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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

☐ **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	**20-2939845**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5210 E. Williams Circle, Suite 750, Tucson, Arizona	**85711**
(Address of principal executive offices)	(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 x

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, 2015 was $8,756,678.

As of March 30, 2016, 81,717,154 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 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,” “AudioEye” the “Firm” the “Company” and similar references refer to AudioEye, Inc.

Overview

AudioEye is a marketplace leader providing web accessibility solutions for our clients’ customers through our **Ally Platform Products.** Our technology advances accessibility with patented technology solutions that reduce barriers, expand access for individuals with disabilities, and enhance the user experience for a broader audience of users. 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 help organizations comply with internationally accepted Web Content Accessibility Guidelines (WCAG) as well as US, Canadian, Australian, and United Kingdom accessibility laws.

We generate revenues through the sale of subscriptions of our software as a service (SaaS) technology platform, called the AudioEye Ally Platform, to website owners, publishers, developers, and operators and through the delivery of managed services combined with the implementation of the AudioEye solution. Our solutions have been adopted by some of the largest and most influential companies in the world. Our customers span disparate industries and target market verticals, which encompass (but are not limited to) the following categories: human resources, finance, transportation, media, and education. Government agencies have also integrated our software in their digital platforms.

Industry Background

Millions of Internet users suffer disabilities that prevent them from accessing and using information on an equivalent basis. If not coded properly, a website may not offer full functionality for all users, in particular for users of assistive technology (AT), such as a screen reader. As a result, they may exclude potential customers. These sites also may not comply with U.S. and foreign laws addressing equal access and digital inclusion.

Traditional solutions addressing web accessibility may be costly and difficult to implement. Historically, the process for achieving compliance has been driven by costly consulting services and has not fully utilized emerging technologies to reduce the compliance cost burden. At the same time, web accessibility efforts have generally focused on a limited number of disability use cases, leaving many users’ accessibility needs for digital inclusion unaddressed. Businesses may have been reluctant to invest further in web accessibility solutions due to a perceived lack of commercial return on the significant investment required in order to design and implement a thorough and usable compliance solution.

Conventional solutions have been developed to help users access websites, but these systems often require software to be installed on the user’s computer. Many of these solutions are tailored to single or a limited number of use cases and do not encompass multiple tool sets for addressing a wider range of use cases. In some cases, 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 and standards.

The AudioEye Solution

AudioEye uses proprietary technology and development tools to offer web accessibility solutions that offer significant savings in time and money relative to traditional solutions. Our compliance solutions focus on rapid remediation of the most important accessibility issues, followed by in-depth analysis identifying and addressing a more comprehensive compliance program. 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.

Remediation

By deploying AudioEye remediation technology to fix common and high-impact issues, AudioEye is able to improve the usability of our client sites on the first day that they implement our solution into their site. Over a period that we believe averages approximately 90 days, with actual time dependent on the complexity of the client's web site and other client-specific factors, our proprietary Developer Tools empower AudioEye engineers to run in-depth analysis to fully understand and manually fix issues. 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. These tools, combined with managed services that include AT testing and support services, provide transparency for our clients affording product owners to better understand accessibility and usability issues as they look to fix issues at the source. Ultimately, we hope our clients learn to develop with web accessibility in mind. Each month, AudioEye fixes millions of website problems for its clients; these site improvements help prevent usability issues and may enhance the user experience for site visitors – in particular, those customers accessing websites through the use of assistive technology such as those provided by Microsoft, Apple, Google, and others.

Business-Driven Accessibility

In addition to our compliance solutions, AudioEye offers business-driven, cloud-based tools that enable our clients to provide a more accessible, usable, and customizable experience to their customers. Fixing digital experiences for end users leveraging their own assistive technology is just one focus for meeting the needs of our targeted end-users. In addition to AT users, a much larger demographic of users (many of whom do not self-identify - or report - themselves as having a disability or impairment) may benefit from the availability of free user-friendly tools that allow them to customize and optimize their digital experience. In short, we seek to enhance the user experience for all individuals who arrive at digital experience without having full access and the type of high-quality user experience they deserve. Our mission is not only one of inclusion but to also provide a superior user experience for anyone accessing our proprietary assistive tools.

Implementation

We offer solutions that enable our clients to enhance their brand by demonstrating a robust approach to web accessibility. When adopting our technology, clients implement the Ally+ Toolbar into their website. By embedding the AudioEye JavaScript, our clients can offer our *Ally+* patent-protected AT-in-the-Cloud solution that provides our clients' new and returning customers the opportunity to thoroughly engage and interact with client websites in a more meaningful and fully customizable way, regardless of their device type, language preference, or preferred method of access. From the toolbar, site visitors are provided with a Player utility that allows them to listen to the content of the website read aloud, a Reader utility that allows them to customize the visual display of the website, a Voice utility that allows them to command the browser using their voice, and a Certification statement that helps our client promote their commitment to accessibility and digital inclusion.

These tools offer benefits to a broad range of site visitors, in particular aging populations and individuals who have vision, hearing, motor and intellectual disabilities, including those who are color blind, dyslexic, learning to read, and looking to maintain focus, or multi-task.

AudioEye provides our customers with detailed remediation statistics and analytics that demonstrate utilization of the Ally+ solution. This provides our clients with prompt feedback into the different ways in which their site visitors are engaging with their optimized website and digital content. These regularly processed confidential reports detail the usage experience of each end-user customer and tracks the time and interests of the user across the Ally+ experience.

Intellectual Property

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. 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 and are actively engaged in the expansion of the AudioEye IP Portfolio.

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

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.

Our current 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. It involves the creation of 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, it 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 in line that of the original website. Users navigate the website menus and move from webpage to webpage by making keystrokes or using a mouse.

Our current portfolio has established a foundation for building unique technology solutions that contribute to the way in which we differentiate ourselves from other competitors in the B2B Web Accessibility marketplace. We plan to continue to invest in research and development, and expand our portfolio of proprietary intellectual property.

Business Plan and Strategy

Leveraging our own patented and patent pending Ally Platform product suite, we provide cloud-based, enterprise-grade technology solutions, as well as managed services to fully implement our solution and provision our clients' sites to conform with web accessibility best practices. Our technology and professional service offerings may be purchased through a subscription for either a one year or multi-year term. Functionally, the business is organized into Technology, Operations and Customer Support, Sales and Marketing, and Intellectual Property Development. Intellectual Property Development is tasked with the development of new leading edge intellectual property.

Through the sale of managed and self-service contracts, our business model is to sell Business to Business and to secure revenue from multiple business channels, including (but not limited to): corporate website owners, publishers, developers, and operators, federal, state and local governments, educational institutions and e-learning websites, and not-for-profit organizations.

In what Forrester has called the "age of the customer", we believe that, by adopting our solutions, our customers gain a competitive advantage by ensuring a superior digital experience for all of their customers, in particular for persons with diverse abilities. Some of the many leading advantages of our solution, include:

1. Maintaining a mission of inclusion and accessibility for the 5%-10% of the population with a disability or physical limitation who are denied full access to online digital content.
2. Increasing the client Return On Investment by improving market penetration, brand reputation and brand loyalty.
3. Ensuring conformance with WCAG 2.0 Level AA success criteria.
4. Deploying a cost effective and reliable solution that is scalable with rapid deployment and little to no project management.
5. Consistently providing an enhanced customer experience for our client customers by providing access to innovative and universally designed technology solutions.

Our primary objective is to establish and maintain a long standing relationship with our customers, as a trusted and relied upon provider of web accessibility technology and service. The key tenants of this strategy, include:

1. Continually innovating and strengthening the capabilities of our solution offering to attract new customers and entice existing customers to expand their level of service.
2. Providing industry-leading analytics and site analysis reports that demonstrate a clear Return on Investment.
3. Maintaining a consistent record of low customer attrition through ongoing subscription renewals.
4. Expanding customer adoption across different target market vertical and leveraging strong customer relationships to establish a significant portfolio of clients within each vertical.
5. Establishing a global client-base that demonstrates a clear and high level of value within the context of disparate international laws and regulations surrounding the issue of web accessibility and best practices.
6. Leveraging our board of directors and advisory board members to shorten sales cycles and to gain support and buy-in from C-level executives.
7. Investing in a long-term patent protection strategy to ensure industry leading technological innovations are protected.
8. Leading the dialogue and establishing our voice as technology leaders as it pertains to industry related topics, news, developments and events

Product Service Offerings

We offer a diversified portfolio of service offerings that are broken into three broad business categories: Subscription of our Web Accessibility Technology Platform and Managed Services.

Our Web Accessibility Technology Platform (The AudioEye Ally Platform), consists of the AudioEye Developer Portal and the Ally+ Product, which are offered as an Internet Cloud Software as a Service (SaaS) subscription service. AudioEye offers three (3) distinct Web Accessibility solution offerings: Developer Portal, AudioEye Ally+ Standard Package, and the AudioEye Ally+ Premium Package.

The AudioEye **Developer Portal** empowers web developers to improve their website using the most current, innovative, and industry-leading tools. Primarily, the Developer Portal is a self-service solution for clients who want to own the accessibility process from beginning to end and puts the power of accessibility issue tracking, auditing and remediation in the hands of developers to improve the usability and accessibility of their web infrastructure. Customers leveraging the Developer Portal have the option of embedding the AudioEye JavaScript into the front-end of their website, allowing them to not only get the benefits of auto-fixes that improve the usability and compliance level of their site, but it also allows them to manage the remediation process in a controlled environment that serves as an important resource for ongoing site auditing and issue tracking. At the same time, for organizations that are developing for accessibility, this robust site evaluation tool provides detailed information to help developers and designers fully understand the identified issues as well as the different WCAG 2.0 best-practices that may be implemented in order to improve their website through changes implemented at the source.

For organizations looking to offload the accessibility process, the **Ally+ Standard Package** allows AudioEye Accessibility Engineers and AT Usability Testers to do all the heavy lifting in order to achieve accessibility and compliance for our clients. This unique offering leverages a balance of system and engineer generated remediation techniques to programmatically fix website problems that inhibit full access to our client's electronic information technologies (EIT). By providing our customers with full access to the Developer Portal and working with them on a long term basis to provide automated and manual testing in order to fully understand the issues of accessibility and how to develop with web accessibility in mind, AudioEye is able to reduces the burden on IT resources, leaving only a limited work for finite client resources. In conjunction with the implementation of the AudioEye JavaScript, AudioEye makes available the option to publish the Ally+ Toolbar, which includes the Help Desk and Certification Statement. The Help Desk provides support for end users who have issues accessing content, while the Certification Statement outlines our client's commitment to providing an accessible and usable website experience for individuals with disabilities. As part of the Ally+ Service, AudioEye makes available detailed reporting that provide the client with the results of remediation efforts.

The AudioEye **Ally+ Premium Package** goes a significant step further. In addition to providing our clients with all the benefits that coincide with the Ally+ Standard Package, the Ally+ Premium solution expands the capabilities of the Ally+ Toolbar to include easy-to-use, cloud-based assistive tools that allow our clients to enhance the customer experience for those looking to customize the way in which they engage with the web browser. The *Ally+* patent-protected AT-in-the-Cloud solution provides our clients' site visitors with the opportunity to thoroughly engage and interact with our clients' websites in a more engaging and fully customizable way, regardless of their device type, language preference, or preferred method of access.

From the Ally+ Toolbar, users may engage the **Player** utility that mirrors the features and functions of traditional screen reader software, allowing the user to engage with the web environment by using their keyboard (instead of a mouse) and listening to content instead of reading. Further, the built-in **Reader** utility allows users to enlarge the viewport, increase font sizes, change color contrast, highlight text as it is being read aloud, reduce clutter and distracting content, simplify and normalize the user interface (including complex site menus) and other features intended to optimize the user experience for addressing specific use cases. Lastly, in 2016, AudioEye is releasing the first iteration of it's **Voice** utility, which allows site visitors to command the website user experience using basic and standardized verbal commands. The free assistive tools made available within websites enabled with the AudioEye solution have benefits for all site visitors, but, in particular, aging populations and individuals who have vision, hearing, motor and intellectual disabilities, including those who are color blind, dyslexic, learning to read, and looking to maintain focus, or multi-task. The AudioEye Ally+ Premium Package has a variable component that requires premium pricing. Customers adopting this service also receive quarterly reports detailing usage analytics.

As an additional revenue center, AudioEye provides **Managed Services** that support the SaaS Model infrastructure. When clients adopt the Developer Portal as a self-service tool, AudioEye markets and sells managed services that include the following: Product Support, Accessibility Training from accessibility engineers & subject matter experts, Manual Assistive Technology Usability Testing, and other ad hoc services such as Video Transcription & Captioning, Manual Document Remediation (PDFs, et al), Audio Description Authoring, Accessibility Help Desk, and more. These same services are also provided to those customers adopting the Ally+ Managed Service solution and go beyond the inherent managed services that coincide with the implementation of website remediation, the provision of the Ally+ Player, Reader, and Voice utilities, and, ultimately, the certification of our clients' web infrastructure.

Customers

Our potential customer base includes a broad range of private and public sector customers, in particular:

- Corporate Enterprise
- 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. The Company had two major customers including their affiliates which generated approximately 58% (56.3% and 1.7%) and 87% (77% and 10%) of its revenue in the fiscal years ended December 31, 2015 and 2014, respectively.

Corporate Enterprise

Our management believes that corporate enterprise is a large market for the Company's products and services. Management believes that the AudioEye Ally+ Premium product provides a business advantage for our clients by enabling them to better 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.

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*. Overall, there are over 6 million business (666,000 public and private employers) that must comply with ADA Laws (source: http://www.ada.gov/pubs/mythfct.txt)

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 visually 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 (source: http://www.microsoft.com/enable/research/phase2.aspx). 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 US was 12.1 percent (source: http://www.disabilitystatistics.org/reports/2012/English/HTML/report2012.cfm).

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 (source: Fifth Quadrant Analytics – The Global Economics of Disability Report - http://returnondisability.com/disability-market/). According to IBM, "approximately **420 million people worldwide are age 65 or older**, and this number is expected to increase dramatically over the next two decades. This market is likely to have significant disposable income and retirement investments. (Source: IBM and Banking: Reaching New Markets. Meeting Customer Needs. - https://www-03.ibm.com/able/dwnlds/BusinessAdvantBanking-ExecBrief-accessible.pdf)

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.

Seniors 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 (DOJ), the U.S. Access Board, and the Office of Civil Rights (OCR); The Company 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. The Company's certification seal demonstrates a website owner's commitment to meeting 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.

The AudioEye solution provides a unique approach to solving a pervasive issue that has inhibited government agencies from embracing efficiencies gained through adopting new cost-effective technological capabilities. More and more federal agencies are beginning to embrace cloud-based service offerings and leveraging the capabilities afforded through the adoption of third-party cloud-based service providers. In many cases, when deployed, a deep understanding of the level of adherence to accessibility is overlooked or, in other cases, lack of adherence to accessibility restricts the federal agency from, ultimately, implementing the 3rd party solution. This hindrance is problematic for agencies that are striving to move their organizations ahead and keeping pace with the many benefits that come with integrating enterprise-level software solutions. Implementing the AudioEye solution allows federal, state, and local governments to provide constituents with a reliable, scalable, and fully accessible web environment. By pairing the AudioEye Solution with other disparate SaaS offerings, organizations can more readily comply with ADA standards. Implementing AudioEye mitigates risk of non-conformance and goes beyond basic levels of compliance through the inclusion of free cloud-based assistive tools, which lives up to the spirit of ADA - a noble and necessary aspiration for all federal and state government agencies.

Our solutions are sold by our direct sales team and through strategic partnerships and resellers. 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 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.

Potential additional market segments of focus include, but not limited to:

- Finance & Banking Institutions
- Public & Private Transportation Companies
- Air Carriers (as a result of the Air Carrier Access Act – ACAA - recently updated by the United States Department of Transportation)
- Educational Institutions (as a results of frequent and recent settlement agreements involving and structured by the Department of Justice)
- Software as a Service SaaS Providers

Marketing and Sales

In addition to direct sales with industry specialization and geographical diversification, we use strategic business development referral partners, who maintain a long standing successful track record in securing introductions with C-level executives and key stakeholders that directly influence the buying decision of our technology and services. As a proven means of breaking down barriers to entry and shortening sales cycles, these strategic relationships contribute to the success of our sales operation. Conveying the Return on Investment of our technology to our prospective clients is critical as a differentiator in our space. Success in all these efforts is not only critical in order to meet our sales objectives, but they also raise market awareness of the Company's products and brand.

In addition, the Company attends selected accessibility and industry trade conferences, maintains memberships with key, industry-specific organizations, serves as subject matter experts within well-attended panels covering industry related topics, leverages paid SEO for those looking online to learn about or purchase accessibility products or services, and a variety of other conventional marketing and social marketing techniques.

Competition

Our management believes that the Company's 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 cloud-based tool 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 do not pair their solution with a full suite of assistive tools for end-users and is, therefore, limited in its 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 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. The Company's patent portfolio should also help preclude competitors from competing as it pertains to this specific category.

Competitive Strengths

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

- **Unique Combination of Technology and Specialized Managed Service**. Our management believes, unlike any other company in the marketplace, AudioEye has addressed the problem of Web Accessibility, holistically, and has uniquely positioned itself to provide a combination of leading edge technology and high-quality specialized managed service. Our one-of-a-kind, combined solution empowers our clients to ensure the highest level of access and usability across their digital infrastructure, while reducing burden on finite IT resources, which leads to cost-savings and reduced time-to-market. Our management believes that the AudioEye solution allows our customers to focus not only on achieving compliance, but also enables a tangible and non-trivial ROI – a true competitive advantage. This ROI is derived from opening up access to the 5%-10% of the population with a disability or physical limitation. This has allowed our clients to reach more customers, improve brand image, and build additional brand loyalty from their customers in a competitive manner.

- **Unique patented technology**. First and foremost, AudioEye builds all its products with the primary goal of enhancing the user experience, in everyway possible, regardless of the end-user's individual disability or physical limitation. AudioEye is a marketplace technology leader providing unparalleled Web Accessibility solutions for our clients' customers through our **Ally Platform Products.** 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. Our current portfolio has established a foundation for building unique technology solutions that contribute to the way in which we differentiate ourselves from other competitors in the B2B Web Accessibility marketplace. We are actively pursuing the expansion of this portfolio to include a broad range of pertinent and novel concepts that AudioEye has employed (or is in the process of employing) for our growing client list. In this continued pursuit of expanding the capabilities of our technology and meeting the demands of our customers, AudioEye is committed to growing its IP portfolio.

- **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 across the global marketplace.

Patent and Trademark Rights

We have a portfolio comprised of six approved 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.

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
9	14/055366	Pending	System and method for communicating audio files

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
- EQUAL ACCESS FOR ALL - U.S. Trademark Application Serial No. 86/413,196

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, Section 508 of the Rehabilitation Act, Section 504 of the Rehabilitation Act, the Twenty-First Century Communications and Video Accessibility Act of 2010 (CVAA), the Air Carrier Accessibility Act (ACAA), and various State Laws.

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 (ADA) was passed to ensure equal opportunity for people with disabilities. It applies to employment, transportation, state and local government services, and businesses that provide public accommodations or facilities.

Title II and Title III of the Americans with Disabilities Act (ADA) prevent discrimination on the basis of disability in services, programs, and activities provided by public entities (Title II) and private entities considered to be places of public accommodation (Title III). The Department of Justice (DOJ) issues regulations implementing those mandates, and is currently in the process of formulating rules regarding the accessibility of websites and mobile applications. The DOJ has divided its rulemaking into two efforts: the first will provide guidance to state and local entities to comply with Title II, and the second will establish rules for private entities to comply with Title III. The DOJ has delayed issuing those rulemakings several times; recent predictions suggest that the DOJ will issue the proposed rules in 2015. The DOJ has released abstract summaries for both rulemakings.

Learn more at www.ada.gov

Section 508 of the Rehabilitation Act Requires that federal agencies' electronic and information technology is accessible to people with disabilities, including employees and the public.

The US Government Access Board is expected to update the requirements to Section 508 compliance standards, commonly referred to as the "Section 508 Refresh," further formalizing the mandate to adhere to specific web accessibility best practices, namely those outlined under the Web Content Accessibility Guidelines (WCAG), the international standards for web accessibility. Already, a growing number of legal mandates and recent settlements point to the WCAG 2.0 standards as well as making it a requirement to hire third-party Accessibility Subject Matter Experts to maintain an accessibility audit and provide certification – sources range from the Department of Justice (DOJ), the U.S. Access Board, and the Office of Civil Rights (OCR)

For more information visit www.section508.gov

Section 504 of the Rehabilitation Act entitles individuals with disabilities to equal access to any program or activity that receives federal subsidy – this includes Web-based communications for educational institutions and government agencies.

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.

Per the Department of Transportation, The Air Carrier Access Act (ACAA, 49 U.S.C. 41705) prohibits discrimination by U.S. and foreign air carriers on the basis of physical or mental disability. The Department of Transportation, in interpreting and implementing the ACAA, has issued a rule setting forth the standards of service which air carriers are expected to provide to disabled individuals.

Beyond the federal level, many states have enacted accessibility laws and, going further, internationally, over 100 Governments have signed and ratified the UN Convention on the Rights of Persons with Disabilities.

Given the many government regulations in place and/or in process, actions must be taken in order for businesses to comply with best practices and international standards. This presents a significant business opportunity as more pressure is being put on businesses and organizations to improve the accessibility of their web environments. In addition, from a risk mitigation standpoint, it is best if they consistently and reliably track and demonstrate their level of conformance to these internationally recognized standards over time, the Web Content Accessibility Guidelines (WCAG) 2.0).

Employees

As of December 31, 2015, we had 22 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.

Reports to Security Holders

We are not required to deliver an annual report to our stockholders, but will voluntarily send our annual audited financial statements upon request. We are required to file annual, quarterly and current reports 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

The report of our independent registered public accounting firm expresses substantial doubt about the Company's ability to continue as a going concern.

Our auditors, MaloneBailey LLP, have indicated in their report on the Company's financial statements for the fiscal year ended December 31, 2015 that conditions exist that raise substantial doubt about our ability to continue as a going concern due to our recurring losses from operations. A "going concern" opinion could impair our ability to finance our operations through the sale of equity, incurring debt, or other financing alternatives.

As of December 31, 2015, the Company had working capital of $913,741 but the Company used net cash in operations of $5,474,454 during the twelve months ended December 31, 2015. Even with a greater focus on cash revenue generation and the ongoing cost reductions, the conditions described in the first paragraph, above, raise substantial doubt about the Company's ability to continue as a going concern. While the Company has been successful in raising capital in the past, there is no assurance that it will be successful at raising additional capital in the future. Additionally, if the Company's plans are not achieved and/or if significant unanticipated events occur, the Company may have to further modify its business plan.

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 $7,209,145 for the year ended December 31, 2015. As of December 31, 2015, we have an accumulated deficit of $24,239,431 and working capital of $913,741. 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, 2015, our cash available was $1,687,257. Our business plan will require additional capital expenditures, and our capital outlays could increase substantially over the next several years as we implement our business plan. As a result, and since we do not believe we will operate profitably during that period, 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 personnel cost, cost of litigation in enforcing our patents, and information technology (IT) development and acquisition costs. No assurance can be given that we can successfully raise additional equity or debt capital, or that such financing will be available to us on favorable terms, if at all.

We are subject to ongoing Litigation

In April 2015, two shareholder class action lawsuits were filed against us and our former 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 appointed a lead plaintiff and lead counsel. We have responded to the complaints and also filed a motion to dismiss. 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. As of December 31, 2015, we have paid the deductible pursuant to the D&O insurance policy, in the amount of $100,000 regarding this matter.

We may become involved in various other 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 any such matters, should they arise, is not likely to have a material adverse effect on our financial position or results of operations.

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.

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

Current macroeconomic conditions continue to show signs of volatility and potential weakness. We believe commercial purchasing habits and corporate information technology budgets have improved modestly in recent years, but remain relatively constrained and subject to such volatile and uncertain economic conditions. Any deterioration in prevailing economic conditions would likely 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 costlier. 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. The departure of key persons could be detrimental to our future success. Members of our current management hold a significant percentage of our common stock. We cannot assure you that our management will remain in place. We do not maintain "key person" life insurance policies. 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 pursue new 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 other strategic partners to help us pursue our strategic, marketing, sales or technical objectives. Although we may devote significant time and resources in pursuit of such transactions, we may struggle to successfully identify such opportunities, or to successfully conclude transactions with potential strategic partners. Should we be unable to identify or conclude important strategic transactions, our business prospects and operations could be adversely affected as a result of the devotion of significant managerial effort required, and the challenges of achieving our objectives in the absence of strategic partners. 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. We expect the number of third parties to grow in number who could violate our patents as the market develops new uses of similar products and consumers begin to increase their adoption of the technology and integrate it into their daily lives. We do 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 that any such potential lawsuits will result in a final outcome that is favorable to our shareholders or the company.

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 become more intense. We compete directly against other companies offering similar products and services that will compete directly with our proposed products and services. We also 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. There are also established consultants who offer services to help their customers obtain compliance with accessibilities standards. In many cases these consultants compete for the same funding from our prospective customers. 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 or different product offerings.

These competitors may 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.

As pressure of legal ramifications from non-compliance with Web Accessibility increases, clients may be less inclined to permit or may delay AudioEye from promoting client relationships and/or the specifics associated with those relationships, and if this restricts our public communications with investors and shareholders, it may negatively impact our ability to gain interest in our business from investors and shareholders.

Due to an undefined regulatory environment and a heightened sensitivity by plaintiffs seeking retribution for inaccessible and unusable digital interfaces, any organization may be sued or served legal demands claiming non-compliance. As these demands may be served with or without merit, they present a new level of risk for website owners and publishers. In an effort to avoid any potential unwanted attention pertaining to the subject of compliance, AudioEye clients may enforce rigid stipulations pertaining to AudioEye's promotion of their involvement or engagement with AudioEye, regardless of the level of success or positive impact any such engagement may have or have had on their business. Whether through the enforcement of Non Disclosure Agreements or through specific non-disclosure language associated with client contracts, if AudioEye is not empowered to promptly make public announcements about its client base and the adoption of AudioEye products and services, it may have a deleterious effect on the company's capacity to accelerate its business growth or attract investment from shareholders.

Our business greatly depends on the growth of online services, streaming, file transfer 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 end-users 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 online services does not grow as anticipated, our business would be adversely affected.

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 the current state of accessibility for those with disabilities.;
- 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 and procurement processes.

We historically have been dependent on a concentrated number of customers, and have stopped doing business with the customers who have represented a significant portion of our revenues during the past two years as the Company migrates to a SaaS model.

For the years ended December 31, 2015 and 2014, two major customers generated approximately 67.5% and 87% of our revenue, respectively. We have mutually agreed to terminate our business relationship with the largest of these customers, representing 56.3% and 77% of our revenues in 2015 and 2014, respectively. We have fundamentally shifted our business model to focus on Software as a Service (SaaS) product offerings. We have not yet proven that we can develop and maintain a diversified customer base of customers who will subscribe to our SaaS – centric products and services. 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.

Our Expansion into New Products, Services, Technologies, and Geographic Regions Subjects Us to Additional Business, Legal, Financial, and Competitive Risks

We may have limited or no experience in our newer market segments, and our customers may not adopt our new offerings. These offerings may present new and difficult technology challenges, and we may be subject to claims if customers of these offerings experience service disruptions or failures or other quality issues. In addition, profitability, if any, in our newer activities may be lower than in our older activities, and we may not be successful enough in these newer activities to recoup our investments in them. If any of this were to occur, it could damage our reputation, limit our growth, and negatively affect our operating results.

We Face Risks Related to System Interruption and Lack of Redundancy

We experience occasional system interruptions and delays that make our websites and services unavailable or slow to respond and prevent us from efficiently providing services to third parties, which may reduce our net sales and the attractiveness of our products and services. If we are unable to continually add software and hardware, effectively upgrade our systems and network infrastructure, and take other steps to improve the efficiency of our systems, it could cause system interruptions or delays and adversely affect our operating results.

Our computer and communications systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, earthquakes, acts of war or terrorism, acts of God, computer viruses, physical or electronic break-ins, and similar events or disruptions. Any of these events could cause system interruption, delays, and loss of critical data, and could prevent us from providing services, which could make our product and service offerings less attractive and subject us to liability. Our systems are not fully redundant and our disaster recovery planning may not be sufficient. In addition, we may have inadequate insurance coverage to compensate for any related losses. Any of these events could damage our reputation and be expensive to remedy.

Government Regulation Is Evolving and Unfavorable Changes Could Harm Our Business

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet, e-commerce, electronic devices, and other services. Existing and future laws and regulations may impede our growth. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, mobile communications, electronic device certification, electronic waste, energy consumption, environmental regulation, electronic contracts and other communications, competition, consumer protection, web services, the provision of online payment services, information reporting requirements, unencumbered Internet access to our services, the design and operation of websites, the characteristics and quality of products and services, and the commercial operation of unmanned aircraft systems. It is not clear how existing laws governing issues such as property ownership, libel, and personal privacy apply to the Internet, e-commerce, digital content, and web services. Unfavorable regulations and laws could diminish the demand for our products and services and increase our cost of doing business.

We Could Be Subject to Additional Sales Tax or Other Indirect Tax Liabilities

U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales taxes with respect to remote sales. However, an increasing number of states have considered or adopted laws or administrative practices that attempt to impose obligations on out-of-state businesses to collect taxes on their behalf. A successful assertion by one or more states or foreign countries requiring us to collect taxes where we do not do so could result in substantial tax liabilities, including for past sales, as well as penalties and interest.

We May be Subject to Risks Related to Government Contracts and Related Procurement Regulations

Our contracts with U.S., as well as state, local, and foreign, government entities are subject to various procurement regulations and other requirements relating to their formation, administration, and performance. We may be subject to audits and investigations relating to our government contracts, and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contract, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, such contracts may provide for termination by the government at any time, without cause.

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 to, for technological, legal, financial or other reasons, 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.

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 product 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 do depend on these companies to maintain the operational integrity of our integrated 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;
- 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 convertible preferred and common stock in the foreseeable future. Accordingly, investors must rely the ability to convert preferred stock to common stock and 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 previously identified material weaknesses in our internal control over financial reporting, which resulted in a restatement of our previously issued quarterly financial statements during 2014. If our remedial measures were 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.

In 2015, we concluded that there were 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 transactions at the level of detail required to ensure the proper application of GAAP in certain circumstances. Errors in the application of the accounting principles and errors which impacted revenues recognition were 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 30, 2014 were 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.

The Company has taken steps to remediate the weaknesses described above. Multiple levels of supervision have been implemented and the firm has improved cross reconciliations of internal parties' actions and approvals. Singular levels of approval, supervision and processing have been eliminated. All contracts are thoroughly reviewed by management and at certain levels require Board approval. The firm no longer engages in non-monetary transactions related to Intellectual Property. All transactions are representative of cash contracts in the form of Subscription and Services Agreements. Revenue is recognized by following stringent guidelines which include the appropriate application of journal entries in sales, deferred revenue and accounts receivable in the General Ledger. Revenue is recognized as a portion of the contract term as services are delivered, and deferred revenue is recorded, only upon the receipt of cash. Timing and accounts affected by the respective journal entry are triggered when payment is received and applied to invoices in accounts receivable.

The remediation steps may be insufficient to prevent future restatements or delays in financial reporting. Restatements or delays in filing the requisite materials with the SEC could reoccur and may impact our ability to be allowed to trade on various trading platforms. Such limitation may impact the trading price of our shares.

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.

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 16, 2015, our common shares were quoted on the OTC Pink marketplace due to our inability to timely file certain documents with the SEC. We resumed trading on the OTCQB effective July 23, 2015.

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, if any;
- 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.

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.

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 15g-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 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 81,467,154 common shares were issued and outstanding as of December 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 December 31, 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 December 31, 2015 we had warrants and options to purchase an aggregate of 57,036,523 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, executive officers and other beneficial owners, currently beneficially own 63,913,903 common shares including warrants and options which is approximately 78.21% of our outstanding 81,717,154 common shares. The holdings of our directors, executive officers and other beneficial owners represent 46.1% on a fully diluted basis. Accordingly, through their collective ownership of our outstanding common stock, if they act together, 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 determine 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 750, Tucson, Arizona 85711, consisting of approximately 2,362 square feet as of December 31, 2015. The Company’s principal executive office is leased for an aggregate amount of $4,724 per month. We also have offices in Atlanta at 1855 Piedmont Road, Suite 200, Marietta, Georgia leased for an aggregate of $2,763 per month as of December 31, 2015. The Company’s total rent expense was approximately $314,485 and $302,230 under office leases for the years ended December 31, 2015 and 2014, respectively. During 2015, offices located in New York were sublet, resulting in a savings of $21,135 per month. We closed the office in Washington D.C., saving $1,280 per month and the Principal Executive office was relocated and downsized with a monthly reduction in rent of $7,146. Beginning November 1, 2015, we subleased an office from a company controlled by our Executive Chairman in Scottsdale, AZ for $500 per month.

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

In April 2015, two shareholder class action lawsuits were filed against us and our former 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 appointed a lead plaintiff and lead counsel. We have responded to the complaints and also filed a motion to dismiss. 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. As of December 31, 2015, we have paid the deductible pursuant to the D&O insurance policy, in the amount of $100,000 regarding this matter.

We may become involved in various other 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 any such matters, should they arise, is not likely to have a material adverse effect on our financial position or results of operations.

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 16, 2015, our common shares were quoted on the OTC Pink marketplace due to our inability to timely file certain documents with the SEC. We resumed trading on the OTCQB effective July 23, 2015.

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

	High	Low
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
Quarter ended June 30, 2015	$ 0.40	$ 0.14
Quarter ended September 30, 2015	$ 0.14	$ 0.04
Quarter ended December 31, 2015	$ 0.06	$ 0.03

As of December 31, 2015, we had approximately 242 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

In April 2015, the company issued 175,000 Series A preferred shares with cumulative 5% dividend rights payable when declared by the Board of Directors of the company.

Dividends to preferred shareholders take precedence over any dividends to common shareholders. 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 declared or paid any dividends to preferred or common 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.

Item 6. Selected Financial Data

Disclosure in response to this item is not required of a smaller reporting company.

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, 2015 and 2014 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, 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.

Overview

AudioEye is a marketplace leader providing web accessibility solutions for our clients’ customers through our **Ally Platform Products.** Our technology advances accessibility with patented technology solutions that reduce barriers, expand access for individuals with disabilities, and enhance the user experience for many users**.** 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 help organizations comply with internationally accepted Web Content Accessibility Guidelines (WCAG) as well as US, Canadian, Australian, and United Kingdom accessibility laws.

We generate revenues through the sale of subscriptions of our software as a service (SaaS) technology platform, called the AudioEye Ally Platform, to website owners, publishers, developers, and operators and through the delivery of managed services combined with the implementation of the AudioEye solution. Our solutions have been adopted by some of the largest and most influential companies in the world. Our customers span disparate industries and target market verticals, which encompass (but are not limited to) the following categories: human resources, finance, transportation, media, and education. Government agencies have also integrated our software in their digital platforms.

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”).

Results of Operations	Year Ended December 31, 2015	2014
Revenue	$ 338,863	$ 516,807
Revenue from related party	-	6,500
Total revenues	338,863	523,307
Cost of sales	1,224,652	1,197,936
Gross loss	(885,789)	(674,629)
Selling and marketing expenses	834,440	1,537,732
Research and development expenses	375,817	610,329
General and administrative expenses	4,683,702	6,455,327
Amortization and depreciation	534,220	416,009
Operating (loss)	(7,313,968)	(9,694,026)
Other Income (Expense)	3,814	-
Realized gain (loss) on marketable securities	-	-
Unrealized loss on investments	(10,200)	(10,200)
Unrealized gain (loss) on derivative liabilities	187,932	-
Loss on conversion of accounts receivable to marketable securities	-	(36,000)
Interest expense	(76,723)	(10,587)
Net (loss)	$ (7,209,145)	$ (9,750,813)
Deemed dividend on Series A Convertible preferred stock	(594,641)	-
Dividend on Series A Convertible preferred stock	(58,733)	-
Net loss attributable to common stockholders	$ (7,862,519)	$ (9,750,813)
Net (loss) per weighted average common	$ (0.10)	$ (0.16)

In 2015, our net loss decreased to $(7,209,145) from $(9,750,813) in 2014, primarily as a result of the following:

Revenue

For the years ended December 31, 2015 and 2014, revenue in the amount of $338,863 and $516,807, respectively, consisted primarily of various levels of core product sales, software development, website design and maintenance. Revenues decreased due to decreased demand for our services from our largest customer and as a result of fundamental change in the business model. The company has transitioned primarily to Software as a Service Provider (SaaS). Additionally, for the years ended December 31, 2015 and 2014, revenue from related party in the amount of $-0- and $6,500.00, respectively, consisted primarily of various levels of software development, website design and maintenance.

Cost of Sales

For the years ended December 31, 2015 and 2014, cost of sales in the amount of $1,224,652 and $1,197,936, respectively, consisted primarily of sub-contracting to outside sources, direct labor and direct technology costs. Cost of sales were essentially unchanged as we transitioned to a SaaS solutions provider.

Gross Profit

The decrease in revenue and increase in sub-contracting and direct labor cost resulted in a gross profit/(loss) of $(885,789) and $(674,629) for the years ended December 31, 2015 and 2014, respectively. Gross profit decreased as a result of decreasing sales combined with an increase in sub-contracting and direct labor costs.

Selling and Marketing Expenses

Selling and marketing expenses were $834,440 and $1,537,732 for the years ended December 31, 2015 and 2014, respectively. The decrease in expenses results from staff and salary reduction as well as the elimination of outside selling contractors.

Research and Development Expenses

Research and development expenses were and $375,817 and $610,329 for the years ended December 31, 2015 and 2014, respectively. Research and development expenses decreased predominantly as a result of a decrease in technology staff.

General and Administrative Expenses

General and administrative expenses were $4,683,702 and $6,455,327 for the years ended December 31, 2015 and 2014, respectively. General and administrative expenses decreased as a result of reduced headcount, reduction in contract labor costs, benefit reductions, and reduced travel and entertainment expense.

Amortization and Depreciation

Amortization and depreciation expenses were $534,220 and $416,009 for the years ended December 31, 2015 and 2014, respectively. The increase in expense was primarily related to an increase in intellectual property amortization and intangibles.

Other Income/Expenses

Other income and expenses were income of $104,823 and expense of $(56,787) for the years ended December 31, 2015 and 2014, respectively. The change is primarily driven by an adjustment to the fair value of the derivative liability resulting in an unrealized gain/ (loss) – derivative liability of $187,932 for the period ended December 31, 2015. The charge was increased by a realized loss from non-marketable equity securities and an increase in interest expense related to the issuance of convertible secured notes.

Liquidity and Capital Resources

Working Capital

Our auditors, Malone Bailey LLP, have indicated in their report on the Company's financial statements for the fiscal year ended December 31, 2015 that conditions exist that raise substantial doubt about our ability to continue as a going concern due to our recurring losses from operations. A "going concern" opinion could impair our ability to finance our operations through the sale of equity, incurring debt, or other financing alternatives.

As of December 31, 2015, the Company had working capital of $913,741, but the Company used net cash in operations of $5,474,454 during the twelve months ended December 31, 2015. Even with a greater focus on cash revenue generation and the ongoing cost reductions, the conditions described in the first paragraph, above, raise substantial doubt about the Company's ability to continue as a going concern. While the Company has been successful in raising capital in the past, there is no assurance that it will be successful at raising additional capital in the future. Additionally, if the Company's plans are not achieved and/or if significant unanticipated events occur, the Company may have to further modify its business plan.

	At December 31,	
	2015	2014
Current Assets	$ 1,804,986	$ 3,274,065
Current Liabilities	891,245	1,156,782
Working Capital	$ 913,741	$ 2,117,283

The working capital for the years ended December 31, 2015 and 2014 was $913,741 and 2,117,283, respectively. The change in working capital was primarily due to raising additional capital, decreasing accounts receivables and paying down current liabilities.

Cash Flows

	December 31,	
	2015	2014
Net Cash (Used in) Operating Activities	$ (5,474,454)	$ (5,801,600)
Net Cash (Used in) Investing Activities	$ (277,131)	$ (486,162)
Net Cash Provided by Financing Activities	$ 5,765,941	$ 6,113,659
Increase (Decrease) in Cash	$ 14,356	$ (174,103)

We had cash in the amount of $ 1,687,257 and $1,672,901 as of December 31, 2015 and December 31, 2014, 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.

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.

On January 15, 2015, the Company sold an additional 812,500 units under a private placement that had its initial close in December 2014 (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 0.375 share for every common share purchased. The warrants have a term of five years and an exercise price of $0.60 per share.

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. On March 5, 2015, the Company and Mr. Arena, pursuant to a Separation and Release Agreement, agreed to the issuance of 500,000 restricted common shares in lieu of the January 27, 2014 issuance of 3,000,000 Performance Share Units. The agreement calls for the immediate release of 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 250,000 shares earned during the three months ended March 31, 2015 were valued and expensed at $117,500. The remaining 250,000 shares are not expected to be earned.

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. The Company evaluated the convertible preferred stock under FASB ASC 470-20-30 and determined it contained a beneficial conversion feature. The intrinsic value of the beneficial conversion feature was determined to be $594,641. The beneficial conversion feature was fully amortized and recorded as a deemed dividend.

From January 1, 2015 through December 31, 2015, the Company also issued 109,855 shares of common stock pursuant to exercise of warrants for total proceeds of $43,942. The Company also issued 2,851,936 additional shares of common stock for services provided for a total expense of $564,626 (in addition to the 250,000 common shares issued to Mr. Arena described above which were valued and expensed at $117,500).

On October 9, 2015 (the "Initial Closing Date"), AudioEye, Inc. (the "Company") entered into a Note and Warrant Purchase Agreement (the "Purchase Agreement") with certain investors (the "Investors") for the issuance and sale of convertible promissory notes in an aggregate principal amount of up to $3,750,000 (the "Notes") and warrants (the "Warrants") to purchase up to an aggregate of 37,500,000 shares of common stock of the Company (the "Common Stock") (the "Transaction"). Notes representing up to $2,500,000 in aggregate principal, and Warrants exercisable for up to 25,000,000 shares of Common Stock in the aggregate, may be issued and sold at one or more closings during the 30-day period immediately following the Initial Closing Date. The maximum of $2,500,000 in aggregate principal was sold as of November 8, 2015. In addition, upon the election of any Investor within the three-year period immediately following the Initial Closing Date, any Investor may purchase an additional Note in the principal amount equal to 50% of the principal amount of the Notes purchased by such Investor at previous closings (the "Option Principal Amount") and an additional Warrant with an aggregate exercise price equal to such Investor's Option Principal Amount. The Notes mature three years from the date of issuance (the "Maturity Date") and, until the Notes are repaid or converted into shares of the Company's equity securities ("Equity Securities"), accrue payable-in-kind interest at the rate of 10% per annum.

The fair value of the warrants issued in connection with the notes was determined to be $627,293 (see Note 2) and was recognized as a discount to the debt being amortized to interest expense over the life of the loans. During 2015, aggregate amortization of $26,992 was recognized against the discount.

If the Company sells Equity Securities in a single transaction or series of related transactions for cash of at least $2,000,000 (excluding the conversion of the Notes and excluding the shares of Common Stock to be issued upon exercise of the Warrants) on or before the Maturity Date (the "Equity Financing"), all of the unpaid principal on the Notes plus accrued interest shall be automatically converted at the closing of the Equity Financing into a number of shares of the same class or series of Equity Securities as are issued and sold by the Company in such Equity Financing (or a class or series of Equity Securities identical in all respects to and ranking pari passu with the class or series of Equity Securities issued and sold in such Equity Financing) as is determined by dividing (i) the principal and accrued and unpaid interest amount of the Notes by (ii) 60% of the price per share at which such Equity Securities are issued and sold in such Equity Financing. The Notes, if not converted, shall be due and payable in full on the Maturity Date. The Notes contain customary events of default provisions. In connection with the issuance of the Notes, on October 9, 2015, the Company entered into a Security Agreement with the Investors (the "Security Agreement") pursuant to which the Company granted a security interest in all of its assets to the Investors as collateral for the Company's obligations under the Notes. The Warrants are exercisable at $0.10 per share and expire 60 months following the date of issuance. The Warrants are subject to anti-dilution protection, subject to certain customary exceptions.

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, Suite 750, Tucson, Arizona 85711, consisting of approximately 2,362 square feet as of December 31, 2015. The Company's principal executive office is leased for an aggregate amount of $4,724 per month. We also have offices in Atlanta at 1855 Piedmont Road, Suite 200, Marietta, Georgia leased for an aggregate of $2,763 per month as of December 31, 2015. The Company's total rent expense was approximately $314,485 and $302,230 under office leases for the years ended December 31, 2015 and 2014, respectively. During 2015, offices located in New York were sublet, resulting in a savings of $21,135 per month. We closed the office in Washington D.C., saving $1,280 per month and the Principal Executive office was relocated and downsized with a monthly reduction in rent of $7,146. Beginning November 1, 2015, we subleased an office from a company controlled by our Executive Chairman in Scottsdale, AZ for $500 per month.

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 was to receive a base annual salary of $200,000 during the employment period. He was entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Bradley was 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. Effective August 27. 2015 Mr. Bradley resigned from his board position and his position as Chief Innovation Officer.

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 was to receive a base annual salary of $195,000 during the employment period. He was entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Bradley was 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. Effective October 1, 2015 the board and Mr. Bradley agreed that in lieu of cash Mr. Bradley would receive up to $6,250 per quarter in compensation in the form of market value of options or warrants. On December 22, 2015, subject to shareholder approval of the 2016 Incentive Compensation Plan the compensation committee of the board approved a performance option agreement for Mr. Bradley. The number of shares that vest under the performance options are determined based upon the company's and Mr. Bradley's (as applicable) performance compared to performance goals described below. The compensation committee established a target number of shares of 1,500,000 options whereby to each option will vest only upon: (a) satisfaction of a share price condition described below; and (b) 100% achievement of the performance goals by the company and Mr. Bradley, as applicable. Subject to the share price condition, 50% of the target award will be earned by Mr. Bradley at the 85% achievement level, and he can earn up to 150% of the target award at the 125% achievement level. Vesting shall be determined based upon performance measures at the end of each calendar year of 2016 and 2017, with 50% of each target award and performance increase subject to vesting during each performance period. Mr. Bradley shall have the opportunity to achieve full vesting of 100% of the target award and performance increase if there is a shortfall in the first performance period but cumulative performance goals are achieved for the two-year period ending on the measurement date at the end of the second performance period. The number of vested performance options shall be determined for a performance period by reference to the company's actual achievement against the following performance objectives: (a) Targeted cash contract bookings (as to 33.33%); (b) Targeted net operating cash flow (as to 33.33%); (c) Board defined operations goals (as to 33.33%) for a performance period. And, vesting shall only occur if the closing share price of the company's common stock on each of the 20 trading days before and including the end of a performance period is not less than $0.20 per share (as adjusted for stock splits, combinations, recapitalization and the like). The company's board or committee shall in its sole discretion establish goals as to specific matters and amounts with respect to a performance period. The performance options shall have a term of five years from the date of grant and the exercise price shall be determined by using a 10-day average closing price of the company's common stock over the ten (10) trading days beginning on January 4, 2016, which the committee has determined to be and the Board agrees is an amount that is not less than the fair market value of a share of the common stock of the company on such date.

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 was to receive a base annual salary of $185,000 during the employment period. He was entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Crawford was 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, was to provide certain consulting services to us for a period of 12 months for a consulting fee of $5,000 per month.

The consulting agreement with Crawdad was terminated by mutual agreement on December 31, 2015.

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 received a base annual salary of $150,000 during the employment period and received equity awards under our incentive compensation plan.

On August 7, 2015 Constantine Potamianos employment contract expired.

Paul Arena. On January 27, 2014, we entered into agreements with Paul Arena. Under an Executive Employment Agreement dated as of January 27, 2014, Mr. Arena had 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 was two years. Mr. Arena's base salary was $275,000 per year. Mr. Arena received a signing bonus of $35,000 and was 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 was 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 represented the right to receive one share of common stock. The number of PSUs that Mr. Arena actually earns would 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 were tied to targeted revenue goals over the years ended January 31, 2015 and January 31, 2016. 35% of these awards were tied to targeted cash flow goals over the years, and 30% were tied to discretionary goals. The award would 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 would payout at 1,000,000 shares. The maximum share payout was 3,000,000 shares if 125% of performance targets were met. We were to use interpolation to determine share payouts if the performance metric values achieved were 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. Following the company restatement of financial results for the first three quarters of 2014 the shares and options subject to clawback were returned to the company.

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.

Dr. Carr Bettis. Pursuant to an Executive Employment Agreement dated as of July 1, 2015, Dr. 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. In November, 2015 the board and Dr. Bettis agreed that Dr. Bettis equity awards would be limited to 750,000 options or warrants per quarter and the balance of his compensation would be paid to Dr. Bettis in a form mutually agreeable to Dr. Bettis and the board. On December 22, 2015, subject to shareholder approval of the 2016 Incentive Compensation Plan the compensation committee of the board approved a performance option agreement for Dr. Bettis. The number of shares that vest under the performance options are determined based upon the company's and Dr. Bettis (as applicable) performance compared to performance goals described below. The compensation committee established a target number of shares of 2,000,000 options whereby to each option will vest only upon: (a) satisfaction of a share price condition described below; and (b) 100% achievement of the performance goals by the company and Dr. Bettis, as applicable. Subject to the share price condition, 50% of the target award will be earned by Dr. Bettis at the 85% achievement level, and he can earn up to 150% of the target award at the 125% achievement level. Vesting shall be determined based upon performance measures at the end of each calendar year of 2016 and 2017, with 50% of each target award and performance increase subject to vesting during each performance period. Dr. Bettis shall have the opportunity to achieve full vesting of 100% of the target award and performance increase if there is a shortfall in the first performance period but cumulative performance goals are achieved for the two-year period ending on the measurement date at the end of the second performance period. The number of vested performance options shall be determined for a performance period by reference to the company's actual achievement against the following performance objectives: (a) Targeted cash contract bookings (as to 33.33%); (b) Targeted net operating cash flow (as to 33.33%); (c) Board defined operations goals (as to 33.33%) for a performance period. And, vesting shall only occur if the closing share price of the company's common stock on each of the 20 trading days before and including the end of a performance period is not less than $0.20 per share (as adjusted for stock splits, combinations, recapitalization and the like). The company's board or committee shall in its sole discretion establish goals as to specific matters and amounts with respect to a performance period. The performance options shall have a term of five years from the date of grant and the exercise price shall be determined by using a 10-day average closing price of the company's common stock over the ten (10) trading days beginning on January 4, 2016, which the committee has determined to be and the Board agrees is an amount that is not less than the fair market value of a share of the common stock of the company on such date.

Todd Bankofier. Pursuant to an Executive Employment Agreement dated as of November 10, 2015 Mr. Bankofier was employed as our Chief Executive Officer. The term of the Executive Employment Agreement is one year commencing November 10, 2015 and subject to extension upon mutual agreement. He is to receive a base annual salary of $125,000. Mr. Bankofier is also entitled to equity awards under our incentive compensation plan. On December 22, 2015, subject to shareholder approval of the 2016 Incentive Compensation Plan the compensation committee of the board approved a performance option agreement for Mr. Bankofier. The number of shares that vest under the performance options are determined based upon the company's and Mr. Bankofier (as applicable) performance compared to performance goals described below. The compensation committee established a target number of shares of 2,000,000 options whereby to each option will vest only upon: (a) satisfaction of a share price condition described below; and (b) 100% achievement of the performance goals by the company and Mr. Bankofier, as applicable. Subject to the share price condition, 50% of the target award will be earned by Mr. Bankofier at the 85% achievement level, and he can earn up to 150% of the target award at the 125% achievement level. Vesting shall be determined based upon performance measures at the end of each calendar year of 2016 and 2017, with 50% of each target award and performance increase subject to vesting during each performance period. Mr. Bankofier shall have the opportunity to achieve full vesting of 100% of the target award and performance increase if there is a shortfall in the first performance period but cumulative performance goals are achieved for the two-year period ending on the measurement date at the end of the second performance period. The number of vested performance options shall be determined for a performance period by reference to the company's actual achievement against the following performance objectives: (a) Targeted cash contract bookings (as to 33.33%); (b) Targeted net operating cash flow (as to 33.33%); (c) Board defined operations goals (as to 33.33%) for a performance period. And, vesting shall only occur if the closing share price of the company's common stock on each of the 20 trading days before and including the end of a performance period is not less than $0.20 per share (as adjusted for stock splits, combinations, recapitalization and the like). The company's board or committee shall in its sole discretion establish goals as to specific matters and amounts with respect to a performance period. The performance options shall have a term of five years from the date of grant and the exercise price shall be determined by using a 10-day average closing price of the company's common stock over the ten (10) trading days beginning on January 4, 2016, which the committee has determined to be and the Board agrees is an amount that is not less than the fair market value of a share of the common stock of the company on such date.

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, 2015 and 2014. 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

The FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015. The standard has been applied to our debt issuance from October and November 2015 and is reflected in our financial statements beginning with the period ending December 31, 2015

Effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, the FASB issued ASU 2016-01 amendments, which among other things:

- Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.
- Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables).
- Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost.

The Company does not expect the adoption of this update will have a material impact on its consolidated 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, 2015, 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 due to the material weaknesses described below. 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.

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, 2015, based on criteria established in Internal Control—Integrated Framework (2013) 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, 2015, 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:

- Material inconsistencies and omissions related to financial reporting related to certain equity transactions; and
- Lack of formalized, documented internal control system and internal control policies that provide for multiple levels of supervision and reviews.

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 no significant improvements in our internal controls over financial reporting that occurred during the quarter ended December 31, 2015.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following information is as of December 31, 2015 with respect to those persons who are serving as our directors and executive officers.

Name	Age	Director/Position
Dr. Carr Bettis	52	Executive Chairman/Chairman of the Board, and Director
Todd Bankofier	55	Chief Executive Officer
Sean Bradley	35	President, Chief Technology Officer, and Secretary
Anthony Coelho	73	Director
Christine Griffin	60	Director
Ernest Purcell	64	Director
Alexandre Zyngier	46	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/Greenbook 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 analytics and financial technology 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.

Todd Bankofier. Mr. Bankofier was principal in Fairmont Capital Group (FCG) since 2008, Mr. Bankofier was responsible for day-to-day oversight of multiple asset holdings, including strategic planning, revenue generation, technology evolution, operational effectiveness and public relations for all FCG entities.

Mr. Bankofier served as General Manager of Ensynch, which was at the time one of Arizona's largest Information Technology services companies. He was President and CEO of the Arizona Technology Council (ATC) from 2002 to 2006. Before joining the ATC, he spent four years as Vice President of National Sales for XO Communications, a national telecommunications company, where he managed a national sales team to four years of record sales growth for that company. Mr. Bankofier also served in Washington, D.C. for four years as a lobbyist for the Department of Energy, and served as Chief of Staff for Maricopa County Supervisor, Jim Bruner. He serves on the Advisory Board of Mutual of Omaha Bank, and he has served on the Arizona Governor's Council for Innovation and Technology. He received a gubernatorial appointment to the State Board of Education (1998-2002). We believe that Mr. Bankofiers' extensive experience in leaderships roles in technology companies makes him qualified to serve as our Chief Executive Officer.

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 ten 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.

Mr. Bradley is a former 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.

Anthony Coelho. Mr. Coelho has served as a director since June 2014. Mr. Coelho was a member of the U.S. House of Representatives from 1978 to 1989, where he authored the Americans With Disabilities Act (ADA). 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. In 1998, President Clinton appointed him as the US Commissioner General for the World's Fair in Lisbon Portugal. 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.

Christine Griffin. Ms. Griffin has served as a director since November 2015. Since 2013, Christine Griffin has served as the Executive Director of the Disability Law Center, a position that she held previously from 1996 to 2005. Ms. Griffin also served as the Assistant Secretary for Disability Policies and Programs for the Massachusetts Executive Office of Health and Human Services. As such, she was responsible for oversight of the Department of Developmental Services, the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Blind, the Massachusetts Commission for the Deaf and Hard of Hearing, and the Soldiers' Homes in Chelsea and Holyoke. Additionally, she had cross-Secretariat responsibility for disability-related policies and programs. Ms. Griffin has an extensive history of work involving disability across public and private sectors. As Deputy Director of the U.S. Office of Personnel Management, she was responsible for federal agencies' implementation of President Obama's Executive Order on Increasing Employment of Individuals with Disabilities in the Federal Workforce. Ms. Griffin also planned and implemented the first federal hiring event for people with disabilities and oversaw the creation of a newly established Government-wide Diversity and Inclusion Office. As a Commissioner on the Equal Employment Opportunity Commission, she was responsible for the development of enforcement policies, and she planned and presided over public EEOC hearings and investigations of federal employee complaints. She also established the LEAD (Leadership for Employment of Americans with Disabilities) Initiative, a national outreach and education campaign to address the declining number of federal employees with severe disabilities. Ms. Griffin began her legal career as a Skadden Fellow at the Disability Law Center, where she provided outreach, training and representation on ADA issues to un-served and underserved communities within the disabled community in Massachusetts. With a history of providing capable leadership involving a range of disability policy issues, Ms. Griffin is currently Chair of the Board of the American Association of People with Disabilities (AAPD) and a member of the Massachusetts Developmental Disabilities Council. Ms. Griffin, who holds a law degree from Boston College and earned her undergraduate degree from the Massachusetts Maritime Academy, also served on active duty in the United States Army from 1974 until 1977. We believe that Mrs. Griffin’s extensive education, private enterprise, public service and extensive background in accessibility related solutions makes her qualified to serve as a director.

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 of their European and Asian subsidiaries, 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.

Alexandre Zyngier. Mr. Zyngier has served as a director since September 2015. Mr. Zyngier founded Batuta Advisors in 2013 to pursue high return investment opportunities in the distressed and turnaround sectors. Mr. Zyngier has over 20 years of investment, strategy, and operating experience. He is currently a director of GT Advanced Technologies and Atari SA. Mr. Zyngier has worked as a Portfolio Manager, investing in public and private opportunities, at Alden Global Capital, Goldman Sachs & Co. and Deutsche Bank Co. He was also a strategy consultant at McKinsey & Company and a technical brand manager at Procter & Gamble. Mr. Zyngier holds an MBA in Finance and Accounting from the University of Chicago and a BSc. in Chemical Engineering from UNICAMP in Brazil. We believe that Mr. Zyngier’s extensive education and background in finance and strategy 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

There are no family relationships among our directors or executive officers.

Code of Business Conduct and Ethics

The Company maintains a Code of Business Conduct and Ethics applicable to all directors, officers and other employees of the Company. The Code of Business Conduct and Ethics is available without charge upon request in writing to AudioEye, Inc. at 5210 E. Williams Circle, Suite 750, Tucson, AZ 85711 Attention: Operations.

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, 2015; 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, 2015, 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:

SUMMARY COMPENSATION TABLE

Name and Principal Position		Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option/Warrant Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
Dr. Carr Bettis		2015	$ -	-	200,000(1)	$ 253,563(2)	$ 72,944(3)	-	-	$ 526,507
Executive Chairman,		-	-	-	-	-	-	-	-	-
Chairman and Director		-	-	-	-	-	-	-	-	-
Todd Bankofier		2015	$ 18,220	-	-	$ 14,359(4)	-	-	-	$ 32,579
Chief Executive Officer			-	-	-	-	-	-	-	-
Sean Bradley		2015	$ 143,699	-	-	-	-	-	-	$ 143,699
President, Chief Technology Officer, Vice President, Secretary		2014	$ 207,816	-	-	-	-	-	-	$ 207,816
Nathaniel Bradley (Previous)	(5)	2015	$ 127,981	-	-	-	-	-	-	$ 127,981
Ex-Chief Executive Officer, and Director		2014	$ 227,525	-	-	-	-	-	-	$ 227,525
James Crawford (Previous)	(6)	2015	$ 46,903	-	-	-	-	-	$ 20,000(7)	$ 66,903
Ex-Chief Operating Officer, Treasurer and Director		2014	$ 183,150	-	-	-	-	-	$ 21,514(8)	$ 204,664
Paul Arena (Previous)	(9)	2015	$ 67,600	-	-	-	-	-	$ 267,000(10)	$ 334,600
Ex-Executive Chairman,		2014	$ 310,000	-	-	$ 303,562(17)	-	-	990,000(11)	$ 1,603,562
Chairman of the Board		-	-	-	-	-	-	-	-	-
Edward O Donnell (Previous)	(12)	2015	$ 81,855	-	-	-	-	-	-	$ 81,855
Ex-Chief Financial Officer		2014	$ 160,000	-	-	$ 95,604(13)	-	-	-	$ 255,604

(1) Dr. Carr Bettis was granted 1,250,000 shares on June 2, 2015 with a total market value of $200,000.
(2) Dr. Carr Bettis was granted 2,000,000 warrants on June 2, 2015 with a total market value of $239,007 and granted 500,000 options and 250,000 options on October 26, 2015 with a market value of $14,556.
(3) Dr. Carr Bettis was entitled to $87,500 in compensation for the period July 1 to December 31, 2015. He has been granted options and warrants with a value of $14,566 for that period. The difference of $72,944 is a liability of the Company.
(4) Todd Bankofier, in his capacity as Advisory Board member was granted 150,000 options on June 2, 2015 with a total market value of $14,359.
(5) Nathaniel Bradley resigned as Chief Executive Officer and President Effective April 24, 2015. Effective August 27. 2015 Mr. Bradley resigned from his board position and his position as Chief Innovation Officer.
(6) James Crawford resigned as Chief Operating Officer and Treasurer effective April 24, 2015.
(7) James Crawford provided consulting services via Crawdad, LLC totaling $20,000.
(8) James Crawford was granted 53,036 warrants with a value of $21,514.
(9) Paul Arena resigned as Executive Chairman/Chairman of the Board and a member of our board of directors
(10) Paul Arena provided consulting services via AIM Group, LLC totaling $267,000.
(11) Paul Arena was granted 1,500,000 options on January 27, 2014, with a total value of 303,562
(12) Edward O'Donnell resigned from his position as our Chief Financial Officer. Effective March 29, 2015.
(13) Edward O Donnell was granted 330,000 options on March 24, 2014 with a total value of $95,604.

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/accrued 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 former 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 (a former director). 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 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.

In October 2015, our board of directors granted to Anthony Coelho and to Ernest Purcell each five-year options to purchase up to 750,000 shares of common stock at exercise price of $0.041, each with an aggregate fair value of $18.952. In connection with the election of Alexandre Zyngier to our board, and pursuant to his role as Compensation Committee Chairman, our board granted Mr. Zyngier 750,000 five-year options with an exercise price of $0.041 per share was an aggregate fair value of $18,952.

In connection with the election of Christine Griffin to our board, in November 2015, our board granted Ms. Griffin 500,000 five-year options with an exercise $0.049 per share was an aggregate fair value of $15,150.

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.

Dr. Carr Bettis. Pursuant to an Executive Employment Agreement dated as of July 1, 2015, Dr. 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 compensation 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 November, 2015 the board and Dr. Bettis agreed that Dr. Bettis equity awards would be limited to 750,000 options or warrants per quarter and the balance of his compensation would be paid to Dr. Bettis in a form mutually agreeable to Dr. Bettis and the board. On December 22, 2015, subject to shareholder approval of the 2016 Incentive Compensation Plan the compensation committee of the board approved a performance option agreement for Dr. Bettis. The number of shares that vest under the performance options are determined based upon the company's and Dr. Bettis (as applicable) performance compared to performance goals described below. The compensation committee established a target number of shares of 2,000,000 options whereby to each option will vest only upon: (a) satisfaction of a share price condition described below; and (b) 100% achievement of the performance goals by the company and Dr. Bettis, as applicable. Subject to the share price condition, 50% of the target award will be earned by Dr. Bettis at the 85% achievement level, and he can earn up to 150% of the target award at the 125% achievement level. Vesting shall be determined based upon performance measures at the end of each calendar year of 2016 and 2017, with 50% of each target award and performance increase subject to vesting during each performance period. Dr. Bettis shall have the opportunity to achieve full vesting of 100% of the target award and performance increase if there is a shortfall in the first performance period but cumulative performance goals are achieved for the two-year period ending on the measurement date at the end of the second performance period. The number of vested performance options shall be determined for a performance period by reference to the company's actual achievement against the following performance objectives: (a) Targeted cash contract bookings (as to 33.33%); (b) Targeted net operating cash flow (as to 33.33%); (c) Board defined operations goals (as to 33.33%) for a performance period. And, vesting shall only occur if the closing share price of the company's common stock on each of the 20 trading days before and including the end of a performance period is not less than $0.20 per share (as adjusted for stock splits, combinations, recapitalization and the like). The company's board or committee shall in its sole discretion establish goals as to specific matters and amounts with respect to a performance period. The performance options shall have a term of five years from the date of grant and the exercise price shall be determined by using a 10-day average closing price of the company's common stock over the ten (10) trading days beginning on January 4, 2016, which the committee has determined to be and the Board agrees is an amount that is not less than the fair market value of a share of the common stock of the company on such date.

Todd Bankofier. Pursuant to an Executive Employment Agreement dated as of November 10, 2015 Mr. Bankofier was employed as our Chief Executive Officer. The term of the Executive Employment Agreement is one year commencing November 10, 2015 and subject to extension upon mutual agreement. He is to receive a base annual salary of $125,000. Mr. Bankofier is also entitled to equity awards under our incentive compensation plan. On December 22, 2015, subject to shareholder approval of the 2016 Incentive Compensation Plan the compensation committee of the board approved a performance option agreement for Mr. Bankofier. The number of shares that vest under the performance options are determined based upon the company's and Mr. Bankofier (as applicable) performance compared to performance goals described below. The compensation committee established a target number of shares of 2,000,000 options whereby to each option will vest only upon: (a) satisfaction of a share price condition described below; and (b) 100% achievement of the performance goals by the company and Mr. Bankofier, as applicable. Subject to the share price condition, 50% of the target award will be earned by Mr. Bankofier at the 85% achievement level, and he can earn up to 150% of the target award at the 125% achievement level. Vesting shall be determined based upon performance measures at the end of each calendar year of 2016 and 2017, with 50% of each target award and performance increase subject to vesting during each performance period. Mr. Bankofier shall have the opportunity to achieve full vesting of 100% of the target award and performance increase if there is a shortfall in the first performance period but cumulative performance goals are achieved for the two-year period ending on the measurement date at the end of the second performance period. The number of vested performance options shall be determined for a performance period by reference to the company's actual achievement against the following performance objectives: (a) Targeted cash contract bookings (as to 33.33%); (b) Targeted net operating cash flow (as to 33.33%); (c) Board defined operations goals (as to 33.33%) for a performance period. And, vesting shall only occur if the closing share price of the company's common stock on each of the 20 trading days before and including the end of a performance period is not less than $0.20 per share (as adjusted for stock splits, combinations, recapitalization and the like). The company's board or committee shall in its sole discretion establish goals as to specific matters and amounts with respect to a performance period. The performance options shall have a term of five years from the date of grant and the exercise price shall be determined by using a 10-day average closing price of the company's common stock over the ten (10) trading days beginning on January 4, 2016, which the committee has determined to be and the Board agrees is an amount that is not less than the fair market value of a share of the common stock of the company on such date.

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

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% 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. Pursuant to the first year goals, in 2014 Mr. Sean Bradley was granted 93,750 shares. In the third quarter of 2015 management determined that was highly improbably that any of the 2015 or 2016 performance period targets would be met.

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. Effective October 1, 2015 the board and Mr. Bradley agreed that in lieu of cash Mr. Bradley would receive up to $6,250 per quarter in compensation in the form of market value of options or warrants. On December 22, 2015, subject to shareholder approval of the 2016 Incentive Compensation Plan the compensation committee of the board approved a performance option agreement for Mr. Bradley. The number of shares that vest under the performance options are determined based upon the company's and Mr. Bradley's (as applicable) performance compared to performance goals described below. The compensation committee established a target number of shares of 1,500,000 options whereby to each option will vest only upon: (a) satisfaction of a share price condition described below; and (b) 100% achievement of the performance goals by the company and Mr. Bradley, as applicable. Subject to the share price condition, 50% of the target award will be earned by Mr. Bradley at the 85% achievement level, and he can earn up to 150% of the target award at the 125% achievement level. Vesting shall be determined based upon performance measures at the end of each calendar year of 2016 and 2017, with 50% of each target award and performance increase subject to vesting during each performance period. Mr. Bradley shall have the opportunity to achieve full vesting of 100% of the target award and performance increase if there is a shortfall in the first performance period but cumulative performance goals are achieved for the two-year period ending on the measurement date at the end of the second performance period. The number of vested performance options shall be determined for a performance period by reference to the company's actual achievement against the following performance objectives: (a) Targeted cash contract bookings (as to 33.33%); (b) Targeted net operating cash flow (as to 33.33%); (c) Board defined operations goals (as to 33.33%) for a performance period. And, vesting shall only occur if the closing share price of the company's common stock on each of the 20 trading days before and including the end of a performance period is not less than $0.20 per share (as adjusted for stock splits, combinations, recapitalization and the like). The company's board or committee shall in its sole discretion establish goals as to specific matters and amounts with respect to a performance period. The performance options shall have a term of five years from the date of grant and the exercise price shall be determined by using a 10-day average closing price of the company's common stock over the ten (10) trading days beginning on January 4, 2016, which the committee has determined to be and the Board agrees is an amount that is not less than the fair market value of a share of the common stock of the company on such date.

Nathaniel Bradley (previous executive). 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. Pursuant to the first year goals, in 2014 Mr. Nathaniel Bradley was granted 83,333 shares. 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 represented 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 would 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 would payout at 100,000 shares. The maximum share payout was 400,000 shares if 125% of performance targets are met. We would use interpolation to determine share payouts if the performance metric values achieved are between the threshold, target and maximum goal levels. In the third quarter of 2015 management determined that was highly improbably that any of the 2015 or 2016 performance period targets would be met.

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. Effective August 27, 2015 Mr. Bradley resigned from his position as Chief Innovation Officer and member of the board.

James Crawford (previous executive). 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% were tied to discretionary goals. The award would pay above or below the target number of shares based on performance. In order to receive any shares the threshold value of goals was 75% of the target, which would payout at 100,000 shares. The maximum share payout was 300,000 shares if 125% of performance targets were met. We would use interpolation to determine share payouts if the performance metric values achieved were between the threshold, target and maximum goal levels. Pursuant to the first year goals, Mr. Crawford was granted 91,667 shares. In the third quarter of 2015 management determined that was highly improbably that any of the 2015 or 2016 performance period targets would be met.

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.

The consulting agreement with Crawdad was terminated by mutual agreement on December 31, 2015.

Edward O’Donnell (previous executive). Pursuant to an Executive Employment Agreement, Mr. O’Donnell was employed as our Chief Financial Officer. The term of the Executive Employment Agreement was two years commencing August 7, 2013, subject to extension upon mutual agreement. He was to receive a base annual salary of $165,000 during the employment period. He was entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. O’Donnell was 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 (previous executive). 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 was two years commencing August 7, 2013, subject to extension upon mutual agreement. He received a base annual salary of $150,000 during the employment period. He was entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. Potamianos was 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 August 7, 2015 Constantine Potamianos employment contract expired.

Paul Arena (previous executive). On January 27, 2014, we entered into agreements with Paul Arena. Under an Executive Employment Agreement dated as of January 27, 2014, Mr. Arena had 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 was two years. Mr. Arena’s base salary was $275,000 per year. Mr. Arena received a signing bonus of $35,000 and was 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 had 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 represented the right to receive one share of common stock. The number of PSUs that Mr. Arena actually earned would have been 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 were tied to targeted revenue goals over the years ended January 31, 2015 and January 31, 2016. 35% of these awards were tied to targeted cash flow goals over the years, and 30% are tied to discretionary goals. The award would 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 would payout at 1,000,000 shares. The maximum share payout was 3,000,000 shares if 125% of performance targets were met. We would have used interpolation to determine share payouts if the performance metric values achieved were between the threshold, target and maximum goal levels. Even though in the third quarter of 2015 management determined that was highly improbably that any of the 2015 or 2016 performance period targets would be met, this determination was preempted by the Separation and Release Agreement (the “Separation Agreement”) discussed below.

On March 5, 2015, we and Paul Arena entered into a 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 were subject to certain clawback provisions as set forth in the Separation Agreement and were clawed back due to the restatement of financial information for 2014. 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 were clawed back due to the restatement of financial information for 2014. The Restricted Shares were 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 were 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.

AudioEye, Inc. 2012 Incentive Compensation Plan, AudioEye, Inc. 2013 Incentive Compensation Plan, AudioEye, Inc. 2014 Incentive Compensation Plan, AudioEye, Inc. 2015 Incentive Compensation Plan, and AudioEye, Inc. 2015 Incentive Compensation Plan

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"). Our board of directors has approved a 2016 Incentive Compensation Plan that is still subject to approval by the majority of shareholders. 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.

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 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, 2015.

Name	Grant Date	Estimated Future Payments under Equity Incentive Plan Awards (1) Target ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option/Warrant Awards: Number of Shares Underlying Options (#)(1)	Exercise Price of Option Awards ($/Share)	Grant Date Fair Value of Stock and Option Awards ($)(2)
Dr. Carr Bettis	6/2/2015	-	1,250,000	-	$ 0.16	$ 200,000
	6/2/2015	-	-	2,000,000	$ 0.16	$ 239,007
	10/26/2015	-	-	750,000	$ 0.041	$ 14,556
Todd Bankofier	6/2/2015	-	-	150,000	$ 0.16	$ 14,359

(1) The amounts in the column under "All Other Option Awards" represent shares underlying options awarded. Dr. Carr Bettis awards are immediate vesting and all others 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, 2015:

Named Executive Officer	Number of securities underlying unexercised options/warrants (#) Exercisable	Number of securities underlying unexercised options/warrants (#) Unexercisable	Option/ Warrant Exercise Price ($)	Option/Warrant Expiration Date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested ($)
Dr. Carr Bettis	200,000(1)	-	$ 0.5	8/20/2016	-	-
	178,125(1)	121,875	$ 0.45	3/24/2019	-	-
	46,875(2)	-	$ 0.6	12/31/2019	-	-
	2,000,000(3)	-	$ 0.16	6/2/2020	-	-
	750,000(4)	-	$ 0.041	10/26/2018	-	-
Todd Bankofier	100,000(5)	50,000	$ 0.016	6/2/2020	-	-
Sean Bradley	93,750	-	$ 0.25	12/18/2017	-	-
	994,616(6)	248,654	$ 0.25	3/19/2018	-	-
	28,333(7)	-	$ 0.5	6/30/2016	-	-
	67,033(8)	-	$ 0.39	9/30/2016	-	-
	3,200(9)	-	$ 0.4	11/12/2018	-	-
	25,000(10)	-	$ 0.5	11/13/2016	-	-
	473,333(12)	-	-	-	-	-
Nathaniel Bradley *(previous)* (16)	1,130,770(6)	-	$ 0.25	3/19/2018	-	-
	32,500(7)	-	$ 0.5	6/30/2016	-	-
	103,128(8)	-	$ 0.39	9/30/2016	-	-
	6,667(9)	-	$ 0.4	11/12/2018	-	-
	25,000(10)	-	$ 0.5	11/13/2016	-	-
	21,773(11)	-	$ 0.4	11/22-12/10/2018	-	-
	473,334(12)	-	-	12/23/2018	-	-
James Crawford *(previous)* (17)	309,729(6)	-	$ 0.25	12/18/2017	-	-
	38,333(7)	-	$ 0.5	6/30/2016	-	-
	95,394(8)	-	$ 0.39	9/30/2016	-	-
	3,200(9)	-	$ 0.4	11/12/2018	-	-
	53,036(13)	-	$ 0.7	8/25/2018	-	-
	213,333(14)	-	$ 0.4	12/23/2018	-	-
Edward O Donnell *(previous)* (18)	75,000	75,000	$ 0.39	7/28/2018	75,000	$ 12,000
	28,360(7)	-	$ 0.39	9/30/2016	-	-
Paul Arena *(previous)* (19)	750,000	-	$ 0.40	3/27/17	-	-
	250,000(15)	-	-	12/23/2018	-	-

(1) Dr. Carr Bettis was granted 200,000 options on August 20, 2013 and 300,000 options on March 24, 2014 as an independent director.
(2) Dr. Carr Bettis was granted 46,875 warrants on December 31, 2014 as part of his participation in a private placement.
(3) Dr. Carr Bettis was granted 2,000,000 warrants on June 2, 2015 in his capacity as Executive Chairman before his employment agreement.
(4) Dr. Carr Bettis was granted 500,000 options and 250,000 warrants on October 26, 2015 pursuant to his July 1, 2015 employment agreement.
(5) Todd Bankofier was granted 150,000 options on June 2, 2015 in his capacity as advisory board member.
(6) Warrants to purchase up to an aggregate of 3,652,672 shares of common stock were issued to Sean Bradley, Nathan Bradley and James Crawford in the same amount as the related party payables forgiven. 720,249 were forfeited.
(7) Warrants to purchase up to 99,166 shares of common stock were granted to Sean Bradley, Nathan Bradley and James Crawford in consideration for the release of related party payables.
(8) Warrants to purchase up to 293,915 shares of common stock were granted to Sean Bradley, Nathan Bradley, James Crawford and Edward O'Donnell for the release of related party payables.
(9) Warrants to purchase up to 9,867 shares of common stock were granted to Sean Bradley and Nathan Bradley in consideration for the release of related party payables.
(10) Warrants to purchase up to 50,000 shares of common stock were granted to Bradley Brothers, LLC which at December 31, 2015 was an equally owned entity with beneficial owners Sean Bradley and Nathan Bradley for release of related party payables.
(11) Warrants to purchase up to 21,773 shares of common stock were granted to Nathan Bradley for release of related party payables.

(12) Warrants to purchase up to 946,667 shares of common stock were granted to Bradley Brothers, LLC which at December 31, 2015 was an equally owned entity with beneficial owners Sean Bradley and Nathan Bradley in connection with their investment in a private placement. Sean Bradley no longer has an interest in Bradley Brothers, LLC.
(13) Warrants to purchase up to 53,036 shares of common stock were granted to James Crawford for release of related party payables.
(14) Warrants to purchase up to 213,336 shares of common stock were granted to James Crawford for release of related party payables.
(15) Warrants associated with his participation in a private placement on December 23, 2013.
(16) Effective April 24, 2015, Nathaniel Bradley resigned as Chief Executive Officer and President of our company. Effective August 27. 2015, Nathan Bradley resigned as Chief Innovation Officer and as a member of the board of directors of our Company.
(17) Effective April 24, 2015, James Crawford resigned as Chief Operating Officer and Treasurer of our Company.
(18) Edward O'Donnell resigned from his position as our Chief Financial Officer effective March 29, 2015.
(19) Paul Arena and the Company on March 5, 2015, entered into a Separation and Release Agreement.

Named Executive Officer	**Number of securities underlying unexercised options (#) Exercisable**	**Number of securities underlying unexercised options (#) Unexercisable**		**Option Exercise Price ($)**	**Option Expiration Date**
Dr. Carr Bettis (3)	200,000(1)	-	$	0.5	8/20/2016
	178,125(1)	121,875	$	0.45	3/24/2019
	500,000(2)	-	$	0.041	10/26/2018
Todd Bankofier	150,000(4)	50,000	$	0.016	6/2/2020
Sean Bradley	93,750	-	$	0.25	12/18/2017
James Crawford *(previous)* (5)	318,750	-	$	0.25	12/18/2017
Edward O Donnell *(previous)* (6)	75,000	75,000	$	0.39	7/28/2018
Paul Arena *(previous)* (7)	750,000	-	$	0.40	3/27/2017

(1) Dr. Carr Bettis was granted 200,000 options on August 20, 2013 and 300,000 options on March 24, 2014 as an independent director.
(2) Dr. Carr Bettis was granted 500,000 options on October 26, 2015 pursuant to his July 1, 2015 employment agreement.
(3) Dr. Carr Bettis as Executive Chairman, before his employment agreement received 2,000,000 options.
(4) Todd Bankofier was granted 150,000 options on June 2, 2015 in his capacity as advisory board member.
(5) Effective April 24, 2015, James Crawford resigned as Chief Operating Officer and Treasurer of our Company. Vesting was accelerated as part of the severance and release agreement
(6) Edward O'Donnell resigned from his position as our Chief Financial Officer effective March 29, 2015. Vesting on half of this award was accelerated as part of the severance and release agreement.
(7) Paul Arena and the Company on March 5, 2015, entered into a Separation and Release Agreement. Vesting was accelerated on part of this award as part of the severance and release agreement.

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, 2015:

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	14,759,914	$	0.30	5,240,086
Total	14,759,914		-	5,240,086

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 March 21, 2016 by:

- each person known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock;
- 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 March 21, 2016. 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 Common Stock	Approximate Percentage of Outstanding Common Stock (2)	Amount of Beneficial Ownership Preferred Stock	Approximate Percentage of Outstanding Preferred Stock (3)	Amount of Beneficial Ownership Convertible Debt Via Warrants (4)	Approximate Percentage of Outstanding Convertible Debt (4)
Dr. C. Bettis (5)	14,459,935(6)	15.77%	10,000	5.71%	-	-
T. Bankofier	150,000(7)	-	-		-	-
S. Bradley	8,348,940(8)	9.11%	4,107	-%	-	-
D. Moradi (9)(10)	20,346,883(10)	22.19%	50,000	28.57%	14,750,000	59.00%
A. Coelho (11)	718,750(12)	-	-		-	-
C. Griffin (13)	312,500(14)	-	-		-	-
E. Purcell (15)(16)	7,373,544	8.04%	10,000	5.71%	-	-
A. Zyngier (17)(18)	1,738,875	-	-		500,000	2.00%
N. Bradley (19)(20)	10,734,601	11.71%	-		-	-
M. Shrkeli (21)	-	-	50,000	28.57	2,000,000	8.00%
Riverloft Capital (22)	-	-	15,000	8.57	-	-
KTK Capital (23)	-	-	10,000	5.71	2,000,000	8.00%
All directors, executive officers and beneficial owners as a group (12 individuals)	63,913,903	78.21%	149,107	82.86%	19,250,000	61.00%

* Less than one percent.

(1) Unless otherwise indicated, the business address of each of the individuals is 5210 E. Williams Circle, Suite 750, Tucson, Arizona 85711.

(2) Based on 81,717,154 shares of our common stock issued and outstanding as of March 21, 2016. Not included in the calculation of the percentages above, the company also has also has 14,759,914 options and 42,276,609 warrants outstanding.

(3) Based on 175,000 preferred shares convertible into 9,977,195 shares of common stock.

(4) Based on 25,000,000 warrants associated with the issuance of $2,500,000 convertible debt in November, 2015.

(5) Dr. Bettis business address is c/o Fathom Lab LLC, 16211 N. Scottsdale Rd, Suite A6A-628, Scottsdale, AZ 85254.

(6) Dr. Bettis is the Managing Member of CSB IV US Holdings, LLC, the record owner of 10,654,406 shares, including 5,925,000 shares purchased in three private transactions. 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 1,000,000 shares. Includes warrants to purchase up to 2,500,000 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.

(7) Consists of vested stock options to purchase up to 150,000 shares.

(8) Includes 6,644,700 shares originally held by Bradley Brothers, LLC. Includes warrants to purchase up to 1,590,490 shares and stock options to purchase up to 93,750 shares, plus options to purchase up to 150,000 granted in lieu of salary. Includes 4,107 shares of Series A Convertible Preferred Stock convertible into 234,151 common shares.

(9) Mr. Moradi's business address is c/o Anthion Management LLC, 379 West Broadway, New York, New York 10012.

(10) Mr. Moradi and his business Anthion Management, LLC holds 17,496,256 common shares. In connection with investment in our common equity private placements they hold 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 held by Anthion Management, LLC.

(11) Mr. Coelho's business address is 51 Baltimore Ave, #2, Rehoboth Beach, DE 19971.

(12) Consists of vested stock options to purchase up to 718,750 shares.

(13) Ms. Griffin's business address is 11 Beacon Street, Suite 925, Boston, MA 02108

(14) Consists of vested stock options to purchase up to 312,500 shares.

(15) Mr. Purcell's business address is c/o Houlihan Lokey, Inc., 1395 Brickell Avenue, Suite 1130, Miami, FL 33131.

(16) Consists of 5,654,794 commons stock, including 2,000,000 shares purchased in two private transactions. Includes vested stock options to purchase up to 718,750 shares and warrants to purchase up to 1,000,000 shares. In addition, 10,000 shares of Series A Convertible Preferred Stock convertible into 570,125 common shares.

(17) Mr. Zyngier's business address is 475 Park Avenue South, Floor 12, New York, NY 10016

(18) Consists of vested stock options to purchase up to 468,750 shares and 500,000 warrants from his 2% interest in convertible debt. Includes 10,000 shares of Series A Convertible Preferred Stock convertible into 570,125 common shares held by the Equity Trust Custodian FBO Alexandre Zyngier IRA. Includes 200,000 warrants held by affiliate Research Agency, Inc. for services performed in 2013.

(19) Former director and executive of the Company, Nathan Bradley's business address is 504 W. 29th Street Tucson, AZ 85713

(20) Includes 6,644,700 shares held by Bradley Brothers, LLCand warrants to purchase up to 996,667 shares. Includes 711,764 shares held by Bradley Lecrone Investment Group, LP and 993,430 shares held by Lecrone Bradley Asset Management. Includes 216,825 shares and 1,294,798 warrants held by Nathan Bradley. 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.

(21) Mr. Shrkeli's business address is 245 E. 40th Street, Apt 18H, New York, NY 10016

(22) Riverloft Capital's business address is 300 W 41 Street, Suite 201A, Miami Beach, FL 33140

(23) KTK Capital's business address is 100 South Pointe Drive #1501, Miami Beach, FL 33139

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.

The following Directors are independent:

- Anthony Coelho
- Christine Griffin
- Ernest Purcell
- Alexandre Zyngier

Item 14: Principal Accounting 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, 2015 and for fiscal year ended December 31, 2014 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, 2015	December 31, 2014
Audit Fees	$ 98,647	$ 48,300
All Other Fees	$ 272,783	$ 7,800
Total	$ 371,430	$ 56,100

Audit and Other fees increased in 2015 due to the restatement of the 2014 first, second and third quarterly financial statements together with the amounts paid to contract a temporary CFO to compile the restatements, the 2014 10-K, and the quarterly 2015 financial statement. Multiple levels of supervision have been implemented and the firm has improved cross reconciliations of internal parties' actions and approvals. Singular levels of approval, supervision and processing have been eliminated. All contracts are thoroughly reviewed by management and at certain levels require Board approval. The firm no longer engages in non-monetary transactions related to Intellectual Property. All transactions are representative of cash contracts in the form of Subscription and Services Agreements.

Our board of directors pre-approves all services provided by our independent auditors. All of the above services and fees were reviewed and approved by our board of directors either before or after the respective services were rendered.

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:

Exhibit No.	Description
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)

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 Dr. 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

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

* 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.

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 30th day of March 2016.

AUDIOEYE, INC.

By: */s/ Dr. Carr Bettis*
Dr. Carr Bettis
Principal Executive Officer

By: */s/ Todd Bankofier*
Todd Bankofier
Chief Executive 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
/s/ Dr. Carr Bettis Dr. Carr Bettis	Executive Chairman/Chairman of the Board and Director	March 30, 2016
/s/ Todd Bankofier Todd Bankofier	Chief Executive Officer	March 30, 2016
/s/ Sean Bradley Sean Bradley	President, Chief Technology Officer, President, and Secretary	March 30, 2016
/s/ Anthony Coelho Anthony Coelho	Director	March 30, 2016
/s/ Christine Griffin Christine Griffin	Director	March 30, 2016
/s/ Ernest Purcell Ernest Purcell	Director	March 30, 2016
/s/ Alexandre Zyngier Alexandre Zyngier	Director	March 30, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
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, 2015 and 2014 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of 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, 2015 and 2014 and the consolidated results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1, the Company has incurred losses from operations and net cash used in operating activities since inception. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this mater are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MaloneBailey, LLP

www.malonebailey.com
Houston, Texas

March 30, 2016

AUDIOEYE, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash	$ 1,687,257	$ 1,672,901
Accounts receivable, net	22,741	261,676
Related party receivables	-	10,000
Marketable securities held in related party	3,600	13,800
Non-marketable securities held in related party	50,000	50,000
Subscription receivable	-	1,175,000
Prepaid expenses and other current assets	41,388	90,688
Total Current Assets	1,804,986	3,274,065
Property and equipment, net	-	651
Intangible assets, net	2,840,856	3,097,293
Goodwill	700,528	700,528
Total Assets	$ 5,346,370	$ 7,072,537
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 213,620	$ 779,891
Billings in excess of revenues	-	123,908
Notes and loans payable-current	24,000	24,000
Related party payables	153,474	228,983
Derivative liabilities	439,361	-
Deferred revenue	60,790	-
Total Current Liabilities	891,245	1,156,782
Long Term Liabilities		
Convertible notes and loans payable-long term, net	1,923,499	51,800
Related party loans	-	-
Total Long Term Liabilities	1,923,499	51,800
Total Liabilities	2,814,744	1,208,582
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.00001 par value, 10,000,000 shares authorized, 175,000 and none issued and outstanding as of December 31, 2015 and 2014, respectively	2	-
Common stock, $0.00001 par value, 250,000,000 shares authorized, 81,717,154 and 77,817,861 issued and outstanding, as of December 31, 2015 and 2014, respectively	817	778
Treasury stock	(623,000)	(623,000)
Additional paid-in capital	27,393,238	23,516,463
Accumulated deficit	(24,239,431)	(17,030,286)
Total Stockholders' Equity	2,531,626	5,863,955
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 5,346,370	$ 7,072,537

See Notes to Consolidated Financial Statements

AUDIOEYE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended	
	December 31, 2015	December 31, 2014
Revenues	$ 338,863	$ 516,807
Revenues from related parties	-	6,500
Total revenues	338,863	523,307
Cost of services	1,224,652	1,197,936
Gross (Loss)/Profit	(885,789)	(674,629)
Selling and marketing expenses	884,440	1,537,732
Research and technology expenses	375,817	610,329
General and administrative expenses	4,633,702	6,455,327
Amortization and depreciation	534,220	416,009
Total operating expenses	6,428,179	9,019,397
Operating loss	(7,313,968)	(9,694,026)
Other income (expense)	3,814	-
Unrealized loss on marketable securities	(10,200)	(10,200)
Loss on conversion of accounts receivable to marketable securities	-	(36,000)
Unrealized gain (loss) on derivative liabilities	187,932	-
Interest expense	(72,443)	(10,587)
Interest expense - related party	(4,280)	-
Total other expense	104,823	(56,787)
Net loss	$ (7,209,145)	$ (9,750,813)
Deemed dividend on Series A Convertible preferred stock	(594,641)	-
Dividend on Series A Convertible preferred stock	(58,733)	-
Net loss attributable to common stockholders	$ (7,862,519)	$ (9,750,813)
Net loss per common share basic and diluted	(0.10)	(0.16)
Weighted average common shares outstanding basic and diluted	80,445,509	61,962,359

See Notes to Consolidated Financial Statements

AUDIOEYE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	COMMON STOCK		PREFERRED STOCK		PAID IN	NON-CONTROLLING INTEREST /TREASURY	ACCUMULATED	
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	STOCK	(DEFICIT)	TOTAL
Balance, December 31, 2013	53,239,369	$ 532	-	$ -	$ 13,231,212	$ (623,000)	$ (7,279,473)	$ 5,329,271
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	77,817,861	$ 778	-	$ -	$ 23,516,463	$ (623,000)	$ (17,030,286)	$ 5,863,955
Preferred stock issued for cash	-	-	175,000	2	$ 1,749,998	-	-	1,750,000
Common stock issued for cash and subscription receivables, net	812,500	8	-	-	324,992	-	-	325,000
Common stock issued for exercise of warrants	109,855	1	-	-	43,940	-	-	43,941
Common stock issued for services	3,101,936	31	-	-	682,095	-	-	682,126
Warrants issued for cancellation of common stock	(124,998)	(1)	-	-	1	-	-	-
Warrants, Options and PSU issued for services	-	-	-	-	1,075,749	-	-	1,075,749
Net loss	-	-	-	-	-	-	(7,209,145)	(7,209,145)
Balance, December 31, 2015	81,717,154	817	175,000	$ 2	27,393,238	(623,000)	(24,239,431)	2,531,626

See Notes to Consolidated Financial Statements

AUDIOEYE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2015	December 31, 2014
Cash Flows from operating activities:		
Net loss	$ (7,209,145)	$ (9,750,813)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	534,220	416,009
Option, warrant and PSU expense	1,075,749	1,844,009
Amortization of debt discounts	26,992	1,155
Unrealized loss on marketable securities	10,200	10,200
Stock issued for services	682,126	918,315
Bad debt expense	-	108,320
Loss on conversion of accounts receivable to marketable securities	-	36,000
Gain on derivative liabilities	(187,932)	-
Changes in operating assets and liabilities:		
Accounts receivable	238,935	139,301
Related party receivable	10,000	72,250
Other current assets	49,300	(90,688)
Accounts payable and accruals	(566,272)	384,875
Billings in excess of revenues	(123,908)	123,908
Deferred revenue	60,790	-
Related party payables	(75,509)	(14,441)
Net cash (used in) operating activities	(5,474,454)	(5,801,600)
Cash Flows from investing activities:		
Cash (paid for) intellectual property	(43,689)	(48,037)
Investment in non-marketable securities held in related party	-	(50,000)
Software development costs	(233,442)	(388,125)
Net cash (used in) investing activities	(277,131)	(486,162)
Cash Flows from financing activities:		
Payments on related party loans	-	(35,000)
Payments on debt	(28,000)	(178,000)
Issuance of common stock for cash	325,000	2,682,689
Collection of stock subscription receivable	1,175,000	-
Issuance of preferred stock for cash	1,750,000	-
Proceeds from exercise of warrants	43,941	3,643,970
Borrowings on convertible debt	2,500,000	-
Net cash provided by financing activities	5,765,941	6,113,659
Increase (decrease) in cash	14,356	(174,103)
Cash - beginning of period	1,672,901	1,847,004
Cash - end of period	$ 1,687,257	$ 1,672,901
NON-CASH FINANCING ACTIVITIES		
Debt discount for warrants issued with debt	$ 627,293	$ -
Warrant issued for cancellation of common stock	1	-
Deemed dividend on Series A Convertible preferred stock	594,641	-
Warrants issued for accrued salary	-	21,514
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
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash interest paid	$ 4,567	$ 11,301
Income taxes paid	-	-

See Notes to Consolidated Financial Statements

AUDIOEYE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: OVERVIEW AND GOING CONCERN

Organization and Business

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.

Going Concern

As of December 31, 2015, the Company had working capital of $913,741 but the Company used net cash in operations of $5,474,454 during the twelve months ended December 31, 2015. In addition, the Company has incurred net losses since inception. Even with a greater focus on cash revenue generation and the ongoing cost reductions, the conditions described above, raise substantial doubt about the Company's ability to continue as a going concern.

While the Company has been successful in raising capital in the past, there is no assurance that it will be successful at raising additional capital in the future. Additionally, if the Company's plans are not achieved and/or if significant unanticipated events occur, the Company may have to further modify its business plan.

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, 2015 and 2014, Empire had no activity. Empire had no assets or liabilities as of December 31, 2015 and December 31, 2014.

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. Further enhancements and Patentable improvements were developed in 2015 and are ongoing. New patents have been filed and are pending as discussed more fully in the Business Description.

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, 2015 and 2014 research and technology expenses totaled $375,817 and $610,329 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 including their affiliates which generated approximately 67.5% (56.3% and 11.2%) and 87% (77% and 10%) of its revenue in the fiscal years ended December 31, 2015 and 2014, respectively.

Certain Software as a Service (SaaS) and 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.

Billings in Excess of Revenues

The Company applies percentage of completion accounting to long term contracts. Revenue is recognized as a portion of the contract term as services are delivered, and differed revenue is recorded, only upon the receipt of cash. Timing and accounts affected by the respective journal entry are triggered when payment is received and applied to invoices in accounts receivable. There were no long-term contracts in process as of December 31, 2015.

Fiscal Year End

The Company has a fiscal year ending on December 31.

Cash and Cash Equivalents

The Company considers cash in savings accounts to be cash equivalents. The Company considers any short-term, highly liquid investments with maturities of three months or less as cash and 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 $-0- and $19,675 as of December 31, 2015 and 2014, 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, 2015 and 2014 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.

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, 2015 and 2014, 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.

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.

In October and November 2015, the Company issued warrants with an exercise price of $0.10 in connection with a convertible debt instruments. The five year warrants also contain a provision that the warrant exercise price will automatically be adjusted for any common stock equity issuances at less than $0.10 per share. The Company determined that the warrants were not afforded equity classification because the warrants are not considered to be indexed to the Company's own stock due to the anti-dilution provision. Accordingly, the warrants are treated as a derivative liability and are carried at fair value. The notes are not yet convertible, but the notes with any accrued interest automatically convert on the event of an equity capital raise of at least $2.0 million.

The Company estimated the fair value of these derivative warrants at initial issuance and again at each balance sheet date. The changes in fair value are recognized in earnings in the statement of operations under the caption "unrealized gain/(loss) – derivative liability" until such time as the derivative warrants are exercised or expire. The Company used the Black-Scholes Option Pricing model to estimate the fair value of the dates of issuance, the price of the Company stock ranged $0.031 to $0.058, volatility was estimated to be 102%, the risk free rate ranged 1.14% to 1.75% and the remaining term was 5 years. At December 31, 2015, the price of the Company stock was 0.0306, volatility was estimated to be 102%, the risk free rate ranged 1.14% to 1.75% and the remaining term ranged from 4.77 to 4.85 years. As of December 31, 2015, the fair value of the warrants was determined to be $439,361, resulting in an unrealized gain on the change in the fair value of this derivative liability of $187,932 for the year ended December 31, 2015.

The following are the Company's assets and liabilities, measured at fair value on a recurring basis, as of December 31, 2015 and 2014:

		Fair Value	Fair Value Hierarchy
Assets			
Marketable securities, December 31, 2015	$	3,600	Level 1
Marketable securities, December 31, 2014	$	13,800	Level 1
Liabiilities			
Derivative Liability , At Issuance	$	627,293	Level 3
Derivative Liability , December 31, 2015	$	439,361	Level 3

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 other than noted.

The FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015. The standard has been applied to our debt issuance from October and November 2015 and is reflected in our financial statements beginning with the period ending December 31, 2015

Effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, the FASB issued ASU 2016-01 amendments, which among other things:

- Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.
- Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables).
- Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost.

The Company does not expect the adoption of this update will have a material impact on its consolidated financial statements.

NOTE 3: MARKETABLE AND NON-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 former director of the Company. The note was 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 date of the accounts receivable of $36,000 in 2014, and a further unrealized loss of $10,200 at December 31, 2014. At December 31, 2015, a reduction in value to $3,600 of the security resulted in an unrealized loss of $10,200.

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. The parties have not agreed upon such date. As of December 31, 2015 and 2014, the Company held 97,500 shares of Cannonball Red, and Cannonball Red does not have the resources to repurchase the securities.

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

		December 31, 2015		December 31, 2014
Computers and peripherals	$	25,478	$	25,478
Accumulated deprecation		(25,478)		(24,827)
Property, plant and equipment, net	$	-	$	651

Depreciation expense totaled $651 and $3,196 for the years ended December 31, 2015 and 2014, respectively.

NOTE 5: INTANGIBLE ASSETS

For the year ended December 31, 2015 and 2014, the Company invested in Patents in the amounts of $43,689 and $48,037 respectively.

Prior to December 31, 2015, 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, 2015 and 2014, the Company invested in software development in the amounts of $233,442 and $388,125, respectively. Software development costs are amortized over their estimated useful life of three years.

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

	December 31, 2015	December 31, 2014
Patents	$ 3,655,070	$ 3,611,380
Capitalized software development	621,567	388,125
Accumulated amortization	(1,435,781)	(902,212)
Intangible assets, net	$ 2,840,856	$ 3,097,293

Amortization expense for patents totaled $361,133 and $346,690 for the years ended December 31, 2015 and 2014, respectively. Amortization expense for software development totaled $172,436 and $66,123 for the years ended December 31, 2015 and 2014, respectively.

Total amortization expense totaled $533,569 and $412,813 for the year ended December 31, 2015 and 2014, respectively.

NOTE 6: RELATED PARTY TRANSACTIONS

Dr. Carr Bettis, Executive Chairman and Chairman of Board of Directors

As of December 31, 2015, the Company owed Dr. Bettis $72,944 in accrued salary. In addition, AudioEye sub-leases an office for the Company's CEO Todd Bankofier from Verus Analytics, Inc, a company in which Dr. Bettis has a controlling interest in. The sub-lease amount is $500 per month totaling $1,000 in 2015. The amount of $1,000 in Rent Payable is included inside Accounts Payable within the Balance Sheet.

Sean Bradley, President, Chief Technology Officer, and Secretary

As of December 31, 2015 and 2014, the Company owed Sean Bradley $6,250 and -0- in accrued salary.

David Moradi, a Material Shareholder, on a fully diluted basis

As of December 31, 2015 the Company owed David Moradi $70,000 in principal and $4,280 in accrued interest.

Former officer James Crawford, former Chief Operating Officer, Treasurer and Director

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

Former Officer, Nathaniel Bradley, Founder, Former, CEO, 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, 2015 and 2014, the Company owed $-0- and $0 to Mr. Bradley.

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. Peartrack Security Systems is an entity whose Executive Chairman was former Company director, Edward Withrow III. In 2014, the Company invested $50,000 in Cannonball Red in return for 97,500 shares held as of December 31, 2014. Former CEO, Chief Innovation Officer and director Nathan Bradley had a material interest in Cannonball Red at the time of the transaction.

In summary, as of December 31, 2015 and 2014, the total balances of related party payable were $153,474 and $228,983 (see Note 8), respectively.

As of December 31, 2015 and 2014, there were outstanding receivables of $-0-, and $10,000 respectively, for services performed for related parties.

For the year ended December 31, 2015 and 2014, there were revenues earned of $-0- and $6,500, 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, 2015 and 2014, the Company has current and long term notes payable of $24,000 and $1,923,499, and $24,000 and $51,800, respectively as shown in the table below.

Notes and loans payable		December 31, 2015		December 31, 2014
Short Term				
Maryland TEDCO	$	24,000	$	24,000
Total	$	24,000	$	24,000
Long Term				
Convertible Secured Note (net of unamortized discounts of $600,301 and $0)		1,899,699		-
Maryland TEDCO	$	23,800	$	51,800
Total	$	1,923,499	$	51,800

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 consolidated balance sheets. 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, 2015 and 2014, the principal amount owing was $47,800 and $75,800, respectively, of which $24,000 and $24,000, respectively, has been recorded as the current portion of the note, and $23,800 and $51,800, respectively, as the long-term portion of the note. The Company has paid $28,000 and $28,000 in monthly installments for the year ended December 31, 2015 and 2014, respectively.

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-.

On October 9, 2015 (the "Initial Closing Date"), AudioEye, Inc. (the "Company") entered into a Note and Warrant Purchase Agreement (the "Purchase Agreement") with certain investors (the "Investors") for the issuance and sale of convertible promissory notes in an aggregate principal amount of up to $3,750,000 (the "Notes") and warrants (the "Warrants") to purchase up to an aggregate of 37,500,000 shares of common stock of the Company (the "Common Stock") (the "Transaction"). Notes representing up to $2,500,000 in aggregate principal, and Warrants exercisable for up to 25,000,000 shares of Common Stock in the aggregate, may be issued and sold at one or more closings during the 30-day period immediately following the Initial Closing Date. The maximum of $2,500,000 in aggregate principal was sold as of November 8, 2015. In addition, upon the election of any Investor within the three-year period immediately following the Initial Closing Date, any Investor may purchase an additional Note in the principal amount equal to 50% of the principal amount of the Notes purchased by such Investor at previous closings (the "Option Principal Amount") and an additional Warrant with an aggregate exercise price equal to such Investor's Option Principal Amount. The Notes mature three years from the date of issuance (the "Maturity Date") and, until the Notes are repaid or converted into shares of the Company's equity securities ("Equity Securities"), accrue payable-in-kind interest at the rate of 10% per annum.

If the Company sells Equity Securities in a single transaction or series of related transactions for cash of at least $2,000,000 (excluding the conversion of the Notes and excluding the shares of Common Stock to be issued upon exercise of the Warrants) on or before the Maturity Date (the "Equity Financing"), all of the unpaid principal on the Notes plus accrued interest shall be automatically converted at the closing of the Equity Financing into a number of shares of the same class or series of Equity Securities as are issued and sold by the Company in such Equity Financing (or a class or series of Equity Securities identical in all respects to and ranking pari passu with the class or series of Equity Securities issued and sold in such Equity Financing) as is determined by dividing (i) the principal and accrued and unpaid interest amount of the Notes by (ii) 60% of the price per share at which such Equity Securities are issued and sold in such Equity Financing. The Notes, if not converted, shall be due and payable in full on the Maturity Date. The Notes contain customary events of default provisions. In connection with the issuance of the Notes, on October 9, 2015, the Company entered into a Security Agreement with the Investors (the "Security Agreement") pursuant to which the Company granted a security interest in all of its assets to the Investors as collateral for the Company's obligations under the Notes. The Warrants are exercisable at $0.10 per share and expire 60 months following the date of issuance. The Warrants are subject to anti-dilution protection, subject to certain customary exceptions.

During 2015, the Company issued notes under this offering totaling $2,500,000. The fair value of the warrants issued in connection with the notes was determined to be $627,293 (see Note 2) and was recognized as a discount to the debt being amortized to interest expense over the life of the loans. During 2015, aggregate amortization of $26,992 was recognized against the discount.

NOTE 8: COMMITMENTS AND CONTINGENCIES

Our principal executive offices are located at 5210 E. Williams Circle, Suite 750, Tucson, Arizona 85711, consisting of approximately 2,362 square feet as of December 31, 2015. The Company's principal executive office is leased for an aggregate amount of $4,724 per month. We also have offices in Atlanta at 1855 Piedmont Road, Suite 200, Marietta, Georgia leased for an aggregate of $2,763 per month as of December 31, 2015. The Company's total rent expense was approximately $314,485 and $302,230 under office leases for the years ended December 31, 2015 and 2014, respectively. During 2015, offices located in New York were sublet, resulting in a savings of $21,135 per month. We closed the office in Washington D.C., saving $1,280 per month and the Principal Executive office was relocated and downsized with a monthly reduction in rent of $7,146. Beginning November 1, 2015, we subleased an office from a company controlled by our Executive Chairman in Scottsdale, AZ for $500 per month.

On August 7, 2013, the Company entered into agreements with the following five executive officers. Of these only Sean Bradley was employed by the Company on December 31, 2015:

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.

In April 2015, two shareholder class action lawsuits were filed against us and our former 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 appointed a lead plaintiff and lead counsel. We have responded to the complaints and also filed a motion to dismiss. 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. As of December 31, 2015, we have paid the deductible pursuant to the D&O insurance policy, in the amount of $100,000 regarding this matter.

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 August 27, 2015 Mr. Bradley resigned from his position as Chief Innovation Officer and member of the board of directors.

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. October 1, 2015 the board and Mr. Bradley agreed that in lieu of cash Mr. Bradley would receive up to $6,250 per quarter in compensation in the form of market value of options or warrants. On December 22, 2015, subject to shareholder approval of the 2016 Incentive Compensation Plan the compensation committee of the board approved a performance option agreement for Mr. Bradley. The number of shares that vest under the performance options are determined based upon the company's and Mr. Bradley's (as applicable) performance compared to performance goals described below. The compensation committee established a target number of shares of 1,500,000 options whereby to each option will vest only upon: (a) satisfaction of a share price condition described below; and (b) 100% achievement of the performance goals by the company and Mr. Bradley, as applicable. Subject to the share price condition, 50% of the target award will be earned by Mr. Bradley at the 85% achievement level, and he can earn up to 150% of the target award at the 125% achievement level. Vesting shall be determined based upon performance measures at the end of each calendar year of 2016 and 2017, with 50% of each target award and performance increase subject to vesting during each performance period. Mr. Bradley shall have the opportunity to achieve full vesting of 100% of the target award and performance increase if there is a shortfall in the first performance period but cumulative performance goals are achieved for the two-year period ending on the measurement date at the end of the second performance period. The number of vested performance options shall be determined for a performance period by reference to the company's actual achievement against the following performance objectives: (a) Targeted cash contract bookings (as to 33.33%); (b) Targeted net operating cash flow (as to 33.33%); (c) Board defined operations goals (as to 33.33%) for a performance period. And, vesting shall only occur if the closing share price of the company's common stock on each of the 20 trading days before and including the end of a performance period is not less than $0.20 per share (as adjusted for stock splits, combinations, recapitalization and the like). The company's board or committee shall in its sole discretion establish goals as to specific matters and amounts with respect to a performance period. The performance options shall have a term of five years from the date of grant and the exercise price shall be determined by using a 10-day average closing price of the company's common stock over the ten (10) trading days beginning on January 4, 2016, which the committee has determined to be and the Board agrees is an amount that is not less than the fair market value of a share of the common stock of the company on such date.

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.

The consulting agreement with Crawdad was terminated by mutual agreement on December 31, 2015.

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 was two years commencing August 7, 2013, subject to extension upon mutual agreement. He was to receive a base annual salary of $165,000 during the employment period. He was entitled to receive bonuses at the sole discretion of our board of directors or the compensation committee. Mr. O'Donnell was 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 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 was to receive a base annual salary of $150,000 during the employment period. He was entitled to receive bonuses at the sole discretion of the Company's board of directors or the compensation committee. Mr. Potamianos was also entitled to equity awards under the Company's incentive compensation plan.

On August 7, 2015 Constantine Potamianos employment contract expired.

Paul Arena. 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 had 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 was two years. Mr. Arena's base salary was $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 was 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 earned was to 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 were tied to targeted revenue goals over the years ended January 31, 2015 and January 31, 2016. 35% of these awards were tied to targeted cash flow goals over the years, and 30% were tied to discretionary goals. The award was to pay above or below the target number of shares based on performance. In order to receive any shares the threshold value of goals was 75% of the target, which would have had a payout at 1,000,000 shares. The maximum share payout was 3,000,000 shares if 125% of performance targets were met. The Company would have used 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 was 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 was 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 specified 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, 2015 and 2014, the Company recorded a payable to Mr. Arena of $0 and $228,983 respectively.

Dr. Carr Bettis. Pursuant to an Executive Employment Agreement dated as of July 1, 2015, Dr. 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 compensation 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 November, 2015 the board and Dr. Bettis agreed that Dr. Bettis equity awards would be limited to 750,000 options or warrants per quarter and the balance of his compensation would be paid to Dr. Bettis in a form mutually agreeable to Dr. Bettis and the board. On December 22, 2015, subject to shareholder approval of the 2016 Incentive Compensation Plan the compensation committee of the board approved a performance option agreement for Dr. Bettis. The number of shares that vest under the performance options are determined based upon the company's and Dr. Bettis (as applicable) performance compared to performance goals described below. The compensation committee established a target number of shares of 2,000,000 options whereby to each option will vest only upon: (a) satisfaction of a share price condition described below; and (b) 100% achievement of the performance goals by the company and Dr. Bettis, as applicable. Subject to the share price condition, 50% of the target award will be earned by Dr. Bettis at the 85% achievement level, and he can earn up to 150% of the target award at the 125% achievement level. Vesting shall be determined based upon performance measures at the end of each calendar year of 2016 and 2017, with 50% of each target award and performance increase subject to vesting during each performance period. Dr. Bettis shall have the opportunity to achieve full vesting of 100% of the target award and performance increase if there is a shortfall in the first performance period but cumulative performance goals are achieved for the two-year period ending on the measurement date at the end of the second performance period. The number of vested performance options shall be determined for a performance period by reference to the company's actual achievement against the following performance objectives: (a) Targeted cash contract bookings (as to 33.33%); (b) Targeted net operating cash flow (as to 33.33%); (c) Board defined operations goals (as to 33.33%) for a performance period. And, vesting shall only occur if the closing share price of the company's common stock on each of the 20 trading days before and including the end of a performance period is not less than $0.20 per share (as adjusted for stock splits, combinations, recapitalization and the like). The company's board or committee shall in its sole discretion establish goals as to specific matters and amounts with respect to a performance period. The performance options shall have a term of five years from the date of grant and the exercise price shall be determined by using a 10-day average closing price of the company's common stock over the ten (10) trading days beginning on January 4, 2016, which the committee has determined to be and the Board agrees is an amount that is not less than the fair market value of a share of the common stock of the company on such date.

Todd Bankofier. Pursuant to an Executive Employment Agreement dated as of November 10, 2015 Mr. Bankofier was employed as our Chief Executive Officer. The term of the Executive Employment Agreement is one year commencing November 10, 2015 and subject to extension upon mutual agreement. He is to receive a base annual salary of $125,000. Mr. Bankofier is also entitled to equity awards under our incentive compensation plan. On December 22, 2015, subject to shareholder approval of the 2016 Incentive Compensation Plan the compensation committee of the board approved a performance option agreement for Mr. Bankofier. The number of shares that vest under the performance options are determined based upon the company's and Mr. Bankofier (as applicable) performance compared to performance goals described below. The compensation committee established a target number of shares of 2,000,000 options whereby to each option will vest only upon: (a) satisfaction of a share price condition described below; and (b) 100% achievement of the performance goals by the company and Mr. Bankofier, as applicable. Subject to the share price condition, 50% of the target award will be earned by Mr. Bankofier at the 85% achievement level, and he can earn up to 150% of the target award at the 125% achievement level. Vesting shall be determined based upon performance measures at the end of each calendar year of 2016 and 2017, with 50% of each target award and performance increase subject to vesting during each performance period. Mr. Bankofier shall have the opportunity to achieve full vesting of 100% of the target award and performance increase if there is a shortfall in the first performance period but cumulative performance goals are achieved for the two-year period ending on the measurement date at the end of the second performance period. The number of vested performance options shall be determined for a performance period by reference to the company's actual achievement against the following performance objectives: (a) Targeted cash contract bookings (as to 33.33%); (b) Targeted net operating cash flow (as to 33.33%); (c) Board defined operations goals (as to 33.33%) for a performance period. And, vesting shall only occur if the closing share price of the company's common stock on each of the 20 trading days before and including the end of a performance period is not less than $0.20 per share (as adjusted for stock splits, combinations, recapitalization and the like). The company's board or committee shall in its sole discretion establish goals as to specific matters and amounts with respect to a performance period. The performance options shall have a term of five years from the date of grant and the exercise price shall be determined by using a 10-day average closing price of the company's common stock over the ten (10) trading days beginning on January 4, 2016, which the committee has determined to be and the Board agrees is an amount that is not less than the fair market value of a share of the common stock of the company on such date.

NOTE 9: STOCKHOLDERS' EQUITY

As of December 31, 2015 and December 31, 2014, the Company had 81,717,154 and 77,817,861 shares of common stock issued and outstanding, respectively, and the company had 175,000 shares of Series A Convertible Preferred Stock, issued at $10 per share, paying a 5% cumulative annual dividend and convertible at 0.1754 per share of common stock.

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 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 ¼ 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 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.

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 0.375 share for every common share purchased (304,688 warrants were issued). The warrants have a term of five years and an exercise price of $0.60 per share.

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 (valued at $117,500 and recognized during 2015), 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.

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. The Company evaluated the convertible preferred stock under FASB ASC 470-20-30 and determined it contained a beneficial conversion feature. The intrinsic value of the beneficial conversion feature was determined to be $594,641. The beneficial conversion feature was fully amortized and recorded as a deemed dividend. Aggregate cumulative dividends earned during the year ended December 31, 2015 totaled $58,733.

On June 2, 2015, the Company granted 1,250,000 shares of common stock valued at $200,000 and five-year warrants to purchase up to 2,000,000 shares of common stock at an exercise price of $0.16 per share for services.

On June 2, 2015, the Company granted 800,000 shares of common stock valued at $128,000 and five-year warrants to purchase up to 1,000,000 shares of common stock at an exercise price of $0.16 per share for services.

On October 26, 2015, the Company agreed with its consultant to issue 41,667 warrants in lieu of 41,667 in stock each month, effective August 15, 2015. Total of 208,332 warrants were issued as of December 31, 2015 of which 124,998 were issued for the return and cancellation of 124,998 previously issued common shares.

In addition to the 2,300,000 common shares described above, during the year ended December 31, 2015, the Company issued an additional 801,936 common shares for services under consulting and referral agreements valued at $236,626 and 109,855 common shares in connection with a warrant exercise for total proceeds of $43,941.

On October 9, 2015 the Company entered into a Note and Warrant Purchase Agreement with accredited investors for the sale of convertible promissory notes in an aggregate principal amount of up to $3.75 million and warrants to purchase up to an aggregate of 37.50 million shares of common stock of the Company. The Company issued notes representing $2.5 million in aggregate principal, and five year warrants exercisable for up to 25.0 million shares of common stock in the aggregate. In addition, upon the election of any investor on or before October 9, 2018, any Investor may purchase an additional note in the principal amount equal to 50% of the principal amount of the Notes purchased by such Investor at previous closings (the "Option Principal Amount") and an additional warrant with an aggregate exercise price equal to such Investor's Option Principal Amount. The notes mature three years from the date of issuance and, until the notes are repaid or converted into shares of the Company's equity securities, accrue payable-in-kind interest at the rate of 10% per annum.

The notes plus accrued interest will be automatically converted into equity securities if the Company sells equity securities in a single transaction or series of related transactions for cash of at least $2.0 million. At the closing of the equity financing, the notes plus accrued interest will convert into a number of shares of the same class or series of equity securities as are issued and sold by the Company at 60% of the price per share at which the equity securities are issued and sold in the equity financing. The notes, if not converted, shall be due and payable in full on the maturity date. The notes contain customary events of default provisions. The Company entered into a security agreement with the Investors pursuant to which the Company granted a security interest in all of its assets to the investors as collateral for the Company's obligations under the notes. The Warrants are exercisable at $0.10 per share and expire 60 months following the date of issuance.

During the years ended December 31, 2015 and 2014, $1,075,749 and $1,844,009 were recognized as stock option, warrant and PSU expenses. See notes 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:

Deferred tax assets:	**December 31, 2015**	**December 31, 2014**
Net operating loss carry forwards	$ 6,373,434	$ 4,983,000
Less valuation allowance	(6,373,434)	(4,983,000)
Net deferred tax asset	$ 0	$ 0

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 $18,745,343and $14,657,000 as of December 31, 2015 and 2014, respectively and will start to expire in 2029.

NOTE 11: OPTIONS

As at December 31, 2015 and 2014, the Company has 14,759,914 and 11,434,350 options issued and outstanding.

	Shares	**Exercise Price**
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
Granted	8,278,880	0.16
Exercised	-	0.00
Forfeited	4,953,316	0.44
Outstanding at December 31, 2015	14,759,914	$ 0.30

As of December 31, 2015 and 2014, the outstanding options had a weighted average remaining term and intrinsic value of 3.61 and 4.30 years and $-0- and $283,408, respectively.

Outstanding and Exercisable Options - 2015

Average Exercise Price	Number of Shares	Remaining Average Contractual Life (in years)	Exercise Price times number of Shares	Weighted Average Exercise Price	Intrinsic Value
$ 0.42	8,374,294	0.91	$ 2,854,392	$ 0.34	$ 235,330

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

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, 2015 and 2014 was determined to be $823,478 and $1,445,992, respectively. The outstanding unamortized stock compensation expense related to options was $406,157 (which will be recognized through December 2018) and $1,220,410 as of December 31, 2015 and 2014, respectively.

NOTE 12: WARRANTS

Below is a table summarizing the Company's outstanding warrants as of December 31, 2014 and December 31, 2015:

	Number of Shares	Wtd Avg. Exercise Price	Wtd Avg. Remaining	Intrinsic Value
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
Granted	28,913,020	0.11	-	-
Exercised	109,855	0.40	-	-
Forfeited	3,054,545	0.43	-	-
Outstanding at December 31, 2015	42,276,609	0.22	4.15	$ 1,167

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% - 102%, risk free interest rate of 0.29% to 1.71%, and expected dividend yield of 0%.

For the years ended December 31, 2015 and 2014, the Company has incurred warrants based expense of $510,436 and $131,517. The outstanding unamortized stock compensation expense related to warrants was $106,852 (which will be recognized through March 2018) and $207,190 as of December 31, 2015 and 2014, respectively.

NOTE 13: PERFORMANCE SHARE UNITS

On April 1, 2013, the Company entered into a Performance Share Unit Agreement under the AudioEye, Inc. 2013 Incentive Compensation Plan with Nathaniel Bradley, the Company's CEO; Mr. Sean Bradley, the Company's Chief Technology Officer; and Mr. James Crawford, the Company's Chief Operating Officer. Mr. Nathaniel Bradley was granted an award of up to an aggregate of 400,000 Performance Share Units ("PSU's"); Mr. Sean Bradley was granted an award of up to an aggregate of 300,000 PSU's; and Mr. Crawford was granted an award of up to an aggregate of 300,000 PSU's.

On January 27, 2014, the Company entered into a Performance Share Unit Agreement under the AudioEye, Inc. 2013 Incentive Compensation Plan with Paul Arena, the Company's Executive Chairman. Mr. Arena was granted an award of up to an aggregate of 3,000,000 Performance Share Units ("PSUs"). 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. On March 5, 2015, the Company and Mr. Arena, pursuant to a Separation and Release Agreement, agreed to the issuance of 500,000 restricted common shares in lieu of the January 27, 2014 issuance of 3,000,000 PSUs.

In September, 2014 three members of the management team were awarded a total of 500,000 PSU's with a one-year performance period. None of these awards were earned.

Below is a table summarizing the Company's outstanding performance share units as of December 31, 2015 and December 31, 2014:

	Number of PSUs	Wtd Avg. Grant Price	Remaining Term
Outstanding at December 31, 2014	4,500,000	$ 0.40	2.00
Forfeited	4,500,000	0.33	-
Outstanding at September 30, 2015	0	$ 0	0

For the years ended December 31, 2015 and 2014, the Company has incurred performance share unit-based (recovery) expense of $(258,165) and $266,500, respectively. The negative expense in the twelve months ended December 31, 2015 is a result of management assessment that none of the remaining performance unit vesting conditions for the remaining performance units will be met, and therefore none will be earned resulting in a reversal of expense previously recorded. The total stock compensation expense related to the options, warrants and performance stock units to be amortized through December 31, 2018 is $513,003 as of December 31, 2015.

NOTE 14: CONCENTRATIONS

The Company had two major customers including their affiliates which generated approximately 58% (56.3% and 1.7%) and 87% (77% and 10%) of its revenue in the fiscal years ended December 31, 2015 and 2014, respectively. Both customer terminated the contracts with the Company as of December 31, 2015.

NOTE 15: SUBSEQUENT EVENTS

On February 12, 2016, the Company modified the employment agreement for Sean Bradley to limit the number of option awards he can receive in lieu of $6,250 cash per quarter to 150,000 options per quarter.

On February 12, 2016, the Company awarded 500,000 warrants to Dr. Carr Bettis as incremental awards to further reduce the Company's liability to him for his annual compensation. The exercise price is determined using the 10-day average closing price beginning with the closing price on Feb 16, 2016.

On March 18, 2016, the company successfully filed a patent application with the U.S. Patent and Trademark Office (PTO):

No.	I.D.	Status	Title
10	US25245897	Pending	Modular Systems For Selectively Enabling Cloud-Based Assistive Technologies

Exhibit 21.1

Subsidiaries

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

(1) 100% owned

Exhibit 31.1

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

I, Dr. 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, 2015 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: March 30, 2016

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

Exhibit 31.2

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

I, Dr. Carr Bettis, 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, 2015 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: March 30, 2016

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

Exhibit 32.1

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, 2015 (the " Annual Report ") with the Securities and Exchange Commission, I, Dr. 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: March 30, 2016

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

Exhibit 32.2

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, 2015 (the " Annual Report ") with the Securities and Exchange Commission, I, Dr. 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: March 30, 2016

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