

AudioEye:

Investment thesis:

About six to nine months ago, David Moradi (DM) called and told me that he had an interesting private deal that he thought I would be interested in. It would include stock and with warrants attached, but I would have to become restricted in the stock. I immediately told him “say no more; I do not want to know anything about this deal because being restricted in any stock is not an option for Tourmaline”. There was no way that we could tell our most important partner Blackstone Senfina that we are restricted in a stock. He did say it was highly unlikely that they would ever trade in the stock, but he understood.

Several months later, I went to dinner with DM; as all our dinners go, we mostly talked about his investments. This is when he told me about AudioEye (AEYE). He told me he had been invested in this company for several years and really liked it. He thought that they had a market leading technology that could be used by 5% to 10% of the population that who are deaf or blind. The example he used is how does a blind person book and use UBER? There is no phone number to call. He also said that there are laws in place or coming as part of the Americans with Disabilities Act that would start to force internet sites to provide access with-for these disabilities. Furthermore one of the members of AEYE board was Tony Coelho who was the primary sponsor of Americans with Disabilities Act.

DM also said that the management team that used to be in charge at AEYE was very bad. Despite having a great technology they were bad poor managers, and DM felt they were running the company into the ground. He used his influence as a large shareholder to get-rid-of

~~the change the~~ old management team and bring in a good management team. He very much likes this new management group because they cut costs significantly to the point that he ~~thinks-beleives~~ they could be cash flow positive either this year or next if they can grow sales. Also, ~~they-the new management team~~ are large shareholders and therefore incentivized to run the company in a manner that will benefit all shareholders. AEYE has been adding new sales people, and based on the most recent earnings filing they are adding bookings. They are selling to real companies, for example Mutual of Omaha. You can go the Mutual of Omaha web site and see how it works as well as the AEYE site itself.

Software bookings: In software and I am sure many other sales companies can only account for sales as ~~they are realized~~ when they have a signed contract. For example, if AEYE gets a contract to provide their services ~~and it is a for a~~ one year deal ~~for at~~ \$120,000, they can only ~~realize the revenue~~ recognize income as the revenue is ~~realized this is a booking of revenue~~ earned over the course of the year. So for Q1, they would book sales of \$30,000, ~~and the remaining \$90,000 would remain in deferred income~~. Why is this important and why does it excite DM and make him believe that AEYE is turning the corner to profitability or EBITDA positive? Well, if they booked \$1,153,000 as of their August 2 business update, they will probably have total revenue of \$1.5 to \$2.0 million this year, ~~and potentially more since many new contracts may be kicking in now~~. If their sales rates continue, this revenues may continue to grow.

AEYE is not a get rich quick company. There are no events or near term catalyst that I am buying ~~for into~~. My purchases have been periodic spread over three months. Many days, ~~in those months~~ there were

was no purchases volume at all. Yes on some days, ~~I was a~~, my purchases were a very large percent of volume, but that is for a few key reasons including the fact that there was no urgency to my purchases and therefore I would place a bid on the bid side of the market and wait until a seller would sell me stock on the bid side of the market. If I was not hit then I did not buy.

AudioEye is simply a company with an interesting product with no real competitors as far as DM knows. They only companies that do what AEYE does are consultant businesses es who ~~will~~ come in do work and ~~be gone~~ leave. DM thinks that if AEYE has revenue of \$2 million for 2016, they could ~~be~~ increase \$4M to \$6M in 2017, and \$8M to \$12M in 2018. With revenue growth potential like this ~~and~~ along with their high gross margins, he ~~thinks~~ beleives AEYE is undervalued and over the next several years the stock could ~~go~~ rise from the current \$.15 to \$1.00 to \$2.00 by 2018. ~~Very much worth noting and a~~ An important caveat is that revenues and booking could be very lumpy meaning that some quarters may look good and others may not look so good.

I think also worth noting is that software and technology changes very fast. There may be many other companies out there with better technology and clearly at \$.15 stocks is not without risk. But a risk adjusted return of potential loss of \$.15 per share and offset with a potential gain of ~~\$.85~~ to \$1.85 over the next three to five years ~~this~~ seems reasonable.

Clearly this stock is so small and underfollowed, there are few institutional investors. DM believes he knows many of the investors since any one of significance has been involved in the private deals that he has invested over the past two years.

Why does DM tell me about his investment ideas?

This is where he and I connect. Frankly he is an ~~odd~~usual guy and does not talk much about anything else. A two hour dinner with him one on one feels like 10 hours. But I will say I have continued to keep in contact with him because he says and he ~~feels~~believes that he is going to ramp back up his investments in the public markets soon. Of note, he does not ~~think~~believe that he will ever be anything but a family office because he prefers to invest in smaller underfollowed stocks with more upside potential. I do ~~think~~recollect that he has said that he has been up significantly since closing Anthion and becoming a family office.

I have tried to stay in front of DM because, as we all know, he is probably still our largest client or in the top five despite closing his fund several years ago. ~~I think also worth noting.~~ I ~~think~~believe that DM is very conscious of what is legal and what is not legal in the securities industry and he is very careful to be compliant. He told me he spends a lot of money on legal fees and overall is distrusting of, for the most part, everyone ~~but~~and especially and in particular the government. ~~in particular~~

The questions that I have, ~~are~~ if everyone else thinks DM is not reputable should we fire him as a client? As far as I know, he has a clean record and has never had any legal issues.

MY INVESTMENT STRATEGY:

I have always been an investor. I first bought Fidelity Magellan when I was in 8th Grade. I have invested ever since. I believe in investing for the long term. I do not believe in short term investments or day

trading. I estimate that my average holding period is between five and ten years. I do add to holding that I have owned for a long time if the price is right. I also sell sometimes, but very, very rarely. I do not believe that anyone has the ability to predict short term moves in any investment and therefore I do not try to invest that way.

When I make an investment, I view it as buying a small piece of a business. I own GOOGL at \$793.00 and I own AEYE at .15 and stocks at all different share prices and market capitalizations. The share price and market capitalization are not relevant to me, the financials and the business are what is relevant. I do not care if a stock trades on NASDAQ, NYSE, and OTC, Pink sheets or international.

An interesting example of an investment:

March 2006 I bought 1,000,000 shares of Regis Resources at approximately 0.10 (later had a reverse 10/1 split) based on the recommendation of one of our best clients of Williams Trading, Boo Callanan who worked at Rubicon. I could not buy the local in Australia RRL AU because of my account set up was for US stocks only but I could buy the pink sheet in the US market RGRNF. Interestingly Henry sat next to me at the time and also made the investment in the RRL AU.

I have always believed that investing alongside of your clients in their best ideas shows partnership and trust with them, and also helps keep more focus on their key holdings.

How did the Regis investment work out? No so well for Boo, in November of 2007 his fund forced him to liquidate his long aggressively driving the stock down to less than .10. I believe that Henry made money; I do not know how much and has subsequently liquidated his

~~position. is now out.~~ I also have sold 75% of my position and made money. Here is the important part. Over 10.5 years later I still own 25% of my position and today the shares trade at \$2.91. This is a perfect example of how I invest for the long term. This is another example of how I partner with accounts, connect with accounts and I am able to discuss positions that are important to them. This is my edge compared to everyone else.

Why do I think Brett bought AEYE?

Brett is my back up. I have taken him through the character of each account. I point out Howhow they trade and what sort of stocks they trade in. I told him about my dinner with DM and subsequent conversations on the phone with DM. Furthermore, in an effort to protect for error Brett listens too many of my calls with other clients so we can double check orders. He has also heard calls with DM discussing AEYE. He comes to his own investment decisions and I do not know his process, but clearly he invests.

Why did Larry buy AEYE?

I believe that Larry has overheard some ~~he also was listening to~~ my discussions about my dinner with DM and asked me if I think it was worth buying. I do not recall my response, but I certainly said DM thinks that it is his best risk return investment, ~~and that~~ I also mentioned that I may buy some. He did not tell me that he was going to buy into this company any until months later.

Worth noting about a year ago, Larry asked me for a personal meeting because he was doing better financially and wanted to start investing.

He said he wanted to start with Ailanthus and ask a few others he covered such as Broad Run. I told him that ~~that~~ this is a good way to start. It ~~should~~ would partnership with his clients and ~~shows~~ demonstrate ~~them~~ that they are all on the same page. Furthermore, I believe that seeing 100% of a funds trades give great transparency into funds who will be successful.

Quite honestly, I was flattered that Larry asked, but ~~at the same time~~ ~~he is not stupid~~ realize that Larry is bright and can make his own investment decisions. He knows that I recommended ed opportunities funds to East Rock; ~~and~~ they are obviously sophisticated investors. I might add that Mangrove is by far ~~and away~~ East Rocks best investment this year, and maybe ever. But also I do think I am good at this and can pick winners in funds just like I can in stocks. This has given me, and Tourmaline Partners a marquee product placement with East Rock and all of us have benefited tremendously. There would be no Oskie, Coltrane, Western Standard, Newtyn, Nantahala, Foundation or Valarc without them.

Do I recommend stocks or investments to any of our employees?

Since we started Tourmaline, I have only recommended one investment to anyone at Tourmaline. As several who are reading this are aware, I ~~think~~ believe that Evan Wax of Wax Asset Management is one of the most unique investors and funds I have ever come across. I ~~think~~ believe that an investment like this accomplishes the exact goal for those who are not experienced investors. He is an excellent ~~A great~~ manager, and because he is an independent investor, it is not as distracting as buying stocks that for many which can be distracting.

I ask all of you. Do I recommend investments to you excluding Wax? I think not. I learned my lesson long ago that everyone ~~have~~ has a different risk tolerance, time horizon and personal traits that make it challenging to give stock advice. As several of you know, I recommended Hy-~~drive~~ drive to ~~too~~ many and they all lost on money. I have not given individual stock advice since then and that was roughly ten years ago.

What is my point?

Optically, I totally understand the oddity and concern of seeing three people in the same firm buying an extremely random unknown pink sheet stock that we have also had a client transact. Certainly an explanation is warranted and helpful in understanding the situation more clearly. I understand concerns that on some days AEYE stock moves 10% to 25%, but keep in mind the bid offer spread is almost always .02 cents or more. This does not seem like much but if the bid is .12 and the offer are .14 merely buying on the offer side moves the stock 17% and selling on the offer side 14%.

Should I have had ~~better judgement than~~ had another partner to approve others purchasing shares since I already had a positions in AEYE? Yes perhaps, but that is a tough place to be since I ~~know why~~ I am buying AEYE as a long term investment and nothing more than that. ~~To be honest I never want other to buy my stocks because as a value investor I always want to buy more at lower prices, other buyers get in my way.~~ Furthermore, as an employer, I do not want to be viewed as in the position of telling our employees what stocks to buy and or sell. or how to invest their money do not and will not tell them how to

invest their money. This is a no-win situation as we know. Each individual must evaluate his circumstance and invest in accordance with their investment philosophy.

~~I think this is also hard because of the way~~Based on the way that I invest in stocks for the long term, I am not mindset of thinking that anything illicit was occurring. I ~~am not thinking~~do not believe that there is an event or catalyst that prompted my investment decision. I was happy patient to spend several months buying, waiting for better prices. If the better prices never came, I was content not to buy.

Should we have a new policy?

I think Henry's idea of adding a reason for buying or selling makes sense. I do not ~~think~~believe that it has to be overly ~~in~~depthcomplicated, but we could have a checklist consisting of some selections such as: long term investment, add on weakness, suggested by advisor, and so forth. I ~~think~~beleive that ~~we can always ask for~~ greater explanation can be requested if ~~we desire~~necessary or more clarity is required.

I also ~~think~~recommend we should extend our holding period to at least three months. I do not ~~think~~beleive that would change the way most invest, but optically I think it sounds better to clients who ask about the policy.

Thank you for taking the time to read this. I am happy discuss anything involved in this document further.

Ike

symbol	initial purchase	most recent purchase	years held
dis	8/1/2002	7/16/2002	14
bwxt	6/8/2004	8/13/2008	12
rgrnf	3/30/2006	3/30/2006	10
cvg	12/28/2007	1/25/2008	9
cbm	5/9/2008	5/9/2008	8
mrk	4/1/2008	3/26/2008	8
goog / googl	2/26/2008	2/26/2008	8
lbtya,lbtyk, lila, lilak	7/8/2008	7/8/2008	8
lyb	5/3/2010	9/1/2010	6
aapl	7/25/2012	1/15/2013	4
mdr	10/17/2014	1/14/2015	2
ctrp	7/18/2014	12/5/2014	2
cld	3/10/2015	12/4/2015	1.5
lng	12/23/2015	2/4/2016	1
** indicates stock splits			