recognized as stock option, warrant and PSU expense. See note 11, 12 and 13.

On January 30, 2014, the Company sold an aggregate of 666,667 units to two accredited investors for gross proceeds of \$200,000 in the second closing of a private placement (the "Second Private Placement"). Placement fees of \$18,463 were paid and the Company received net proceeds of \$181,537. The units in the Second Private Placement consisted of 666,667 shares of the Company's common stock and warrants to purchase an additional 666,667 shares of the Company's common stock. The warrants in the Second Private Placement have a term of five years and an exercise price of \$0.40 per share.

On February 3, 2014, the Company issued 44,307 shares of common stock valued at \$13,292 and a five-year warrant to purchase 44,307 shares of common stock with a strike price of \$0.40 for services. The Company used the Black-Scholes option

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pricing model to estimate the fair value of the warrants with a volatility of 100% and a risk free rate of 1.44% resulting in a fair value of \$8,186, which was completely expensed in the current period. The warrant was issued to compensate for consulting services provided by a third-party. The shares were valued at the market price of the respective date of issuance.

On March 27, 2014, the Company filed a Certificate of Amendment to the Certificate of Incorporation increasing the authorized number of shares of Company common stock to 250,000,000 from 100,000,000.

On March 28, 2014, the Company issued 49,496 shares of common stock pursuant to the cashless exercise of 100,000 options.

From January 1, 2014 through March 31, 2014, the Company also issued 100,000 shares of common stock for services valued at \$28,500 with no future period amortization and 1,300,000 shares of common stock pursuant to exercise of warrants for total proceeds of \$13,000. The shares were valued at the market price of the respective date of issuance.

On June 30, 2014, the Company sold an aggregate of 2,766,667 units to three accredited investors for gross proceeds of \$830,000 in the third closing of a private placement (the "Third Private Placement"). Placement fees of \$55,848 were paid and the Company received net proceeds of \$774,152. The units in the Third Private Placement consisted of 2,766,667 shares of the Company's common stock and warrants to purchase an additional 2,766,667 shares of the Company's common stock. The warrants have a term of five years and an exercise price of \$0.40 per share.

From April 1, 2014 through June 30, 2014, the Company also issued 1,071,916 shares of common stock for services for an expense of \$354,835 with no future period amortization. Additionally, the Company issued 17,870 shares of common stock pursuant to the cashless exercise of 50,000 warrants.

In July 2014, the Company offered holders of a series of its warrants, including the warrants issued in the Second Private Placement and the Third Private Placement, the opportunity to exercise their warrants for a 10% discount to the stated exercise price in exchange for their agreement to exercise their warrants in full and for cash on or before July 31, 2014. Under the warrant exercise offer, in July 2014 the Company issued 10,027,002 shares of common stock pursuant to exercise of warrants for gross proceeds of \$3,632,801 and net proceeds of \$3,501,521 after investment banking fees of \$131,280.

On July 17, 2014, the Company issued 34,459 shares of common stock pursuant to the cashless exercise of 75,000 common stock options.

From July 1, 2014 through September 30, 2014, the Company also issued 515,000 shares of common stock for services valued at \$382,300 with no future period amortization.

In September 2014, the Company issued 20,000 shares of common stock pursuant to the exercise of 20,000 warrants at a strike price of \$0.50 for proceeds of \$10,000.

On September 30, 2014, the Company sold an aggregate of 700,000 units to two accredited investors for gross proceeds of \$350,000 in the closing of a private placement (the "Summer 2014 Private Placement"). The units in the Summer 2014 Private Placement consisted of 700,000 shares of the Company's common stock and warrants to purchase $\frac{1}{4}$ of a share for every common share purchased or an additional 175,000 shares of the Company's common stock. The warrants have a term of five years and an exercise price of \$0.60 per share.

On October 10, 2014, November 12, 2014 and December 11, 2014 the Company issued an aggregate of 195,000 shares of common stock for services rendered valued at \$119,500.

On November 25, 2014, 9,115 common shares were issued in a cashless options exercise of 30,000 options.

On November 18, 2014, 4,375 common shares were issued in a cashless warrants exercise of 20,000 warrants.

On December 15, 2014, 37,314 common shares were issued services rendered valued at \$19,888.

On December 15, 2014, 331,804 common shares were issued in a warrants exercise for cash proceeds of \$119,449.

On December 31, 2014, the Company sold an aggregate of 6,687,500 units to ten accredited investors for gross proceeds of \$2,675,000 in the closing of a private placement (the "December 2014 Private Placement"), net of \$123,000 in fees for net proceeds of \$2,552,000. \$1,175,000 of the private placement was recorded as a Subscription Receivable as of December 21, 2014. Such subscription receivable was collected in 2015. The aggregate units in the December 2014 Private Placement consisted of 6,687,500 shares of the Company's common

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stock and warrants to purchase 37.5% of a share for every common share purchased or an additional 2,507,813 shares of the Company's common stock. The warrants have a term of five years and an exercise price of \$0.60 per share.

During the years ended December 31, 2014 and 2013, \$1,844,009 and \$1,191,128 were recognized as stock option, warrant and PSU expenses. See note 11, 12 and 13.

NOTE 10: INCOME TAXES

The Company accounts for income taxes under ASC 740, "Income Taxes". Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded when the ultimate realization of a deferred tax as The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	December 31, 2014	December 31, 2013
Deferred tax assets:		
Net operating loss carry forwards	\$ 4,983,000	\$ 1,720,000
Less valuation allowance	(4,983,000)	(1,720,000)
Net deferred tax asset	\$ —	\$ —

At this time, the Company is unable to determine if it will be able to benefit from its deferred tax asset. There are limitations on the utilization of net operating loss carry forwards, including a requirement that losses be offset against future taxable income, if any. In addition, there are limitations imposed by certain transactions, which are deemed to be ownership changes. Accordingly, a valuation allowance has been established for the entire deferred tax asset. The approximate net operating loss carry forward was \$14,657,000 and \$5,071,000 as of December 31, 2014 and 2013, respectively and will start to expire in 2029.

NOTE 11: OPTIONS

As at December 31, 2013 and 2014, the Company has 4,885,250 and 11,434,350 options issued and outstanding.

On December 19, 2012, the Company issued 2,820,000 options for the initial option grant. Prior to this issuance there had been no option grants. This tranche of options vest over 2 years at exercise price of \$0.25 and expire on December 19, 2017. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.25 years, expected volatility of 250%, date of issue risk free interest rate of 0.39%, and expected dividend yield of 0%. The value on the grant date of the options was \$687,953 and the option expense for December 31, 2014 and 2013 was determined to be \$377,121 and \$11,309. As of December 31, 2013, 184,750 options have been exercised from this tranche of options.

The Company issued 400,000 options on May 10, 2013, which vest 50% on grant date and 12.5% every 90 days thereafter, have an exercise price of \$1.00 per share, and expire on May 9, 2016. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 1.42 years, expected volatility of 100%, risk free interest rate of 0.82%, and expected dividend yield of 0%. The value on the grant date of the options was \$152,067 and the option expense for December 31, 2014 and 2013 was determined to be \$124,987 and \$0. As of December 31, 2013, no options have been exercised from this tranche of options.

On July 29, 2013, the Company issued 350,000 options, which vest 50% on July 29, 2014 and 50% on July 29, 2015, have an exercise price of \$0.35 and expire on July 29, 2018. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.67 years, expected volatility of 100%, risk free interest rate of 0.82%, and expected dividend yield of 0%. The value on the grant date of the options was \$72,311 and the option expense for December 31, 2014 and 2013 was determined to be \$15,354 and \$0. As of December 31, 2013, no options have been exercised from this tranche of options.

On August 20, 2013, the Company issued 300,000 options, which vest 50% in February 2014 and 50% in August 2014, have an exercise price of \$0.40 and \$0.50 and expire on August 20, 2018. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.88 years, expected volatility of 100%, risk free interest rate of 0.82%, and expected dividend yield of 0%. The value on the grant date of the options was \$67,928 and the option expense for December 31, 2014 and 2013 was determined to be \$24,752 and \$0. As of December 31, 2013, no options have been exercised from this tranche of options.

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On August 20, 2013, the Company issued 700,000 options, which vest 50% immediately and 12.5% every 90 days thereafter, and have an exercise price of \$0.50. Out of the 700,000 options, 100,000 expire on August 20, 2016 and the other 600,000 expire on August 20, 2018. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 1.75 years for the options expiring in 2016 and expected term of 2.88 years for the options expiring in 2018, expected volatility of 100%, risk free interest rate of 0.82%, and expected dividend yield of 0%. The value on the grant date of the options was \$147,441 and the option expense for December 31, 2014 and 2013 was determined to be \$100,583 and \$0. As of December 31, 2013, no options have been exercised from this tranche of options and 120,000 have been forfeited.

On December 13, 2013, the Company issued 100,000 options, which vest 50% immediately and 12.5% every 90 days thereafter, have an exercise price of \$0.50 and expire on December 13, 2018. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 1.42 years, expected volatility of 100%, risk free interest rate of 0.82%, and expected dividend yield of 0%. The value on the grant date of the options was \$11,180 and the option expense for December 31, 2014 and 2013 was determined to be \$5,590 and \$0. As of December 31, 2013, no options have been exercised from this tranche of options.

On January 27, 2014, the Company issued 1,500,000 options, which vest 33.3% immediately and 33.3% every year thereafter based on meeting performance goals, and have an exercise price of \$0.40, and expire on January 27, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.33 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.61%, and expected dividend yield of 0%. The value on the grant date of the options was \$303,562 and the option expense for December 31, 2014 and 2013 was determined to be \$143,726 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options. Pursuant to Mr. Arena's Separation and Release Agreement, 500,000 options were forfeited. Another 250,000 may become vested but are subject to clawback by the Company if certain conditions are not met.

On February 17, 2014, the Company issued 55,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.305, and expire on February 17, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.58%, and expected dividend yield of 0%. The value on the grant date of the options was \$10,556 and the option expense for December 31, 2014 and 2013 was determined to be \$6,117 and \$0. As of December 31, 2014, all 55,000 options have been forfeited from this tranche of options.

On March 3, 2014, the Company issued 250,000 options, which vest 20% immediately and 20% every 90 days thereafter, have an exercise price of \$0.40, and expire on March 4, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.75 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.54%, and expected dividend yield of 0%. The value on the grant date of the options was \$36,935 and the option expense for December 31, 2014 and 2013 was determined to be \$26,954 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On March 24, 2014, the Company issued 200,000 options which vest 100% immediately, have an exercise price of \$0.45, and expire on March 24, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.50 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.76%, and expected dividend yield of 0%. The value on the grant date of

the options was \$52,216 and the option expense for December 31, 2014 and 2013 was determined to be \$52,216 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On March 24, 2014, the Company issued 800,000 options, options vest 50% after one year and 2.08% every month thereafter, have an exercise price of \$0.45, and expire on March 24, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.76%, and expected dividend yield of 0%. The value on the grant date of the options was \$231,767 and the option expense for December 31, 2014 and 2013 was determined to be \$119,321 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On March 24, 2014, the Company issued 1,522,100 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.45, and expire on March 24, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.76%, and expected dividend yield of 0%. The value on the grant date of the options was \$440,965 and the option expense for December 31, 2014 and 2013 was determined to be \$227,017 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options and 120,000 have been forfeited.

On June 2, 2014, the Company issued 100,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.325, and expire on June 2, 2019. The options were valued using the Black-Scholes pricing model.

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Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 0.83%, and expected dividend yield of 0%. The value on the grant date of the options was \$20,336 and the option expense for December 31, 2014 and 2013 was determined to be \$7,832 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On June 9, 2014, the Company issued 75,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.33, and expire on June 9, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 0.88%, and expected dividend yield of 0%. The value on the grant date of the options was \$15,498 and the option expense for December 31, 2014 and 2013 was determined to be \$5,768 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On June 11, 2014, the Company issued 250,000 options, which vest 20% immediately and 20% every 90 days thereafter, have an exercise price of \$0.35, and expire on June 11, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.75 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 0.88%, and expected dividend yield of 0%. The value on the grant date of the options was \$42,470 and the option expense for December 31, 2014 and 2013 was determined to be \$23,519 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On June 14, 2014, the Company issued 150,000 options, which vest 33.33% immediately and 16.66% every 90 days thereafter, have an exercise price of \$0.35, and expire on June 17, 2017. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.71 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 0.91%, and expected dividend yield of 0%. The value on the grant date of the options was \$26,360 and the option expense for December 31, 2014 and 2013 was determined to be \$17,574 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On July 1, 2014, the Company issued 225,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.33, and expire on July 1, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.66%, and expected dividend yield of 0%. The value on the grant date of the options was \$46,962 and the option expense for December 31, 2014 and 2013 was determined to be \$15,697 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On July 1, 2014, the Company issued 37,500 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.35, and expire on July 1, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.66%, and expected dividend yield of 0%. The value on the grant date of the options was \$7,827 and the option expense for December 31, 2014 and 2013 was determined to be \$2,616 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On July 21, 2014, the Company issued 22,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.91, and expire on July 21, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.70%, and expected dividend yield of 0%. The value on the grant date of the options was \$12,882 and the option expense for December 31, 2014 and 2013 was determined to be \$3,835 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On July 22, 2014, the Company issued 250,000 options, which vest 20% immediately and 20% every 90 days thereafter, have an exercise price of \$0.65, and expire on June 11, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.75 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.68%, and expected dividend yield of 0%. The value on the grant date of the options was \$97,876 and the option expense for December 31, 2014 and 2013 was determined to be \$54,328 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On July 23, 2014, the Company issued 125,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$1.07, and expire on July 23, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.67%, and expected dividend yield of 0%. The value on the grant date of the options was \$80,905 and the option expense for December 31, 2014 and 2013 was determined to be \$23,791 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On July 28, 2014, the Company issued 75,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$1.03, and expire on July 28, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.73%, and expected dividend yield of 0%. The value on the grant date of the options was \$42,981

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and the option expense for December 31, 2014 and 2013 was determined to be \$12,247 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On August 18, 2014, the Company issued 60,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.65, and expire on August 18, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.58%, and expected dividend yield of 0%. The value on the grant date of the options was \$25,067 and the option expense for December 31, 2014 and 2013 was determined to be \$6,181 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On September 3, 2014, the Company issued 130,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.70, and expire on September 3, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.69%, and expected dividend yield of 0%. The value on the grant date of the options was \$58,548 and the option expense for December 31, 2014 and 2013 was determined to be \$12,832 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On September 5, 2014, the Company issued 150,000 options, which vest 33.33% immediately and 16.66% every 90 days thereafter, have an exercise price of \$0.65, and expire on September 5, 2017. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.75 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.70%, and expected dividend yield of 0%. The value on the grant date of the options was \$58,736 and the option expense for December 31, 2014 and 2013 was determined to be \$32,131 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On September 5, 2014, the Company issued 1,070,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.79, and expire on September 5, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.70%, and expected dividend yield of 0%. The value on the grant date of the options was \$535,090 and the option expense for December 31, 2014 and 2013 was determined to be \$114,348 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options and 100,000 have been forfeited.

On September 8, 2014, the Company issued 25,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.775, expire on September 8, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.72%, and expected dividend yield of 0%. The value on the grant date of the options was \$11,750 and the option expense for December 31, 2014 and 2013 was determined to be \$2,447 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On September 12, 2014, the Company issued 25,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.78, and expire on September 12, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.83%, and expected dividend yield of 0%. The value on the grant date of the options was \$11,945 and the option expense for December 31, 2014 and 2013 was determined to be \$2,400 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On October 3, 2014, the Company issued 300,000 options, which vest 33.33% immediately and 16.66% every 90 days thereafter, have an exercise price of \$0.60, and expire on October 3, 2017. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.63 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.83%, and expected dividend yield of 0%. The value on the grant date of the options was \$107,139 and the option expense for December 31, 2014 and 2013 was determined to be \$66,632 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

On October 16, 2014, the Company issued 37,500 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.65, and expire on October 16, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.83%, and expected dividend yield of 0%. The value on the grant date of the options was \$14,934 and the option expense for December 31, 2014 and 2013 was determined to be \$2,073 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

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On October 20, 2014, the Company issued 115,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.61, and expire on October 20, 2019. The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years for the options expiring in 2019, expected volatility of 100%, risk free interest rate of 1.83%, and expected dividend yield of 0%. The value on the grant date of the options was \$45,694 and the option expense for December 31, 2014 and 2013 was determined to be \$6,009 and \$0. As of December 31, 2014, no options have been exercised from this tranche of options.

	Number of Shares	Wtd Avg. Exercise Price
Outstanding at December 31, 2012	2,820,000	\$ 0.25

Granted	1,850,000	0.57
Exercised	184,750	0.25
Outstanding at December 31, 2013	4,485,250	0.38
Granted	7,549,100	\$ 0.52
Exercised	205,000	0.34
Forfeited	395,000	0.50
Outstanding at December 31, 2014	11,434,350	\$ 0.47

As of December 31, 2014 and 2013, the outstanding options had a weighted average remaining term and intrinsic value of 4.30 and 3.96 years and \$283,408 and \$99,070, respectively.

Outstanding and Exercisable Options - 2014

Average Exercise Price	Number of Shares	Remaining Average Contractual Life (in years)	Exercise Price times number of Shares	Weighted Average Exercise Price	Intrinsic Value
\$ 0.40	5,635,250	3.79	\$ 2,246,313	\$ 0.47	\$ 460,941

Outstanding and Exercisable Options - 2013

Average Exercise Price	Number of Shares	Remaining Average Contractual Life (in years)	Exercise Price times number of Shares	Weighted Average Exercise Price	Intrinsic Value
\$ 0.25	4,485,250	3.96	\$ 1,716,313	\$ 0.38	\$ 99,070

The options were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 1.42 through 3.26 years, expected volatility of 100% through 250%, date of issue risk free interest rates of 0.39% to 1.83% and expected dividend yield of 0%. The expensed amount for options for the years ended December 31, 2014 and 2013 was determined to be \$1,445,993 and \$648,387, respectively.

NOTE 12: WARRANTS

On March 19, 2013, the Company's board of directors approved the issuance of warrants to James Crawford, Nathaniel Bradley and Sean Bradley to purchase up to 464,593, 1,696,155 and 1,491,924, respectively, shares of the Company's common stock in consideration for the release of an aggregate of \$913,168 due to the issues. The warrants have an issuance date of March 19, 2013, expire on March 19, 2018, have a strike price of \$0.25 per share, and vest in 1/3 increments on the annual anniversaries of the issuance. The warrants to purchase up to an aggregate of 3,652,672 shares of common stock were valued at \$913,168, which is the same amount as the related party payables forgiven.

On May 10, 2013, the Company's board of directors approved the issuance of a warrant to a third party to purchase up to 41,872 shares of the Company's common stock in settlement of accounts payable. The warrant expires on May 10, 2018, has a strike price of \$1.22 per share, and was vested upon grant. The warrant was valued at \$51,000, which is the same amount as the accounts payable forgiven.

On June 30, 2013, the Company's board of directors approved the issuance of warrants to James Crawford, Nathaniel Bradley and Sean Bradley to purchase up to 38,333, 32,500 and 28,333, respectively, shares of the Company's common stock in consideration for the release of an aggregate of \$38,333 due to the issues. The warrants have an issuance date of June 30, 2013, expire on June 30, 2016, have a strike price of \$0.50 per share, and were vested upon grant. The warrants to purchase up to 99,166 an aggregate of shares of common stock were valued at \$38,333, which is the same amount as the related party payables forgiven.

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In the 2013, pursuant to a private placement (the "Private Placement"), the Company sold 1,142,000 units to a group of accredited investors, with each unit consisting of one share of the Company's common stock and a three-year warrant to purchase one share of the Company's common stock. The warrants included in the units have an exercise price of \$0.50 per share. The purchase price of each unit was \$0.50. As of December 31, 2013, 1,042,000 shares of the Company's common stock were issued and warrants to purchase up to a total of 1,042,000 shares of the Company's common stock were to be issued in connection with the Private Placement.

During 2013, the Company's board of directors approved the issuance of warrants to multiple entities to purchase up to 405,000, in aggregate, shares of Company common stock as a part of the service contracts. The warrants expire in five years, have a strike price of \$0.25 - \$0.60 per share, and were vested upon grant. The warrants to purchase up to 405,000 an aggregate of shares of common stock were valued at \$98,851 and was expensed during the year ended December 31, 2013.

On August 3, 2013, the Company issued a warrant to purchase up to 20,000 shares of Company common stock to the issuer of the \$150,000 note detailed in Note 7. The warrant has an issue date of August 3, 2013, expires on August 3, 2018, has a strike price of \$0.50, and was vested upon grant. The warrant was valued at \$6,930 and recorded as a debt discount to the note.

During the November and December of 2013, the Company issued a warrant to purchase up to 28,400 shares of Company common stock to the issuer of the \$224,000 note detailed in Note 6. The warrant will expire in five years, has a strike price of \$0.40, and was vested upon grant. The warrant was valued at \$6,901 and recorded as a debt discount to the note.

On September 30, 2013, the Company's board of directors approved the issuance of warrants to James Crawford, Nathaniel Bradley, Sean Bradley and Ted O'Donnell to purchase up to 95,394, 103,128, 67,033, and 28,360, respectively, shares of the Company's common stock in consideration for the release of an aggregate of \$71,250 due to the issues. The warrants have an issuance date of September 30, 2013, expire on September 30, 2016, have a strike price of \$0.39 per share, and were vested upon grant. The warrants to purchase up to 293,915 an aggregate of shares of common stock were valued at \$71,250, which is the same amount as the related party payables forgiven.

On November 16, 2013, the Company issued 1,300,000 warrants which vest immediately and have an exercise price of \$0.01 and expire on December 13, 2018. The warrants were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 5 years, expected volatility of 100%, risk free interest rate of 1.68%, and expected dividend yield of 0%. The value on the grant date of the options was \$331,287 and the expense for December 31, 2013 and 2012 was determined to be \$331,286 and \$0. As of December 31, 2013, no options have been exercised from this tranche of options.

On December 24, 2013, the Company sold 10,088,336 units as a part of a private placement to a group of accredited investors, with each unit consisting of one share of the Company's common stock and a three-year warrant to purchase one share of the Company's common stock. The warrants included in the units have an exercise price of \$0.40 per share. The purchase price of each unit was \$0.30. As of December 24, 2013, 10,088,336 shares of the Company's common stock and warrants to purchase up to a total of 10,888,336 shares of the Company's common stock were to be issued in connection with the Private Placement. The Company received net cash of \$2,750,092 from the sale of units.

During the year ended December 31, 2013, a related party converted \$199,000 of related party loan and \$25,000 accrued salary 746,667 of the Company common stock along with warrant to purchase 746,677 shares of the Company's common stock. The warrant shall vest immediately with a strike price of \$0.4 and expire in 2018.

On January 27, 2014, the Company issued 250,000 warrants which vest immediately and have an exercise price of \$0.40 and expire on January 27, 2019. The warrants were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.5 years, expected volatility of 100%, risk free interest rate of 1.61%, and expected dividend yield of 0%. The value on the grant date of the warrants was \$44,370 and the expense for December 31, 2014 and 2013 was determined to be \$44,370 and \$0. As of December 31, 2014, no warrants have been exercised from this tranche of warrants.

On January 30, 2014, the Company sold 666,667 units as a part of a private placement to a group of accredited investors, with each unit consisting of one share of the Company's common stock and a three-year warrant to purchase one share of the Company's common stock. The warrants included in the units have an exercise price of \$0.40 per share and a value upon grant of \$113,228. Additionally, 53,334 placement warrants with a value of \$9,058 were granted. The Company received net cash of \$181,537 from the sale of units.

On February 3, 2014, the Company's board of directors approved the issuance of a warrant to a third party to purchase up to 44,307 shares of the Company's common stock in settlement of accounts payable. The warrant expires on February 3, 2019, has a

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strike price of \$0.40 per share, and was vested upon grant. The warrant was valued at \$8,186. The same amount of shares were granted as shares received for the accounts payable forgiven.

On March 24, 2014, the Company issued 1,000,000 warrants and have an exercise price of \$0.40 and expire on March 24, 2019. For every \$10 of sales generated or referred 1 warrant will be issued. As of December 31, 2014, the Company estimates that 100,000 warrants will be issued. The warrants were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.5 years, expected volatility of 100%, risk free interest rate of 1.76%, and expected dividend yield of 0%. The value on the grant date of the warrants was \$321,746 and the expense for December 31, 2014 and 2013 was determined to be \$0. During 2014, the Company did not generate any sales from the warrant recipient. As of December 31, 2013, no warrants have been exercised from this tranche of warrants.

On June 30, 2014, the Company sold an aggregate of 2,766,667 units to three accredited investors for gross proceeds of \$830,000 in the Third Private Placement. The units in the Third Private Placement consisted of 2,766,667 shares of the Company's common stock and warrants to purchase an additional 2,766,667 shares of the Company's common stock, as well as 168,000 placement agent warrants. The warrants in the Third Private Placement have a term of five years, an exercise price of \$0.40 per share and a fair value determined to be \$503,884. The fair value of the placement agent warrants was determined to be \$26,964.

On June 30, 2014, the Company issued five-year fully-vested warrants to purchase 100,000 shares of common stock with an exercise price of \$0.35 per share for payment for services. The fair value on the grant date of the warrants was \$13,202 and was expensed during the year ended December 31, 2014. As of June 30, 2014, these warrants have not been exercised.

On July 17, 2014, the Company issued five-year warrants to purchase 25,000 shares of common stock that vest over twelve months and have an exercise price of \$0.85 per share for payment for services. The value on the grant date of the warrants was \$12,426 and the expense for December 31, 2014 and 2013 was determined to be \$5,617 and \$0.

In July 2014, the Company offered holders of a series of its warrants, including the warrants issued in the Second Private Placement and the Third Private Placement, the opportunity to exercise their warrants for a 10% discount to the stated exercise price in exchange for their agreement to exercise their warrants in full and for cash on or before July 31, 2014. Under the warrant exercise offer, in July 2014 the Company issued 10,027,002 shares of common stock pursuant to exercise of warrants for total proceeds of \$3,632,801.

On August 25, 2014, the Company issued 500,000 warrants and have an exercise price of \$0.65 and expire on August 25, 2019. For every \$10 of sales generated or referred 1 warrant will be issued. As of December 31, 2014, the Company estimates that 100,000 warrants will be issued. The warrants were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3 years, expected volatility of 100%, risk free interest rate of 1.63%, and expected dividend yield of 0%. The value on the grant date of the warrants was \$198,374 and the expense for

December 31, 2014 and 2013 was determined to be \$0. During 2014, the Company did not generate any sales from the warrant recipient. As of December 31, 2013, no warrants have been exercised from this tranche of warrants.

On August 27, 2014, the Company issued three-year fully vested warrants to purchase 15,000 shares of common stock with an exercise price of \$0.65 per share for payment for services. The warrants were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.5 years, expected volatility of 100%, risk free interest rate of 1.63%, and expected dividend yield of 0%. The value on the grant date of the warrants was \$5,531 and the expense for December 31, 2014 and 2013 was determined to be \$5,531 and \$0.

On August 29, 2014, the Company issued three-year fully vested warrants to purchase 53,036 shares of common stock with an exercise price of \$0.70 per share for the settlement of accrued payroll of \$21,514. The fair value on the grant date of the warrants was \$21,514.

On September 5, 2014, the Company issued five-year warrants to purchase 500,000 shares of common stock that vest over three years and have an exercise price of \$0.79 per share for payment for services. The warrants were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 3.26 years, expected volatility of 100%, risk free interest rate of 1.63%, and expected dividend yield of 0%. The fair value on the grant date of the warrants was \$253,999 and the expense for December 31, 2014 and 2013 was determined to be \$54,279 and \$0.

On September 17, 2014, the Company issued 223,881 warrants and have an exercise price of \$0.67 and expire on September 17, 2019. For every \$10 of sales generated or referred 1 warrant will be issued. As of December 31, 2014, the Company estimates that 223,881 warrants will be issued. The warrants were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.5 years, expected volatility of 100%, risk free interest rate of 1.76%, and expected dividend yield of 0%. The value on the grant date of the warrants was \$37,120. During 2014, the Company did not generate any sales from the warrant recipient. As of December 31, 2014, no warrants have been exercised from this tranche of warrants.

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On September 30, 2014, the Company sold an aggregate of 700,000 units to two accredited investors for gross proceeds of \$350,000 in the Fourth Private Placement. The units in the Fourth Private Placement consisted of 700,000 shares of the Company's common stock and warrants to purchase an additional 175,000 shares of the Company's common stock. The warrants in the Third Private Placement have a term of five years, an exercise price of \$0.60 per share and a fair value determined to be \$47,260.

On December 31, 2014, the Company sold an aggregate of 6,687,500 units to ten accredited investors for gross proceeds of \$2,675,000, net of fees of \$123,000 for \$2,552,000 net proceeds in the Fifth Private Placement. The units in the Fifth Private Placement consisted of 6,687,500 shares of the Company's common stock and warrants to purchase an additional 2,507,813 shares of the Company's common stock, as well as 307,500 placement agent warrants. The warrants in the Fifth Private Placement and placement warrants have a term of five years, an exercise price of \$0.60 per share and a fair value determined to be \$519,507 and \$63,700 respectively.

On December 31, 2014, the Company issued 150,000 warrants which vest 50% immediately and 25% every six months thereafter and have an exercise price of \$0.50 and expire on December 31, 2019. The warrants were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 2.75 years, expected volatility of 100%, risk free interest rate of 1.76%, and expected dividend yield of 0%. The value on the grant date of the warrants was \$993 and the expense for December 31, 2014 and 2013 was determined to be \$331 and \$0. As of December 31, 2014, no warrants have been exercised from this tranche of warrants.

Below is a table summarizing the Company's outstanding warrants as of December 31, 2013 and December 31, 2014:

	Number of Shares	Wtd Avg. Exercise Price	Wtd Avg. Remaining Term	Intrinsic Value
Outstanding at December 31, 2012	—	—	—	—
Granted	18,770,591	.35	4.62	\$ 416,000
Outstanding at December 31, 2013	18,770,591	0.35	4.62	\$ 416,000
Granted	9,506,205	0.51		
Exercised	11,748,807	0.36		
Outstanding at December 31, 2014	16,527,989	0.46	3.69	\$ 309,821

The warrants were valued using the Black-Scholes pricing model. Significant assumptions used in the valuation include expected term of 1.5 to 5.0 years, expected volatility of 100% to 250%, risk free interest rate of 0.39% to 1.83%, and expected dividend yield of 0%.

For the years ended December 31, 2014 and 2013, the Company has incurred warrants based expense of \$131,517 and \$430,138.

NOTE 13: PERFORMANCE SHARE UNITS

On August 7, 2013, the Company entered into Performance Share Unit Agreements under the AudioEye, Inc. 2012 Incentive Compensation Plan with Nathaniel Bradley, Sean Bradley and James Crawford:

- **Nathaniel Bradley.** Mr. Bradley was granted an award of up to an aggregate of 200,000 Performance Share Units ("PSUs"), subject to increase of up to a total of 400,000 PSUs over a three-year period. Each PSU represents the right to receive one share of the Company's common stock. The number of PSUs for a performance period will be determined by the level of achievement of performance goals in accordance with the terms and provisions of the Performance Share Unit Agreement.
- **Sean Bradley.** Mr. Bradley was granted an award of up to an aggregate of 200,000 PSUs, subject to increase of up to a total of 300,000 PSUs over a three-year period. Each PSU represents the right to receive one share of the Company's common stock. The number of PSUs for a performance

period will be determined by the level of achievement of performance goals in accordance with the terms and provisions of the Performance Share Unit Agreement.

James Crawford. Mr. Crawford was granted an award of up to an aggregate of 200,000 PSUs, subject to increase of up to a total of 300,000 PSUs over a three-year period. Each PSU represents the right to receive one share of the Company's

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common stock. The number of PSUs for a performance period will be determined by the level of achievement of performance goals in accordance with the terms and provisions of the Performance Share Unit Agreement.

The Company estimates that 100% of the PSUs or 1,000,000 incentive shares will be issued. The closing stock price on the date of the agreements on August 7, 2013 was \$0.45. Total PSUs expense of \$450,000 will be amortized over the performance period from grant through March 31, 2016.

On January 27, 2014, the Company granted Paul Arena up to an aggregate of 3,000,000 PSUs over a three-year period. Each PSU represents the right to receive one share of the Company's common stock. The number of PSUs for a performance period will be determined by the level of achievement of performance goals in accordance with the terms and provisions of the Performance Share Unit Agreement. The Company estimates that 100% of the PSUs or 3,000,000 incentive shares will be issued. The closing stock price on the date of the agreements on January 27, 2014 was \$0.33. On March 5, 2015, the Company and Mr. Arena entered into a Separation and Release Agreement. Included in that Agreement was the issuance of 500,000 restricted common shares in lieu of the 3,000,000 PSUs.

On September 5, 2014, the Company granted to other employees up to an aggregate of 400,000 PSUs over a one-year period. Each PSU represents the right to receive one share of the Company's common stock. The number of PSUs for a performance period will be determined by the level of achievement of performance goals in accordance with the terms and provisions of the Performance Share Unit Agreement. The Company estimates that 100% of the PSUs or 400,000 incentive shares will be issued. The closing stock price on the date of the agreements on September 30, 2014 was \$0.78. Total PSUs expense of \$312,000 was amortized in 2014.

On September 30, 2014, the Company granted to other employees up to an aggregate of 100,000 PSUs over a one-year period. Each PSU represents the right to receive one share of the Company's common stock. The number of PSUs for a performance period will be determined by the level of achievement of performance goals in accordance with the terms and provisions of the Performance Share Unit Agreement. The Company estimates that 100% of the PSUs or 100,000 incentive shares will be issued. The closing stock price on the date of the agreements on September 5, 2014 was \$0.50. Total PSUs expense of \$50,000 was amortized in 2014.

For the years ended December 31, 2014 and 2013, the Company has incurred performance share unit based expense of \$266,500 and \$112,603, respectively, and has additional expense to be amortized of \$432,897 and \$337,397, respectively, through the first quarter of 2017.

NOTE 14: MERGER OF AUDIOEYE, INC. AND AUDIOEYE ACQUISITION CORPORATION

On March 22, 2013, the Company and AEAC entered into the Merger Agreement. Pursuant to the Merger Agreement, each share of AEAC common stock issued and outstanding immediately prior to the Merger effective date would be converted into .94134 share of the Company's common stock and the outstanding convertible debentures of AEAC (the "AEAC Debentures") in the aggregate principal amount of \$1,400,200, together with accrued interest thereon of \$67,732, would be assumed by the Company and then exchanged for convertible debentures of the Company (the "AE Debentures"). Effective March 25, 2013, the Merger was completed. In connection with the Merger, the stockholders of AEAC received on a pro rata basis the 24,004,143 shares of the Company's common stock that were held by AEAC, and the former holders of the AEAC Debentures received an aggregate of 5,871,752 shares of the Company's common stock pursuant to their conversion of all of the AE Debentures issued to replace the AEAC Debentures.

As a result of the merger, AEAC is now a wholly owned subsidiary of AudioEye, Inc. This transaction was accounted for as a combination of entities under common control under ASC 805-10-15. Accordingly, the historical financial statements have been adjusted retroactively assuming the transaction occurred on January 1, 2012. The Company recorded the following net assets after elimination of intercompany receivables and payables between AudioEye, Inc.:

Assets	
Cash	\$ 4,593
Intangible Assets	3,551,814
Goodwill	700,528
Total Assets	<u>\$ 4,256,935</u>
Liabilities	
Accounts payable and accrued expenses	<u>\$ 117,162</u>
Net Assets	<u>\$ 4,139,773</u>

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NOTE 15: CONCENTRATIONS

During the year ended December 31, 2014, the Company had two customers that each comprised approximately 77% and 10% of total revenues, respectively. During the year ended December 31, 2013, the Company had two customers that each comprised approximately 71% and 10% of total revenues, respectively.

NOTE 16: SUBSEQUENT EVENTS

On January 5, 2015, the Company issued 37,500 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.43, and expire on January 5, 2020.

On January 9, 2015, the Company issued 100,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.40, and expire on January 9, 2020.

On January 15, 2015, the Company sold an additional 812,500 units under the December 2014 Private Placement to one institutional investor for gross proceeds of \$325,000 with no commission payable. Each unit in the December 2014 Private Placement consisted of one share of the Company's common stock and warrants to purchase $\frac{1}{4}$ of a share for every common share purchased. The warrants have a term of five years and an exercise price of \$0.60 per share.

On January 29, 2015, the Company granted three-year warrants to purchase up to 150,000 shares of common stock at an exercise price of \$0.40 per share.

On February 2, 2015, the Company issued 17,500 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.59, and expire on February 2, 2020.

On February 23, 2015, the Company issued 35,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.50, and expire on February 23, 2020.

On March 5, 2015, Paul Arena resigned as Chairman of the Board of Directors and Executive Chairman and was designated by AIM Group, Inc. as a consultant to the Company for the term of one year. The consulting agreement includes a fee of \$425,000, which is offset by prior payments of \$158,000 for a net amount of \$267,000. In a separation agreement executed on March 5, 2015, the Company agreed to pay COBRA for Mr. Arena for a period of eighteen months. Mr. Arena also agreed to assume all obligations under an existing apartment lease in New York City under the remainder of the lease term and return \$48,000 security deposit paid by the company, \$6,250 or half of the final month's rent of \$12,500 and receive a 1099 not to exceed \$20,000 representing the fair value of furniture in the apartment. In regard to the option agreement of 1,500,000 warrants dated January 27, 2014, the Company and Mr. Arena agree the 500,000 warrants are vested, 500,000 are subject to mutually agreed upon provisions and 500,000 warrants are forfeited. On March 5, 2015, the Company and Mr. Arena agree to the issuance of 500,000 restricted common shares in lieu of an issuances related to the January 27, 2014 issuance of 3,000,000 PSUs. The agreement calls for the immediate release for 250,000 common shares, or 50% and up to 250,000 common shares or 50% be held in escrow until April 1, 2016 or until the Company's 2015 audited financials are final. The restricted common stock shall be subject to a Lock-up/Leak-out agreement.

On March 5, 2015, the Company issued 150,000 options, which vest 33.33% immediately and 16.66% every 90 days thereafter, have an exercise price of \$0.40, and expire on March 5, 2018.

On March 6, 2015, Dr. Carr Bettis was appointed Chairman of the Board of Directors and Executive Chairman.

On March 12, 2015, the Company issued 1,981,550 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.44, and expire on March 12, 2020.

On March 16, 2015, the Company issued 47,000 options, which vest 50% after one year and 2.01% every month thereafter, have an exercise price of \$0.47, and expire on March 16, 2020.

On March 29, 2015, Edward O'Donnell resigned from his position as the Company's Chief Financial Officer.

Effective March 29, 2015, the Company appointed Donald Weinstein as Chief Financial Officer, who will fulfill the role pursuant to an Interim Services Agreement as of March 29, 2015 between the Company and Randstad Professionals US, LP, d/b/a Tatum ("Tatum") (the "Services Agreement"). The Services Agreement may be terminated by either party at any time for any reason upon notice to the other party; provided, however, the parties will endeavor to provide as much notice as possible prior to termination (preferably two business weeks). Under the Services Agreement, the Company will pay Tatum a fee of \$250 per hour for Mr. Weinstein's services.

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Effective April 24, 2015, Nathaniel Bradley resigned as Chief Executive Officer and President of the Company. Effective with his resignation as Chief Executive Officer and President, the Company's board of directors appointed Mr. Bradley to serve as Founder and Chief Innovation Officer as well as Treasurer of the Company. Effective May 1, 2015, Mr. Bradley agreed to reduce his annual base salary to \$125,000.

Effective April 24, 2015, the Company's board of directors appointed Sean Bradley to serve as President of the Company as well as continuing as Chief Technology Officer and Secretary. Effective May 1, 2015, Mr. Bradley agreed to reduce his annual base salary to \$150,000.

Effective April 24, 2015, James Crawford resigned as Chief Operating Officer and Treasurer of the Company.

Also on April 24, 2015, the Company and Crawdad, LLC. ("Crawdad"), a limited liability company wholly owned by Mr. Crawford, entered into a Consulting Agreement pursuant to which Crawdad, through Mr. Crawford, is to provide certain consulting services to the Company for a period of 12 months for a consulting fee of \$5,000 per month.

Commencing on May 1, 2015, the Company sold an aggregate of 175,000 shares of Series A Convertible Preferred Stock (the "Preferred Stock") to 12 accredited investors at a purchase price of \$10.00 per share (the "Purchase Price") for proceeds of \$1,750,000 in a private placement. Each share of the Preferred Stock may be converted into shares of common stock of the Company by dividing the Purchase Price plus any accumulated dividends with respect to such share by an initial conversion price of \$0.1754 (subject to adjustment for stock splits, stock dividends and similar actions). The Company may

redeem the Preferred Stock at any time for an amount equal to \$12.50 plus accumulated dividends. The Preferred Stock will bear a dividend of 5% of the purchase price when, as and if declared by the Board of Directors of the Company.

On May 18, 2015, the Company filed amended quarterly reports on Form 10-Q for the periods ended March 31, June 30 and September 31, 2014 to reflect the restatement of the Company's financial statements for the restated periods and the change in management's conclusion regarding the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting.

On June 2, 2015, the Company issued 150,000 options, which vest 33.33% immediately and 16.66% every 3 months thereafter, have an exercise price of \$0.1625, and expire on June 2, 2018.

On June 2, 2015, the Company granted 1,250,000 shares of common stock and five-year warrants to purchase up to 2,000,000 shares of common stock at an exercise price of \$0.16 per share.

On June 2, 2015, the Company granted 800,000 shares of common stock and five-year warrants to purchase up to 1,000,000 shares of common stock at an exercise price of \$0.16 per share.

On June 15, 2015, the Company issued 500,000 options, which vest 50% immediately, 25% after one year and 1.04% every month thereafter, have an exercise price of \$0.15, and expire on June 15, 2020.

On July 1, 2015, the Company entered into an Executive Employment Agreement with Carr Bettis pursuant to which Dr. Bettis was employed as our Executive Chairman/Chairman of the Board. The term of the Executive Employment Agreement is one year commencing July 1, 2015, terminable at will by either us or Dr. Bettis and subject to extension upon mutual agreement. He is to receive a base annual salary of \$175,000 during the employment period, paid at the end of every calendar quarter in the form of options to purchase shares of our common stock. The number of options to be issued for each quarterly period will be determined by means of a Black Scholes valuation whereby the number of options issued would have a value at the time of issuance equal to the dollar value of Dr. Bettis' base salary for each calendar quarter. He is entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Dr. Bettis is also entitled to equity awards under our incentive compensation plans.

In addition, during the six months ended June 30, 2015, the Company issued 532,960 common shares for services under consulting and referral agreements and 109,855 common shares in connection with a warrant exercise for total proceeds of \$43,942.

Subsidiaries

Name	Jurisdiction of Organization
Empire Technologies, LLC (1)	Arizona

(1) 100% owned

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Carr Bettis, Principal Executive Officer of AudioEye, Inc. (the "Registrant"), certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2014 of AudioEye, Inc. (the "Annual Report");
2. Based on my knowledge, this Annual 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 Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual 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 Annual Report;
4. The Registrant's other certifying officer 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 my supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this Annual Report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my 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 Annual Report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual 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 and I have disclosed, based on my 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: July 10, 2015

By: /s/ Carr Bettis

Name: Carr Bettis

Title: Principal Executive Officer

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Donald Weinstein, Chief Financial Officer of AudioEye, Inc. (the "Registrant"), certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2014 of AudioEye, Inc. (the "Annual Report");
2. Based on my knowledge, this Annual 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 Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual 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 Annual Report;
4. The Registrant's other certifying officer 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 my supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this Annual Report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my 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 Annual Report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual 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 and I have disclosed, based on my 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: July 10, 2015

By: /s/ Donald Weinstein
Name: Donald Weinstein
Title: Chief Financial Officer

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing by AudioEye, Inc. (the "Registrant") of its Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the "Annual Report") with the Securities and Exchange Commission, I, Carr Bettis, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Annual Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Date: July 10, 2015

By: /s/ Carr Bettis
Name: Carr Bettis
Title: Principal Executive Officer

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing by AudioEye, Inc. (the "Registrant") of its Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the "Annual Report") with the Securities and Exchange Commission, I, Donald Weinstein, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

(ii) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Date: July 10, 2015

By: /s/ Donald Weinstein
Name: Donald Weinstein
Title: Chief Financial Officer
