VERIFYME, INC.

FORM 10-K
(Annual Report)

Filed 04/12/17 for the Period Ending 12/31/16

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Telephone	212-994-7002
CIK	0001104038
Symbol	VRME
SIC Code	6794 - Patent Owners and Lessors
Industry	Business Support Services
Sector	Industrials
Fiscal Year	12/31

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

FORM 10-K

(Mark One)
☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended December 31, 2016

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from _____ to _____

Commission File Number 0-31927

VERIFYME, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**23-3023677**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**

409 Boot Road
Downingtown, PA 19335
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (212) 994-7002

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

None

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

Common Stock, $0.001 par value

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ or 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 ☐ or No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒

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

The aggregate market value of the common stock held by non-affiliates of the registrant was $302,596 as of June 30, 2016 based on the price in which the common stock of the registrant was last sold as reported by the OTC Bulletin Board. Shares of common stock held by each current executive officer and director and by each person who is known by the registrant to own 5% or more of the outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not a conclusive determination for other purposes.

The registrant had 8,990,696 shares of common stock outstanding as of the close of business on March 31, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

VERIFYME, INC.

FORM 10-K ANNUAL REPORT
Year Ended December 31, 2016

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Except for the historical information contained herein or incorporated by reference, this Annual Report and the information incorporated by reference contains forward-looking statements that involve risks and uncertainties. These statements include projections about our accounting and finances, plans and objectives for the future, future operating and economic performance and other statements regarding future performance, including our ability to obtain additional financing and our ability to achieve full functionally in our digital technology products. These statements are not guarantees of future performance or events. Our actual results may differ materially from those discussed here. Factors that could cause or contribute to differences in our actual results include those discussed in the following section, and included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations".

All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the foregoing. Except as required by law, we assume no duty to update or revise our forward-looking statements.

ITEM 1. BUSINESS .

Overview

VerifyMe , Inc. (the "Company," "VerifyMe," "we," "us," or "our") is a technology pioneer in the anti-counterfeiting industry. This broad market encompasses counterfeiting of physical and material goods and products, as well as counterfeiting of identities in digital transactions. We have the ability to deliver security solutions for identification and authentication of people, products and packaging in a variety of applications in the security field for both digital and physical transactions. Our products can be used to manage and issue secure credentials, including national identifications, passports, driver licenses and access control credentials, as well as comprehensive authentication security software to secure physical and logical access to facilities, computer networks, internet sites and mobile applications.

The challenges associated with digital access control and identity theft are problems that are highly relevant in the world today. Consumers, citizens, employees, governments and employers demand comprehensive solutions that are reliable but not intrusive. The current widespread use of passwords and personal identification numbers, or PINs for authentication has proven to be unsecure and inadequate. Individuals increasingly expect anywhere-anytime experiences—whether they are making purchases, crossing borders, accessing services or logging into online accounts or corporate resources. They expect those experiences to ensure the protection of their privacy and to provide uncompromising confidentiality.

We believe that the digital technologies we own will enable businesses and consumers to reconstruct their overall approaches to security—from identity and authentication to the management of legacy passwords and PINs. We empower our customers to take advantage of the full capabilities of smart mobile devices and provide solutions that are both simple to use and deliver the highest level of security. These solutions can be applied to corporate networks, financial services, e-gov services, digital wallets, mobile payments, entertainment, subscription services, and social media.

Our digital technologies involve the utilization of multiple authentication mechanisms, some of which we own. These mechanisms include biometric factors, knowledge factors, possession factors and location factors. Biometric factors include facial recognition with liveness detection, finger print and voice recognition. Knowledge factors include a personal gesture swipe and a safe and panic color choice. Possession factor includes devices that the user has in their possession such as a smartphone, smart watch, and other wearable computing devices. The location factor geo-locates the user during a secure login. We surround these authentication mechanisms with proprietary systems that improve the usability and the security of the solutions. Our solutions allow the assessment and quantification of risk using a sophisticated heuristic scoring mechanism. We have specialized systems that perform 'liveness' detection to insure the subject of authentication is in fact a live human being. We have systems that introduce learning capabilities into our solutions to improve the ease of use and flexibility.

We believe that the physical technologies we own will enable businesses and consumers to reconstruct their overall approaches to security—from counterfeit identification to employee or customer monitoring. Potential applications of our technologies are available in different types of products and industries—e.g., gaming, apparel, tobacco, fragrances, pharmaceuticals, event and transportation tickets, driver's licenses, insurance cards, passports, computer software, and credit cards. We can generate sales through licenses of our technology and through direct sales of our technology.

Our physical technologies involve the utilization of invisible and/or color shifting/changing inks, which are compatible with today's printing machines. The inks may be used with certain printing systems such as offset, flexographic, silkscreen, gravure, and laser. Based upon our experience, we believe that the ink technologies may be incorporated into existing manufacturing processes. We believe that some of our patents may have non-security applications, and we are attempting to commercialize these opportunities.

Anti-Counterfeiting Technologies and Products

Recent developments in copying and printing technologies have made it easier to counterfeit a wide variety of documents and products. Currency, lottery tickets, credit cards, event and transportation tickets, casino slot tickets, and travelers' checks are all susceptible to counterfeiting. We believe that losses from such counterfeiting have increased substantially with improvements in counterfeiting technology. Counterfeiting has long caused losses to manufacturers of brand name products, and we believe that these losses have increased as the counterfeiting of labeling and packaging has become easier.

We believe that our physical and material goods anti-counterfeit technologies may be useful to businesses desiring to authenticate a wide variety of materials and products. Our technologies include (1) a technology utilizing invisible ink that can be revealed by use of laser light for authentication purposes, (2) an inkjet ink technology, which allows invisible codes to be printed and (3) a color shifting technology that is activated by certain types of lights. All of those technologies are intended to be substantially different than pen systems that are currently in the marketplace. Pen systems also rely on invisible ink that is activated by a special marker. If the item is an original and not an invisible print, then the ink will be activated and show a visible mark as a different color than on an illegitimate copy. We believe that our technologies are superior to the pen system technology because, in the case of its laser and color shifting technologies, it will not result in a permanent mark on the merchandise. Permanent marks generally lead to the disposal of the merchandise or its sale as a "second" rather than best-quality product. In the case of rubbed ink technology, no special tools are required to distinguish the counterfeit. Other possible variations of our laser based technology involve multiple color responses from a common laser, visible marks of one color that turn another color with a second laser, or visible and invisible marks that turn into a multicolored image. These technologies provide users with the ability to authenticate products and detect counterfeit documents. Applications include the authentication of documents having intrinsic value, such as currency, checks, travelers' checks, gift certificates and event tickets, and the authentication of product labeling and packaging. When applied to product labeling and packaging, our technologies can be used to detect counterfeit products with labels and/or in packaging that do not contain the authenticating marks invisibly printed on the packaging or labels of legitimate products, as well as to combat product diversion (i.e., the sale of legitimate products through unauthorized distribution channels or in unauthorized markets). We believe that our technologies also could be used in a manner that permits manufacturers and distributors to track the movement of products from production to ultimate consumption when coupled with proprietary software.

In the past, we have focused on the widespread problem of counterfeiting in the gaming industry. We have incorporated our technology into traditional gaming accessories such as playing cards, casino chips, and dice as well as gaming-based machinery such as slot machines with cashless gaming systems. This is accomplished during the regular manufacturing and printing processes. Our products use ink that is incorporated into dice and casino chips that can be viewed with a laser to reveal the authenticity of the item.

Physical and Material Goods Anti-Counterfeit Industry — Overview

Currency, passports, ID cards and other high-value documents have historically been subject to counterfeiting and forgery and continue to be today. Many consumer industries such as pharmaceutical, luxury goods and auto parts are also subject to significant counterfeiting. In the last 15 years, the counterfeiting of goods has increased significantly on a global basis and has become a major threat to brand owners in most industries. Major brands, whether national or multinational, are being systematically attacked by sophisticated criminals and terrorists. Furthermore, counterfeiting and forgery have filtered down to the level of lone criminals due to the availability of digital scanning and copying technologies.

The U.S. is projected to remain the largest single consumer of security services and products in the world. One of the most important new areas of expansion is in the area of authentication, which is the act of confirming that objects such as currency, passports, casino chips, credit cards, stock certificates, pharmaceuticals, stamps, identification cards, lottery tickets, and so forth, are real and not forgeries. With the advent of the digital age, including the color copier and other new technologies and templates available on the web, thieves and forgers have been able to make near identical copies of almost any printed item, which has resulted in major financial losses to business and, importantly, has compromised security at critical installations. One particular problem is that criminal and civil penalties for forgery, fraud, and counterfeiting are relatively light, and many of those engaging in such activities are overseas and far from the reach of U.S. law enforcement.

While some currency and credit cards have introduced holograms, seals, and embedded strips in order to add a level of protection, most such methodologies are expensive and, in some cases, time-consuming in the production process. In other instances, such as when printing cigarette tax stamps or hundreds of millions of pieces used in a popular restaurant chain's contest game pieces, the authentication process must be extremely inexpensive and easy to use or it will be rejected. There is no commercially fiscal way, for example, that a hologram, costing around five cents a copy, can be introduced to verify tax stamps. Moreover, more than half the national currencies in the world lack even one layer of protection and can easily be counterfeited.

Counterfeiting, product diversion, piracy, forgery, identity theft, and unauthorized intrusion into websites, physical locations and databases create significant and growing problems to companies in a wide range of industries as well as governments and individuals worldwide. Counterfeiting is a global problem, and it is a problem that appears to be increasing. According to the International Anti-counterfeiting Coalition ("IACC") the number of Intellectual Property Rights ("IPR") – related seizures in 2014 were 23,140. Direct and indirect U.S. jobs supported by Intellectual Property ("IP") – intensive industries in 2013 was 55.7 million. The total value of IPR-infringing goods seized, originating from China in 2014 (including Hong Kong) was $1.08 billion. The total value of IPR-related seizures based on the Manufacturers' Suggested Retail Price ("MSRP") in 2014 was $1.22 billion. The projected value of global trade in counterfeit and pirated goods in 2015 was $1.77 trillion. On April 18, 2016, the Organisation for Economic Co-operation and Development reported that imports of counterfeit and pirated goods were worth nearly half a trillion dollars per year, or around 2.5% of global imports, with the US, Italian and French brands hit the hardest. This report was based on customs seizure data over the period 2011 to 2013.

Counterfeiting is one of the fastest growing economic crimes of modern times. It presents companies, governments and individuals with a unique set of problems. What was once a cottage industry has now become a highly sophisticated network of organized crime that has the capacity to threaten the very fabric of national economies, endanger safety and frequently kill. It devalues corporate reputations, hinders investment, funds terrorism, and costs hundreds of thousands of people their livelihood every year.

The global anti-counterfeit packaging market is estimated at $107.26 Billion in 2016 and is projected to reach $206.57 Billion by 2021, at a compound annual growth rate of 14.0%. The base year considered for the study is 2015 with the market size projected from 2016 to 2021 based on a report by marketsandmarkets.com.

Based on Technology, the market has been segmented as follows:

- Coding & printing technology
- RFID
- Hologram
- Security labels
- Packaging design
- Others (digital mass sterilization, digital mass encryption, and surveillance technologies)

The anti-counterfeiting industry is segmented into four general categories: (i) Optical technologies - use of light, i.e. holograms; (ii) Electronic - magnetic strips and smart cards; (iii) Biotechnologies - uses characteristics of biological proteins such as antibodies, enzymes and DNA; and (iv) Chemical technologies - includes photochromic (or light-reactive) and thermochromic (or heat-reactive) inks.

We operate in the chemical technologies and security ink sectors of the industry. Products in this industry change color when exposed to either heat or light and revert to their original color when exposed again. Generally, the effect is reversible as often as required. Inks have also been developed that are invisible to the human eye but which can be read by bar-code scanners. These have been used in the fragrance and pharmaceutical industries to authenticate products. Other reactive inks change color when brought into contact with specific substances, such as ink from a felt-tipped pen.

The anticounterfeit packaging industry is segmented into the following:

- Coding & printing technology
- Radio Frequency Identification ("RFID")
- Hologram
- Security labels
- Packaging design
- Others (digital mass sterilization, digital mass encryption, and surveillance technologies)

We operate in the coding & printing technology, RFID and security labels segments in the anticounterfeit packaging industry.

Recent developments in printing technologies have made it easier to counterfeit a wide variety of documents. Lottery tickets, gift certificates, event and transportation tickets and travelers' checks are all susceptible to counterfeiting, and we believe that losses from such counterfeiting have increased substantially due to improvements in technology. Counterfeiting has long caused losses to manufacturers of brand name products, and we believe that these losses have increased as the counterfeiting of labeling and packaging has become easier.

The Organization for Economic Cooperation and Development based on its recently published study in 2016, estimates that global trade related counterfeiting accounts for 2.5% of world trade or approximately $461 billion. They also conclude that millions of consumers are risking their lives by using unsafe and ineffective counterfeit products unknowingly.

Identification Cards and Secure Documents

Governments are increasingly vulnerable to counterfeiting, terrorism and other security threats at least in part because currencies, identity and security cards and other official documents can be counterfeited with relative ease. For instance, Havocscope, a company that collects black market intelligence and identifies security threats, reports that the value of counterfeit identification and passports in the United States is approximately $100 million. Governments must also enforce the various anti-counterfeiting and anti-piracy regimes of their respective jurisdictions which becomes increasingly difficult with the continued expansion of global trade. To highlight the size of the problem, in April 2012 the European Parliament estimated that of the 6.5 million biometric passports in circulation in France, between 500,000 and one million are 'false,' having been obtained using counterfeit documents. Our overt and covert ink pigment platform can provide secure, forensic, and cost-effective anti-counterfeiting, anti-piracy and identification solutions to local, state, and federal governments as well as the defense contractors and the other companies that do business with them. Our pigment solution cans be used for all types of identification and official documents, such as:

- passports;
- permanent resident, or "green" cards and visas;
- drivers' licenses;
- Social Security cards;
- military identification cards;
- national transportation cards;
- security cards for access to sensitive physical locations; and
- other important identity cards, official documents and security-related cards.

The Company has a strategic partnership with AB Corp. based in Boston, Massachusetts, which is the largest manufacturer of plastic cards in North America. All of our revenue in 2016 was derived from AB Corp.

Pharmaceuticals

The pharmaceutical industry faces major problems relative to counterfeit, diluted, or falsely labeled drugs that make their way through healthcare systems worldwide, posing a health threat to patients and a financial threat to producers and distributors. Counterfeit prescription pharmaceuticals are a growing trend, widely recognized as a public health risk and a serious concern to public health officials, private companies, and consumers. The National Association of Boards of Pharmacy estimates that counterfeit drugs account for 1–2% of all drugs sold in the United States. The World Health Organization ("WHO") estimates the annual worldwide "take" from counterfeit drugs to be £13 billion (approximately $20 billion USD), a figure that is expected to double by the end of this decade. In some countries, counterfeit prescription drugs comprise as much as 70% of the drug supply and have been responsible for thousands of deaths, according to the WHO. Counterfeit pharmaceuticals are estimated to be a billion-dollar industry, though some estimate it to be much larger. In 2012, the WHO reported that in over 50% of cases, medicines purchased over the Internet from illegal sites that conceal their physical address have been found to be counterfeit. According to the WHO, counterfeiting can apply to both branded and generic products and counterfeit pharmaceuticals may include products with the correct ingredients but fake packaging, with the wrong ingredients, without active ingredients or with insufficient active ingredients.

Based on this growing threat, many countries have started to address vulnerabilities in the supply chain by enacting legislation which, among other things, requires the implementation of a comprehensive system designed to combat counterfeit, diluted or falsely labelled pharmaceuticals. These systems are often referred to as serialization, or in the United States as e-Pedigree (electronic pedigree). One jurisdiction that has enacted such regulations is California, which passed legislation requiring that 50% of all "dangerous drugs" (defined as all prescription drugs) that are distributed in California must be serialized and have an electronic pedigree by January 1, 2015; 100% of all dangerous drugs must have an electronic pedigree by January 1, 2016.

We believe that ePedigree and serialization requirements will likely be implemented in all aspects of the pharmaceutical supply chain, from the manufacturer to the packager, wholesaler, distributor and final dispensing entity. The ePedigree provides an "audit trail," or documented evidence, to help to identify and catch counterfeiting and diversion. Serialization requires manufacturers, or third-party packagers in some virtual supply chains, to establish and apply to the smallest saleable unit package or immediate container a "unique identification number." In some cases, drug makers are spending as much as 8-10% of a medicine pack's total production cost only on solutions to protect it from duplication and counterfeiting, according to company executives. Our unique pigments embedded in the ink of a unique serialized barcode can provide a layered security foundation for a customer solution in this market.

Consumer Products

Counterfeit items are a significant and growing problem with all kinds of consumer packaged goods, especially in the luxury retail and apparel industries. Our unique ink pigments can be incorporated in dyes and used by manufacturers in these industries to combat counterfeiting and piracy of actual physical goods. Our pigments expressed as inks can also be used on packaging, as well to track products that have been lost in transit, whether misplaced or stolen.

Food and Beverage

Counterfeit food threats are becoming more common as supply chains become more global and as imaging and manufacturing technology become more accessible. Numerous reports of counterfeit foods have been reported, including long-grain rice labelled and sold as basmati rice, Spanish olive oil bottled and sold as Italian olive oil, and mixtures of industrial solvents and alcohol sold as vodka. Although many of these stories have emerged from the U.K. and Europe, the fake-food problem is also relevant in the United States.

The National Center for Food Protection and Defense estimates that Americans pay $10 billion to $15 billion annually for fake food — often due to product laundering, dilution and intentionally false labeling. We believe our pigments and authentication tools can help in the battle against counterfeit foods and beverages.

Printing and Packaging

Counterfeiting in packaging has greatly intensified in recent years, causing concerns for consumers and financial concern for businesses worldwide. Billions of dollars per year are at stake for companies as they seek ways to ensure that the products sold with their logos and branding are authorized and authentic. The proliferation of counterfeiting requires brand owners and their converter/printer partners to work together to create a multi-layered protection plan so that their packaging and labels protect their brands and deter those trying to profit at their (and their reputation's) expense.

Counterfeiters have become so good at their unlawful activity that spotting the difference between legitimate and counterfeit products can be daunting. Counterfeiters have many ways to subvert legitimate brands. These may include taking an out-of-date product and selling it in packaging and labels that have been forged; sometimes, the packaging, labels and product itself are all counterfeited. Counterfeiters might also use legitimate packaging coupled with fake products. We believe our pigment security systems are a cost-effective solution for printer and packagers and are easily integrated into their existing manufacturing process.

The Opportunity

As counterfeiting continues to increase and losses to manufacturers and others continue to escalate, we believe that those entities will seek better technologies to minimize their exposure. These technologies, however, must also be cost-effective, easy to integrate, and highly resistant to counterfeiting themselves.

Our Solutions

In the areas of authentication and serialization of physical goods, we offer clients the following products as anti-counterfeit systems:

- RainbowSecure™;
- SecureLight™;
- SecureLight+™; and
- Authentication tools.

RainbowSecure TM technology was our first technology to be patented. It combines an invisible ink with a proprietary tuned laser to enable counterfeit products to be exposed. It has been widely accepted in the gaming industry, where the technology has been used by casinos to protect their chips, dice, and playing cards from fraud. The technology also features a unique double layer of security which remains entirely covert at all times and provides licensees with additional protection. RainbowSecure™ is particularly well-suited to closed and controlled environments, such as casinos that want to verify transactions within a specific area, and are not interested in outside public verification by consumers. The technology is also appropriate for anti-counterfeit protection of tags and labels in the apparel industry, where it can be applied to a variety of different materials in the form of dyes.

SecureLight TM technology was developed as a result of our investment in new proprietary color shifting inks that could penetrate broader markets and result in far greater revenues. During the past nine years, we have refined our technologies and their applications, and now have what we believe to be the easiest, most cost effective and efficient authentication technologies available in the world today. Our technology, known as SecureLight™, takes advantage of the new ubiquitous energy efficient fluorescent lighting to change the color of ink, resulting in hundreds of new applications ranging from credit cards to driver's licenses, passports, stock certificates, clothing labels, currency, ID cards, and tax stamps. The technologies can also be used to protect apparel, pharmaceuticals, and virtually any other physical product.

SecureLight+ TM technology combines the covert characteristics of RainbowSecure and the overt characteristics of SecureLight. This provides a solution which can be authenticated in two different ways - by proprietary tuned laser devices, and also by anyone with fluorescent lighting including end consumers.

Authentication tools have been developed which we can sell to customers in conjunction with pigments and are tuned to authenticate the unique frequency of each batch. This will allow for customers to instantly authenticate items with a customized beeper which will only positively identify a product bearing their unique anti-counterfeit solution. This authentication is provided in the form of an LED indicator and audible 'beep'.

Raw Material Suppliers

Our security pigments are manufactured from naturally occurring inorganic materials. The manufacturing process includes both chemical and mechanical elements. In many cases, we produce pigments that are unique to a particular customer or product line. This uniqueness can be achieved through a variety of techniques, including custom formulation or combination of our proprietary pigments and/or incorporation of other specialized taggants.

There are many manufacturers of these types of specialized pigments and we intend to maintain multiple simultaneous relationships to ensure ample sources of supply.

Distribution

We provide pigment mixing instructions for the specific uses of each client based on their existing equipment and processes. We maintain policies and procedures to monitor, track and log access to and disposition of all pigment. Our customers are also required to agree to and implement these policies and procedures.

Digital Authentication Technologies and Products

We believe accurate identification of human beings in electronic transactions, also known as Digital Identity Management, will continue to be a large and rapidly growing market. As more electronic transactions incorporate the exchange of value and money, the verification of the unique identity of human beings participating in those transactions becomes more important. In general, every electronic transaction has a least two actors – a subject and a relying party. The relying party has a business need to eliminate or reduce risk associated with the identification of the subject.

Electronic financial theft and electronic theft of private information make headlines almost every day - according to a 2015 Identity Fraud Study released by Javelin Strategy & Research, in 2014, $16 billion was stolen from 12.7 million U.S. consumers. The majority of this harm can be traced to weak authentication systems, such as Username/Password, yet these weak systems continue to be used in most of the world's transactional systems.

Historically, stronger authentication solutions, such as biometric, two-factor and multi-factor solutions have been difficult to use and expensive to deploy and operate. The extraordinary proliferation of smart phones and tablets provide an infrastructure for disruptive solutions that leverage the mobile nature of these devices and the multi-sensor computing capabilities.

VerifyMe Authenticator is a digital identity management platform that provides extensible authentication mechanisms that can be dynamically invoked to achieve a specified degree of identity assurance. The Authenticator platform incorporates a risk engine that associates individual risk parameters and scores with every unique authentication mechanism. The risk engine then generates aggregate risk scores based on the specific combination of individual authentication mechanisms used to confirm the identity of the human being.

When we have sufficient working capital, we will devote resources to resolving certain functionality issues, which presently affect our Authenticator technology.

Digital Authentication Industry Background

The growth in internet banking and internet commerce and the increasing use and reliance upon proprietary or confidential information that is remotely accessible by many users by businesses, government and educational institutions, has made information security a paramount concern. We believe that enterprises are seeking solutions that will continue to allow them to expand access to data and financial assets while maintaining network security.

A vendor in the user authentication market delivers on-premises software/hardware or a cloud-based service that makes real-time authentication decisions for users who utilize an arbitrary endpoint device (that is, not just Windows PCs or Macs) to access one or more applications, systems or services in a variety of use cases. Where appropriate to the authentication methods supported, a vendor in this market also delivers client-side software or hardware that end users utilize to make those real-time authentication decisions.

The market is mature, with several vendors offering products that have been continuously offered during the past three decades (although ownership has changed over that time). However, new methods and vendors continue to emerge, with the most rapid growth occurring within the past decade in response to the changing market needs for different trade-offs among trust, user experience ("UX") and total cost of ownership ("TCO"). The greater adoption of user authentication over a wider variety of use cases, the impact of mobile, cloud and big data analytics, and the emergence of innovative methods continue to be disruptive.

While over 100 authentication vendors currently operate in the market, the vast majority deliver two-factor authentication solutions. Even the few vendors that market biometric solutions simply combine them with a password for two-factor security.

Internet and Enterprise Security. With the advent of personal computers and distributed information systems in the form of wide area networks, intranets, local area networks and the Internet, as well as other direct electronic links, many organizations have implemented applications to enable their workforce and third parties, including vendors, suppliers and customers, to access and exchange data and perform electronic transactions. As a result of the increased number of users having direct and remote access to such enterprise applications, data and financial assets have become increasingly vulnerable to unauthorized access and misuse.

Individual User Security. In addition to the need for enterprise-wide security, the proliferation of personal computers, personal digital assistants and mobile telephones in both the home and office settings, combined with widespread access to the Internet, have created significant opportunities for electronic commerce by individual users such as electronic bill payment, home banking and home shopping.

The continued reliance by most enterprises on passwords and PINs has resulted in daily identity theft and data breaches, with massive attacks being announced almost every week. The companies that have been attacked and compromised private data include top brands in finance, retail, entertainment, technology and governments.

Strong Authentication Market

A strong authentication market has emerged, initially led by two-factor authentication solutions. Two-factor authentication solutions combine a password with a second factor, which typically involves proving possession of some object, which may include a one-time password token that generates rotating secret codes, a telephone via a callback or a SMS message, or an email address via emailing a secret code.

The global multifactor authentication ("MFA") market was valued at $3.6 billion in 2014 and is predicted to reach more than $9.6 billion by 2020 as three-, four- and five-factor authentication systems gain prominence. Part of this growth can be attributed to the rise of biometric security services, such as fingerprint, retina and facial scanning. A recent report found that all authentication methods using more than two factors included some form of biometric scanning.

Currently, 90% of the MFA market belongs to two-factor authentication. These “standard” methods include passwords, hardware tokens and PINs, although some systems do employ a secondary biometric scan. With a predicated compound annual growth rate of 19.67 percent over the next three years, however, it’s clear that the other 10 percent — and the biometric technology needed to support them — will play a large role. As it stands, three-factor authentication is mostly used in bank lockers and immigration, while four- and five-step methods only make an appearance in high-level government operations. Part of the problem is cost since it’s often prohibitive for a small business to roll out full facial recognition or install high-level fingerprint scanners.

Password Manager/Digital Wallet Market

2012 was the year of password theft, according to SecurityCoverage. The security software company says that in the first six months of 2012, online password breaches increased 300% over the same period in 2011. Since then, this growth rate has continued. In the case of the recent data breach of dating service Ashley Madison, it is expected that the exposed personally identifiable information of over 30 million people will directly lead to the compromise of other password based accounts and services.

Until companies figure out a better way to protect their data in the cloud, we believe that the best solution is to enforce higher security with password managers. Password managers provide tools to encrypt text files that can store passwords that are not Web based, such as Windows and Outlook passwords, Lotus Notes passwords, administration passwords including local and domain accounts, BIOS passwords, encrypted hard drive passwords, cell phone and voicemail passwords and iPad and iPhone passwords. Password managers promise greater security while improving the user experience.

The best password managers sync to the cloud across all dominant platforms and require multi-factor authentication. There are currently no password managers that utilize more than two-factor authentication and none that incorporate additional biometric mechanisms.

The Opportunity

As identity theft and data breaches continue to increase and losses to service providers and individuals continue to escalate, we see both enterprises and consumers seeking better solutions to protect their interests. These solutions must be cost effective, easy to integrate, and simple to use.

Any transaction or action which requires authentication of an individual is a potential opportunity for a strong multi-factor solution such as VerifyMe Authenticator. This is a very large market opportunity, within which we are focused on four specific segments:

- Subscription services market, where revenue is commonly lost due to multiple individuals sharing user credentials to access information and services;
- Online gaming market, where financial transactions are performed and also geo-location is very important to comply with state/country regulations;
- Financial services market, where there is a large financial risk to identity theft and fraud; and
- Physical access control market, where the identity of individuals is key to allow access to buildings.

Our Solution

VerifyMe Authenticator delivers an electronic authentication solution for identifying individual human beings. When a subject attempts to access an internet resource and asserts an identity, VerifyMe Authenticator attempts to authenticate the asserted identity. It does this utilizing multiple strong authentication mechanisms, involving at least three independent factors. VerifyMe Authenticator can deliver identity assurance consistent with National Institute of Standards and Technology (NIST) Level 4 authentication requirements as specified in Special Publication 800-63-1.

VerifyMe Authenticator is based around mobile apps that incorporate a password manager and single sign on (“SSO”) capability. In addition to facilitating strong authentication during the logon process to the enterprise resource or service, VerifyMe Authenticator also lets the user conveniently integrate and protect all of their legacy username and passwords.

Fast and Easy to Use

VerifyMe Authenticator replaces passwords and PINs with a quick, intuitive and user-friendly interface. Our customers are able to authenticate end users in multiple ways (multi-factor) in the same timeframe as a conventional password login. The Service is platform agnostic (available for IOS, Android, Mac and PC), and scalable for use on wearable personal devices.

Support for Any Authentication Method

VerifyMe Authenticator has the ability to authenticate individuals using facial recognition, fingerprint, voice scanning, retina scanning, swipe pattern recognition, location detection and approved IP detection. We believe that Authenticator can provide the highest levels of confidence, security and account protection to a businesses' customers, all within seconds. VerifyMe Authenticator are not limited to specific authentication factors. Our platform can support any available authentication mechanism, including those that require policy-driven mechanisms. We are continuing to add new authentication mechanisms , including mechanisms suitable for wearable devices and new biometrics.

Multi-Factor Confidence Scores

Depending on the desired level of confidence, different online and mobile application accounts can require varying quality scores. As the desired level of security increases, so does the required quality score to complete a sign-in transaction. As the quality score increases, additional authentication factors are added to the sign-in process.

Secure Platform, Easy to Integrate

VerifyMe Authenticator can be delivered either as managed service from our secure cloud or as licensed software which can be operated with existing infrastructure. VerifyMe Authenticator also features the following benefits:

- Available to be white-labeled and integrated into existing digital platforms;
- Non-Stop, audited, monitored, private cloud service;
- Three independent, fault tolerant, redundant data centers ("Rackspace");
- Global load balancing and traffic management;
- High level commercial API's can be integrated in hours; and
- Complete audit information, including fresh biometrics.

The three factors VerifyMe Authenticator utilize include, but are not limited to, the following:

Factor 1 – Something you have – a possession device – typically this is a registered mobile device, which we can authenticate either via SMS or email round robin protocol.

Factor 2 – Something you know – a knowledge factor – we currently utilize a color gesture swipe. This requires the subject to confirm their secret color and appropriately connect dots on a matrix consistent with their registered gesture pattern.

Factor 3 – Something you are – we utilize facial recognition to authenticate images captured in real-time using the registered device's built in camera, with images that were stored in the subject's profile during registration.

Our platform can be distinguished from competitors in that it is not limited to any of the above authentication mechanisms; VerifyMe Authenticator currently supports many more authentication mechanisms and we intend to continue expanding this list. For example, our platform is not limited to facial recognition as a biometric mechanism. It currently supports voice, fingerprint and other mechanisms.

In addition, VerifyMe Authenticator includes a risk-scoring engine that is able to enforce complex, customer specific authentication policies and shield them from the underlying complexity of evaluating multiple, independent authentication mechanisms. This risk engine allows us to constantly add new authentication mechanisms as they emerge. We see the emerging market of wearable devices as providing new authentication mechanisms that will be very simple and reliable for the end-user. Because our risk engine insulates the enterprise from the complexity of having to interface with all these different platforms, they are available to benefit from and insure their customers can utilize these devices to their full potential.

VerifyMe Authenticator is platform agnostic (available for IOS, Android, Mac, Linux and Windows) and scalable for use on wearable personal devices. The digital platform is an enterprise solution, which combines multiple independent authentication factors and can also determine geo-location utilizing a number of mechanisms including GPS, cell tower triangulation and IP/WIFI address. Because the service utilizes biometrics and liveness detection, it eliminates the possibility that users might share their authentication credentials, or that user accounts can be accessed by other individuals. The combination of biometrics and geo-location provides extremely strong transactional evidence, making it nearly impossible for an end-user to refute having been part of a transaction.

The VerifyMe Authenticator technology requires additional research and development efforts to produce the full array of features described above. We do not presently have sufficient working capital to resolve certain functionality issues affecting this technology.

Our Technology

We have attempted to achieve sufficient flexibility in our products and technologies so as to provide cost-effective solutions to a wide variety of counterfeiting problems. We intend to generate revenues primarily by selling pigment to manufacturers who incorporate our technologies into their manufacturing processes and their products as well as through licensing fees where we are providing unique or custom solutions.

Our Intellectual Property

Intellectual property is important to our business. Our current patent portfolio consists of nineteen granted patents and six applications pending. While some of our granted patents are commercially ready, we believe that others may have commercial application in the future but will require additional capital and/or a strategic partner in order to reach the potential markets. All of our patents are related to the inventions described above. Our patents begin to expire between the years 2019 and 2031.

We continue to develop new anti-counterfeiting technologies and to apply for patent protection for these technologies wherever possible. When a new product or process is developed, we may seek to preserve the economic benefit of the product or process by applying for a patent in each jurisdiction in which the product or process is likely to be exploited.

The granting of a patent does not prevent a third party from seeking a judicial determination that the patent is invalid. Such challenges to the validity of a patent are not uncommon and can be successful. There can be no assurance that a challenge will not be filed to one or more of our patents, if granted, and that if filed, such a challenge will not be successful.

We believe that the physical technologies we own will enable businesses and consumers to reconstruct their overall approaches to security—from counterfeit identification to employee or customer monitoring. Potential applications of our technologies are available in different types of products and industries—e.g., gaming, apparel, tobacco, fragrances, pharmaceuticals, event and transportation tickets, driver's licenses, insurance cards, passports, computer software, and credit cards. We generate sales through licenses of our technology or through direct sales of our technology.

Research and Development

We have been involved in research and development since our inception and intend to continue our research and development activities, funds permitting. Until January 1, 2013, our research and development focused on pigment technologies. Since January 1, 2013, we have allocated research and development efforts between digital and pigment technologies. We hope to expand our technology into new areas of implementation and to develop unique customer applications. We spent approximately $0.3 million and $2.4 million on research and development during the years ended December 31, 2016 and 2015.

Our Revenue Model

To date, we have not generated significant revenue. We believe that creating demand for our products and services will require a marketing program that effectively reaches potential customers. In developing our most recent marketing approach, we have attempted to achieve sufficient flexibility in our products and technologies so as to provide cost-effective solutions to a wide variety of counterfeiting problems. We intend to generate revenues primarily by collecting license fees from manufacturers who incorporate our technologies into their manufacturing processes and user authentication protocols, as well as through the sale of pigments to be incorporated in inks and dyes and the sale of authentication tools.

Sales and Marketing Strategy

We plan to direct our sales and marketing strategy at multiple target groups as follows:

Consumer Product Security	• Pharmaceuticals • Luxury goods • Tobacco • Alcohol • Auto parts • Aviation parts • Any other packaging requirements
Documents of Value	• Currency • Stock certificates and bonds • Event tickets • Lottery tickets
Homeland Security	• Passports • ID cards • Driver’s licenses • Visas • Container seals • Pallet security
Gaming	• Online gaming sites • Casino chips • Dice • Playing cards • E-proms/critical memory devices • Lottery tickets
Product Diversion Tracking	• Pharmaceuticals • Apparel/licensed merchandise • Cosmetics and fragrances • Watches and jewelry
Financial Services and Products	• Consumer login credentials • Online transaction approval • Credit cards • Bank checks • Financial documents/promissory notes

We plan for our sales and marketing strategy to include an outreach program and sales programs that tailor the product to the governmental body or merchant, as well as key partnerships with authorities and merchants whose products or audiences can be complementary to our own. In particular, we will focus on building relationship with key partners who can deliver our products to their existing and prospective customers in target markets - i.e., printer/packagers, plastic card manufacturers and financial services intermediaries.

Competition

The market for protection from counterfeiting, diversion, theft and forgery is a mature 25-year-old industry dominated by a number of large, well-established companies, particularly in the area of traditional overt security technologies. This is due to the fact that security printing for currency production, for example, began in Europe over a century ago and has resulted in the establishment of old-line security printers which have branched out into brand and product protection as well. In North America, brand protection products, such as tamper-resistant packaging, security labels, and anti-theft devices are readily available and utilized on a widespread basis. In recent years, however, demand has increased for more sophisticated overt and covert security technologies. Competitors can be segregated into the following groups: (i) Security Ink Manufacturers. These are generally well-established companies such as SICPA and Sun Chemical, whose core business is printing inks; (ii) System Integrators. These companies have often evolved from other sectors in the printing industry, mainly security printing manufacturers, technology providers, or packaging and label manufacturers. These companies offer a range of security solutions, enabling them to provide a complete suite of solutions tailored to the customer's specific needs and requirements. The companies in this space include 3M, DuPont, Honeywell, and Avery Dennison; (iii) System Consultancy Groups. These companies offer a range of technologies from several different providers and tailor specific solutions to end-users; (iv) Traditional Authentication Technology Providers. These purveyors include American Banknote Holographics and Digimarc, which provide holograms and digital watermarking, respectively; (iv) Product Diversion Tracking Providers. Next-Generation Technology Providers LLC falls into this group, along with several companies such as Applied DNA Sciences, Authentix, DNA Technologies, and Identif, which provide on-product and in-product tagging technologies; (v) Traditional Security Printers. This group includes traditional security printers such as Thomas de la Rue and Portals, whose core products are printing the world's currencies; and (vi) Biometric Solution Providers. These companies offer biometric authentication capabilities to be integrated with existing mobile device authentication, such as ImageWare Systems.

To compete effectively, we expect that we will need to expend significant resources in technology and marketing. Each of our competitors has substantially greater financial, human and other resources than we have. As a result, we may not have sufficient resources to develop and market our services to the market effectively, if at all.

We expect competition with our products and services to continue and intensify in the future. We believe competition in our principal markets is primarily driven by:

- product performance, features and liability;
- price;
- timing of product introductions;
- ability to develop, maintain and protect proprietary products and technologies;
- sales and distribution capabilities;
- technical support and service;
- brand loyalty;
- applications support; and
- breadth of product line.

If a competitor develops superior technology or cost-effective alternatives to our products, our business, financial condition and results of operations could be significantly harmed.

Major Customers/Vendors
During the years ended December 31, 2016 and 2015, one and three customers accounted for 100.0% of total sales. Generally, a substantial percentage of the Company's sales has been made to a small number of customers and is typically on an open account basis.

During the years ended December 31, 2016 and 2015, we purchased 100.0% of our pigment from one vendor.

Facilities
Our principal offices are located at 409 Boot Road, Downingtown, PA 19335.

We believe that our office is suitable and adequate for our current needs but we do anticipate seeking more permanent office .

Employees

As of March 31, 2017, we had one full time employee.

ITEM 1A. RISK FACTORS .

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following Risk Factors before deciding whether to invest in our Company. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations or our financial condition. If any of the events discussed in the Risk Factors below occur, our business, consolidated financial condition, results of operations or prospects could be materially and adversely affected. In such case, the value and marketability of the common stock could decline.

Risks Relating to Our Business

Lack of working capital has severely curtailed our operations, and if we cannot complete a financing in the near future, we will be required to cease operations.

Due to lack of working capital, we have reduced our personnel to a single employee and our two executive officers, who serve as consultants, and we are marketing SecureLightTM and Rainbow SecureTM, which are the only products we currently have in inventory and available for sale. We incurred a net loss of $1.6 million during the year ended December 31, 2016. As of April 12, 2017, we expect that we can manage our accounts payable and sustain our scaled operations until April 30, 2017. Because small companies like ours generally face more obstacles in obtaining financing, we cannot assure you that we will be successful in raising additional capital if needed. Aditionally, if we complete a financing it will be very dilutive to shareholders. Further, even if we do raise all or substantially all of the capital we are seeking, it is likely we will need to implement another financing in the future.

Our ability to continue as a going concern is in doubt unless we obtain adequate new debt or equity financing and achieve sufficient sales levels.

As noted above, we have incurred significant net losses to date. We anticipate that we will continue to lose money for the foreseeable future. Additionally, we have negative cash flows from operations. Our continued existence is dependent upon generating sufficient working capital and obtaining adequate new debt or equity financing. Because of our continuing losses, without improvements in our cash flow from operations or new financing, we will have to continue to restrict our expenditures. Working capital limitations have impinged on our day-to-day operations, which contribute to continued operating losses.

If we are unable to reach an agreement with certain holders of our securities, any future financing may be very dilutive.

Holders of our preferred stock and certain warrants issued in February 2016 and November 2016 contain anti-dilution provisions that would apply in the event of any lower-priced financing and which would entitle the holders to additional warrants and additional shares of stock upon conversion of the preferred stock. Although we have an oral agreement with the November investors, we must reach a solution with the February investors that would permit a lower-priced financing with less extensive dilution. However, we cannot assure you that we will be successful in reaching an agreement. If we cannot do so, we cannot remain operational.

Because our management team has experienced turnover in recent periods, it may be difficult to evaluate our existing future prospects and the risk of success or failure of our business.

We have had numerous changes to our board of directors and executive officer roles in recent years. To provide stability and guidance, our founder, Norman Gardner, recently returned to the company and became Chairman and CEO. As a result of the turnover, it may be more difficult to project whether we will be successful in growing our business even if we are able to raise capital.

If we cannot expand our operations, or if we cannot manage our growth effectively, we may not become profitable.

As discussed above, due to limited operating capital, we are presently operating on a minimal scale, and we require immediate financing to expand our operations in order to generate revenue. However, businesses which grow rapidly often have difficulty managing their growth. If we successfully obtain financing, we intend to grow rapidly and we will need to expand our management by recruiting and employing experienced executives and key employees capable of providing the necessary support. We cannot assure you that our management will be able to manage our growth effectively or successfully. Our failure to meet these challenges could cause us to lose money, and your investment could be lost.

Our competitors in the anti-counterfeiting industry have much greater financial resources than we do and more functional technology offerings than we currently have. Therefore, we may not be able to successfully compete with them.

The market for protection from counterfeiting, diversion, theft and forgery is a mature 25-year-old industry dominated by a number of large, well-established companies, as described under “Competition,” above. To compete effectively, we will need to expend significant resources in technology and marketing. Each of our competitors has substantially greater financial, human and other resources than we have. As a result, we may not have sufficient resources to develop and market our services effectively, if at all. Further, as described below, our primary digital technology is not currently fully functional. If we cannot bring this product to functionality, we may not be able to compete in the key digital sector, which will harm our operating results.

If we are unable to hire an experienced sales team, or they are unsuccessful, we may not be able to generally material revenue.

Presently our sales personnel consists of one employee. Our potential customers are large companies which do not impulsively enter into large contracts. Accordingly, a portion of the proceeds we may receive will be used to hire more sales persons and support the sales effort. If we are unable to retain the right sales persons or they are unsuccessful, we may be unable to generate material revenue.

In order to market our digital technology, we need to resolve certain functionality issues but we do not presently have resources to engage in research and development activities.

Our VerifyMe Authenticator technology, described above, does not presently function as intended. Due to our lack of operating capital, we have been unable to invest in the research and development needed to bring this product to full functionality. Further, we cannot guarantee that even with sufficient financial resources we would be able to make this product fully functional, or that if functional, it would appeal to customers. If we cannot make the product function, or if it is not appealing to customers, we will not be able to compete in the digital technology sector, and our business may be unable to generate sufficient revenues to be profitable.

If we fail to protect or enforce our intellectual property rights, or if the costs involved in protecting and defending these rights are prohibitively high, our business and operating results may suffer.

We regard the protection of our trade secrets, copyrights, trademarks, domain names and other product rights as critical to our success. We strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We may enter into confidentiality and invention assignment agreements with our employees and contractors and confidentiality agreements with parties with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. However, these contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary information or deter independent development of similar technologies by others.

As management deems appropriate, we will pursue the registration of our domain names, trademarks, and service marks in the United States and in certain locations outside the United States as we grow and launch our products. We will seek to protect our trademarks, patents and domain names in an increasing number of jurisdictions, a process that is expensive and time-consuming and may not be successful or which we may not pursue in every location. We may, over time, increase our investment in protecting our innovations through increased patent filings that are expensive and time-consuming and may not result in issued patents that can be effectively enforced. The Leahy-Smith America Invents Act ("the Leahy-Smith Act") was adopted in September 2011. The Leahy-Smith Act includes a number of significant changes to United States patent law, including provisions that affect the way patent applications will be prosecuted and may also affect patent litigation. One of the key provisions of this law, changing the U.S. patent registry from a "first to invent" to a "first inventor to file" system, has only been effective since March 2013, and the effects of this change on small businesses like ours are not yet clear. It is remains possible that the Leahy-Smith Act and its implementation will increase the uncertainties and costs surrounding the prosecution of patent applications and the enforcement or defense of issued patents, all of which could harm our business.

If we are required to sue third parties who we allege are violating our intellectual property rights, or if we are sued for violating a third party's patents or other intellectual property rights, we may incur substantial expenses, and we could incur substantial damages, including amounts we cannot afford to pay.

Litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights claimed by others. Patent and intellectual property litigation is extremely expensive and beyond our ability to pay. While third parties do, under certain circumstances, finance litigation for companies that file suit, we cannot assure you we could find a third party to finance any claim we choose to pursue. Moreover, third parties do not finance companies that are sued. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs, adverse publicity or diversion of management and technical resources, any of which could adversely affect our business and operating results. If we fail to maintain, protect and enhance our intellectual property rights, our business and operating results may be harmed.

From time to time, we may face allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including from our competitors and inactive entities. Patent and other intellectual property litigation may be protracted and expensive, and the results are difficult to predict. As the result of any court judgment or settlement we may be obligated to cancel the launch of a new feature or product, stop offering certain features or products, pay royalties or significant settlement costs, purchase licenses or modify our products and features while we develop substitutes.

Evolving regulations concerning data privacy may result in increased regulation and different industry standards, which could prevent us from providing our current products to our users, or require us to modify our products, thereby harming our business.

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the Internet and mobile platforms have recently come under increased public scrutiny, and civil claims alleging liability for the breach of data privacy have been asserted against companies like ours. The U.S. government, including the Federal Trade Commission and the Department of Commerce, has announced that it is reviewing the need for greater regulation for the collection of information concerning consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. In addition, the European Union is in the process of proposing reforms to its existing data protection legal framework, which may result in a greater compliance burden for companies with users in Europe. Various government and consumer agencies have also called for new regulation and changes in industry practices. In addition, our business could be adversely affected if laws or regulations are adopted, interpreted, or implemented in a manner that is inconsistent with our current business practices and that require changes to these practices, the design of our website, products, features or our privacy policy. In particular, the success of our business will be driven by our ability to responsibly use the data that our users share with us. Therefore, our business could be harmed by any significant change to applicable laws, regulations or industry practices regarding the use or disclosure of data our users choose to share with us, or regarding the manner in which the express or implied consent of users for such use and disclosure is obtained. Such changes may require us to modify our products and features, possibly in a material manner, and may limit our ability to develop new products and features that make use of the data that our users voluntarily share with us.

Because we will process and store some of the personal information of our users, including credit card and other payment information, we are potentially vulnerable to s ecurity breaches resulting in the theft of confidential information, which would adversely affect our business.

Once we re-launch our digital technology operations, we will receive, store and process personal information and other user data, and we enable our users to share their personal information with each other and with third parties, including on the Internet and mobile platforms. There are numerous federal, state and local laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other user data on the Internet and mobile platforms, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. Compliance with these rules may be costly. Further, while we will take steps to protect our users' confidential information from misuse and theft, we cannot guarantee that our electronic systems for storing and processing personal and credit card information will not be vulnerable to security breaches. Our own errors in the storage, use or transmission of personal information could also result in a breach of user privacy. If our users' confidential information is stolen or inadvertently disseminated, we may become subject to lawsuits or other proceedings for purportedly fraudulent transactions or invasions of privacy. In addition, we could face in liability under state and federal privacy statutes and legal or administrative actions by state attorneys general, private litigants, and federal regulators. Any such claim or proceeding, or any adverse publicity resulting from these allegations, may harm our reputation, discourage users and potential users, and have a material adverse effect on our business, financial condition, results of operations and cash flows.

Because we are, and will continue to be, dependent on certain third party vendors for key services, we are vulnerable to disruptions in the supply of these services which are beyond our control, and which could harm our operations.

The Company currently depends on a single vendor of pigment for the inks we sell, and we may continue to be dependent on a small number of third party suppliers in the future, including servicers relating to our electronic technology. We cannot be certain that any of these providers will be willing and able to provide these services in an efficient and cost-effective manner or that they will be willing or able to meet our evolving needs. If our potential vendors or service providers fail to meet their obligations, provide poor, inaccurate or untimely service, or we are unable to make alternative arrangements for the supply of these services, we may fail, in turn, to provide our services or to meet our obligations to our users and our business, financial condition and our operating results could be materially harmed.

Risks Relating to Our Common Stock

Because our common stock is subject to the "penny stock" rules, brokers cannot generally solicit the purchase of our common stock, which adversely affects its liquidity and market price.

The Securities and Exchange Commission ("SEC") has adopted regulations which generally define "penny stock" to be an equity security that has a market price of less than $5.00 per share, subject to specific exemptions. The market price of our common stock on the OTCQB is presently less than $5.00 per share and therefore we are considered a "penny stock" according to SEC rules. Further, we do not expect our stock price to rise above $5.00 in the immediate future. The "penny stock" designation requires any broker-dealer selling these securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules limit the ability of broker-dealers to solicit purchases of our common stock and therefore reduce the liquidity of the public market for our shares.

Moreover, as a result of apparent regulatory pressure from the SEC and the Financial Industry Regulatory Authority, a growing number of broker-dealers decline to permit investors to purchase and sell or otherwise make it difficult to sell shares of penny stocks. The "penny stock" designation may continue to have a depressive effect upon our common stock price.

If one of the beneficial owners of our warrants were to exercise his warrants, he would gain control of our company and might be able to exert control over us to the detriment of minority shareholders.

As detailed under Item 12, below, Mr. Laurence J. Blickman, through an affiliated trust and defined benefit plan, holds a number of warrants to purchase common stock which, if exercised, would make him the beneficial owner of over 42% of our outstanding common stock. These warrants are not presently in the money, and we are not aware of any intention by Mr. Blickman to exercise these warrants or exert control over our management. Further, Mr. Blickman has historically been very supportive of our Company. However, investors should be aware that Mr. Blickman, if he did choose to exercise his warrants, would be able to control our management and affairs and all matters requiring shareholder approval, including significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing our change in control and might affect the market price of our common stock. For more information see Item 12, below.

If our common stock becomes subject to a "chill" imposed by the Depository Trust Company, or DTC, your ability to sell your shares may be limited.

The DTC acts as a depository or nominee for street name shares that investors deposit with their brokers. DTC in the last several years has increasingly imposed a chill or freeze on the deposit, withdrawal and transfer of common stock of issuers whose common stock trades on the tiers of the OTC Markets. Depending on the type of restriction, a chill or freeze can prevent shareholders from buying or selling shares and prevent companies from raising money. A chill or freeze may remain imposed on a security for a few days or an extended period of time (in at least one instance a number of years). While we have no reason to believe a chill or freeze will be imposed against our common stock again in the future, if it were your ability to sell your shares would be limited. In such event, your investment will be adversely affected.

Because we may issue preferred stock without the approval of our shareholders and have other anti-takeover defenses, it may be more difficult for a third party to acquire us and could depress our stock price .

In general, our Board may issue, without a vote of our shareholders, one or more additional series of preferred stock that have more than one vote per share, although the Company's ability to designate and issue preferred stock is currently restricted by covenants under our agreements with prior investors. Without these restrictions, our Board could issue preferred stock to investors who support us and our management and give effective control of our business to our management. Additionally, issuance of preferred stock could block an acquisition resulting in both a drop in our stock price and a decline in interest of our common stock. This could make it more difficult for shareholders to sell their common stock. This could also cause the market price of our common stock shares to drop significantly, even if our business is performing well.

Because we cannot raise capital from conventional bank financing, shareholders will be diluted in the future as a result of the issuance of additional securities.

To meet our working capital needs, we expect to issue additional shares of common stock or securities convertible, exchangeable or exercisable into common stock from time to time, which could result in substantial dilution to investors. Investors should anticipate being substantially diluted based upon the current condition of the capital and credit markets and their impact on small companies.

Because we may not be able to attract the attention of major brokerage firms, it could have a material impact upon the price of our common stock.

It is not likely that securities analysts of major brokerage firms will provide research coverage for our common stock since these firms cannot recommend the purchase of our common stock under the penny stock rules referenced in an earlier risk factor. The absence of such coverage limits the likelihood that an active market will develop for our common stock. It may also make it more difficult for us to attract new investors at times when we require additional capital.

Since we intend to retain any earnings for development of our business for the foreseeable future, you will likely not receive any dividends for the foreseeable future.

We have not paid dividends in the past and do not intend to pay any dividends in the foreseeable future, as we intend to retain any earnings for development and expansion of our business operations. As a result, you will not receive any dividends on your investment for an indefinite period of time.

ITEM 1B. UNRESOLVED STAFF COMMENTS .

None.

ITEM 2. PROPERTIES .

Our principal offices are currently located at 409 Boot Road, Downingtown, PA 19335.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. MINE SAFETY DISCLOSURES .

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES .

Our common stock is quoted on the OTCQB under the trading symbol "VRME". The following table sets forth the range of high and low bid prices of our common stock for the periods indicated as reported by the OTCQB, Inc. Until recently, there was only sporadic and intermittent trading activity of our common stock. The quoted prices represent only prices between dealers on each trading day as submitted from time to time by certain of the securities dealers wishing to trade in our common stock, do not reflect retail mark-ups, mark-downs or commissions, and may differ substantially from prices in actual transactions.

Fiscal Year Ended December 31, 2015	**High**	**Low**
Quarter ended March 31, 2015	$ 3.74	$ 0.85
Quarter ended June 30, 2015	$ 8.08	$ 0.54
Quarter ended September 30, 2015	$ 6.20	$ 1.31
Quarter ended December 31, 2015	$ 2.94	$ 0.50

Fiscal Year Ended December 31, 2016	**High**	**Low**
Quarter ended March 31, 2016	$ 2.5	$ 0.435
Quarter ended June 30, 2016	$ 0.75	$ 0.09
Quarter ended September 30, 2016	$ 0.44	$ 0.07
Quarter ended December 31, 2016	$ 0.39	$ 0.10

Common Stockholders

As of March 31 , 2017, our shares of common stock were held by approximately 1,326 stockholders of record.

Dividend Policy

We have never declared or paid a cash dividend. At this time, we do not anticipate paying dividends in the foreseeable future. The declaration and payment of dividends is subject to the discretion of our board of directors (the "Board") and will depend upon our earnings (if any), our financial condition, and our capital requirements.

Recent Sales of Unregistered Securities

On October 24, 2016, the Company issued to certain accredited investors 166,750 shares of 0% Series D Convertible Preferred Stock, par value $0.001 per share ("Series D") at a purchase price of $0.40 per share with gross proceeds to the Company of $66,700. In connection with the sale of the Series D, the Company issued to the purchasers warrants to purchase in the aggregate 667,000 shares of the Company's common stock at an exercise price of $0.40 per share. Each share of Series D is convertible into one share of common stock, subject to adjustment for lower priced issuances.

The foregoing issuances of the securities were exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(a)(2) and Rule 506 as transactions not involving a public offering.

ITEM 6. SELECTED FINANCIAL DATA .

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS .

This Management's Discussion and Analysis of Financial Condition and Results of Operation and other parts of this Annual Report on Form 10-K contain forward-looking statements that involve risks and uncertainties. All forward-looking statements included in this Annual Report on Form 10-K are based on information available to us on the date hereof, and except as required by law, we assume no obligation to update any such forward-looking statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors. The following should be read in conjunction with our annual financial statements contained elsewhere in this report.

Overview

VerifyMe is a technology pioneer in the anti-counterfeiting industry. This broad market encompasses counterfeiting of physical and material goods and products, as well as counterfeiting of identity in digital transactions. We can deliver security solutions for identification and authentication of people, products and packaging in a variety of applications in the security field for both digital and physical transactions. Our products can be used to manage and issue secure credentials, including national identifications, passports, driver licenses and access control credentials, as well as comprehensive authentication security software to secure physical and logical access to facilities, computer networks, internet sites and mobile applications.

The challenges associated with digital access control and identity theft are problems that are highly relevant in the world today. Consumers, citizens, employees, governments and employers demand comprehensive solutions that are reliable but not intrusive. The current widespread use of passwords or PINs for authentication has been proven insecure and inadequate. Individuals increasingly expect anywhere-anytime experiences—whether they are making purchases, crossing borders, accessing services or logging into online accounts or corporate resources. They expect those experiences to ensure the protection of their privacy and to provide uncompromising confidentiality.

We believe that the digital technologies we own will enable businesses and consumers to reconstruct their overall approaches to security—from identity and authentication to the management of legacy passwords and PINs. We empower our customers to take advantage of the full capabilities of smart mobile devices and provide solutions that are both simple to use and deliver the highest level of security. These solutions can be applied to corporate networks, financial services, e-gov services, digital wallets, mobile payments, entertainment, subscription services, and social media.

Brand owners, government agencies, professional associations, and others all share in the challenge of responding to counterfeit goods and product protection issues. Counterfeit goods span across multiple industries including from currency, passports, ID cards, pharmaceuticals, apparel, accessories, music, software, food, beverages, tobacco, automobile and airplane parts, consumer goods, toys and electronics. Described by the U.S. Federal Bureau of Investigation as the crime of the twenty-first century, product counterfeiting accounts for an estimated 2.5% of global trade or $461 billion and wreaks dire global health, safety and economic consequences on individuals, corporations, government and society.

We believe that the physical technologies we own will enable businesses and consumers to reconstruct their overall approaches to security—from counterfeit identification to employee or customer monitoring. Potential applications of our technologies are available in different types of products and industries—e.g., gaming, apparel, tobacco, fragrances, pharmaceuticals, event and transportation tickets, driver's licenses, insurance cards, passports, computer software, and credit cards. We generate sales through licenses of our technology or through direct sales of our technology.

Our physical technologies involve the utilization of invisible and/or color shifting/changing inks, which are compatible with today's printing machines. The inks may be used with certain printing systems such as offset, flexographic, silkscreen, gravure, and laser. Based upon our experience, we believe that the ink technologies may be incorporated into existing manufacturing processes. We believe that some of our patents may have non-security applications, and we are attempting to commercialize these opportunities.

Our digital technologies involve the utilization of multiple authentication mechanisms, some of which we own and some of which we license. These mechanisms include biometric factors, knowledge factors, possession factors and location factors. Biometric factors include facial recognition with liveness detection, finger print and voice recognition. Knowledge factors include a personal gesture swipe and a safe and [panic] color choice. Possession factor includes devices that the user has in their possession such as a smartphone, smart watch, and other wearable computing devices. The location factor geo-locates the user during a secure login. We surround these authentication mechanisms with proprietary systems that improve the usability and the security of the solutions. Our solutions allow the assessment and quantification of risk using a sophisticated heuristic scoring mechanism. We have specialized systems that perform 'liveness' detection to insure the subject of authentication is in fact a live human being. We have systems that introduce learning capabilities into our solutions to improve the ease of use and flexibility.

Results of Operations

Comparison of the Years Ended December 31, 2016 and 2015

The following discussion analyzes our results of operations for the years ended December 31, 2016 and 2015. The following information should be considered together with our financial statements for such periods and the accompanying notes thereto.

Revenue/Net Loss

We have not generated significant revenue since our inception. For the years ended December 31, 2016 and 2015, we generated revenues of $37,055 and $217,268. Our net loss was $1,646,255 for the year ended December 31, 2016, a decrease of $655,630 from a net loss of $2,301,885 for the year ended December 31, 2015, primarily as a result of cost conservation measures, which included reducing the number of employees and salary reductions.

Cost of Sales

For the years ended December 31, 2016 and 2015, we incurred proprietary technology costs of sales of $24,363 and $65,723. Cost of sales was lower for the year end December 31, 2016, since we had lower sales volumes.

General and Administrative Expenses

General and administrative expenses were $1,010,648 for the year ended December 31, 2016 compared to $449,483 for the year ended December 31, 2015, an increase of $561,165. The increase is attributable primarily to increased consulting expenses of approximately $762,000, including non-cash option and warrant expense of approximately $606,000, offset by approximate decreases in bad debt expense of $62,000, depreciation of $67,000, SEC filing fees of $32,000, rent expense of $43,000 and website expenses of $41,000.

Legal and Accounting

Legal and accounting fees decreased $44,769 to $414,032 for the year ended December 31, 2016 from $458,801 for the year ended December 31, 2015. The decrease in legal and accounting fees related to cost containment measures implemented in the last quarter of 2016.

Payroll Expenses

Payroll expenses decreased to $1,789,303 for the year ended December 31, 2016 from $1,875,488 for the year ended December 31, 2015, a decrease of $86,185. The majority of the decrease was the result of reduced sales and marketing payroll expenses during the year ended December 31, 2016.

Research and Development

Research and development expenses decreased $2,162,653 to $250,180 for the year ended December 31, 2016 from $2,412,833 for the year ended December 31, 2015. The decrease in research and development expenses was due to license fees related to the Patent and Technology License Agreement which were $2,000,000 in 2015 and did not reoccur in 2016.

Sales and Marketing

Sales and marketing expenses for the year ended December 31, 2016 were $282,867 as compared to $197,430 for the year ended December 31, 2015, an increase of $85,437. The increase was related to deferred compensation costs for consultants hired at the end of 2015, for which the expense was incurred primarily in 2016.

Interest Expense

During the year ended December 31, 2016, we incurred interest expense of $12,871, as compared to $61,438 for the year ended December 31, 2015, a decrease of $48,567. The decrease in interest expense relates to the conversion of notes payable and accrued interest into common stock as part of the restructuring transaction in June 2015.

Gain (Loss) on Extinguishment of Debt

The gain from extinguishment of debt was $0 for the year ended December 31, 2016 and $332,523 for the year ended December 31, 2015. The gain on extinguishment of debt was a result of the excess fair value of the notes payable and accrued interest over the value of the common stock issued, and accrued interest thereon, that were part of the restructuring transaction in June 2015.

Change in Fair Value of Warrants

During the year ended December 31, 2016, the Company benefitted from the change in the fair value of warrants in the amount of $3,357,149 as compared to $2,669,520 for the year ended December 31, 2015. The change resulted from the re-valuation of warrants associated with the Investment Agreement entered into on December 31, 2012, the Subscription Agreement entered into on January 31, 2013, the notes payable issued during 2014 and warrants issued in February and October of 2016. The value of the warrant liability has decreased because the value of the Company's stock has decreased during 2016.

Change in Fair Value Embedded Derivative Liability

During the year ended December 31, 2016, the Company benefitted from the change in fair value of the embedded derivative liability in the amount of $698,303 as compared to $0 for the year ended December 31, 2015. The decrease in the fair value of the embedded derivative liability was due to the decrease in the price of the Company's common stock from the dates of the Subcription Agreements, February 2016 and October 2016, to December 31, 2016.

Fair Value of Warrants in Excess of Consideration for Convertible Preferred Stock

During the year ended December 31, 2016, the Company issued warrants with convertible preferred stock. The fair value of the warrants were in excess of consideration for the convertible stock and resulted in a loss of $1,949,517. No such transaction occurred during the ended December 31, 2015.

Liquidity and Capital Resources

Net cash used in operating activities increased $1,344,708 to $1,344,708 for the year ended December 31, 2016 as compared to $1,495,315 for the year ended December 31, 2015. The decrease resulted primarily from operational changes discussed previously.

Net cash used in investing activities was $0 for the year ended December 31, 2016, materially unchanged from $2,532 for the year ended December 31, 2015.

Net cash provided by financing activities increased by $74,843 to $1,363,200 for the year ended December 31, 2016 from $1,438,043 for the year ended December 31, 2015. Cash provided by financing activities during the year ended December 31, 2016, consisted primarily of our Series C and Series D Preferred Stock offerings which raised $1,284,200 and bridge loans of $79,000. Financings during the year ended December 31, 2015 related to our Series A Preferred Stock offering.

Since our inception, we have focused on developing and implementing our business plan. Our business plans are dependent on our ability to raise capital through private placements of our common stock and/or preferred stock, through the possible exercise of outstanding options and warrants, through debt financing and/or through future public offering of our securities.

As of April 12, 2017 we had cash resources of approximately $11,000. Our existing cash resources are not sufficient to sustain our operations during the next twelve months, and we may need to raise additional funds in the future. To supply immediate working capital, we are seeking to raise a minimum of $600,000 and a maximum of $1.75 million from the sale of units of common stock and warrants. In order to do so, we must obtain concessions from the purchasers in our Series C Convertible Preferred Stock (the "Series C") offering as well as the Series D investor and our lender must convert its outstanding notes into common stock. While we have oral agreements with the holders of our Series D and notes, we are uncertain if the Series C investors will agree to the concessions. If we are unsuccessful in obtaining the concessions and raising capital, we will cease operations.

Off-Balance Sheet Arrangements

As of December 31, 2016, we did not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Critical Accounting Policies

Our financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. A complete summary of these policies is included in note 1 of the notes to our financial statements included elsewhere herein. We have identified below the accounting policies that are of particular importance in the presentation of our financial position, results of operations and cash flows and which require the application of significant judgment by management.

Stock-based Compensation
We account for stock-based compensation under the provisions of FASB ASC Topic 718, Compensation—Stock Compensation ("ASC 718"), which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. We estimate the fair value of stock-based awards on the date of grant using the Black-Scholes model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods using the straight-line method.

We account for stock-based compensation awards to non-employees in accordance with FASB ASC Topic 505-50, Equity-Based Payments to Non-Employees ("ASC 505-50"). Under ASC 505-50, we determine the fair value of the warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

All issuances of stock options or other equity instruments to non-employees as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued. Any stock options issued to non-employees are recorded as an expense and additional paid-in capital in stockholders' equity over the applicable service periods using variable accounting through the vesting dates based on the fair value of the options at the end of each period.

Revenue Recognition

In accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 104, Revenue Recognition (Codified in FASB ASC 605), we recognize revenue when (i) persuasive evidence of a customer or distributor arrangement exists, (ii) a retailer, distributor or wholesaler receives the goods and acceptance occurs, (iii) the price is fixed or determinable, and (iv) collectability of the sales revenues is reasonably assured. Subject to these criteria, the Company recognizes revenue from product sales, consisting mainly of pigments and penlights, upon shipment to the customer. Royalty revenue is recognized upon receipt of notification from a customer that the Company's product has been used in the customer's production process.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are discussed in Note 1 of the Notes to Financial Statements contained elsewhere in this report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK .

Not required.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA .

The financial statements required to be filed pursuant to this Item 8 are appended to this report beginning on page F-1 located immediately after the signature page.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE .

None.

ITEM 9A. CONTROLS AND PROCEDURES .

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) under the Securities Exchange Act of 1934 as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an evaluation of the effectiveness of our internal controls over financial reporting as of December 31, 2016 using criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our management has concluded that our internal controls over financial reporting were not effective as of December 31, 2016. Management's conclusion was based on a lack of segregation of duties resulting from staff reductions in accordance with cost containment measures. If we are able to obtain additional funding in the future, we intend to hire sufficient staff to enable an appropriate level of segregation of duties and to provide appropriate controls surrounding the financial reporting function.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, which permits us to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

As of December 31, 2016, our management carried out the evaluation of the effectiveness of our disclosure controls and procedures required by Rule 13a-15(e) under the Exchange Act with the participation of our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2016, our disclosure controls and procedures were ineffective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting identified in connection with this evaluation that occurred during our fiscal quarter ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE .

The current members of our board of directors and executive officers of the Company are as follows:

Name	Age	Position with Company
Norman Gardner*	74	Chairman and Chief Executive Officer
Claudio R. Ballard**	58	Director
Lawrence G. Schafran	78	Director
Jonathan Weinberger	40	Director
Scott A. McPherson	55	Chief Financial Officer

* Appointed Chairman effective December 10, 2016 and Chief Executive Officer effective January 31, 2017
** Appointed as Director by VerifyMe, Inc. (a Texas Corporation)

Board of Directors

We believe that our board of directors should be composed of individuals with sophistication and experience in many substantive areas that impact our business. We believe that experience, qualifications, or skills in the following areas are most important: security industry experience, accounting and finance; strategic planning; human resources and development practices; and board practices of other corporations. These areas are in addition to the personal qualifications described in this section. We believe that all of our current board members possess the professional and personal qualifications necessary for board service, and have highlighted particularly noteworthy attributes for each board member in the individual biographies below. The principal occupation and business experience, for at least the past five years, of each current director is as follows:

NORMAN A. GARDNER

Mr. Gardner was appointed Chief Executive Officer on January 31, 2017. He became Chairman of the Board on December 10, 2016 and has been a consultant to the Company since 2013. Mr. Gardner was the developer of our core technologies.

Mr. Gardner's experience leading the Company in the past and his familiarity with the Company's technology strengthens the Board's collective qualifications, skills and experience.

CLAUDIO R. BALLARD

Claudio R. Ballard has served as a director on our board of directors since March 30, 2013. He currently serves as the Chairman, Founder and one of the Managing Members of VEEDIMS, where he has served since April 2011.

Mr. Ballard's knowledge of the digital technology strengthens the Board's collective qualifications, skills and experience.

LAWRENCE G. SCHAFRAN

Lawrence G. Schafran has served as a director on our board of directors since September 30, 2015. Since 2006, Mr. Schafran has served as a director, chairman of the audit committee and member of the compensation committee of Wright Investors' Service Holdings, Inc., a provider of investment and financial services. Mr. Schafran was previously a director, audit committee chairman and member of the compensation committee of SecureAlert, Inc., now Track Group, Inc. a manufacturer and distributor of tracking systems, from 2006 to 2013.

Mr. Schafran's experience in finance and with public company boards strengthens the Board's collective qualifications, skills and experience.

JONATHAN WEINBERGER

Jonathan R. Weinberger has served as a director on our board of directors since November 21, 2012. He has been Vice President of Innovation and Technology at the Alliance of Automobile Manufacturers, based in Washington D.C. since September 2015. The Alliance is the leading advocacy group for the auto industry and represents 77% of all car and light truck sales in the United States. He previously served as President and Executive Vice President Veedims, LLC, based in Fort Lauderdale, Florida from 2012 to 2015. He also acted as a senior advisor to the owners of the private holding company that owns Veedims. He held a variety of important jobs in the White House with his most recent position from 2008 – 2012 being Executive Secretary and Associate General Counsel in the office of the United States Trade Representative.

As a result of these and other professional experiences, Mr. Weinberger possesses particular knowledge and experience in information technology that strengthen the board's collective qualifications, skills and experience.

SCOTT MCPHERSON

Scott McPherson has served as our Chief Financial Officer ("CFO") of VerifyMe, Inc. since December 1, 2014. Mr. McPherson previously served as our Chief Financial Officer from December 2012 to October 2013. Mr. McPherson is currently the CFO of Virtual Piggy, Inc. Mr. McPherson also served as CFO of Cannlabs from April 2014 to June 2015. He also served as Chief Executive Officer of Cannlabs from April 2015 to June 2015. Prior to his tenure with us, from August 2012 through November 2012, Mr. McPherson served as the CFO of Virtual Piggy, Inc., from August 2012 through November 2012. In January 2005, Mr. McPherson formed McPherson, CPA, PLLC in January 2005, which he continues to manage today. The firm performs accounting and tax services for numerous clients in various industries. The firm also performs in addition to providing litigation support services, primarily involving for clients involved in class action lawsuits and other lawsuits involving accounting malpractice or manipulation.

Composition of our Board of Directors

Our board of directors currently consists of four members, three of whom are non-employee directors. Our directors hold office until their successors have been elected and qualified or until the earlier of their death, resignation or removal. There are no family relationships among any of our directors or executive officers.

Board Diversity

Our nominating and governance committee is responsible for reviewing with the board of directors, on an annual basis, the appropriate characteristics, skills and experience required for the board of directors as a whole and has individual members. In evaluating the suitability of individual candidates (both new candidates and current members), the nominating and corporate governance committee, in recommending candidates for election, and the board of directors, in approving (and, in the case of vacancies, appointing) such candidates, takes into account many factors, including the following:

- diversity of personal and professional background, perspective, experience, age, gender, ethnicity and country of citizenship;
- personal and professional integrity and ethical values;
- experience in one or more fields of business, professional, governmental, scientific or educational endeavors, and a general appreciation of major issues facing public companies similar in scope and size to us;
- experience relevant to our industry or with relevant social policy concerns;
- relevant academic expertise or other proficiency in an area of our operations;
- objective and mature business judgment and expertise; and
- any other relevant qualifications, attributes or skills.

Committees of the Board of Directors

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. Each committee operates under a charter approved by our board of directors. The composition and function of each of these committees are described below.

Audit Committee . Our audit committee is comprised of Lawrence Schafran, Jonathan Weinberger, and Claudio Ballard. Mr. Schafran is the chairperson of the committee. Our board of directors has determined that Mr. Schafran is an audit committee financial expert, as defined by the rules of the Securities and Exchange Commission, and satisfies the financial sophistication requirements of applicable NASDAQ rules.

Our board of directors has determined that each of the audit committee members other than Claudio Ballard is an independent director under the NASDAQ Marketplace Rules and Rule 10A-3 of the Exchange Act.

Our audit committee is authorized to:

- approve and retain the independent auditors to conduct the annual audit of our financial statements;
- review the proposed scope and results of the audit;
- review and pre-approve audit and non-audit fees and services;
- review accounting and financial controls with the independent auditors and our financial and accounting staff;
- review and approve transactions between us and our directors, officers and affiliates;
- recognize and prevent prohibited non-audit services;
- establish procedures for complaints received by us regarding accounting matters;
- oversee internal audit functions, if any; and
- prepare the report of the audit committee that the rules of the Securities and Exchange Commission require to be included in our annual meeting proxy statement.

Compensation Committee . Our compensation committee is comprised of Claudio Ballard, Lawrence Schafran and Jonathan Weinberger. Mr. Ballard is the chairman of the compensation committee. Our compensation committee is authorized to:

- review and recommend the compensation arrangements for management, including the compensation for our president and chief executive officer;
- establish and review general compensation policies with the objective to attract and retain superior talent, to reward individual performance and to achieve our financial goals;
- administer our stock incentive plans; and
- prepare the report of the compensation committee that the rules of the Securities and Exchange Commission require to be included in our annual meeting proxy statement.

Nominating and Governance Committee . Our nominating and governance committee is comprised of Jonathan Weinberger, Claudio Ballard and Lawrence Schafran. Mr. Weinberger is the chairman of the nominating and governance committee. Our nominating and governance committee is authorized to:

- identify and nominate members of the board of directors;
- develop and recommend to the board of directors a set of corporate governance principles applicable to our company; and
- oversee the evaluation of our board of directors.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics that will apply to all of our employees, officers and directors, including those officers responsible for financial reporting. The code of business conduct and ethics is available on our website at *http://www.verifyme.com* . We expect that any amendments to the code, or any waivers of its requirements, will be disclosed on our website.

Board Leadership Structure and Board's Role in Risk Oversight

Our amended and restated by-laws and corporate governance guidelines do not require that our chairman and chief executive officer positions be separate. Our board of directors believes that having a single person in both positions is the appropriate leadership structure for us at this time.

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including risks relating to product candidate development, technological uncertainty, dependence on collaborative partners and other third parties, uncertainty regarding patents and proprietary rights, comprehensive government regulations, having no commercial manufacturing experience, marketing or sales capability or experience and dependence on key personnel. Management is responsible for the day-to-day management of risks we face, while our board of directors, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, our board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

Our board of directors is actively involved in oversight of risks that could affect us. This oversight is conducted primarily through committees of the board of directors, but the full board of directors has retained responsibility for general oversight of risks. Our board of directors satisfies this responsibility through full reports by each committee chair regarding the committee's considerations and actions, as well as through regular reports directly from officers responsible for oversight of particular risks within our company as our board of directors believes that full and open communication between management and the board of directors is essential for effective risk management and oversight.

Limitation of Directors' and Officers' Liability and Indemnification

The corporate laws of the state of Nevada authorize corporations to limit or eliminate, subject to specified conditions, the personal liability of directors to corporations and their stockholders for monetary damages for breach of their fiduciary duties. Our amended and restated articles of incorporation limit the liability of our directors to the fullest extent permitted by Nevada law.

We have obtained director and officer liability insurance to cover liabilities our directors and officers may incur in connection with their services to us. Our amended and restated articles of incorporation and amended and restated by-laws also provide that we will indemnify and advance expenses to any of our directors and officers who, by reason of the fact that he or she is one of our officers or directors, is involved in a legal proceeding of any nature. We will repay certain expenses incurred by a director or officer in connection with any civil, criminal, administrative or investigative action or proceeding, including actions by us or in our name. Such indemnifiable expenses include, to the maximum extent permitted by law, attorney's fees, judgments, fines, ERISA excise taxes, penalties, settlement amounts and other expenses reasonably incurred in connection with legal proceedings. A director or officer will not receive indemnification if he or she is found not to have acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interest.

The Company has entered into separate agreements with its directors and officers. Pursuant to such agreements, the Company agrees to indemnify, defend and hold harmless each director to the fullest extent of the law of the State of Nevada and in accordance with the Company's amended and restated articles of incorporation and amended and restated by-laws. Such indemnification applies to any actions taken in the director's official capacity as a director, as well as those actions that relate to the Company's business while the director holds office. Such indemnification does not apply to matters arising out of the director's gross negligence or willful misconduct. The Company's indemnification of its directors covers payment for or reimbursement of expenses, including legal fees and expenses. Additionally, the company agrees to maintain directors' and officers' insurance throughout the terms of such agreements and for a period of six years thereafter. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and officers.

Such limitation of liability and indemnification does not affect the availability of equitable remedies. In addition, we have been advised that in the opinion of the Securities and Exchange Commission, indemnification for liabilities arising under the Securities Act is against public policy as expressed in the Securities Act and is therefore unenforceable.

There is no pending litigation or proceeding involving any of our directors, officers, employees or agents in which indemnification will be required or permitted. We are not aware of any threatened litigation or proceeding that may result in a claim for such indemnification.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that our officers and directors and persons who beneficially own more than 10% of our common stock file initial reports of ownership and reports of changes in beneficial ownership of our common stock with the SEC. They are also required to furnish us with copies of all Section 16(a) forms that they file with the SEC. Based solely on our review of the copies of such forms received by us, or written representations from such persons that no reports were required for those persons, we believe that all Section 16(a) filing requirements were satisfied in a timely fashion during our fiscal year ended December 31, 2016, except for the late filings or failures to file by Norman Gardner, Scott McPherson, Ben Burrell, Sandy Fliderman, Claudio Ballard, Jonathan Weinberger, and Lawrence Schafran set forth below:

With respect to Norman Gardner, he failed to file his Form 3 upon his appointment as a director of the Company in December 2016, and his Form 4 upon his receipt of which included his receipt of 165,000 options at an exercise price of $0.11 per share and 250,000 options at an exercise price of $0.25 per share in December 2016.

With respect to Scott McPherson, he failed to file a Form 4 upon his receipt of 300,000 options at an exercise price of $0.11 per share, and 250,000 options at an exercise price of $0.25 per share in December 2016.

With respect to Jonathan Weinberger, he failed to file a Form 4 upon his receipt of 175,000 options at an exercise price of $0.11 per share, and 250,000 options at an exercise price of $0.25 per share in December 2016.

With respect to Claudio Ballard, he failed to file a Form 4 upon his receipt of 75,000 options at an exercise price of $0.11 per share, and 250,000 options at an exercise price of $0.25 per share in December 2016.

With respect to Lawrence Schafran, he failed to file a Form 4 upon his receipt of 75,000 options at an exercise price of $0.11 per share, and 250,000 options at an exercise price of $0.25 per share in December 2016.

ITEM 11. EXECUTIVE COMPENSATION .

Summary Compensation Table

The following table sets forth the compensation earned by the Company’s principal executive officer and named executive officers during the years ended December 31, 2016 and 2015.

NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	STOCK AWARDS (1) ($)	OPTION AWARDS (1) ($)	ALL OTHER COMPENSATION ($)	TOTAL ($)
NORMAN GARDNER, CHAIRMAN, CHIEF EXECUTIVE	2016	34,000*	-	16,125	53,208	-	103,333
OFFICER (A)	2015	-	-	-	-	-	-
THOMAS NICOLETTE, CHIEF EXECUTIVE OFFICER (B)	2016	72,354	-	-	-	49,885	122,239
	2015	-	-	-	-	-	-
PAUL DONFRIED, CHIEF EXECUTIVE OFFICER, PRESIDENT	2016	88,715	-	-	-		88,715
AND SECRETARY	2015	151,107**	-	280,000	405,342	-	836,449

(1) Represents the grant date fair value of the option award, calculated in accordance with FASB Accounting Standard Codification 718, "Compensation – Stock Compensation," or ASC 718. The assumptions used in calculating the grant date fair value of the option awards are set forth in Note 13 of our Financial Statements.

(a) – Mr. Gardner was appointed Chairman on December 10, 2016.
(b) – Mr. Nicolette was appointed Chief Executive Officer on May 1, 2016.

As of December 31, 2016, the named executive officer had accrued the following:

* $ 18 ,750

As of December 31, 2015, the named executive officer had accrued the following:

** $4,167

Outstanding Equity Awards At December 31, 2016

The following table sets forth, for each named executive officer had no outstanding equity awards as of the end of our fiscal year ended December 31, 2016.

Director Compensation

Name	Fees Earned or paid in cash ($)	Stock awards ($)	Option awards ($)	Non-equity incentive plan compensation ($)	Nonqualified deferred compensation earnings ($)	All Other Compensation ($)	Total ($)
Norman Gardner	-	4,875	53,208				58,083
Michael Madon	6,500	-	-	-	-	-	6,500
Claudio Ballard	-	-	39,717	-	-	-	39,717
Lawrence G. Schafran	-	-	39,717	-	-	-	39,717
Jonathan Weinberger	-	-	54,707	-	-	-	54,707

(1) Represents the grant date fair value of the option award, calculated in accordance with FASB Accounting Standard Codification 718, "Compensation – Stock Compensation," or ASC 718. The assumptions used in calculating the grant date fair value of the option awards are set forth in Note 13 of our Consolidated Financial Statements.
(2) Paul Donfried who was a director in 2016 is not included in this table as he was an employee director who did not receive additional compensation for his service as a director.

Narrative Disclosure to Directors Compensation Table

We only paid a fee to the then Chairman of the Board, Michael Madon during 2016 and nothing in 2015. Each member of our board of directors receives reimbursement of expenses incurred in connection with his or her services as a member of our board or board committees.

Our non-employee directors are eligible to receive options, restricted stock and other equity linked grants under our options plans.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, MANAGEMENT AND DIRECTORS

Security Ownership

The following table sets forth, as of March 28, 2017, information with respect to the securities holdings of all persons that we have reason to believe, pursuant to filings with the SEC, may be deemed the beneficial owner of more than 5% of our outstanding common stock. The following table also sets forth, as of such date, the beneficial ownership of our common stock by all executive officers and directors, individually and as a group.

The beneficial owners and amount of securities beneficially owned have been determined in accordance with Rule 13d-3 under the Exchange Act and, in accordance therewith, includes all shares of our common stock that may be acquired by such beneficial owners within 60 days of filing of this Form 10-K upon the exercise or conversion of any options, warrants or other convertible securities. Unless otherwise indicated, each person or entity named below has sole voting and investment power with respect to all common stock beneficially owned by that person or entity, subject to the matters set forth in the footnotes to the table below, and has an address of c/o VerifyMe, Inc., 409 Boot Road, Downingtown, PA 19335.

Title of class	Name and address of beneficial owner	Amount and nature of beneficial ownership +	Percent of class
5% Beneficial Owners			
Common	Clydesdale Partners II LLC 201 Spear Street, Suite 1750 San Francisco, CA 94105	734,920 (1)	8.6%
Common	Laurence J. Blickman 233 Alameda de las Pulgas Atherton, CA 94027	6,303,529 (2)	42.3%
Executive Officers and Directors			
Norman Gardner		436,691 (3)	*
Claudio Ballard		325,000 (4)	*
Jonathan Weinberger		425,000 (5)	*
Lawrence Schafran		325,000 (6)	
Scott McPherson		570,000 (7)	6.2%
All officers and directors as a group (5 people)		2,081,691	19.5%

* *Less than 1 percent*

\+ In accordance with SEC rules, options, warrants and other securities exercisable for or convertible into shares of our common stock that were exercisable as of March 28, 2017, or would become exercisable within 60 days thereafter, are deemed to be outstanding and beneficially owned by the person holding such options, warrants or other securities for the purpose of computing such person's percentage ownership, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.This table has been prepared based on 8,590,696 shares of our common stock outstanding on March 28, 2017.

(1) Consists of 600,831 shares of common stock and 134,089 shares owned by PFK Acquisition Group II LLC, which is under common control and 3,700,000 shares of common stock owned by Paul F. Klapper underlying warrants exercisable at $0.40 per share.
(2) Consists of 3,529 shares of common stock underlying warrants exercisable at $4.25; 50,000 shares of common stock held by the Blickman 2005 Family Trust; 1,250,000 shares, underlying warrants exercisable at $0.40 per share held by the Laurence J. Blickman '91 Trust; and 5 million shares of common stock underlying options exercisable at $0.40 per share held by the Laurence J. Blickman Defined Benefit Plan. The beneficial ownership table does not include shares underlying warrants that are subject to 4.99% blockers. The Company has no knowledge as to whether Mr. Blickman is disclaiming beneficial ownership relative to any of the disclosed beneficial ownership shares above.
(3) Includes 21,691 shares of common stock, 165,000 shares of common stock underlying options exercisable at $0.11 per share and 250,000 shares of common stock underlying options exercisable at $0.25 per share.
(4) Includes 75,000 shares of common stock underlying options exercisable at $0.11 per share and 250,000 shares of common stock underlying options exercisable at $0.25 per share.
(5) Includes 175,000 shares of common stock underlying options exercisable at $0.11 per share and 250,000 shares of common stock underlying options exercisable at $0.25 per share.
(6) Includes 75,000 shares of common stock underlying options exercisable at $0.11 per share and 250,000 shares of common stock underlying options exercisable at $0.25 per share..
(7) Includes 20,000 shares of common stock, 300,000 shares of common stock underlying options exercisable at $0.11 per share and 250,000 shares of common stock underlying options exercisable at $0.25 per share.

Transfer Agent

Our Transfer Agent is Interwest Transfer Company, Inc. and their address and phone number are 1981 Murray Holladay Road, #100, Salt Lake City, UT 84117; (801) 272-9294.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides certain information with respect to all of our equity compensation plans in effect as of the date of this filing.

2003 and 2013 Stock Option Plans

We adopted our 2003 Stock Option Plan as of December 17, 2003 (the "2003 Plan"). Awards were available to be made under the 2003 Plan for up to 18,000,000 shares of our common stock in the form of stock options or deferred stock awards. Awards were available to be made to our employees, officers or directors as well as our consultants or advisors. The Plan is administered by our board of directors which has full and final authority to interpret the Plan, select the persons to whom awards may be granted, and determine the amount, vesting and all other terms of any awards.

During 2013, our Board adopted, and our shareholders approved, a new comprehensive incentive compensation plan (the "2013 Plan", and together with the 2003 Plan, the "Plans") which serves as the successor incentive compensation plan to the 2003 Plan, and provides the Company with an omnibus plan to design and structure grants of stock options, stock units, stock awards, stock appreciation rights and other stock-based awards for selected individuals in our employ or service. Our Board believes that the availability of (i) 20,000,000 new shares of our common stock, plus (ii) the number of shares of our common stock subject to outstanding grants under the 2003 Plan as of the date of the 2013 Annual Meeting, plus (iii) the number of shares of our common stock remaining available for issuance under the 2003 Plan but not subject to previously exercised, vested or paid grants, for issuance under the 2013 Plan, as sufficient to meet the current needs of the Company.

All stock options issued prior to June 12, 2015 under the Plans are exercisable for a period of up to ten years from the date of grant. All stock options issued on or subsequent to June 12, 2015 under the Plans are exercisable for a period of up to five years from the date of grant. All of the options are subject to vesting as determined by the Board upon grant, and have an exercise price equal to not less than the fair market value of our common stock on the date of grant (except for incentive stock options granted to 10% stockholders, which are required to have an exercise price of not less than 110% of the fair market value of the common stock on the date the option is granted). Unless otherwise determined by the Board, awards may not be transferred except by will or the laws of descent and distribution. The Board has discretion to determine the effect on any award granted under the Plans of the death, disability, retirement, resignation, termination or other change in employment or other status of any participant in the Plans.

Upon the occurrence of a "Change in Control", as defined in the Plans, the Board may take any number of actions. These actions include, providing for all options outstanding under the Plans to be assumed by the acquiring corporation or to become immediately vested and exercisable in full. As of the date of this report, we have issued options and restricted stock units under the Plans to purchase 3,695,148 shares of common stock that are outstanding.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Related Party Transactions

None.

Policies and Procedures for Reviewing Related Party Transactions

We have not adopted any written policies or procedures governing the review, approval or ratification of related party transactions. However, our Board of Directors reviews, approves or ratifies, when necessary, all transactions with related parties.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND DISCLOSURES .

Audit Fees

The fees billed for professional services rendered by our principal accountant for the audit of our annual financial statements for the years ended December 31, 2016 and 2015 and the review of the financial statements included in each of our quarterly reports during the years ended December 31, 2016 and 2015, were $66,900 and $72,400, respectively.

Audit-Related Fees

There were no fees billed by our independent accountants for audit-related services during the fiscal year ended December 31, 2016 and 2015.

Tax Fees

During the fiscal years ended December 31, 2016 and 2015, there were no fees billed for tax compliance, tax advice and/or tax planning by our principal accountants.

All Other Fees

During the for the year ended December 31, 2016 and 2015, there were no additional fees billed for products and services provided by the principal accountant other than those set forth above.

Audit Committee Approval

Our audit committee approves the engagement of our independent auditors, and meets with our independent auditors to approve the annual scope of accounting services to be performed and the related fee estimates. It also meets with our independent auditors prior to the completion of our annual audit and reviews the results of their audit and review of our annual and interim consolidated financial statements, respectively. During the course of the year, our chairperson has the authority to pre-approve requests for services that were not approved in the annual pre-approval process. The chairperson reports any interim pre-approvals at the following quarterly meeting. At each of the meetings, management and our independent auditors update our board of directors regarding material changes to any service.

We did not have any pre-approval policies for the year ended December 31, 2016.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES .

Exhibit #	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed or Furnished Herewith
3.1	Certificate of Amendment to Amended and Restated Articles of Incorporation of LaserLock Technologies, Inc., as amended	10-Q	8-19-15	3.1	
3.2	Amended Certificate of Designation of Series A Preferred Stock	8-K	2-6-13	3.1	
3.3	Second Amended Certificate of Designation for Series A Preferred Stock	8-K	6-18-15	3.2	
3.4	Certificate of Designation for Series B Preferred Stock, dated as of June 2015	8-K	6-18-15	3.3	
3.5	Certificate of Designation for Series C Preferred Stock, filed with the Nevada Secretary of State on January 27, 2016	8-K	2-10-16	3.1	
3.6	Amended and Restated Bylaws of LaserLock Technologies, Inc. as amended	10-Q	8-19-15	3.2	
3.7	Second Amendment to Amended and Restated Bylaws of the Company, dated January 27, 2016	8-K	2-10-16	3.2	
3.8	Amended and Restated Bylaws of LaserLock Technologies, Inc. as amended	10-Q	5-18-16	3.2	
3.9	Certificate of Designation for Series D Preferred Stock filed with the Nevada Secretary of State on December 5, 2016				Filed
4.1	Form of Warrant for Purchase of Common Stock	8-K	2-10-16	4.1	
4.2	Form of Warrant for Purchase of Common Stock				Filed
10.1	Form of Securities Purchase Agreement by and between the Company and each of the Investors	8-K	2-10-16	10.1	
10.2	Form of Registration of Rights Agreement by and between the Company and each of the Investors	8-K	2-10-16	10.2	
10.3	Master Acquisition Agreement by and among OPC Partners LLC, VerifyMe, Inc., Laserlock Technologies, Inc., Zaah Technologies, Inc. and a Common Stock Investor dated as of June 12, 2015	8-K	6-18-15	10.1	
10.4	Form of Promissory Note Conversion Agreement	8-K	6-18-15	10.2	
10.5	Form of Warrant Conversion Agreement	8-K	6-18-15	10.3	
10.6*	Employment Letter to Paul Donfried from LaserLock Technologies, Inc.	8-K	6-18-15	10.4	
10.7*	Employment Letter to Sandy Fliderman from LaserLock Technologies, Inc.	8-K	6-18-15	10.5	
10.8	Independent Director’s Agreement between LaserLock Technologies, Inc. and Jonathan Weinberger dated as of June 12, 2015	8-K	6-18-15	10.6	
10.9	Independent Director’s Agreement between LaserLock Technologies, Inc. and Claudio Ballard dated as of June 12, 2015	8-K	6-18-15	10.7	
10.10*	Employment Letter to Ben Burrell from LaserLock Technologies, Inc. dated as of June 12, 2015	8-K	7-15-15	10.1	
10.11	Separation Agreement and General Release dated as of April 27, 2016	8-K	4-29-16		
10.12	Amendment No. 1 to Stock Option Agreement dated as of April 29, 2016	8-K	4-29-16		
10.13	Amendment No. 1 to Restricted Stock Unit Agreement dated as of April 29, 2016	8-K	4-29-16		
10.14	Consulting Services Agreement dated as of May 1, 2016	8-K	5-2-16		
10.15	Form of Securities Purchase Agreement by and between the Company and each of the Investors				Filed
31.1	Certification of Principal Executive Officer (302)				Filed
31.2	Certification of Principal Financial Officer (302)				Filed
32.1	Certification of Principal Executive and Principal Financial Officer (906)				Furnished**
101.INS	XBRL Instance Document				Filed
101.SCH	XBRL Taxonomy Extension Schema Document				Filed
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				Filed
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				Filed
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				Filed
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				Filed

* Management contract or compensatory plan or arrangement.

** This exhibit is being furnished rather than filed and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

VerifyMe, Inc.

By: /s/ Norman Gardner
Norman Gardner
Chief Executive Officer
Date: April 12, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	**Title**	**Date**
/s/ Norman Gardner Norman Gardner	Chairman of the Board and Chief Executive Officer (*Principal Executive Officer*)	April 12, 2017
Signature	**Title**	**Date**
/s/ Scott McPherson Scott McPherson	Chief Financial Officer (*Principal Financial Accounting Officer*)	April 12, 2017
Signature	**Title**	**Date**
/s/ Claudio Ballard Claudio Ballard	Director	April 12, 2017
Signature	**Title**	**Date**
/s/ Jonathan Weinberger Jonathan Weinberger	Director	April 12, 2017
Signature	**Title**	**Date**
/s/ Lawrence Schafran Lawrence Schafran	Director	April 12, 2017

ITEM 16. FORM 10-K SUMMARY

Not provided.

CONTENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors
VerifyMe, Inc.

We have audited the accompanying balance sheets of VerifyMe, Inc. as of December 31, 2016 and 2015 and the related statements of operations, changes in stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit 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 financial position of VerifyMe, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for 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 discussed in Note 2 to the financial statements, the Company has incurred significant losses and experienced negative cash flow from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MORISON COGEN LLP

Blue Bell, Pennsylvania
April 12, 2017

VerifyMe, Inc.
Balance Sheets

	December 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 22,644	$ 4,152
Prepaid expenses	9,425	-
Inventory	17,093	28,687
TOTAL CURRENT ASSETS	49,162	32,839
PROPERTY AND EQUIPMENT		
Capital equipment, net of accumulated depreciation of $203,223 and $230,621 as of December 31, 2016 and 2015	-	7,838
OTHER ASSETS		
Deposits	-	37,197
Patents and Trademark, net of accumulated amortization of $194,236 and $166,894 as of December 31, 2016 and 2015	231,952	259,294
	231,952	296,491
TOTAL ASSETS	$ 281,114	$ 337,168
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 867,436	$ 652,973
Note payable, net of discount of $60,931 and $0 as of December 31, 2016 and 2015	68,069	50,000
Embedded derivative liability	228,718	-
Warrant liability	394,744	1,802,375
TOTAL CURRENT LIABILITIES	1,558,967	2,505,348
CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Series A Convertible Preferred Stock, $ .001 par value; 37,564,767 shares authorized; 397,778 shares issued and outstanding as of December 31, 2016; 441,938 issued and outstanding as of December 31, 2015	398	442
Series B Convertible Preferred Stock, $.001 par value; 85 shares authorized; 0.92 shares issued and outstanding as of December 31, 2016 and 1 share issued and outstanding as of December 31, 2015	-	-
Series C Convertible Preferred Stock, $.001 par value; 7,500,000 shares authorized; 1,912,500 shares issued and outstanding as of December 31, 2016 and 0 shares issued and outstanding as of December 31, 2015	1,913	-
Series D Convertible Preferred Stock, $.001 par value; 6,000,000 shares authorized; 166,750 shares issued and outstanding as of December 31, 2016 and 0 shares issued and outstanding as of December 31, 2015	167	-
Common stock, $ .001 par value; 675,000,000 shares authorized; 8,681,236 and 6,327,570 shares issued, 8,330,696 and 5,977,030 shares outstanding at December 31, 2016 and 2015	8,331	5,977
Additional paid in capital	40,469,272	39,779,414
Treasury stock, at cost (350,540 shares at December 31, 2016 and 2015)	(113,389)	(113,389)
Deferred compensation	-	(1,842,334)
Accumulated deficit	(41,644,545)	(39,998,290)
STOCKHOLDERS' DEFICIT	(1,277,853)	(2,168,180)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 281,114	$ 337,168

The accompanying notes are an integral part to these financial statements.

VerifyMe, Inc.
Statements of Operations

	Year Ended	
	December 31, 2016	December 31, 2015
NET REVENUES		
Sales	37,055	$ 200,601
Royalties	-	16,667
TOTAL NET REVENUE	37,055	217,268
COST OF SALES	24,363	65,723
GROSS PROFIT	12,692	151,545
OPERATING EXPENSES		
General and administrative	1,010,648	449,483
Legal and accounting	414,032	458,801
Payroll expenses	1,789,303	1,875,488
Research and development	250,180	2,412,833
Sales and marketing	282,867	197,430
Total operating expenses	3,747,030	5,394,035
LOSS BEFORE OTHER INCOME (EXPENSE)	(3,734,338)	(5,242,490)
OTHER INCOME (EXPENSE)		
Interest expense	(12,871)	(61,438)
Gain on extinguishment of debt	-	332,523
Loss on disposition of fixed assets	(4,981)	-
Change in fair value of warrants	3,357,149	2,669,520
Change in fair value of embedded derivative liability	698,303	-
Fair value of warrants in excess of consideration for convertible preferred stock	(1,949,517)	-
	2,088,083	2,940,605
NET LOSS	$ (1,646,255)	$ (2,301,885)
LOSS PER SHARE		
BASIC	$ (0.24)	$ (0.47)
DILUTED	$ (0.24)	$ (0.47)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
BASIC	6,860,955	4,848,738
DILUTED	6,860,955	4,848,738

The accompanying notes are an integral part to these financial statements.

VerifyMe, Inc.
Statement of Changes in Stockholders' Deficit
For the Years Ended December 31, 2016 and 2015

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Series D Convertible Preferred Stock		Common Stock		Additional				
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Paid-In Capital	Treasury Stock	Deferred Compensation	Accumulated Deficit	Total
Balance at December 31, 2014	248,366	$ 633,333	-	$ -					3,618,566	$ 3,618	$25,047,050	$(113,389)	$ -	$(37,696,405)	$(12,125,793)
Conversion of Series A Convertible Preferred Stock into common stock	(248,366)	(633,333)	-	-					248,366	248	633,085	-	-	-	-
Sale of Series A Convertible Preferred Stock	389,668	390	-	-					-	-	1,278,111	-	-	-	1,278,501
Conversion of stockholder deferred compensation into Series A Convertible Preferred Stock	10,667	10	-	-					-	-	34,990	-	-	-	35,000
Conversion of notes payable and accrued interest into Series A Convertible Preferred Stock	41,603	42	-	-					-	-	136,771	-	-	-	136,813
Conversion of accrued expenses into Series B Convertible Preferred Stock	-	-	1.00	-					-	-	8,367,417	-	-	-	8,367,417
Sale of common stock	-	-	-	-					304,785	305	49,695	-	-	-	50,000
Conversion of warrants into common stock	-	-	-	-					51,372	51	36,949	-	-	-	37,000
Conversion of stockholder notes payable and accrued interest into common stock	-	-	-	-					673,706	674	730,752	-	-	-	731,426
Conversion of accounts payable and accrued expenses into common stock	-	-	-	-					116,997	117	99,330	-	-	-	99,447
Cashless exercise of warrants into common stock	-	-	-	-					2,353	2	(2)	-	-	-	-
Issuance of stock for services	-	-	-	-					960,000	960	2,415,690	-	(2,416,650)	-	-
Decrease in fair value of restricted stock units	-	-	-	-							(75,500)	-	75,500	-	-
Forgiveness of stockholder compensation	-	-	-	-					-	-	175,287	-	-	-	175,287
Amortization of deferred compensation	-	-	-	-					-	-	-	-	498,816	-	498,816
Fair value of employee stock options	-	-	-	-					-	-	849,791	-	-	-	849,791
Rounding of partial shares relative to reverse split		-	-	-					885	1	(1)	-	-	-	-
Net loss	-	-	-	-					-	-	-	-	-	(2,301,885)	(2,301,885)
Balance at December 31, 2015	441,938	$ 442	1.00	$ -	-	-	-	-	5,977,030	$ 5,977	$39,779,414	$(113,389)	$ (1,842,334)	$(39,998,290)	$ (2,168,180)
Conversion of Series A Convertible Preferred Stock	(44,160)	(44)	-	-	-	-	-	-	883,200	883	(839)	-	-	-	-
Conversion of Series B Convertible Preferred Stock	-	-	(0.08)	-	-	-	-	-	674,983	675	(675)	-	-	-	-
Sale of Series C Convertible Preferred Stock	-	-	-	-	3,087,500	3,088	-	-	-	-	1,231,912	-	-	-	1,235,000
Stock issuance costs	-	-	-	-	-	-	-	-	-	-	(17,500)	-	-	-	(17,500)
Conversion of Series C Convertible Preferred Stock	-	-	-	-	(1,175,000)	(1,175)	-	-	1,175,000	1,175	-	-	-	-	-
Effect of Conversion of Series C Convertible Preferred Stock on embedded derivative liability	-	-	-	-	-	-	-	-	-	-	350,500	-	-	-	350,500
Sale of Series D Convertible Preferred Stock	-	-	-	-	-	-	166,750	167	-	-	66,533	-	-	-	66,700
Deemed dividend distribution	-	-	-	-	-	-	-	-	-	-	(1,277,521)	-	-	-	(1,277,521)
Issuance of stock for services	-	-	-	-	-	-	-	-	32,983	33	20,742	-	-	-	20,775
Issuance of restricted stock for services	-	-	-	-	-	-	-	-	40,000	40	(40)	-	-	-	-
Forfeiture of restricted stock units	-	-	-	-	-	-	-	-	(452,500)	(452)	(1,069,256)	-	1,069,708	-	-
Warrants issued in conjunction with notes payable			-	-	-	-	-	-	-	-	69,500	-	-	-	69,500
Fair value of stock options and warrants	-	-	-	-	-	-	-	-	-	-	1,405,877	-	-	-	1,405,877
Decrease in fair value of restricted stock units	-	-	-	-	-	-	-	-	-	-	(89,375)	-	89,375	-	-
Amortization of deferred compensation	-	-	-	-	-	-	-	-	-	-	-	-	683,251	-	683,251
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,646,255)	(1,646,255)
Balance at December 31, 2016	397,778	$ 398	0.92	$ -	1,912,500	$ 1,913	166,750	$ 167	8,330,696	$ 8,331	$40,469,272	$(113,389)	$ -	$(41,644,545)	$ (1,277,853)

The accompanying notes are an integral part to these financial statements.

VerifyMe, Inc.
Statements of Cash Flows

	Year Ended	
	December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,646,255)	$ (2,301,885)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on sale of fixed assets	4,980	-
Gain on conversion of debt	-	(332,523)
Fair value of options and warrants issued in exchange for services	1,405,877	849,791
Fair value of restricted stock issued in exchange for services	-	-
Common stock issued for services	20,775	-
Accretion of discount on notes payable	8,569	10,447
Warrants issued in conjunction with notes payable	-	-
Change in fair value of warrant liability	(1,407,631)	(2,700,917)
Change in fair value of embedded derivative liability	(698,303)	-
Amortization and depreciation	30,199	94,123
Amortization of deferred compensation	683,251	498,816
Series B Preferreed Stock issue for licensing fees	-	2,000,000
(Increase) decrease in assets		
Accounts receivable	-	68,673
Inventory	11,594	4,770
Prepaid expenses	(9,425)	-
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	251,661	330,057
Deferred revenue	-	(16,667)
Net cash used in operating activities	(1,344,708)	(1,495,315)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	-	(2,432)
Purchase of patents	-	(100)
Net cash used in investing activities	-	(2,532)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	79,000	159,542
Repayment of notes payable	-	(50,000)
Proceeds from sale of Series A Convertible Preferred Stock	-	1,278,501
Proceeds from sale of Series C Convertible Preferred Stock	1,235,000	-
Stock issuance costs	(17,500)	-
Proceeds from sale of Series D Convertible Preferred Stock	66,700	
Proceeds from sale of common stock	-	50,000
Net cash provided by financing activities	1,363,200	1,438,043
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,492	(59,804)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,152	63,956
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 22,644	$ 4,152
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ -	$ 6,646
Income taxes	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Fair value of stock issued for conversion of notes payable and accrued interest	$ -	$ 1,028,039
Cashless exercise of warrants	$ -	$ 2

Series A Convertible Preferred Stock converted to common stock	$ 883	$ 633,333
Issuance of Series A Convertible Preferred Stock for deferred compensation	$ -	$ 35,000
Issuance of Series A Convertible Preferred Stock for stockholder notes payable and accrued interest	$ -	$ 136,813
Issuance of Series B Convertible Preferred Stock for accrued expenses	$ -	$ 4,500,000
Conversion of warrants associated with notes payable	$ -	$ 1,867,417
Conversion of warrants to common stock	$ -	$ 37,000
Conversion of accounts payable and accrued expenses into common stock	$ -	$ 99,447
Common stock issued for deferred compensation	$ -	$ 2,416,650
Series B Convertible Preferred Stock converted to common stock	$ 675	$ -
Series C Convertible Preferred Stock converted to common stock	$ 1,175	$ -
Security deposit offset against accounts payable	$ 37,197	$ -
Forgiveness of stockholder compensation	$ -	$ 175,285
Accretion of discount on preferred stock as deemed dividend distribution	$ 1,277,521	$ -
Patent costs reclassified from prepaid expenses resulting from purchase of patents	$ -	$ 176,316
Revaluation of restricted stock units between additional paid in capital and deferred compensation	$ 89,375	$ 75,500
Forfeited restricted common stock	$ 1,069,708	$ -
Revaluation of embedded derivative liability upon conversion of Series C Convertible Preferred Stock	$ 350,500	$ -
Warrants issued as discount to notes payable	$ 69,500	$ -

The accompanying notes are an integral part to these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business

On July 14, 2015, LaserLock Technologies, Inc. ("the Company") changed its name to VerifyMe, Inc., effective July 23, 2015.

The Company was incorporated in the State of Nevada on November 10, 1999. The Company is based in Downingtown, Pennsylvania and its common stock, par value $0.001 per share (the "Common Stock"), is traded on the over-the-counter market and quoted on the OTC QB, organized by the OTC Markets Group, Inc., and the OTC Bulletin Board under the ticker symbol "VRME."

The Company is a technology pioneer in the anti-counterfeiting industry. This broad market encompasses counterfeiting of physical and material goods and products, as well as counterfeiting of identity in digital transactions. The Company delivers security solutions for identification and authentication of people, products and packaging in a variety of applications in the security field for both digital and physical transactions. The products can be used to manage and issue secure credentials, including national IDs, passports, driver licenses and access control credentials, as well as comprehensive authentication security software to secure physical and logical access to facilities, computer networks, internet sites and mobile applications.

The Company's activities are subject to significant risks and uncertainties, including the need to secure additional funding to operationalize the Company's current technology.

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

Reverse Stock Split and Changes to Company's Preferred Stock

On May 26, 2015, the board of directors of the Company (the "Board"), acting by written consent in lieu of a special meeting, unanimously approved and adopted: (a) a reverse stock split of all of the Company's issued and outstanding capital stock based on a minimum 1-for-40 split, up to a maximum 1-for-100 split (the "Reverse Stock Split"), and recommended the same for the Company's stockholders for approval, and (b) a Second Amended Certificate of Designation for Series A Preferred Stock, which amended the designations, preferences, powers and rights of the shares of the Company's Series A convertible preferred stock, par value $0.001 per share (the "Series A Preferred Stock"), which were originally set forth in that certain Amended Certificate of Designation for Series A Preferred Stock, dated December 19, 2003.

On May 28, 2015, those stockholders of the Company holding a majority of the issued and outstanding shares of Common Stock and Series A Preferred Stock, acting by written consent in lieu of a special meeting, voted to approve the Reverse Stock Split.

On June 11, 2015, at a duly authorized special meeting of the Board, the Board (a) finalized, adopted and approved a resolution setting the Reverse Stock Split exchange ratio to a 1-for-85 split and (b) approved and adopted a new Certificate of Designation for Series B Preferred Stock, establishing the designations, preferences, powers and rights of the shares of the Company's Series B convertible preferred stock, par value $0.001 per share (the "Series B Preferred Stock," and together with the Series A Preferred Stock, the "Preferred Stock").

On July 23, 2015, the Company completed the 1-for-85 Reverse Stock Split of all of its outstanding Common Stock and Preferred Stock. The total number of authorized capital stock of the Company remained unchanged at its current total of 750,000,000, with 675,000,000 designated as Common Stock and 75,000,000 designated as Preferred Stock. The accompanying financial statements and notes to the financial statements give retroactive effect to the Reverse Stock Split for all periods presented, unless otherwise specified.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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.

Comprehensive Income

The Company follows Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 220, "Comprehensive Income," in reporting comprehensive income. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. Since the Company has no items of other comprehensive income (loss), comprehensive income (loss) is equal to net income (loss).

Fair Value of Financial Instruments

The Company's financial instruments consist of accounts receivable, accounts payable and accrued expenses, notes payable, embedded derivative liability and warrant liability. The carrying value of accounts receivable, accounts payable and accrued expenses approximate their fair value because of their short maturities. The Company believes the carrying amount of its notes payable approximate fair value based on rates and other terms currently available to the Company for similar debt instruments.

The Company follows FASB ASC 820, "Fair Value Measurements and Disclosures," and applies it to all assets and liabilities that are being measured and reported on a fair value basis. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

The level in the fair value within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and certificates of deposit and commercial paper with original maturities of 90 days or less to be cash or cash equivalents.

Concentration of Credit Risk Involving Cash and Cash Equivalents

The Company's cash and cash equivalents are held at one financial institution. At times, the Company's deposits may exceed Federal Deposit Insurance Corporation (FDIC) coverage limits. The Company has not experienced any losses from maintaining cash accounts in excess of federally insured limits.

Inventory

Inventory principally consists of penlights and pigments and is stated at the lower of cost (determined by the first-in, first-out method) or market.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, principally five to seven years. Maintenance and repairs of property are charged to operations, and major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the costs and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Patents and Trademark

The current patent portfolio consists of ten granted patents and six applications pending. The Company has also purchased a trademark. Costs associated with the registration and legal defense of the patents have been capitalized and are amortized on a straight-line basis over the estimated lives of the patents which were determined to be 17 to 20 years.

Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets in accordance with ASC 360 "Property, Plant, and Equipment." The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets are measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset, undiscounted and without interest or independent appraisals. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the assets.

Deferred Financing Costs

Costs incurred in securing long-term debt are deferred and amortized, as a charge to interest expense, over the term of the related debt. In the case of long-term debt modifications, the Company follows the guidance provided by ASC 470-50, "Debt – Modification and Extinguishments."

Notes Payable with detachable warrants

In accordance with FASB ASC 470-20, "Debt with Conversion and Other Options," the proceeds of notes payable with detachable stock purchase warrants have been allocated between the two based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at the time of issuance. The portion allocated to the warrants has been accounted for as a discount to the notes payable, and amortized over the term of the notes.

Derivative Instruments

The Company evaluates its convertible debt, Preferred Stock, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with FASB ASC 480, "Distinguish by Liabilities from Equity" (FASB ASC 480), and FASB ASC 815, "Derivatives and Hedging" ("FASB ASC 815"). The result of this accounting treatment is that the fair value of the embedded derivative, if required to be bifurcated, is marked-to-market at each balance sheet date and recorded as a liability. The change in fair value is recorded in the Statement of Operations as a component of other income or expense. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity.

In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified as liabilities at the fair value of the instrument on the reclassification date. Derivative instrument liabilities will be classified in the balance sheet as current or non-current based on whether net-cash settlement of the derivative instrument is expected within 12 months of the balance sheet date.

Revenue Recognition

In accordance with FASB ASC 605, "Revenue Recognition," the Company recognizes revenue when (i) persuasive evidence of a customer or distributor arrangement exists, (ii) a retailer, distributor or wholesaler receives the goods and acceptance occurs, (iii) the price is fixed or determinable, and (iv) collectability of the revenue is reasonably assured. Subject to these criteria, the Company recognizes revenue from product sales, consisting mainly of pigments and penlights, upon shipment to the customer. Royalty revenue is recognized upon receipt of notification from a customer that the Company's product has been used in the customer's production process.

Income Taxes

The Company follows FASB ASC 740, "Income Taxes," when accounting for income taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for temporary differences between the financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Tax years from 2013 through 2016 remain subject to examination by major tax jurisdictions.

Stock-based Payments

The Company accounts for stock-based compensation under the provisions of FASB ASC 718, "Compensation—Stock Compensation", which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. The Company estimates the fair value of stock-based awards on the date of grant using the Black-Scholes model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods using the straight-line method.

The Company accounts for stock-based compensation awards to non-employees in accordance with FASB ASC 505-50, "Equity-Based Payments to Non-Employees" ("FASB ASC 505-50"). Under FASB ASC 505-50, the Company determines the fair value of the warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

All issuances of stock options or other equity instruments to non-employees as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued. Non-employee equity based payments are recorded as an expense over the service period, as if the Company had paid cash for the services. At the end of each financial reporting period, prior to vesting or prior to the completion of the services, the fair value of the equity based payments will be re-measured and the non-cash expense recognized during the period will be adjusted accordingly. Since the fair value of equity based payments granted to non-employees is subject to change in the future, the amount of the future expense will include fair value re-measurements until the equity based payments are fully vested or the service completed.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were approximately $0 and $458 for the years ended December 31, 2016 and 2015 and are included in sales and marketing expenses.

Research and Development Costs

In accordance with FASB ASC 730, research and development costs are expensed when incurred. Research and development costs for the years ended December 31, 2016 and 2015 were $250,180 and $2,412,833.

Basic and Diluted Net Income per Share of Common Stock

The Company follows FASB ASC 260, "Earnings Per Share," when reporting Earnings Per Share resulting in the presentation of basic and diluted earnings per share. Because the Company reported a net loss for each of the years presented, common stock equivalents, including preferred stock, stock options and warrants were anti-dilutive; therefore, the amounts reported for basic and diluted loss per share were the same.

Segment Information

The Company is organized and operates as one operating segment wherein the Company's patented technologies are utilized to address counterfeiting issues. In accordance with FASB ASC 280, "Segment Reporting" ("FASB ASC 280"), the chief operating decision-maker has been identified as the Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Since the Company operates in one segment and provides one group of similar products, all financial segment and product line information required by FASB ASC 280 can be found in the financial statements.

Recently Adopted Accounting Pronouncements

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* . The amendments in this Update provide guidance about management's responsibility to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The amendments were adopted as of December 31, 2016, see Note 2 for management's evaluation and disclosure.

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* . The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of Update 2014-09 to annual reporting periods beginning after December 15, 2017. The Company anticipates that the impact of this guidance on the financial statements will not be material.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes* . The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. For public business entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The Company does not anticipate the adoption of this standard to have a material effect on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* . The amendments in this Update specify the accounting for leases. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company anticipates that the impact of this guidance on the financial statements will not be material.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* , which simplifies several aspects of the accounting for share-based payment award transactions, including: (1) income tax consequences; (2) classification of awards as either equity or liabilities, and (3) classification on the statement of cash flows. For public companies, the amendments in the ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently assessing the impact of adoption that this guidance will have on the financial statements.

NOTE 2 – GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred significant losses and experienced negative cash flow from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In February 2017, the Company raised proceeds of $100,000 through the issuance of notes payable, which included a warrant to purchase 5 million shares of the Company's common stock at $0.40 per share. Even with this infusion of capital, the Company does not believe that its existing cash resources will be sufficient to sustain operations during the next twelve months. The Company currently needs to generate revenue in order to sustain its operations. In the event that the Company cannot generate sufficient revenue to sustain its operations, the Company will need to reduce expenses or obtain financing through the sale of debt and/or equity securities. The issuance of additional equity would result in dilution to existing stockholders. If the Company is unable to obtain additional funds when they are needed or if such funds cannot be obtained on terms acceptable to the Company, the Company may be unable to execute upon the business plan or pay costs and expenses as they are incurred, which could have a material, adverse effect on the business, financial condition and results of operations.

If sufficient revenues are not generated to sustain operations or additional funding cannot be obtained in the short term, the Company will need to reduce monthly expenditures to a level that will enable the Company to continue until such funds can be obtained.

Successful completion of the Company's development program, and the attainment of profitable operations are dependent upon future events, including obtaining adequate financing to fulfill its development activities and achieving a level of sales adequate to support the Company's cost structure. However, there can be no assurances that the Company will be able to secure additional equity investment or achieve an adequate sales level.

NOTE 3 – PROPERTY AND EQUIPMENT

Equipment consists of the following:

	December 31. 2016	December 31, 2015
Software and Furniture and Fixtures	$ 200,000	$ 219,871
Equipment	3,223	18,588
	203,223	238,459
Less: Accumulated depreciation	203,223	230,621
	$ -	$ 7,838

Depreciation of property and equipment was $2,856 and $69,415 for the years ended December 31, 2016 and 2015.

NOTE 4 – PATENTS AND TRADEMARK

The current patent portfolio consists of ten granted patents and six applications pending. Accordingly, costs associated with the registration and legal defense of these patents have been capitalized and are amortized on a straight-line basis over the estimated lives of the patents which were determined to be 17 to 20 years. The trademark is also being amortized on a straight-line basis over its estimated useful life of 20 years. During the years ended December 31, 2016 and 2015, the Company capitalized $0 and $200,100 of patent costs and trademarks. Amortization expense for patents and trademarks was $27,343 and $24,707 for the years ended December 31, 2016 and 2015.

NOTE 5 – INCOME TAXES

The Company follows FASB ASC 740-10-10 whereby an entity recognizes deferred tax assets and liabilities for future tax consequences or events that have been previously recognized in the Company's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of enacted tax law. The effects of future changes in tax laws or rates are not anticipated.

At December 31, 2016 the Company has a net operating loss ("NOL") that approximates $32.0 million. Consequently, the Company may have NOL carryforwards available for federal income tax purposes, which would begin to expire in 2019. Due to changes in ownership, a portion of the NOL carryforward may be subject to certain annual limitations imposed under Section 382 of the Internal Revenue Code. Deferred tax assets would arise from the recognition of anticipated utilization of these net operating losses to offset future taxable income.

The income tax benefit (provision) consists of the following:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Current	$ (960,000)	$ (1,802,000)
Deferred	(431,000)	(393,000)
Change in valuation allowance	1,391,000	2,195,000
	$ -	$ -

The following is a reconciliation of the tax derived by applying the U.S. Federal Statutory Rate of 35% to the earnings before income taxes and comparing that to the recorded tax provisions:

	2016		2015	
	Amount	%	Amount	%
U.S federal income tax benefit at federal statutory rate	$ (576,000)	(35)	$ (826,000)	(50)
State tax, net of federal tax effect	(99,000)	(6)	(138,000)	(8)
Non-deductible changes in derviative liability and share based transactions	(716,000)	(43)	(1,231,000)	(75)
Change in valuation allowance	1,391,000	84	2,195,000	133
	$ -	-	$ -	-

The primary components of the Company's December 31, 2016 and 2015 deferred tax assets, liabilities and related valuation allowance are as follows:

	2016	2015
Deferred tax asset for NOL carryforwards	$ 13,263,000	$ 12,451,000
Deferred tax liability for intangibles	(165,000)	(165,000)
Share based compensation	5,165,000	4,588,000
Non deductible accrued expenses	12,000	10,000
Valuation allowance	(18,275,000)	(16,884,000)
	$ -	$ -

Management has determined that the realization of the net deferred tax asset is not assured and has created a valuation allowance for the entire amount of such benefits.

The Company follows FASB ASC 740-10, which provides guidance for the recognition and measurement of certain tax positions in an enterprise's financial statements. Recognition involves a determination whether it is more likely than not that a tax position will be sustained upon examination with the presumption that the tax position will be examined by the appropriate taxing authority having full knowledge of all relevant information.

The Company's policy is to record interest and penalties associated with unrecognized tax benefits as additional income taxes in the consolidated statement of operations. As of December 31, 2016 and 2015, the Company had no unrecognized tax benefits. There were no changes in the Company's unrecognized tax benefits during the years ended December 31, 2016 and 2015. The Company did not recognize any interest or penalties during 2016 and 2015 related to unrecognized tax benefits.

NOTE 6 – RECAPITALIZATION TRANSACTION

On or about June 12, 2015, the Company entered into definitive agreements to restructure the overall capitalization of the Company (the "Recapitalization Transaction"). To effectuate the Recapitalization Transaction, the Company entered into a Master Acquisition Agreement (the "Master Agreement") with OPC Partners LLC, a Delaware limited liability company ("OPC"), VerifyMe Inc., a Texas corporation ("VFM"), Zaah Technologies, Inc., a Delaware corporation ("Zaah"), and an additional private investor (the "Private Investor").

Pursuant to the Master Agreement, the Company entered into several other material definitive agreements (collectively, the "Transaction Documents") required to consummate the Recapitalization Transaction. A brief summary of the Transaction Documents is included below. Each of the Transaction Documents was entered effective as of June 12, 2015, upon the closing of the Recapitalization Transaction.

Note Conversion Agreement. The Company entered into various Note Conversion Agreements with various holders of promissory notes executed by the Company (the "Noteholders"), pursuant to which the Noteholders converted $731,426 of outstanding notes and accrued interest (net of gain on conversion of $297,370) into 57,265,030 shares (pre Reverse Stock Split) of restricted non-trading Common Stock of the Company at a conversion rate of one (1) share of Common Stock per $0.018 of outstanding principal and interest.

Warrant Conversion Agreement. The Company entered into various Warrant Conversion Agreements with various holders of warrants for the Company's Common Stock (the "Warrantholders"), pursuant to which the Warrantholders converted 3,700,000 outstanding Common Stock warrants into 3,700,000 shares (pre Reverse Stock Split) of restricted non-trading Common Stock of the Company at a conversion ratio 1:1.

Preferred Stock Conversion Agreement. The Company and VFM entered into a Preferred Stock Conversion Agreement, pursuant to which VFM converted 21,111,111 shares (pre Reverse Stock Split) of Series A Preferred Stock of the Company that it currently owns into shares of Common Stock of the Company on a 1:1 basis (pre Reverse Stock Split).

Patent and Technology License Termination Agreement. Pursuant to a Patent and Technology License Termination Agreement, the Company and VFM terminated that certain Patent and Technology License Agreement, dated as of December 31, 2012, by and between the Company and VFM (the "License"), and VFM agreed to receive eighty five (85) shares (pre Reverse Stock Split) of Series B Preferred Stock in complete satisfaction of $4,500,000 in past due license payments and $2,000,000 exclusivity payments owed by the Company under the License. As a result of the Patent Purchase Agreement explained below, $176,316, net of amortization of $23,684, of prepaid expenses related to the patents were reclassified to patent expense.

Termination of Registration Rights. Pursuant to a Registration Rights Termination Agreement, the Company and VFM have terminated that certain Registration Rights Agreement, dated as of December 31, 2012, by and between the Company and VFM.

Termination of Technology and Services Agreement. Pursuant to a Technology and Services Agreement Termination Agreement, the Company and VFM terminated that certain Technology and Services Agreement, dated as of December 31, 2012, by and between the Company and VFM.

Termination of Investment Agreement. Pursuant to an Investment Agreement Termination Agreement, the Company and VFM terminated that certain Investment Agreement, dated as of December 31, 2012, by and between the Company and VFM.

Patent Purchase Agreement. The Company and VFM entered into and consummated a Patent Purchase Agreement, transferring and assigning over to the Company all of VFM's rights, title and interest into certain U.S. patents and pending U.S. patent applications.

Termination of Zaah Technology and Services Agreement. Pursuant to a Technology and Services Agreement Termination Agreement, the Company and Zaah terminated that certain Technology and Services Agreement, dated as of December 31, 2012, by and between the Company and Zaah.

Series A Preferred Stock Subscription Agreement. The Company entered into a Subscription Agreement with OPC, pursuant to which the Company issued 37,564,767 shares (pre Reverse Stock Split) of Series A Preferred Stock to OPC for a cash investment $1,278,501, plus the conversion of deferred compensation, notes payable and accrued interest amounting to $171,813, into the Company by OPC.

Common Stock Subscription Agreement. The Company entered into a Subscription Agreement with the Private Investor, pursuant to which the Company issued 25,906,736 shares (pre Reverse Stock Split) of restricted non-trading Common Stock to the Private Investor for a cash investment of $50,000 into the Company by the Private Investor.

Series B Preferred Stock Subscription Agreement. In connection with the termination of the License with VFM, the Company entered into a Subscription Agreement with VFM, pursuant to which to the Company issued 85 shares (pre Reverse Stock Split) of Series B Preferred Stock to VFM.

The foregoing description of the Master Agreement and the related Transaction Documents is a summary, and does not purport to be a complete description of the Master Agreement and the related Transaction Documents, and is qualified in its entirety by reference to the Master Agreement and the related Transaction Documents, copies of which are filed as Exhibits 10.1, 10.2 and 10.3 to the Company's Report on Form 8-K, filed with the SEC on June 18, 2015.

NOTE 7 – SENIOR SECURED CONVERTIBLE NOTES PAYABLE – RELATED PARTIES

On June 12, 2015, as part of the Recapitalization Transaction (see Note 6), the Company restructured the Senior Secured Convertible Notes Payable – Related Parties. As a result the principal balance of $114,000 and accrued interest of $118,775 was converted into 154,184 shares (13,105,662 shares pre Reverse Stock Split at $0.018 per share) of the Company's Common Stock. This resulted in a gain of $103,456. Of this amount, $17,967 was related to a stockholder and recorded as additional paid in capital, with the remaining $85,489 being recorded as a gain on extinguishment of debt.

NOTE 8 – NOTES PAYABLE

Notes payable consists of the following as of December 31:

	2016	2015
Series A notes payable; interest at 8% per annum; principal and accrued interest due at maturity in October 2011 (past due)	50,000	50,000
Notes payable; interest rate at 5% per annum; principal and accrued interest due at maturity on June 30, 2017	79,000	-
Less: Unamortized discount	(60,931)	-
	68,069	50,000
Less: Current portion	68,069	50,000
	$ -	$ -

At December 31, 2016 and 2015 accrued interest on notes payable was $29,668 and $23,667.

The warrant liabilities in this section were valued using the Black-Scholes option pricing model, with the following assumptions: no dividend yield, expected volatility of 173.7% to 180.7%, risk free interest rate of 1.75% and expected lives of four to five years.

On June 10, 2014, the Company issued a note payable for $250,000, which included fully vested warrants to purchase 1,000,000 shares pre Reverse Stock Split of Common Stock at an exercise price of $0.10 per share, expiring in five years. The warrants were valued at $39,650 using Black-Scholes option pricing model to calculate the grant-date fair value of the warrants, with the following assumptions: no dividend yield, expected volatility of 248.2%, risk free interest rate of 1.67% and expected life of five years. The relative fair value of the warrants was $34,222 and was recorded as a discount to the notes payable in accordance with FASB ASC 835-30-25, "Recognition" ("FASB 835-30-25") and was accreted over the term of the note payable for financial statement purposes. For the year ended December 31, 2014, $34,222 was accreted through interest expense. The note and accrued interest at 8% per annum was originally due on December 11, 2014, but the Company received approval to extend the maturity until December 31, 2014. The warrants are subject to anti-dilutive adjustments and are therefore classified as a liability in accordance with FASB ASC 815. The warrant liability was re-valued at each reporting period with the change in fair value recorded through earnings. As of June 12, 2015, the date of conversion in conjunction with the Recapitalization Transaction (see Note 6), the fair value of the warrant liability was $8,113.

As a result of the Recapitalization Transaction, the note's principal balance of $250,000 and accrued interest of $20,263 was converted into 176,471 shares (15,000,000 shares pre Reverse Stock Split at $0.018) of Common Stock. This resulted in a gain of $120,117, and, because this individual is a stockholder, was recorded as additional paid in capital.

On August 5, 2014, the Company issued notes payable for $100,000, which included fully vested warrants to purchase 600,000 shares (pre Reverse Stock Split) of Common Stock at an exercise price of $0.05 per share, expiring in five years. The warrants were valued at $29,725 using the Black-Scholes option pricing model to calculate the grant-date fair value of the warrants, with the following assumptions: no dividend yield, expected volatility of 233.8%, risk free interest rate of 1.67% and expected life of five years. The relative fair value of the warrants was $22,914 and was recorded as a discount to the notes payable in accordance with FASB ASC 835-30-25, and was accreted over the term of the note payable for financial statement purposes. For the year ended December 31, 2014, $22,914 was accreted through interest expense. The note and accrued interest at 8% per annum were due in full on December 1, 2014. The warrants were subject to anti-dilutive adjustments and were therefore classified as a liability in accordance with FASB ASC 815. The warrant liability was re-valued at each reporting period with the change in fair value recorded through earnings. As of June 12, 2015, the date of conversion in conjunction with the Recapitalization Transaction (see Note 6), the fair value of the warrant liability was $5,151.

As a result of the Recapitalization Transaction, the principal balance of $50,000 and accrued interest of $3,414 was converted into 34,898 shares (2,966,210 shares pre Reverse Stock Split at $0.018) of Common Stock. This resulted in a gain of $23,740, which was recorded as a gain on the extinguishment of debt. The remaining $50,000 was paid in full, plus accrued interest in September 2015. The 3,529 warrants (300,000 warrants pre Reverse Stock Split) to purchase shares of Common Stock associated with the $50,000 note payable remain outstanding and must be re-valued at each reporting period with the change in fair value recorded through earnings. As of December 31, 2016 and 2015, the warrants were valued at $262 and $7,902.

On August 12, 2014, the Company issued a note payable for $50,000, which included fully vested warrants to purchase 300,000 shares (pre Reverse Stock Split) of Common Stock at an exercise price of $0.05 per share, expiring in five years. The warrants were valued at $26,817 using Black-Scholes option pricing model to calculate the grant-date fair value of the warrants, with the following assumptions: no dividend yield, expected volatility of 233.8%, risk free interest rate of 1.67% and expected life of five years. The relative fair value of the warrants was $17,455 and was recorded as a discount to the note payable in accordance with FASB ASC 835-30-25, and was accreted over the term of the note payable for financial statement purposes. For the year ended December 31, 2014, $17,455 was accreted through interest expense.

The note and accrued interest at 8% per annum were due in full on December 1, 2014. The warrants were subject to anti-dilutive adjustments and are therefore classified as a liability in accordance with FASB ASC 815. The warrant liability was re-valued at each reporting period with the change in fair value recorded through earnings. As of June 12, 2015, the date of conversion in conjunction with the Recapitalization Transaction (see Note 6), the fair value of the warrant liability was $2,575.

As a result of the Recapitalization Transaction, the principal balance of $50,000 and accrued interest of $3,370 was converted into 34,843 shares (2,961,644 shares pre Reverse Stock Split at $0.018) of Common Stock. This resulted in a gain of $23,720, which was recorded as a gain on the extinguishment of debt.

On August 14, 2014, the Company issued a note payable for $100,000, which included fully vested warrants to purchase 600,000 shares pre Reverse Stock Split of Common Stock at an exercise price of $0.05 per share, expiring in five years. The warrants were valued at $47,676 using Black-Scholes option pricing model to calculate the grant-date fair value of the warrants, with the following assumptions: no dividend yield, expected volatility of 233.8%, risk free interest rate of 1.67% and expected life of five years. The relative fair value of the warrants was $32,274 and was recorded as a discount to the note payable in accordance with FASB ASC 835-30-25 and was accreted over the term of the note payable for financial statement purposes. For the year ended December 31, 2014, $32,274 was accreted through interest expense. The note and accrued interest at 8% per annum were due in full on December 1, 2014. The warrants were subject to anti-dilutive adjustments and were therefore classified as a liability in accordance with FASB ASC 815. The warrant liability was re-valued at each reporting period with the change in fair value recorded through earnings. As of June 12, 2015, the date of conversion in conjunction with the Recapitalization Transaction (see Note 6), the fair value of the warrant liability was $5,153.

As a result of the Recapitalization Transaction, the principal balance of $100,000 and accrued interest of $6,697 was converted into 69,657 shares (5,920,852 shares pre Reverse Stock Split at $0.018) of Common Stock. This resulted in a gain of $47,421, which was recorded as a gain on the extinguishment of debt.

On September 8, 2014, the Company issued notes payable for $150,000, which included fully vested warrants to purchase 900,000 shares (pre Reverse Stock Split) of Common Stock at an exercise price of $0.05 per share, expiring in five years. The warrants were valued at $62,544 using Black-Scholes option pricing model to calculate the grant-date fair value of the warrants, with the following assumptions: no dividend yield, expected volatility of 233.8%, risk free interest rate of 1.67% and expected life of five years. The relative fair value of the warrants was $44,140 and was recorded as a discount to the notes payable in accordance with FASB ASC 835-30-25 and was accreted over the term of the note payable for financial statement purposes. For the year ended December 31, 2014, $44,140 was accreted through interest expense. The note and accrued interest at 8% per annum were due in full on December 1, 2014. The warrants were subject to anti-dilutive adjustments and were therefore classified as a liability in accordance with FASB ASC 815. The warrant liability was re-valued at each reporting period with the change in fair value recorded through earnings. As of June 12, 2015, the date of conversion in conjunction with the Recapitalization Transaction (see Note 6), the fair value of the warrant liability was $7,725.

As a result of the Recapitalization Transaction, the principal balance of $150,000 and accrued interest of $9,222 was converted into 103,991 shares (8,839,269 shares pre Reverse Stock Split at $0.018) of Common Stock. This resulted in a gain of $70,766, which was recorded as a gain on the extinguishment of debt.

On December 5, 2014, the Company issued a note payable for $23,000 to a stockholder, which bears interest at 5.0% and was due on April 5, 2015. As a result of the Recapitalization Transaction (see Note 6), the principal balance of $23,000 and accrued interest of $609 was converted into 15,418 shares (1,310,510 shares pre Reverse Stock Split at $0.018) of Common Stock. This resulted in a gain of $10,493 and, because this entity is a stockholder, was recorded as additional paid in capital.

On December 31, 2014, the Company issued a note payable for $100,000, which included fully vested warrants to purchase 600,000 shares (pre Reverse Stock Split) of Common Stock at an exercise price of $0.05 per share expiring in five years. The warrants were valued at $11,812 using the Black-Scholes option pricing model to calculate the grant-date fair value of the warrants, with the following assumptions: no dividend yield, expected volatility of 229.0%, risk free interest rate of 1.68% and expected life of five years. The relative fair value of the warrants was $10,563 and was recorded as a discount to the notes payable in accordance with FASB ASC 835-30-25 and was accreted over the term of the note payable for financial statement purposes. For the three months ended March 31, 2015, the final $10,447 was accreted through interest expense. The note and accrued interest at 8% per annum were due in full on April 1, 2015. The warrants were subject to anti-dilution adjustments and were therefore classified as a liability in accordance with FASB ASC 815. The warrant liability was revalued at each reporting period with the change in fair value recorded through earnings. As of June 12, 2015, the date of conversion in conjunction with the Recapitalization Transaction (see Note 6), the fair value of the warrant liability was $5,226.

As a result of the Recapitalization Transaction, the principal balance of $100,000 and accrued interest of $3,689 was converted into 67,637 shares (5,749,163 shares pre Reverse Stock Split at $0.018) of Common Stock. This resulted in a gain of $46,084, which was recorded as a gain on the extinguishment of debt.

On February 10, 2015, the Company issued a note payable for $25,000, bearing interest at 5.0% to an accredited investor and director of the Company. As a result of the recapitalization transaction (see Note 6), the principal balance of $25,000 and accrued interest of $417 was converted into 16,608 shares (1,411,720 shares pre Reverse Stock Split at $0.018) of Common Stock. This resulted in a gain of $11,296 and, because this entity is a stockholder, was recorded as additional paid in capital.

The conversion of the notes above on June 12, 2015 was treated as an extinguishment of debt. In accordance with FASB ASC 470-50, the difference between the cash acquisition price of the debt and its net carrying amount shall be recognized currently in income in the period of extinguishment as losses or gains. Similar transactions between stockholders was recognized as additional paid in capital.

On March 27, 2015, the Company issued a note payable for $111,102, bearing interest at 8.0% to an accredited investor.

On April 30, 2015, the Company issued a note payable for $4,887, bearing interest at 8.0% to an accredited investor.

On May 15, 2015, the Company issued a note payable for $4,480, bearing interest at 8.0% to an accredited investor.

On May 21, 2015, the Company issued a note payable for $14,074, bearing interest at 8.0% to an accredited investor.

As a result of the Recapitalization Transaction (see Note 6), the principal balance of the above four notes of $134,542 and accrued interest of $2,271 was converted into 41,603 shares (3,536,254 shares pre Reverse Stock Split at $0.0386) of the Company's Series A Preferred stock as part of the $1,450,000 cash investment.

On June 12, 2015, the conversion of the four notes issued from March 27, 2015 to May 21, 2015, was treated as a troubled debt restructuring in accordance with FASB ASC 470-60-15, "Debt – Troubled Debt Restructurings by Debtors."

A debtor that issues or otherwise grants an equity interest to a creditor to settle fully a payable, shall account for the equity interest at its fair value. The difference between the fair value of the equity interest granted and the carrying amount of the payable settled was recognized as a gain on restructuring payables.

During the fourth quarter of 2016, the Company issued notes payable in the amount of $79,000 in addition to 3,950,000 warrants to purchase the Company's common stock at $0.40 and have a term of five years. The notes bear interest at the rate of 5% per annum and are due on June 30, 2017. In accordance with FASB ASC 470-20, "Debt with Conversion and Other Options," the proceeds of notes payable with detachable stock purchase warrants have been allocated between the two based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at the time of issuance. The portion allocated to the warrants has been accounted for as a discount to the notes payable and amortized over the term of the notes.

The warrants were valued using the Black-Scholes option pricing model, with the following assumptions: no dividend yield, expected volatility of 194.6% to 197.5%, risk free interest rate of 1.26% to 2.03% and expected lives of five years. The fair value of the warrants was $729,035, of which $69,500 was allocated to the notes payable as discount to the notes payable.

NOTE 9 – WARRANT LIABILITY

On December 31, 2012, the Company entered into an Investment Agreement, a Technology and Service Agreement, a Patent and Technology License Agreement and an Asset Purchase Agreement with VFM and on the same date entered into a Technology and Service Agreement with Zaah (collectively with the VFM agreements, the "Agreements"). Contemplated by those Agreements were warrant issuances by the Company for the purchase of Common Stock.

Warrants exercisable for 627,451 shares (53,333,333 shares pre Reverse Stock Split) of Common Stock associated with these Agreements are subject to anti-dilution adjustments outlined in the Agreements. In accordance with FASB ASC 815, the warrants were classified as a liability in the total amount of $2.4 million at December 31, 2012. In addition, the warrants must be revalued every reporting period and adjusted to market with the increase or decrease being adjusted through earnings. As of December 31, 2016 and 2015, the fair value of the warrant liability was $22,063 and $1,020,632.

On January 1, 2014, the Company issued warrants to purchase 74,697 shares (6,349,245 pre Reverse Stock Split) of Common Stock as consideration for technology received from VFM under to the Patent and Technology License Agreement dated December 31, 2012. The warrants are exercisable at $0.10 per share. The warrants are subject to anti-dilution adjustments outlined in the Agreement. In accordance with FASB ASC 815, the warrants were classified as a liability with an initial fair value of $444,000, which was immediately expensed as research and development costs. In addition, the warrants must be revalued every reporting period and adjusted to market with the increase or decrease being adjusted through earnings. As of December 31, 2016 and 2015, the fair value of the warrant liability was $4,885 and $147,524.

The Company made the payment of warrants to VFM on a good faith basis, based on the assumption that the technology conveyed to the Company would be patentable and licensable. The Company had not reached a conclusion at that time that the technology would be patentable and licensable.

As of June 12, 2015, the Company concluded that the technology received from VFM is patentable and licensable, and that the Company was required to make, on January 1, 2015, an additional payment pursuant to Patent and Technology Agreement in the amount of $4,500,000, to be paid by issuing (i) a number of shares of Common Stock equal to (x) $4,500,000 divided by (y) a price which equals a 10% discount to the market price at the time of issuance and (ii) warrants to purchase an equal number of shares of Common Stock exercisable at a price of $0.10 per share. Based upon the share price of $0.04 per share, this would result in the issuance of approximately an additional 125 million shares of Common Stock and warrants to purchase an additional 125 million shares. The $4,500,000 was accrued at December 31, 2014. The number of warrants to be issued based on a stock price of $0.02 at December 31, 2014 was 250 million warrants. The warrants were valued at $4,892,089 using the Black-Scholes pricing model to calculate the grant-date fair value of the warrants with the following assumptions: no dividend yield, expected volatility of 229.1%, risk free interest rate of 1.65% and expected life of five years.

In conjunction with the Recapitalization Transaction (see Note 6), the Company agreed that an additional $2,000,000 in exclusivity licensing fees was required to be paid and converted the $6,500,000 into shares of Series B Preferred Stock. In addition, the fair value of the associated warrants was $1,867,417 as of June 12, 2015 and was recorded as additional paid in capital on conversion.

The warrants associated with the notes payable (see Note 6) were revalued at June 12, 2015, based on the cashless conversion modification. The total fair value of those warrants was $37,000 and was recorded as additional paid in capital on conversion.

NOTE 10 – CONVERTIBLE PREFERRED STOCK

Subscription Agreement

The Company entered into a Subscription Agreement with VerifyMe on January 31, 2013 (the "Subscription Agreement"). Under the terms of the Subscription Agreement, VerifyMe subscribed to purchase 33,333,333 shares of the Company's Series A preferred stock (the "Preferred Stock") and a warrant to purchase 33,333,333 shares of the Company's common stock at an exercise price of $0.12 per share, for $1 million.

At any time before January 31, 2015, VerifyMe has the right, but not the obligation, to require the Company to repurchase all, but not less than all, of the capital stock of the Company and warrants exercisable for capital stock of the Company held by VerifyMe in exchange for the price originally paid by VerifyMe therefor upon the occurrence of any of the following events:(i) the consummation of any bona fide business acquisition, (ii) the incurrence of any indebtedness by the Company in an amount in excess of $2 million, (iii) the issuance or sale of any security having a preference on liquidation senior to common stock, or (iv) the sale by the Company of capital stock or warrants exercisable for its capital stock at a price below $0.03 per share. This right has not been exercised.

In accordance with FASB ASC 480 and 815, the Preferred Stock has been classified as permanent equity and was valued at $1 million at January 31, 2013.

The conversion feature of the Preferred Stock is an embedded derivative, which is classified as a liability in accordance with FASB ASC 815 and was valued in accordance with FASB ASC 470 as a beneficial conversion feature at a fair value of $0 at June 12, 2015 and $800,000 at December 31, 2014. This was classified as an embedded derivative liability and a discount to Preferred Stock. Because the Preferred Stock can be converted at any time, the full amount of the original fair value was accreted and classified as a reduction to the discount on Preferred Stock and a deemed dividend distribution in the full amount of $1 million, in 2013.

On August 5, 2013, 12,222,222 shares (pre Reverse Stock Split) of Series A Preferred Stock were converted into 12,222,222 shares (pre Reverse Stock Split) of Common Stock.

The Company has determined that the Series A Preferred Stock issuance in the Recapitalization Transaction does not meet the requirements of FASB ASC 480-10 for liability treatment and therefore has been classified as permanent equity. Additionally, it was determined that the economic characteristics of the beneficial conversion feature are clearly and closely related to the host, and are based on a fixed conversion rate into shares of Common Stock and therefore do not require bifurcation.

The Series A Preferred Stock was converted into 248,366 (21,111,111 pre Reverse Stock Split) shares of Common Stock on June 12, 2015 in conjunction with the Recapitalization Transaction (see Note 6).

The 392,157 warrants (33,333,333 warrants pre Reverse Stock Split) associated with the Series A Preferred Stock were also classified as a liability since they are subject to anti-dilutive adjustments outlined in the warrant agreement and valued at a fair market value of $2,995,791 at January 31, 2013. In addition, the warrants must be revalued every reporting period and adjusted to market with the increase or decrease being adjusted through earnings. As of December 31, 2016 and 2015, the fair value of the warrants was $18,107 and $626,317.

On May 26, 2015, the Company amended its Amended Certificate of Designation, dated February 1, 2013, with respect to its Series A Preferred Stock, to amend the designations, preferences, powers and rights of the Series A Preferred Stock, and authorizing the issuance of up to 37,564,767 shares of Series A Preferred Stock. The Series A Preferred Stock are currently convertible at 20:1. 37,564,767 (pre-Reverse Stock Split) shares of Series A Preferred Stock were issued as part of the Recapitalization Transaction (see Note 6).

Additionally, on May 26, 2015, the Company amended its Amended and Restated Articles of Incorporation, dated December 19, 2003, to establish the Series B Preferred Stock, authorizing the issuance of up to 85 shares of Series B Preferred Stock. The Series B Preferred Stock are convertible currently at 8,496,732:1. 85 shares (pre Reverse Stock Split) of Series B Preferred Stock were issued to settle the $6.5 million of licensing fees due and the associated warrants as part of the Recapitalization Transaction (see Note 6). The foregoing description of the Certificate of Designation is a summary, and does not purport to be a complete description of the Certificate of Designation, and is qualified in its entirety by reference to the Certificate of Designation, a copy of which is filed as Exhibit 3.3 to the Company's Report on Form 8-K, filed with the SEC on June 18, 2015.

On June 12, 2015, the Company issued 389,668 shares (33,121,777 pre Reverse Stock Split) of Series A Preferred shares to an investor for $1,278,501 as part of the total $1,450,813 transaction with the investor. Further, an officer of the Company and a stockholder are partial owners in the investor and therefore the investor received an additional 10,667 shares (906,736 pre Reverse Stock Split) of Series A Preferred Stock for the forgiveness of previously accrued but unpaid compensation valued at $35,000 and notes payable and accrued interest were converted into 41,603 shares (3,536,254 pre Reverse Stock Split) of Series A Preferred Stock also as part of the $1,450,813 transaction.

Each of the Series A Preferred Stock and the Series B Preferred Stock have a preference in liquidation that the holders of the Series A Preferred Stock and the Series B Preferred Stock are to be paid out of assets available for distribution prior to holders of Common Stock. The holders of Series A Preferred Stock and the Series B Preferred Stock may cast the number of votes equal to the number of whole shares of Common Stock into which the shares of Series A Preferred Stock and the Series B Preferred Stock can be converted, with certain limitations. In addition, the holders of Series A Preferred Stock and the Series B Preferred Stock are to be paid dividends, based on the number of shares of Series A Preferred Stock and the Series B Preferred Stock, as the case may be, as if the shares had been converted to Common Stock, prior to the holders of Common Stock receiving a dividend.

Series A Convertible Preferred Stock

On March 10, 2016, 14,720 shares of Series A Convertible Preferred Stock were converted into 294,400 shares of the Company's Common Stock.

On June 1, 2016, 14,720 shares of Series A Convertible Preferred Stock were converted into 294,400 shares of the Company's Common Stock.

On August 23, 2016, 14,720 shares of Series A Convertible Preferred Stock were converted into 294,400 shares of the Company's Common Stock.

Series B Convertible Preferred Stock

On May 26, 2015, the Company amended its Amended and Restated Articles of Incorporation dated December 19, 2003 to establish the Series B Convertible Preferred Stock and authorized 1 share (85 shares pre-reverse stock split). The par value of the Series B Convertible Preferred Stock is $0.001 and they are convertible currently at 8,496,732:1. These shares were issued to settle the $6.5 million of licensing fees due and the associated warrants as part of the Company's recapitalization transaction in July 2015.

On March 17, 2016, 0.03 shares of Series B Convertible Preferred Stock were converted into 291,780 shares of the Company's common stock.

On October 5, 2016, 0.05 shares of Series B Convertible Preferred Stock were converted into 383,203 shares of the Company's common stock.

Series C Convertible Preferred Stock

On February 9, 2016, the Company issued 2,587,500 shares of Series C, par value $0.001 per share, at a purchase price of $0.40 per share with gross proceeds to the Company of $1,035,000. In connection with the sale of the Series C, the Company issued to the purchasers warrants to purchase in the aggregate 2,587,500 shares of the Company's common stock at an exercise price of $0.40 per share. Further, as a part of the same offering, on February 29, 2016, the Company issued 500,000 shares of Series C, at a purchase price of $0.40 per share with gross proceeds to the Company of $200,000. In connection with the sale of the Series C, the Company issued to the purchasers warrants to purchase in the aggregate 500,000 shares of the Company's common stock at an exercise price of $0.40 per share. Each share of Series C is convertible into one share of common stock. The Series C provides for certain adjustments that may be made to the exercise price and the number of shares issuable upon exercise due to future corporate events or otherwise, including, for a proscribed period of time, upon the issuance of securities at a price that is less than the exercise price of the Series C.

The 3,087,500 warrants associated with the Series C Preferred Stock were classified as a liability since they are subject to anti-dilutive adjustments outlined in the warrant agreement and valued at a fair market value of $1,767,576 at February 9, 2016 and February 29, 2016. In addition, the warrants must be revalued every reporting period and adjusted to market with the increase or decrease being adjusted through earnings. As of December 31, 2016, the fair value of the warrants was $285,290.

In addition, the Company incurred stock issuance costs of $17,500 related to the issuance of Series C.

The Company entered into a Registration Rights Agreement with each of the purchasers of the Series C pursuant to which the Company agreed to file a registration statement with the SEC covering the resale of the common stock underlying the Series C, as well as the shares of common stock that are issuable upon exercise of the warrants. The registration statement was filed in April 2016 and declared effective on April 29, 2016.

On May 2, 2016, 487,500 shares of Series C were converted into 487,500 shares of the Company's Common Stock.

On May 3, 2016, 125,000 shares of Series C were converted into 125,000 shares of the Company's Common Stock.

On May 5, 2016, 353,000 shares of Series C were converted into 353,000 shares of the Company's Common Stock.

On June 6, 2016, 84,500 shares of Series C were converted into 84,500 shares of the Company's Common Stock.

On October 14, 2016, 125,000 shares of Series C were converted into 125,000 shares of the Company's Common Stock.

Series D Convertible Preferred Stock

On October 24, 2016, the Company issued 166,750 shares of Series D, par value $0.001 per share, at a purchase price of $0.40 per share with gross proceeds to the Company of $66,700. In connection with the sale of the Series D, the Company issued to the purchasers warrants to purchase in the aggregate 667,000 shares of the Company's common stock at an exercise price of $0.40 per share. Each share of Series D is convertible into one share of common stock. The Series D provides for certain adjustments that may be made to the exercise price and the number of shares issuable upon exercise due to future corporate events or otherwise, including, for a proscribed period of time, upon the issuance of securities at a price that is less than the exercise price of the Series D.

The 667,000 warrants associated with the Series D Preferred Stock were classified as a liability since they are subject to anti-dilutive adjustments outlined in the warrant agreement and valued at a fair market value of $181,942 at October 24, 2016. In addition, the warrants must be revalued every reporting period and adjusted to market with the increase or decrease being adjusted through earnings. As of December 31, 2016, the fair value of the warrants was $64,137.

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Derivative Liabilities

For purposes of determining whether certain instruments are derivatives for accounting treatment, the Company follows the accounting standard that provides guidance for determining whether an equity-linked financial instrument, or embedded feature, is indexed to an entity's own stock. The standard applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, and to any freestanding financial instruments that are potentially settled in an entity's own common stock.

Liabilities measured at fair value on a recurring basis are summarized as follows:

	December 31, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Embedded derivative liability related to beneficial conversion option	$ -	$ -	$ 228,718	$ 228,718	$ -	$ -	$ -	$ -
Derivative liability related to fair value of warrants	-	-	394,744	394,744	-	-	1,802,375	1,802,375
Total	$ -	$ -	$ 623,462	$ 623,462	$ -	$ -	$ 1,802,375	$ 1,802,375

The following table details the approximate fair value measurements within the fair value hierarchy of the Company's derivative liabilities using Level 3 inputs:

	Total
Balance at January 1, 2015	$ 6,370,709
Conversion of notes payable, net of interest expense	(31,397)
Conversion of warrants related to licensing fees	(1,867,417)
Change in fair value of derivative liabilities	(2,669,520)
Balance at January 1, 2016	1,802,375
Series C embedded derivative fair value, February 2016	1,235,000
Effect of conversion of Series C Preferred Stock on embedded derivative liability	(350,500)
Series C warrant liability fair value, February 2016	1,767,576
Series D embedded derivative fair value, October 2016	42,521
Series D warrant liability fair value, October 2016	181,942
Change in fair value of derivative liabilities	(4,055,452)
Balance at December 31, 2016	$ 623,462

The Company has no assets that are measured at fair value on a recurring basis. There were no assets or liabilities measured at fair value on a non-recurring basis during the year ended December 31, 2016.

As of December 31, 2016, some of the Company's outstanding warrants were treated as derivative liabilities and changes in the fair value were recognized in earnings. These Common Stock purchase warrants did not trade in an active securities market, and as such, the Company estimated the fair value of these warrants using Black-Scholes and the following assumptions:

	December 31, 2016	December 31, 2015
Closing trade price of Common Stock	$ 0.11	$ -
Effective Series C Preferred Stock Conversion price	-	-
Effective Series D Preferred Stock Conversion price	-	-
Intrinsic value of conversion option per share	$ 0.11	$ -

	December 31, 2016	December 31, 2015
Annual Dividend Yield	0.0%	0.0%
Expected Life (Years)	1.5 - 2.8	2.0 - 3.0
Risk-Free Interest Rate	1.2% - 1.5%	1.1% - 1.3%
Expected Volatility	215.8% - 234.1%	178.5% - 179.3%

Expected volatility was based primarily on historical volatility. Historical volatility was computed using daily pricing observations for recent periods. The Company believes this method produced an estimate that was representative of the Company's expectations of future volatility over the expected term of these warrants. The Company had no reason to believe future volatility over the expected remaining life of these warrants was likely to differ materially from historical volatility. The expected life was based on the remaining contractual term of the warrants. The risk-free rate was based on the U.S. Treasury rate that corresponded to the expected term of the warrants.

NOTE 12 – STOCKHOLDERS' EQUITY

On June 2, 2015, the Company issued 68,236 shares (post Reverse Stock Split) of Common Stock to two vendors to settle outstanding payable balances of $58,000.

On June 12, 2015, the Company issued 304,785 shares (25,906,735 pre Reverse Stock Split) of Common Stock and raised $50,000.

During the three months ended June 30, 2015, one stockholder received 2,353 shares (post Reverse Stock Split) of Common Stock in a cashless exercise.

On June 11, 2015, the Company issued 525,000 Restricted Stock Units ("RSUs") (44,625,000 pre Reverse Stock Split) to two officers of the Company. The RSUs were valued at the closing stock price of $0.01 on June 11, 2015, at $446,250, fair value. These RSUs are being expensed over the vesting terms. On December 31, 2016, one of the officers resigned and forfeited 112,500 RSUs. As a result the Company reversed deferred compensation related to the RSUs in the amount of $95,625. In addition, the value of the RSUs included in deferred compensation in the amount of $637,500 was reclassified to additional paid in capital. For the year ended December 31, 2016 and 2015, the Company expensed $270,052 and $80,573 related to the RSUs.

On June 30, 2015, the Company issued 48,761 shares (post Reverse Stock Split) of Common Stock to a vendor to settle an outstanding payable balance of $41,447, net of gain on conversion of $35,153.

On July 9, 2015, the Company hired a Chief Operating Officer ("COO"). The COO will receive 225,000 RSUs (19,125,000 pre Reverse Stock Split), vesting over a three-year period, with one-third vesting the first year and one-twelfth vesting ratably on a quarterly basis thereafter. The RSUs were valued at fair value of $918,000 based on the closing stock price of $4.08 on July 9, 2015. For the year ended December 31, 2015, the Company expensed $127,500 related to the RSUs. The COO resigned on May 31, 2016, therefore forfeiting his RSUs, and as a result the Company reversed the deferred compensation related to the RSUs in the amount of $637,500.

On July 23, 2015, the Company completed the Reverse Stock Split of its outstanding Common Stock and Preferred Stock, as further described in Note 1 and Note 6 above.

On August 10, 2015, the Company agreed to issue the Chief Financial Officer ("CFO") 20,000 RSUs vesting over six months and 100,000 RSUs vesting annually over three years. The RSUs were valued at a fair value of $692,400 based on the closing stock price of $5.77 per share on August 10, 2015. In February 2016, the Company issued 20,000 shares of the Company's common stock in accordance with this agreement. On December 31, 2016, the CFO voluntarily forfeited the right to receive the remaining 100,000 RSUs. A s a result the Company reversed the deferred compensation related to the RSUs in the amount of $336,583. The Company expensed $179,511 and $176,305 during the years ended December 31, 2016 and 2015 relative to these RSUs.

On October 1, 2015, the Company agreed to issue 100,000 RSUs to a consultant for services. Of the 100,000 RSUs, 60,000 were issued upon execution of the agreement, 20,000 shares are to be issued on January 1, 2016 and 20,000 shares are to be issued on April 1, 2016. The RSUs were originally valued at $195,000. The Company expensed $124,750 and $54,250 for the years ended December 31, 2016 and 2015 relative to these RSUs. As a result of having to revalue these RSUs until issuance, the Company was able to reclassify $38,000 to additional paid in capital on the final valuation of the RSUs.

On October 7, 2015, the Company agreed to pay $15,000 to a consultant/stockholder as well as an additional $35,000 based on certain milestones being met. Additionally, as of August 1, 2015 the Company agreed to issue the individual 30,000 RSUs originally valued at $165,000 in quarterly installments on November 1, 2015, February 1, 2016, May 1, 2016 and August 1, 2016, which began vesting on August 1, 2015. The Company expensed $18,563 and $34,687 for the years ended December 31, 2016 and 2015 relative to these RSUs. Further the individual was to receive a 2% to 5% commission on company sales while this agreement is in effect, however no commissions were earned during 2016 or 2015. The agreement was terminated on April 29, 2016. In addition, the remaining value of the RSUs included in deferred compensation in the amount of $51,375 was reclassified to additional paid in capital as a result of the termination of the agreement.

For the years ended December 31, 2016 and 2015, the Company expensed $683,251 and $498,816 relative to the RSUs.

On February 8, 2016, the Company issued 23,500 shares of Common Stock to a consultant for assistance in raising capital. The shares were valued at $15,275 based on the closing stock price of the Company's stock price on February 8, 2016 of $0.65 per share. The value of the shares was expensed immediately.

On May 24, 2016, the Company issued 9,483 shares of Common Stock to a consultant as a finder's fee for an employee. The shares were value at $5,500 based on the closing stock price of the Company's common stock on March 11, 2016 per the agreement. The value of the shares was expensed immediately.

In accordance with FASB ASC 505-50, "Equity – Equity-Based Payments to Non-Employees," restricted stock with performance conditions should be revalued based on the modification accounting methodology described in FASB ASC 718-20, "Compensation—Stock Compensation—Awards Classified as Equity." There were no outstanding equity-based payments to non-employees as of December 31, 2016.

NOTE 13 – STOCK OPTIONS AND WARRANTS

During 1999, the Board of Directors ("Board") of the Company adopted, with the approval of the stockholders, a Stock Option Plan. In 2000, the Board superseded that plan and created a new Stock Option Plan, pursuant to which it is authorized to grant options to purchase up to 1.5 million shares of common stock. On December 17, 2003, the Board, with approval of the stockholders, superseded the 2000 plan and created the 2003 Stock Option Plan (the "2003 Plan"). Under the 2003 Plan the Company is authorized to grant options to purchase up to 18,000,000 shares of common stock to the Company's employees, officers, directors, consultants, and other agents and advisors. The Plan is intended to permit stock options granted to employees under the Plan to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended ("Incentive Stock Options"). All options granted under the 2003 Plan, which were not intended to qualify as Incentive Stock Options, are deemed to be non-qualified options ("Non-Statutory Stock Options"). The 2003 Plan has expired and therefore no new options will be issued under the 2003 Plan. As of December 31, 2016, options to purchase 11,765 shares of common stock have been issued and are unexercised, under the 2003 Plan.

During 2013, our Board adopted a new omnibus incentive compensation plan that was ratified by the shareholders at the 2013 annual meeting, (the "2013 Plan") which will serve as the successor incentive compensation plan to the 2003 Plan. Under the 2013 Plan, the Company is authorized to grant awards of stock options, restricted stock, restricted stock units and other stock-based awards of up to an aggregate of 20,000,000 shares of common stock. The 2013 Plan is intended to permit stock options granted to employees under the 2013 Plan to qualify as Incentive Stock Options. All options granted under the 2013 Plan, which are not intended to qualify as Incentive Stock Options are deemed to be Non-Statutory Stock Options. As of December 31, 2016, under the 2013 Plan grants of restricted stock and options to purchase 2,837,500 shares of common stock have been issued and are unvested or unexercised, and 17,162,500 shares of common stock remain available for grants under the 2013 Plan.

The 2013 Plan is administered by a committee of the Board ("Compensation Committee") which determines the persons to whom awards will be granted, the number of awards to be granted and the specific terms of each grant, including the vesting thereof, subject to the provisions of the plan.

In connection with Incentive Stock Options, the exercise price of each option may not be less than 100% of the fair market value of the common stock on the date of the grant (or 110% of the fair market value in the case of a grantee holding more than 10% of the outstanding stock of the Company). The aggregate fair market value (determined at the time of the grant) of stock for which an employee may exercise

Incentive Stock Options under all plans of the company shall not exceed $1,000,000 per calendar year. If any employee shall have the right to exercise any options in excess of $100,000 during any calendar year, the options in excess of $100,000 shall be deemed to be Non-Statutory Stock Options, including prices, duration, transferability and limitations on exercise.

The Company issued Non-Statutory Stock Options pursuant to contractual agreements with non-employees. Options granted under the agreements are expensed when the related service or product is provided.

Determining the appropriate fair value of stock-based awards requires the input of subjective assumptions. The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used in calculating the fair value represent management's best estimates and involve inherent uncertainties and judgments.

On June 11, 2015, the Company issued options to purchase an aggregate of 1,225,000 shares (104,125,000 pre Reverse Stock Split) of the Common Stock at an exercise price of $0.85 per share, with a term of five years, to three employees and two members of the Board. The fair value of options issued was $993,083. These options were valued using the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 176.6%, risk-free interest rate of 1.74% to 1.75% and expected option life of five years. The options are being expensed over the vesting terms for the employees and over the Board members' remaining service terms as that is shorter than the vesting terms. In December 2016, one of the officers resigned and as part of his severance agreement all of his options vested and the remaining unamortized option expense of $173,113 was expensed.

On July 9, 2015, the Company hired a COO who received 375,000 options (31,875,000 pre Reverse Stock Split) to purchase shares of Common Stock of the Company, with an exercise price of $0.85 ($0.01 pre reverse split) and valued at $1,502,219. The options vest quarterly over three years. The fair value of the options was valued using the Black-Scholes option pricing model with the following assumptions: no dividend yield, expected volatility of 180.1%, risk free interest rate of 1.58% and expected life of five years. The options were being expensed over the vesting terms. The COO resigned on May 31, 2016, therefore forfeiting his options and the Company did not reverse any expense related to these options.

On August 10, 2015, the Company hired a CFO who received 200,000 options (17,000,000 pre Reverse Stock Split) to purchase shares of Common Stock vesting annually over three years. The options were valued at fair value of $1,107,857, using the Black-Scholes option pricing model with the following assumptions: no dividend yield, expected volatility of 182.2%, risk free rate interest rate of 1.62% and expected life of five years. The options were being expensed over the vesting terms. On December 21, 2016, the CFO voluntarily forfeited these options and the Company did not reverse any expense related to these options.

On September 25, 2015, the Company issued options to purchase an aggregate of 75,000 shares (6,375,000 pre Reverse Stock Split) of Common Stock at an exercise price of $2.15 per share, with a term of five years to a member of the Board. The fair value of options issued was $155,003. These options were valued using the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 183.5%, risk-free interest rate of 1.48% and expected option life of five years. The options are being expensed over the service term as that is shorter than the vesting terms.

On February 29, 2016, the Company issued options to purchase an aggregate of 100,000 shares of the Company's common stock at an exercise price of $0.57 per share, with a term of five years, to the former Chairman of the Board. The fair value of options issued was $53,731. These options were valued using the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 202.9%, risk-free interest rate of 1.22% and expected option life of five years. The options were being expensed over the Board Chairman's remaining service terms as that is shorter than the vesting terms. The former Chairman of the Board resigned on December 1, 2016 and therefore, forfeited the unvested options and the Company did not reverse any expense related to these options.

On March 10, 2016, the Company issued options to purchase 150,000 shares of the Company's Common Stock at an exercise price of $0.56 per share, with a term of five years, to an employee. The fair value of options issued was $82,113. These options were valued using the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 202.9%, risk-free interest rate of 1.45% and expected option life of five years. The options were being expensed over the vesting terms for the employee. The employee was terminated during 2016 and expense related to the options of $2,281 was reversed.

On March 24, 2016, the Company issued options to purchase 50,000 shares of Common Stock at an exercise price of $0.43 per share, with a term of five years, to a consultant, which vest immediately. The fair value of options issued was $21,068. These options were valued using the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 203.1%, risk-free interest rate of 1.39% and expected option life of five years. The options were expensed immediately.

On December 21, 2016, the Company issued 890,000 options in aggregate to purchase shares of the Company's common stock to the Board of Directors, the CFO and an employee at an exercise price of $0.11, expiring in ten years and vesting immediately. In conjunction with this issuance the Board of Directors, the CFO and an employee forfeited 789,706 options. The fair value of the options issued was $133,411. All of the options were valued using the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 324.6%, risk-free interest rate of 2.55% and expected option life of ten years. The options were expensed immediately.

On December 22, 2016, the Company issued 1,300,000 options in aggregate to purchase shares of the Company's common stock, to the Board of Directors, the CFO and an employee at an exercise price of $0.25, expiring in ten years and vesting immediately. The fair value of the options issued was $148,070. All of the options were valued using the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 324.7%, risk-free interest rate of 2.55% and expected option life of ten years. The options were expensed immediately.

For the years ended December 31, 2016 and 2015, the Company expensed $1,355,992 and $849,971 with respect to the options.

During the year ended December 31, 2016 and 2015, the weighted average fair value of stock options granted during the period was $0.18 and $0.04. The fair value of stock options is expensed over the vesting term in accordance with the terms of the related stock option agreements.

During the year ended December 31, 2016 and 2015, the intrinsic value of stock options exercised during the period was $0.

As of December 31, 2016, there was no unrecognized compensation cost related to outstanding stock options. The difference between the stock options exercisable at December 31, 2016 and the stock options exercisable and expected to vest relates to management's estimate of options expected to vest in the future.

The following table presents the weighted-average assumptions used to estimate the fair values of the stock options granted during the years ended December 31, 2016 and 2015:

	2016	2015
Risk Free Interest Rate	2.41%	1.69%
Expected Volatility	310.0%	176.6%
Expected Life (in years)	9.4	5.0
Dividend Yield	0%	0%
Weighted average estimated fair value of options during the period	$ 0.18	$ 2.00

The following table summarizes the activities for the Company's stock options for the year ended December 31, 2016 and 2015:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted - Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in 000's) (1)
Balance as of December 31, 2014	598,431	$ 4.25		
Granted	1,875,000	0.85		
Exercised	(7,843)	0.05		
Forfeited/cancelled	(308,235)	(0.06)		
Balance December 31, 2015	2,157,353	$ 1.80		
Expired/cancelled	(1,364,706)	$ 2.01		
Granted	2,490,000	$ 0.24		
Balance December 31, 2016	3,282,647	$ 0.52	7.9	$ -
Exercisable at December 31, 2016	3,282,647	$ 0.52	7.9	$ -
Exercisable at December 31, 2016 and expected to vest thereafter	3,282,647	$ 0.52	7.9	$ -

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of $0.11 for our common stock on December 31, 2016.

The following table summarizes the activities for the Company's unvested stock options for the year ended December 31, 2016:

	Unvested Options	
	Number of Shares	Weighted - Average Grant Date Fair Value (1)
Balance December 31, 2015	1,531,250	$ 1.50
Granted	2,490,000	0.18
Vested	(3,231,666)	(0.48)
Cancelled/forfeited/expired	(789,584)	(2.55)
Balance December 31, 2016	-	$ -

On May 1, 2016, the Company issued warrants to purchase 100,000 shares of common stock at an exercise price of $0.01 per share, with a term of five years, to the Chief Executive Officer, which vest immediately. The fair value of warrants issued was $49,885. These warrants were valued using the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 204.0%, risk-free interest rate of 1.28% and expected life of five years. The options were expensed immediately.

The following table summarizes the activities for the Company's warrants for the year ended December 31, 2016 and 2015:

	Warrants Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted - Average Remaining Contractual Term in years)	Aggregate Intrinsic Value (in 000's) (1)
Balance, December 31, 2014	1,460,775	$ 1.01		
Exercised	(2,353)	(0.85)		
Cancelled/Forfeited	(43,529)	(4.15)		
Balance, December 31, 2015	1,414,893	$ 9.67		
Expired	(2,941)	$ 0.85		
Granted	7,804,500	$ 0.39		
Balance, December 31, 2016	9,216,452	$ 1.82	3.7	$ 10
Exercisable at December 31, 2016	9,216,452	$ 1.82	3.7	$ 10

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying warrants and the closing stock price of $0.11 for our common stock on December 31, 2016.

All of the options were vested as of December 31, 2015.

NOTE 14 – OPERATING LEASES

For the year ended December 31, 2016 and 2015, total rent expense under leases amounted to $11,835 and $55,153. At December 31, 2016, the Company was not obligated under any non-cancelable operating leases.

NOTE 15 – RELATED PARTY TRANSACTIONS

At June 12, 2015, three stockholders of the Company held $317,000 of the senior secured convertible notes payable and were owed accrued interest of $42,713. The notes and accrued interest were converted into 234,735 shares (19,952,489 pre Reverse Stock Split) of Common Stock as further described in Note 7 and 8.

At December 31, 2016, one shareholder of the Company held $54,000 of notes payable and was owed $298 in accrued interest.

As of December 31, 2016, the Company owed the current Chairman of the Board $19,757 for services and expenses rendered, the CEO $6,250 for services rendered and the CFO $38,006 for services and expenses rendered. All of these amounts were included in accounts payable.

NOTE 16 – MAJOR CUSTOMERS/VENDORS

During the years ended December 31, 2016 and 2015, one and three customers accounted for 100.0% of total sales. Generally, a substantial percentage of the Company's sales has been made to a small number of customers and is typically on an open account basis.

During the years ended December 31, 2016 and 2015, we purchased 100.0% of our pigment from one vendor.

NOTE 17 – SUBSEQUENT EVENTS

On January 6, 2017, 13,000 shares of Series A were converted into 260,000 shares of the Company’s Common Stock.

On January 31, 2017, the Company issued options to purchase 225,000 shares of the Company’s common stock to a consultant at an exercise price of $0.09, with a term of 5 years and vesting over three months.

On January 24, 2017 and January 31, 2017, the Company issued notes payable and received proceeds in the aggregate amount of $20,000 to an investor, bearing interest at five percent per annum, which also included warrants to purchase 1,000,000 shares of the Company's common stock at $0.40 and that have a term of five years.

On February 6, 2017, the Company issued options to purchase in the aggregate of 500,000 shares of the Company’s common stock to a consultant at an exercise price of $0.068 for 250,000 options and $0.25 for the remaining 250,000 options, all with a term of 5 years and vesting immediately.

On February 13, 2017, the Company issued a promissory note and received proceeds in the amount of $100,000 to an investor, bearing no interest, and which included a warrant to purchase 5 million shares of the Company’s common stock, with an exercise price of $0.40 and a term of 5 years.

On March 28, 2017, the Company issued a promissory note and received proceeds in the amount of $25,000 to an investor, bearing no interest, and which included a warrant to purchase 1,250,000 shares of the Company’s common stock, with an exercise price of $0.40 and a term of 5 years.

On March 30, 2017, an investor converted 20,000 shares of the Company’s Series A Convertible Preferred Stock into 400,000 shares of the Company’s common stock.

Exhibit 3.9

BARBARA K. CEGAVSKE
Secretary of State
202 North Carson Street
Carson City, Nevada 89701-4201
(775) 684-5708
Website: www.nvsos.gov

Filed in the office of	Document Number
Barbara K. Cegavske	20160527667-62
Secretary of State	Filing Date and Time
State of Nevada	12/05/2016 8:17 AM
	Entity Number
	C28190-1999

Certificate of Designation
(PURSUANT TO NRS 78.1955)

USE BLACK INK ONLY - DO NOT HIGHLIGHT

ABOVE SPACE IS FOR OFFICE USE ONLY

Certificate of Designation For Nevada Profit Corporations
(Pursuant to NRS 78.1955)

1. Name of corporation:
VerifyMe, Inc.

2. By resolution of the board of directors pursuant to a provision in the articles of incorporation this certificate establishes the following regarding the voting powers, designations, preferences, limitations, restrictions and relative rights of the following class or series of stock.
The Board designates the 0% Series D Convertible Preferred Stock and the number of shares constituting such series, and fixes the rights, powers, preferences, privileges and restrictions relating to such series to any set forth in the Articles of Incorporation.

3. Effective date of filing: (optional)
(must not be later than 90 days after the certificate is filed)

4. Signature: (required)

X
Signature of Officer

Filing Fee: $175.00

IMPORTANT: Failure to include any of the above information and submit with the proper fees may cause this filing to be rejected.

This form must be accompanied by appropriate fees.

Nevada Secretary of State Stock Designation
Revised: 1-5-15

CERTIFICATE OF DESIGNATIONS, PREFERENCES AND RIGHTS OF THE 0% SERIES D CONVERTIBLE PREFERRED STOCK OF VERIFYME, INC.

I, Thomas Nicolette, hereby certify that I am the Chief Executive Officer of VerifyMe, Inc. (the " **Company** "), a corporation organized and existing under the Chapter 78 of the Nevada Revised Statues (" **NRS** "), and further do hereby certify:

That pursuant to the authority expressly conferred upon the Board of Directors of the Company (the " **Board** ") by the Company's Articles of Incorporation, as amended (the " **Articles of Incorporation** "), the Board on November 15, 2016 adopted the following resolutions creating a series of shares of Preferred Stock designated as 0% Series D Convertible Preferred Stock, none of which shares have been issued:

RESOLVED, that the Board designates the 0% Series D Convertible Preferred Stock and the number of shares constituting such series, and fixes the rights, powers, preferences, privileges and restrictions relating to such series in addition to any set forth in the Articles of Incorporation as follows:

TERMS OF SERIES D CONVERTIBLE PREFERRED STOCK

1. Designation and Number of Shares . There shall hereby be created and established a series of preferred stock of the Company designated as "0% Series D Convertible Preferred Stock" (the " **Preferred Shares** "). The authorized number of Preferred Shares shall be 6,000,000 shares . Each Preferred Share shall have $0.001 par value. Capitalized terms not defined herein shall have the meaning as set forth in Section 23 below or the Securities Purchase Agreement.

2. Ranking . Except to the extent that the holders of at least a majority of the outstanding Preferred Shares (the " **Required Holders** ") expressly consent to the creation of Parity Stock (as defined below) or Senior Preferred Stock (as defined below) in accordance with Section 12, all shares of capital stock of the Company shall be junior in rank to all Preferred Shares with respect to the preferences as to dividends, distributions and payments upon the liquidation, dissolution and winding up of the Company (such junior stock is referred to herein collectively as " **Junior Stock** "). The rights of all such shares of capital stock of the Company shall be subject to the rights, powers, preferences and privileges of the Preferred Shares. Without limiting any other provision of this Certificate of Designations, without the prior express consent of the Required Holders, voting separate as a single class, the Company shall not hereafter authorize or issue any additional or other shares of capital stock that is (i) of senior rank to the Preferred Shares in respect of the preferences as to dividends, distributions and payments upon the liquidation, dissolution and winding up of the Company (collectively, the " **Senior Preferred Stock** "), (ii) of pari passu rank to the Preferred Shares in respect of the preferences as to dividends, distributions and payments upon the liquidation, dissolution and winding up of the Company (collectively, the " **Parity Stock** ") or (iii) any Junior Stock having a maturity date (or any other date requiring redemption or repayment of such shares of Junior Stock) that is prior to the date no Preferred Shares remain outstanding. In the event of the merger or consolidation of the Company with or into another corporation, the Preferred Shares shall maintain their relative rights, powers, designations, privileges and preferences provided for herein and no such merger or consolidation shall result inconsistent therewith.

3. Dividends . In addition to Sections 5(a) and 11 below, from and after the first date of issuance of any Preferred Shares (the " **Initial Issuance Date** "), each holder of a Preferred Share (each, a " **Holder** " and collectively, the " **Holders** ") shall be entitled to receive dividends (" **Dividends** ") when and as declared by the Board, from time to time, in its sole discretion, which Dividends shall be paid by the Company out of funds legally available therefor, payable, subject to the conditions and other terms hereof, in cash on the Stated Value of such Preferred Share.

4. Conversion . Each Preferred Share shall be convertible into validly issued, fully paid and non-assessable shares of Common Stock (as defined below) on the terms and conditions set forth in this Section 4.

(a) Holder's Conversion Right . Subject to the provisions of Section 4(e), at any time or times on or after the Initial Issuance Date, each Holder shall be entitled to convert any whole number of Preferred Shares into validly issued, fully paid and non-assessable shares of Common Stock in accordance with Section 4(c) at the Conversion Rate (as defined below).

(b) Conversion Rate . The number of validly issued, fully paid and non-assessable shares of Common Stock issuable upon conversion of each Preferred Share pursuant to Section 4(a) shall be determined according to the following formula (the " **Conversion Rate** "):

$$\frac{\text{Base Amount}}{\text{Conversion Price}}$$

No fractional shares of Common Stock are to be issued upon the conversion of any Preferred Shares. If the issuance would result in the issuance of a fraction of a share of Common Stock, the Company shall round such fraction of a share of Common Stock up to the nearest whole share.

(c) Mechanics of Conversion . The conversion of each Preferred Share shall be conducted in the following manner:

(i) Holder's Conversion . To convert a Preferred Share into validly issued, fully paid and non-assessable shares of Common Stock on any date (a " **Conversion Date** "), a Holder shall deliver (whether via facsimile or otherwise), for receipt on or prior to 11:59 p.m., New York time, on such date, a copy of an executed notice of conversion of the share(s) of Preferred Shares subject to such conversion in the form attached hereto as **Exhibit I** (the " **Conversion Notice** ") to the Company. If required by Section 4(c)(vi), within five (5) Trading Days following a conversion of any such Preferred Shares as aforesaid, such Holder shall surrender to a nationally recognized overnight delivery service for delivery to the Company the original certificates representing the share(s) of Preferred Shares (the " **Preferred Share Certificates** ") so converted as aforesaid.

(ii) Company's Response . On or before the first (1 st) Trading Day following the date of receipt of a Conversion Notice, the Company shall transmit by facsimile an acknowledgment of confirmation, in the form attached hereto as **Exhibit II** , of receipt of such Conversion Notice to such Holder and the Transfer Agent, which confirmation shall constitute an instruction to the Transfer Agent to process such Conversion Notice in accordance with the terms herein. On or before the second (2 nd) Trading Day following the date of receipt by the Company of such Conversion Notice, the Company shall (1) provided that the Transfer Agent is participating in DTC Fast Automated Securities Transfer Program, credit such aggregate number of shares of Common Stock to which such Holder shall be entitled to such Holder's or its designee's balance account with DTC through its Deposit/Withdrawal at Custodian system, or (2) if the Transfer Agent is not participating in the DTC Fast Automated Securities Transfer Program, issue and deliver (via reputable overnight courier) to the address as specified in such Conversion Notice, a certificate, registered in the name of such Holder or its designee, for the number of shares of Common Stock to which such Holder shall be entitled. If the number of Preferred Shares represented by the Preferred Share Certificate(s) submitted for conversion pursuant to Section 4(c)(vi) is greater than the number of Preferred Shares being converted, then the Company shall if requested by such Holder, as soon as practicable and in no event later than three (3) Trading Days after receipt of the Preferred Share Certificate(s) and at its own expense, issue and deliver to such Holder (or its designee) a new Preferred Share Certificate representing the number of Preferred Shares not converted.

(iii) Record Holder . The Person or Persons entitled to receive the shares of Common Stock issuable upon a conversion of Preferred Shares shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date.

(iv) Company's Failure to Timely Convert . If the Company shall fail, for any reason or for no reason, to issue to a Holder within three (3) Trading Days after the Company's receipt of a Conversion Notice (whether via facsimile or otherwise) (the " **Share Delivery Deadline** "), a certificate for the number of shares of Common Stock to which such Holder is entitled and register such shares of Common Stock on the Company's share register or to credit such Holder's or its designee's balance account with DTC for such number of shares of Common Stock to which such Holder is entitled upon such Holder's conversion of any Preferred Shares (as the case may be) (a " **Conversion Failure** "), then, in addition to all other remedies available to such Holder, such Holder, upon written notice to the Company, (x) may void its Conversion Notice with respect to, and retain or have returned (as the case may be) any Preferred Shares that have not been converted pursuant to such Holder's Conversion Notice, provided that the voiding of a Conversion Notice shall not affect the Company's obligations to make any payments which have accrued prior to the date of such notice pursuant to the terms of this Certificate of Designations or otherwise and (y) the Company shall pay in cash to such Holder on each day after such third (3 rd) Trading Day that the issuance of such shares of Common Stock is not timely effected an amount equal to 1.5% of the product of (A) the aggregate number of shares of Common Stock not issued to such Holder on a timely basis and to which the Holder is entitled and (B) the Closing Sale Price of the Common Stock on the Trading Day immediately preceding the last possible date on which the Company could have issued such shares of Common Stock to the Holder without violating Section 4(c). In addition to the foregoing, if within three (3) Trading Days after the Company's receipt of a Conversion Notice (whether via facsimile or otherwise), the Company shall fail to issue and deliver a certificate to such Holder and register such shares of Common Stock on the Company's share register or credit such Holder's or its designee's balance account with DTC for the number of shares of Common Stock to which such Holder is entitled upon such Holder's conversion hereunder (as the case may be), and if on or after such third (3 rd) Trading Day such Holder (or any other Person in respect, or on behalf, of such Holder) purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by such Holder of all or any portion of the number of shares of Common Stock, or a sale of a number of shares of Common Stock equal to all or any portion of the number of shares of Common Stock, issuable upon such conversion that such Holder so anticipated receiving from the Company, then, in addition to all other remedies available to such Holder, the Company shall, within three (3) Business Days after such Holder's request and in such Holder's discretion, either (i) pay cash to such Holder in an amount equal to such Holder's total purchase price (including brokerage commissions and other out-of-pocket expenses, if any) for the shares of Common Stock so purchased (including, without limitation, by any other Person in respect, or on behalf, of such Holder) (the " **Buy-In Price** "), at which point the Company's obligation to so issue and deliver such certificate or credit such Holder's balance account with DTC for the number of shares of Common Stock to which such Holder is entitled upon such Holder's conversion hereunder (as the case may be) (and to issue such shares of Common Stock) shall terminate, or (ii) promptly honor its obligation to so issue and deliver to such Holder a certificate or certificates representing such shares of Common Stock or credit such Holder's balance account with DTC for the number of shares of Common Stock to which such Holder is entitled upon such Holder's conversion hereunder (as the case may be) and pay cash to such Holder in an amount equal to the excess (if any) of the Buy-In Price over the product of (A) such number of shares of Common Stock multiplied by (B) the lowest Closing Sale Price of the Common Stock on any Trading Day during the period commencing on the date of the applicable Conversion Notice and ending on the date of such issuance and payment under this clause (ii).

(v) Pro Rata Conversion; Disputes . In the event the Company receives a Conversion Notice from more than one Holder for the same Conversion Date and the Company can convert some, but not all, of such Preferred Shares submitted for conversion, the Company shall convert from each Holder electing to have Preferred Shares converted on such date a pro rata amount of such Holder's Preferred Shares submitted for conversion on such date based on the number of Preferred Shares submitted for conversion on such date by such Holder relative to the aggregate number of Preferred Shares submitted for conversion on such date. In the event of a dispute as to the number of shares of Common Stock issuable to a Holder in connection with a conversion of Preferred Shares, the Company shall issue to such Holder the number of shares of Common Stock not in dispute and resolve such dispute in accordance with Section 22.

(vi) Book-Entry . Notwithstanding anything to the contrary set forth in this Section 4, upon conversion of any Preferred Shares in accordance with the terms hereof, no Holder thereof shall be required to physically surrender the certificate representing the Preferred Shares to the Company following conversion thereof unless (A) the full or remaining number of Preferred Shares represented by the certificate are being converted (in which event such certificate(s) shall be delivered to the Company as contemplated by this Section 4(c)(vi)) or (B) such Holder has provided the Company with prior written notice (which notice may be included in a Conversion Notice) requesting reissuance of Preferred Shares upon physical surrender of any Preferred Shares. Each Holder and the Company shall maintain records showing the number of Preferred Shares so converted by such Holder and the dates of such conversions or shall use such other method, reasonably satisfactory to such Holder and the Company, so as not to require physical surrender of the certificate representing the Preferred Shares upon each such conversion. In the event of any dispute or discrepancy, such records of such Holder establishing the number of Preferred Shares to which the record holder is entitled shall be controlling and determinative in the absence of manifest error. A Holder and any transferee or assignee, by acceptance of a certificate, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of any Preferred Shares, the number of Preferred Shares represented by such certificate may be less than the number of Preferred Shares stated on the face thereof. Each certificate for Preferred Shares shall bear the following legend:

> ANY TRANSFEREE OR ASSIGNEE OF THIS CERTIFICATE SHOULD CAREFULLY REVIEW THE TERMS OF THE CORPORATION'S CERTIFICATE OF DESIGNATIONS RELATING TO THE SHARES OF SERIES D PREFERRED STOCK REPRESENTED BY THIS CERTIFICATE, INCLUDING SECTION 4(c)(vi) THEREOF. THE NUMBER OF SHARES OF SERIES D PREFERRED STOCK REPRESENTED BY THIS CERTIFICATE MAY BE LESS THAN THE NUMBER OF SHARES OF SERIES D PREFERRED STOCK STATED ON THE FACE HEREOF PURSUANT TO SECTION 4(c)(vi) OF THE CERTIFICATE OF DESIGNATIONS RELATING TO THE SHARES OF SERIES D PREFERRED STOCK REPRESENTED BY THIS CERTIFICATE.

(d) Taxes . The Company shall pay any and all documentary, stamp, transfer (but only in respect of the registered holder thereof), issuance and other similar taxes that may be payable with respect to the issuance and delivery of shares of Common Stock upon the conversion of Preferred Shares.

(e) Limitation on Beneficial Ownership . Notwithstanding anything to the contrary contained in this Certificate of Designations, the Preferred Shares held by a Holder shall not be convertible by such Holder, and the Company shall not effect any conversion of any Preferred Shares held by such Holder, to the extent (but only to the extent) that such Holder or any of its affiliates would beneficially own in excess of 4.99% (the " **Maximum Percentage** ") of the Common Stock. To the extent the above limitation applies, the determination of whether the Preferred Shares held by such Holder shall be convertible (vis-à-vis other convertible, exercisable or exchangeable securities owned by such Holder or any of its affiliates) and of which such securities shall be convertible, exercisable or exchangeable (as among all such securities owned by such Holder and its affiliates) shall, subject to such Maximum Percentage limitation, be determined on the basis of the first submission to the Company for conversion, exercise or exchange (as the case may be). No prior inability of a Holder to convert Preferred Shares, or of the Company to issue shares of Common Stock to such Holder, pursuant to this Section 4(e) shall have any effect on the applicability of the provisions of this Section 4(e) with respect to any subsequent determination of convertibility or issuance (as the case may be). For purposes of this Section 4(e), beneficial ownership and all determinations and calculations (including, without limitation, with respect to calculations of percentage ownership) shall be determined in accordance with Section 13(d) of the 1934 Act and the rules and regulations promulgated thereunder. The provisions of this Section 4(e) shall be implemented in a manner otherwise than in strict conformity with the terms of this Section 4(e) to correct this Section 4(e) (or any portion hereof) which may be defective or inconsistent with the intended Maximum Percentage beneficial ownership limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such Maximum Percentage limitation. The limitations contained in this Section 4(e) shall apply to a successor holder of Preferred Shares. For any reason at any time, upon the written or oral request of a Holder, the Company shall within one (1) Business Day confirm orally and in writing to such Holder the number of shares of Common Stock then outstanding, including by virtue of any prior conversion or exercise of convertible or exercisable securities into Common Stock, including, without limitation, pursuant to this Certificate of Designations or securities issued pursuant to the Securities Purchase Agreement. By written notice to the Company, any Holder may increase or decrease the Maximum Percentage to any other percentage not in excess of 9.99% specified in such notice; provided that (i) any such increase will not be effective until the 61st day after such notice is delivered to the Company, and (ii) any such increase or decrease will apply only to such Holder sending such notice and not to any other Holder.

5. Rights Upon Issuance of Purchase Rights and Other Corporate Events .

(a) Purchase Rights . In addition to any adjustments pursuant to Section 7 below, if at any time the Company grants, issues or sells any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of Common Stock (the " **Purchase Rights** "), then each Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such Holder could have acquired if such Holder had held the number of shares of Common Stock acquirable upon complete conversion of all the Preferred Shares (without taking into account any limitations or restrictions on the convertibility of the Preferred Shares) held by such Holder immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights (provided, however, to the extent that such Holder's right to participate in any such Purchase Right would result in such Holder exceeding the Maximum Percentage, then such Holder shall not be entitled to participate in such Purchase Right to such extent (or beneficial ownership of such shares of Common Stock as a result of such Purchase Right to such extent) and such Purchase Right to such extent shall be held in abeyance for such Holder until such time, if ever, as its right thereto would not result in such Holder exceeding the Maximum Percentage).

(b) Other Corporate Events . In addition to and not in substitution for any other rights hereunder, prior to the consummation of any Fundamental Transaction pursuant to which holders of shares of Common Stock are entitled to receive securities or other assets with respect to or in exchange for shares of Common Stock (a " **Corporate Event** "), the Company shall make appropriate provision to insure that each Holder will thereafter have the right to receive upon a conversion of all the Preferred Shares held by such Holder (i) in addition to the shares of Common Stock receivable upon such conversion, such securities or other assets to which such Holder would have been entitled with respect to such shares of Common Stock had such shares of Common Stock been held by such Holder upon the consummation of such Corporate Event (without taking into account any limitations or restrictions on the convertibility of the Preferred Shares contained in this Certificate of Designations) or (ii) in lieu of the shares of Common Stock otherwise receivable upon such conversion, such securities or other assets received by the holders of shares of Common Stock in connection with the consummation of such Corporate Event in such amounts as such Holder would have been entitled to receive had the Preferred Shares held by such Holder initially been issued with conversion rights for the form of such consideration (as opposed to shares of Common Stock) at a conversion rate for such consideration commensurate with the Conversion Rate. The provisions of this Section 5(b) shall apply similarly and equally to successive Corporate Events and shall be applied without regard to any limitations on the conversion of the Preferred Shares contained in this Certificate of Designations.

6. Rights Upon Fundamental Transactions .

(a) Assumption . The Company shall not enter into or be party to a Fundamental Transaction unless (i) the Successor Entity assumes in writing all of the obligations of the Company under this Certificate of Designations and the other Transaction Documents in accordance with the provisions of this Section 6 pursuant to written agreements in form and substance satisfactory to the Required Holders and approved by the Required Holders prior to such Fundamental Transaction, including agreements to deliver to each holder of Preferred Shares in exchange for such Preferred Shares a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Certificate of Designations, including, without limitation, having a stated value and dividend rate equal to the stated value and dividend rate of the Preferred Shares held by the Holders and having similar ranking to the Preferred Shares, and reasonably satisfactory to the Required Holders and (ii) the Successor Entity (including its Parent Entity) is a publicly traded corporation whose shares of common stock are quoted on or listed for trading on an Eligible Market. Upon the occurrence of any Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Certificate of Designations and the other Transaction Documents referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Certificate of Designations and the other Transaction Documents with the same effect as if such Successor Entity had been named as the Company herein and therein. In addition to the foregoing, upon consummation of a Fundamental Transaction, the Successor Entity shall deliver to each Holder confirmation that there shall be issued upon conversion of the Preferred Shares at any time after the consummation of such Fundamental Transaction, in lieu of the shares of Common Stock (or other securities, cash, assets or other property (except such items still issuable under Sections 5 and 11, which shall continue to be receivable thereafter)) issuable upon the conversion of the Preferred Shares prior to such Fundamental Transaction, such shares of publicly traded common stock (or their equivalent) of the Successor Entity (including its Parent Entity) which each Holder would have been entitled to receive upon the happening of such Fundamental Transaction had all the Preferred Shares held by each Holder been converted immediately prior to such Fundamental Transaction (without regard to any limitations on the conversion of the Preferred Shares contained in this Certificate of Designations), as adjusted in accordance with the provisions of this Certificate of Designations. The provisions of this Section 6 shall apply similarly and equally to successive Fundamental Transactions and shall be applied without regard to any limitations on the conversion of the Preferred Shares.

7. Rights Upon Issuance of Other Securities .

(a) Adjustment of Conversion Price upon Issuance of Common Stock . If and whenever during the period beginning on the Closing Date and ending on the date that is the earlier of (i) the expiration of the Protection Period and (ii) the National Securities Exchange Listing Date (as such terms are defined in the Securities Purchase Agreement), the Company issues or sells, or in accordance with this Section 7(a) is deemed to have issued or sold, any shares of Common Stock (including the issuance or sale of shares of Common Stock owned or held by or for the account of the Company, but excluding any Exempt Issuances issued or sold or deemed to have been issued or sold) for a consideration per share (the " **New Issuance Price** ") less than a price equal to the Conversion Price in effect immediately prior to such issuance or sale or deemed issuance or sale (such Conversion Price then in effect is referred to as the " **Applicable Price** ") (the foregoing a " **Dilutive Issuance** "), then, immediately after such Dilutive Issuance the Conversion Price then in effect shall be reduced to the New Issuance Price. For all purposes of the foregoing (including, without limitation, determining the adjusted Conversion Price and the New Issuance Price under this Section 7(a)), the following shall be applicable:

(i) Issuance of Options . If the Company in any manner grants or sells any Options and the lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Option or upon conversion, exercise or exchange of any Convertible Securities issuable upon exercise of any such Option is less than the Applicable Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the granting or sale of such Option for such price per share. For purposes of this Section 7(a)(i), the "lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Options or upon conversion, exercise or exchange of any Convertible Securities issuable upon exercise of any such Option" shall be equal to (1) the lower of (x) the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one share of Common Stock upon the granting or sale of such Option, upon exercise of such Option and upon conversion, exercise or exchange of any Convertible Security issuable upon exercise of such Option and (y) the lowest exercise price set forth in such Option for which one share of Common Stock is issuable upon the exercise of any such Options or upon conversion, exercise or exchange of any Convertible Securities issuable upon exercise of any such Option minus (2) the sum of all amounts paid or payable to the holder of such Option (or any other Person) upon the granting or sale of such Option, upon exercise of such Option and upon conversion, exercise or exchange of any Convertible Security issuable upon exercise of such Option plus the value of any other consideration received or receivable by, or benefit conferred on, the holder of such Option (or any other Person). Except as contemplated below, no further adjustment of the Conversion Price shall be made upon the actual issuance of such share of Common Stock or of such Convertible Securities upon the exercise of such Options or upon the actual issuance of such share of Common Stock upon conversion, exercise or exchange of such Convertible Securities.

(ii) Issuance of Convertible Securities . If the Company in any manner issues or sells any Convertible Securities and the lowest price per share for which one share of Common Stock is issuable upon the conversion, exercise or exchange thereof is less than the Applicable Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the issuance or sale of such Convertible Securities for such price per share. For purposes of this Section 7(a)(ii), the "lowest price per share for which one share of Common Stock is issuable upon the conversion, exercise or exchange thereof" shall be equal to (1) the lower of (x) the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to one share of Common Stock upon the issuance or sale of the Convertible Security and upon conversion, exercise or exchange of such Convertible Security and (y) the lowest conversion price set forth in such Convertible Security for which one share of Common Stock is issuable upon conversion, exercise or exchange thereof minus (2) the sum of all amounts paid or payable to the holder of such Convertible Security (or any other Person) upon the issuance or sale of such Convertible Security plus the value of any other consideration received or receivable by, or benefit conferred on, the holder of such Convertible Security (or any other Person). Except as contemplated below, no further adjustment of the Conversion Price shall be made upon the actual issuance of such share of Common Stock upon conversion, exercise or exchange of such Convertible Securities, and if any such issue or sale of such Convertible Securities is made upon exercise of any Options for which adjustment of the Conversion Price has been or is to be made pursuant to other provisions of this Section 7(a), except as contemplated below, no further adjustment of the Conversion Price shall be made by reason of such issue or sale.

(iii) Change in Option Price or Rate of Conversion . If the purchase or exercise price provided for in any Options, the additional consideration, if any, payable upon the issue, conversion, exercise or exchange of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exercisable or exchangeable for shares of Common Stock increases or decreases at any time, the Conversion Price in effect at the time of such increase or decrease shall be adjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities provided for such increased or decreased purchase price, additional consideration or increased or decreased conversion rate (as the case may be) at the time initially granted, issued or sold. For purposes of this Section 7(a)(iii), if the terms of any Option or Convertible Security that was outstanding as of the Initial Issuance Date are increased or decreased in the manner described in the immediately preceding sentence, then such Option or Convertible Security and the shares of Common Stock deemed issuable upon exercise, conversion or exchange thereof shall be deemed to have been issued as of the date of such increase or decrease. No adjustment pursuant to this Section 7(a) shall be made if such adjustment would result in an increase of the Conversion Price then in effect.

(iv) Calculation of Consideration Received . If any Option or Convertible Security is issued in connection with the issuance or sale or deemed issuance or sale of any other securities of the Company (including, without limitation, any other Option or Convertible Security), together comprising one integrated transaction, (x) such Option or Convertible Security (as applicable) will be deemed to have been issued for consideration equal to the fair market value thereof as determined in good faith by the Company's Board of Directors and (y) the other securities issued or sold or deemed to have been issued or sold in such integrated transaction shall be deemed to have been issued for consideration equal to the difference of (I) the aggregate consideration received by the Company minus (II) the aggregate fair market value of all such Options and/or Convertible Securities (as applicable) so issued. If any shares of Common Stock, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received therefor will be deemed to be the net amount of consideration received by the Company therefor. If any shares of Common Stock, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of such consideration received by the Company will be the fair value of such consideration, except where such consideration consists of publicly traded securities, in which case the amount of consideration received by the Company for such securities will be the arithmetic average of the VWAPs of such security for each of the five (5) Trading Days immediately preceding the date of receipt. If any shares of Common Stock, Options or Convertible Securities are issued to the owners of the non-surviving entity in connection with any merger in which the Company is the surviving entity, the amount of consideration therefor will be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such shares of Common Stock, Options or Convertible Securities, as the case may be. The fair value of any consideration other than cash or publicly traded securities will be determined jointly by the Company and the Required Holders. If such parties are unable to reach agreement within ten (10) days after the occurrence of an event requiring valuation (the " **Valuation Event** "), the fair value of such consideration will be determined within five (5) Trading Days after the tenth (10 th) day following such Valuation Event by an independent, reputable appraiser jointly selected by the Company and the Required Holders. The determination of such appraiser shall be final and binding upon all parties absent manifest error and the fees and expenses of such appraiser shall be borne by the Company.

(v) Record Date . If the Company takes a record of the holders of shares of Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in shares of Common Stock, Options or in Convertible Securities or (B) to subscribe for or purchase shares of Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase (as the case may be).

(b) Adjustment of Conversion Price upon Subdivision or Combination of Common Stock . Without limiting any provision of Sections 5 and 11, if the Company at any time on or after the Initial Issuance Date subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Conversion Price in effect immediately prior to such subdivision will be proportionately reduced. Without limiting any provision of Sections 5 and 11, if the Company at any time on or after the Initial Issuance Date combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Conversion Price in effect immediately prior to such combination will be proportionately increased. Any adjustment pursuant to this Section 7(b) shall become effective immediately after the effective date of such subdivision or combination. If any event requiring an adjustment under this Section 7(b) occurs during the period that a Conversion Price is calculated hereunder, then the calculation of such Conversion Price shall be adjusted appropriately to reflect such event.

(c) Other Events . In the event that the Company (or any Subsidiary) shall take any action to which the provisions hereof are not strictly applicable, or, if applicable, would not operate to protect any Holder from dilution or if any event occurs of the type contemplated by the provisions of this Section 7 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Board shall in good faith determine and implement an appropriate adjustment in the Conversion Price so as to protect the rights of such Holder, provided that no such adjustment pursuant to this Section 7(c) will increase the Conversion Price as otherwise determined pursuant to this Section 7, provided further that if such Holder does not accept such adjustments as appropriately protecting its interests hereunder against such dilution, then the Board and such Holder shall agree, in good faith, upon an independent investment bank of nationally recognized standing to make such appropriate adjustments, whose determination shall be final and binding and whose fees and expenses shall be borne by the Company.

(d) Calculations . All calculations under this Section 7 shall be made by rounding to the nearest one-hundred thousandth of a cent or the nearest 1/100 th of a share, as applicable. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the disposition of any such shares shall be considered an issue or sale of Common Stock.

8. Authorized Shares .

(a) Reservation . The Company shall initially reserve out of its authorized and unissued Common Stock a number of shares of Common Stock equal to 125% of the Conversion Rate with respect to the Base Amount of each Preferred Share as of the Initial Issuance Date (assuming for purposes hereof, that all the Preferred Shares issuable pursuant to the Securities Purchase Agreement have been issued, such Preferred Shares are convertible at the Conversion Price and without taking into account any limitations on the conversion of such Preferred Shares set forth in herein) issuable pursuant to the terms of this Certificate of Designations from the Initial Issuance Date through the second anniversary of the Initial Issuance Date assuming (assuming for purposes hereof, that all the Preferred Shares issuable pursuant to the Securities Purchase Agreement have been issued and without taking into account any limitations on the issuance of securities set forth herein). So long as any of the Preferred Shares are outstanding, the Company shall take all action necessary to reserve and keep available out of its authorized and unissued shares of Common Stock, solely for the purpose of effecting the conversion of the Preferred Shares, as of any given date, 125% of the number of shares of Common Stock as shall from time to time be necessary to effect the conversion of all of the Preferred Shares issued or issuable pursuant to the Securities Purchase Agreement assuming for purposes hereof, that all the Preferred Shares issuable pursuant to the Securities Purchase Agreement have been issued and without taking into account any limitations on the issuance of securities set forth herein), provided that at no time shall the number of shares of Common Stock so available be less than the number of shares required to be reserved by the previous sentence (without regard to any limitations on conversions contained in this Certificate of Designations) (the " **Required Amount** "). The initial number of shares of Common Stock reserved for conversions of the Preferred Shares and each increase in the number of shares so reserved shall be allocated pro rata among the Holders based on the number of Preferred Shares held by each Holder on the Initial Issuance Date or increase in the number of reserved shares (as the case may be) (the " **Authorized Share Allocation** "). In the event a Holder shall sell or otherwise transfer any of such Holder's Preferred Shares, each transferee shall be allocated a pro rata portion of such Holder's Authorized Share Allocation. Any shares of Common Stock reserved and allocated to any Person which ceases to hold any Preferred Shares shall be allocated to the remaining Holders of Preferred Shares, pro rata based on the number of Preferred Shares then held by such Holders.

(b) Insufficient Authorized Shares . If, notwithstanding Section 8(a) and not in limitation thereof, at any time while any of the Preferred Shares remain outstanding the Company does not have a sufficient number of authorized and unissued shares of Common Stock to satisfy its obligation to have available for issuance upon conversion of the Preferred Shares at least a number of shares of Common Stock equal to the Required Amount (an " **Authorized Share Failure** "), then the Company shall promptly take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve and have available the Required Amount for all of the Preferred Shares then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than ninety (90) days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its stockholders or conduct a consent solicitation for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Company shall provide each stockholder with a proxy statement and shall use its best efforts to solicit its stockholders' approval of such increase in authorized shares of Common Stock and to cause its Board to recommend to the stockholders that they approve such proposal. Nothing contained in this Section 8 shall limit any obligations of the Company under any provision of the Securities Purchase Agreement. In the event that the Company is prohibited from issuing shares of Common Stock upon a conversion of any Preferred Share due to the failure by the Company to have sufficient shares of Common Stock available out of the authorized but unissued shares of Common Stock (such unavailable number of shares of Common Stock, the " **Authorization Failure Shares** "), in lieu of delivering such Authorization Failure Shares to such Holder of such Preferred Shares, the Company shall pay cash in exchange for the cancellation of such Preferred Shares convertible into such Authorized Failure Shares at a price equal to the sum of (i) the product of (x) such number of Authorization Failure Shares and (y) the Closing Sale Price on the Trading Day immediately preceding the date such Holder delivers the applicable Conversion Notice with respect to such Authorization Failure Shares to the Company and (ii) to the extent such Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by such Holder of Authorization Failure Shares, any brokerage commissions and other out-of-pocket expenses, if any, of such Holder incurred in connection therewith.

9. Voting Rights . Except as otherwise expressly required by law, each Holder shall be entitled to vote on all matters submitted to shareholders of the Company and shall be entitled to the number of votes for its Preferred Shares owned at the record date for the determination of shareholders entitled to vote on such matter or, if no such record date is established, at the date such vote is taken or any written consent of shareholders is solicited, equal to the number of shares of Conversion Shares, but not in excess of the conversion limitations set forth in Section 4(e) herein. Except as otherwise required by law, the Holders of the Preferred Shares shall vote together with the holders of Common Stock on all matters and shall not vote as a separate class .

10. Liquidation, Dissolution, Winding-Up . In the event of a Liquidation Event, the Holders shall be entitled to receive in cash out of the assets of the Company, whether from capital or from earnings available for distribution to its stockholders (the " **Liquidation Funds** "), before any amount shall be paid to the holders of any of shares of Junior Stock, an amount per Preferred Share equal to the greater of (A) the Base Amount thereof on the date of such payment and (B) the amount per share such Holder would receive if such Holder converted such Preferred Shares into Common Stock immediately prior to the date of such payment, provided that if the Liquidation Funds are insufficient to pay the full amount due to the Holders and holders of shares of Parity Stock, then each Holder and each holder of Parity Stock shall receive a percentage of the Liquidation Funds equal to the full amount of Liquidation Funds payable to such Holder and such holder of Parity Stock as a liquidation preference, in accordance with their respective certificate of designations (or equivalent), as a percentage of the full amount of Liquidation Funds payable to all holders of Preferred Shares and all holders of shares of Parity Stock. To the extent necessary, the Company shall cause such actions to be taken by each of its Subsidiaries so as to enable, to the maximum extent permitted by law, the proceeds of a Liquidation Event to be distributed to the Holders in accordance with this Section 10. All the preferential amounts to be paid to the Holders under this Section 10 shall be paid or set apart for payment before the payment or setting apart for payment of any amount for, or the distribution of any Liquidation Funds of the Company to the holders of shares of Junior Stock in connection with a Liquidation Event as to which this Section 10 applies.

11. Participation . In addition to any adjustments pursuant to Section 7(b), the Holders shall, as holders of Preferred Shares, be entitled to receive such dividends paid and distributions made to the holders of shares of Common Stock to the same extent as if such Holders had converted each Preferred Share held by each of them into shares of Common Stock (without regard to any limitations on conversion herein or elsewhere) and had held such shares of Common Stock on the record date for such dividends and distributions. Payments under the preceding sentence shall be made concurrently with the dividend or distribution to the holders of shares of Common Stock (provided, however, to the extent that a Holder's right to participate in any such dividend or distribution would result in such Holder exceeding the Maximum Percentage, then such Holder shall not be entitled to participate in such dividend or distribution to such extent (or the beneficial ownership of any such shares of Common Stock as a result of such dividend or distribution to such extent) and such dividend or distribution to such extent shall be held in abeyance for the benefit of such Holder until such time, if ever, as its right thereto would not result in such Holder exceeding the Maximum Percentage).

12. Vote to Change the Terms of or Issue Preferred Shares . In addition to any other rights provided by law, except where the vote or written consent of the holders of a greater number of shares is required by law or by another provision of the Articles of Incorporation, without first obtaining the affirmative vote at a meeting duly called for such purpose or the written consent without a meeting of the Required Holders, voting together as a single class, the Company shall not: (a) amend or repeal any provision of, or add any provision to, its Articles of Incorporation or bylaws, or file any certificate of designations or articles of amendment of any series of shares of preferred stock, if such action would adversely alter or change in any respect the preferences, rights, privileges or powers, or restrictions provided for the benefit, of the Preferred Shares, regardless of whether any such action shall be by means of amendment to the Articles of Incorporation or by merger, consolidation or otherwise; (b) increase or decrease (other than by conversion) the authorized number of Preferred Shares; (c) without limiting any provision of Section 2, create or authorize (by reclassification or otherwise) any new class or series of shares that has a preference over or is on a parity with the Preferred Shares with respect to dividends or the distribution of assets on the liquidation, dissolution or winding up of the Company; (d) purchase, repurchase or redeem any shares of capital stock of the Company junior in rank to the Preferred Shares (other than pursuant to equity incentive agreements (that have in good faith been approved by the Board) with employees giving the Company the right to repurchase shares upon the termination of services); (e) without limiting any provision of Section 2, pay dividends or make any other distribution on any shares of any capital stock of the Company junior in rank to the Preferred Shares; (f) issue any Preferred Shares other than pursuant to the Securities Purchase Agreement; or (g) without limiting any provision of Section 16, whether or not prohibited by the terms of the Preferred Shares, circumvent a right of the Preferred Shares.

13. Intentionally Omitted .

14. Lost or Stolen Certificates . Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any certificates representing Preferred Shares (as to which a written certification and the indemnification contemplated below shall suffice as such evidence), and, in the case of loss, theft or destruction, of an indemnification undertaking by the applicable Holder to the Company in customary and reasonable form and, in the case of mutilation, upon surrender and cancellation of the certificate(s), the Company shall execute and deliver new certificate(s) of like tenor and date.

15. Remedies, Characterizations, Other Obligations, Breaches and Injunctive Relief. The remedies provided in this Certificate of Designations shall be cumulative and in addition to all other remedies available under this Certificate of Designations and any of the other Transaction Documents, at law or in equity (including a decree of specific performance and/or other injunctive relief), and no remedy contained herein shall be deemed a waiver of compliance with the provisions giving rise to such remedy. Nothing herein shall limit any Holder's right to pursue actual and consequential damages for any failure by the Company to comply with the terms of this Certificate of Designations. The Company covenants to each Holder that there shall be no characterization concerning this instrument other than as expressly provided herein. Amounts set forth or provided for herein with respect to payments, conversion and the like (and the computation thereof) shall be the amounts to be received by a Holder and shall not, except as expressly provided herein, be subject to any other obligation of the Company (or the performance thereof). The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holders and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, each Holder shall be entitled, in addition to all other available remedies, to an injunction restraining any such breach or any such threatened breach, without the necessity of showing economic loss and without any bond or other security being required. The Company shall provide all information and documentation to a Holder that is requested by such Holder to enable such Holder to confirm the Company's compliance with the terms and conditions of this Certificate of Designations.

16. Noncircumvention . The Company hereby covenants and agrees that the Company will not, by amendment of its Articles of Incorporation, bylaws or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Certificate of Designations, and will at all times in good faith carry out all the provisions of this Certificate of Designations and take all action as may be required to protect the rights of the Holders. Without limiting the generality of the foregoing or any other provision of this Certificate of Designations, the Company (i) shall not increase the par value of any shares of Common Stock receivable upon the conversion of any Preferred Shares above the Conversion Price then in effect, (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock upon the conversion of Preferred Shares and (iii) shall, so long as any Preferred Shares are outstanding, take all action necessary to reserve and keep available out of its authorized and unissued shares of Common Stock, solely for the purpose of effecting the conversion of the Preferred Shares, the maximum number of shares of Common Stock as shall from time to time be necessary to effect the conversion of the Preferred Shares then outstanding (without regard to any limitations on conversion contained herein).

17. Failure or Indulgence Not Waiver . No failure or delay on the part of a Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. No waiver shall be effective unless it is in writing and signed by an authorized representative of the waiving party. This Certificate of Designations shall be deemed to be jointly drafted by the Company and all Holders and shall not be construed against any Person as the drafter hereof.

18. Notices . The Company shall provide each Holder of Preferred Shares with prompt written notice of all actions taken pursuant to the terms of this Certificate of Designations, including in reasonable detail a description of such action and the reason therefor. Whenever notice is required to be given under this Certificate of Designations, unless otherwise provided herein, such notice must be in writing and shall be given in accordance with Section 5.4 of the Securities Purchase Agreement. Without limiting the generality of the foregoing, the Company shall give written notice to each Holder (i) promptly following any adjustment of the Conversion Price, setting forth in reasonable detail, and certifying, the calculation of such adjustment and (ii) at least fifteen (15) days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the Common Stock, (B) with respect to any grant, issuances, or sales of any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property to all holders of shares of Common Stock as a class or (C) for determining rights to vote with respect to any Fundamental Transaction, dissolution or liquidation, provided, in each case, that such information shall be made known to the public prior to, or simultaneously with, such notice being provided to any Holder.

19. Transfer of Preferred Shares . Subject to the restrictions set forth in the Securities Purchase Agreement, a Holder may transfer some or all of its Preferred Shares without the consent of the Company.

20. Preferred Shares Register . The Company shall maintain at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the Holders), a register for the Preferred Shares, in which the Company shall record the name, address and facsimile number of the Persons in whose name the Preferred Shares have been issued, as well as the name and address of each transferee. The Company may treat the Person in whose name any Preferred Shares is registered on the register as the owner and holder thereof for all purposes, notwithstanding any notice to the contrary, but in all events recognizing any properly made transfers.

21. Stockholder Matters; Amendment .

(a) Stockholder Matters . Any stockholder action, approval or consent required, desired or otherwise sought by the Company pursuant to the NRS, the Articles of Incorporation, this Certificate of Designations or otherwise with respect to the issuance of Preferred Shares may be effected by written consent of the Company's stockholders or at a duly called meeting of the Company's stockholders, all in accordance with the applicable rules and regulations of the NRS. This provision is intended to comply with the applicable sections of the NRS permitting stockholder action, approval and consent affected by written consent in lieu of a meeting.

(b) Amendment . This Certificate of Designations or any provision hereof may be amended by obtaining the affirmative vote at a meeting duly called for such purpose, or written consent without a meeting in accordance with the NRS, of the Required Holders, voting separate as a single class, and with such other stockholder approval, if any, as may then be required pursuant to the NRS and the Articles of Incorporation.

22. Dispute Resolution .

(a) Disputes Over Closing Bid Price, Closing Sale Price, Conversion Price, VWAP or Fair Market Value.

(i) In the case of a dispute relating to a Closing Bid Price, a Closing Sale Price, a Conversion Price, a VWAP or fair market value (as the case may be) (including, without limitation, a dispute relating to the determination of any of the foregoing), the Company or such applicable Holder (as the case may be) shall submit the dispute via facsimile (I) within two (2) Business Days after delivery of the applicable notice giving rise to such dispute to the Company or such Holder (as the case may be) or (II) if no notice gave rise to such dispute, at any time after such Holder learned of the circumstances giving rise to such dispute. If such Holder and the Company are unable to resolve such dispute relating to such Closing Bid Price, such Closing Sale Price, such Conversion Price, such VWAP or such fair market value (as the case may be) by 5:00 p.m. (New York time) on the third (3 rd) Business Day following such delivery by the Company or such Holder (as the case may be) of such dispute to the Company or such Holder (as the case may be), then such Holder shall select an independent, reputable investment bank to resolve such dispute.

(ii) Such Holder and the Company shall each deliver to such investment bank (x) a copy of the initial dispute submission so delivered in accordance with the first sentence of this Section 22(a) and (y) written documentation supporting its position with respect to such dispute, in each case, no later than 5:00 p.m. (New York time) by the fifth (5 th) Business Day immediately following the date on which such Holder selected such investment bank (the " **Dispute Submission Deadline** ") (the documents referred to in the immediately preceding clauses (x) and (y) are collectively referred to herein as the " **Required Dispute Documentation** ") (it being understood and agreed that if either such Holder or the Company fails to so deliver all of the Required Dispute Documentation by the Dispute Submission Deadline, then the party who fails to so submit all of the Required Dispute Documentation shall no longer be entitled to (and hereby waives its right to) deliver or submit any written documentation or other support to such investment bank with respect to such dispute and such investment bank shall resolve such dispute based solely on the Required Dispute Documentation that was delivered to such investment bank prior to the Dispute Submission Deadline). Unless otherwise agreed to in writing by both the Company and such Holder or otherwise requested by such investment bank, neither the Company nor such Holder shall be entitled to deliver or submit any written documentation or other support to such investment bank in connection with such dispute (other than the Required Dispute Documentation).

(iii) The Company and such Holder shall cause such investment bank to determine the resolution of such dispute and notify the Company and such Holder of such resolution no later than ten (10) Business Days immediately following the Dispute Submission Deadline. The fees and expenses of such investment bank shall be borne solely by the Company, and such investment bank's resolution of such dispute shall be final and binding upon all parties absent manifest error.

(b) Disputes Over Arithmetic Calculation of the Conversion Rate.

(i) In the case of a dispute as to the arithmetic calculation of a Conversion Rate, the Company or such Holder (as the case may be) shall submit the disputed arithmetic calculation via facsimile (i) within two (2) Business Days after delivery of the applicable notice giving rise to such dispute to the Company or such Holder (as the case may be) or (ii) if no notice gave rise to such dispute, at any time after such Holder learned of the circumstances giving rise to such dispute. If such Holder and the Company are unable to resolve such disputed arithmetic calculation of such Conversion Rate by 5:00 p.m. (New York time) on the third (3 rd) Business Day following such delivery by the Company or such Holder (as the case may be) of such disputed arithmetic calculation, then such Holder shall select an independent, reputable accountant or accounting firm to perform such disputed arithmetic calculation.

(ii) Such Holder and the Company shall each deliver to such accountant or accounting firm (as the case may be) (x) a copy of the initial dispute submission so delivered in accordance with the first sentence of this Section 22(a) and (y) written documentation supporting its position with respect to such disputed arithmetic calculation, in each case, no later than 5:00 p.m. (New York time) by the fifth (5 th) Business Day immediately following the date on which such Holder selected such accountant or accounting firm (as the case may be) (the " **Submission Deadline** ") (the documents referred to in the immediately preceding clauses (x) and (y) are collectively referred to herein as the " **Required Documentation** ") (it being understood and agreed that if either such Holder or the Company fails to so deliver all of the Required Documentation by the Submission Deadline, then the party who fails to so submit all of the Required Documentation shall no longer be entitled to (and hereby waives its right to) deliver or submit any written documentation or other support to such accountant or accounting firm (as the case may be) with respect to such disputed arithmetic calculation and such accountant or accounting firm (as the case may be) shall perform such disputed arithmetic calculation based solely on the Required Documentation that was delivered to such accountant or accounting firm (as the case may be) prior to the Submission Deadline). Unless otherwise agreed to in writing by both the Company and such Holder or otherwise requested by such accountant or accounting firm (as the case may be), neither the Company nor such Holder shall be entitled to deliver or submit any written documentation or other support to such accountant or accounting firm (as the case may be) in connection with such disputed arithmetic calculation of the Conversion Rate (other than the Required Documentation).

(iii) The Company and such Holder shall cause such accountant or accounting firm (as the case may be) to perform such disputed arithmetic calculation and notify the Company and such Holder of the results no later than ten (10) Business Days immediately following the Submission Deadline. The fees and expenses of such accountant or accounting firm (as the case may be) shall be borne solely by the Company, and such accountant's or accounting firm's (as the case may be) arithmetic calculation shall be final and binding upon all parties absent manifest error.

(c) Miscellaneous . The Company expressly acknowledges and agrees that (i) this Section 22 constitutes an agreement to arbitrate between the Company and such Holder (and constitutes an arbitration agreement) under § 7501, et seq. of the New York Civil Practice Law and Rules (" **CPLR** ") and that each party shall be entitled to compel arbitration pursuant to CPLR § 7503(a) in order to compel compliance with this Section 22, (ii) a dispute relating to a Conversion Price includes, without limitation, disputes as to (1) whether an issuance or sale or deemed issuance or sale of Common Stock occurred under Section 7(a), (2) the consideration per share at which an issuance or deemed issuance of Common Stock occurred, (3) whether any issuance or sale or deemed issuance or sale of Common Stock was an issuance or sale or deemed issuance or sale of Exempt Issuance, (4) whether an agreement, instrument, security or the like constitutes and Option or Convertible Security and (5) whether a Dilutive Issuance occurred, (iii) the terms of this Certificate of Designations and each other applicable Transaction Document shall serve as the basis for the selected investment bank's resolution of the applicable dispute, such investment bank shall be entitled (and is hereby expressly authorized) to make all findings, determinations and the like that such investment bank determines are required to be made by such investment bank in connection with its resolution of such dispute and in resolving such dispute such investment bank shall apply such findings, determinations and the like to the terms of this Certificate of Designations and any other applicable Transaction Documents, (iv) the terms of this Certificate of Designations and each other applicable Transaction Document shall serve as the basis for the selected accountant's or accounting firm's performance of the applicable arithmetic calculation, (v) for clarification purposes and without implication that the contrary would otherwise be true, disputes relating to matters described in Section 22(a) shall be governed by Section 22(a) and not by Section 22(b), (vi) such Holder (and only such Holder), in its sole discretion, shall have the right to submit any dispute described in this Section 22 to any state or federal court sitting in The City of New York, Borough of Manhattan in lieu of utilizing the procedures set forth in this Section 22 and (vii) nothing in this Section 22 shall limit such Holder from obtaining any injunctive relief or other equitable remedies (including, without limitation, with respect to any matters described in Section 22(a) or Section 22(b)).

23. Certain Defined Terms . For purposes of this Certificate of Designations, the following terms shall have the following meanings:

(a) " **1934 Act** " means the Securities Exchange Act of 1934, as amended.

(b) " **Base Amount** " means, with respect to each Preferred Share, as of the applicable date of determination, the sum of (1) the Stated Value thereof, plus (2) the Unpaid Dividend Amount thereon as of such date of determination.

(c) " **Bloomberg** " means Bloomberg, L.P.

(d) " **Business Day** " means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

(e) " **Closing Bid Price** " and " **Closing Sale Price** " means, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price (as the case may be) then the last bid price or last trade price, respectively, of such security prior to 4:00:00 p.m., New York time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing bid price or last trade price, respectively, of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the "pink sheets" by OTC Markets Group Inc. (formerly Pink Sheets LLC). If the Closing Bid Price or the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Bid Price or the Closing Sale Price (as the case may be) of such security on such date shall be the fair market value as mutually determined by the Company and the applicable Holder. If the Company and such Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved in accordance with the procedures in Section 22. All such determinations shall be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during such period.

(f) " **Common Stock** " means (i) the Company's shares of common stock, $0.001 par value per share, and (ii) any capital stock into which such common stock shall have been changed or any share capital resulting from a reclassification of such common stock.

(g) " **Conversion Price** " means, with respect to each Preferred Share, as of any Conversion Date or other applicable date of determination, $0.40, subject to adjustment as provided herein.

(h) " **Convertible Securities** " means any stock or other security (other than Options) that is at any time and under any circumstances, directly or indirectly, convertible into, exercisable or exchangeable for, or which otherwise entitles the holder thereof to acquire, any shares of Common Stock.

(i) " **Eligible Market** " means The New York Stock Exchange, the NYSE MKT, the Nasdaq Global Select Market, the Nasdaq Global Market, the Nadsaq Capital Market or the Principal Market (or any successor thereto).

(j) " **Fundamental Transaction** " " means that (i) the Company or any of its Subsidiaries shall, directly or indirectly, in one or more related transactions, (1) consolidate or merge with or into (whether or not the Company or any of its Subsidiaries is the surviving corporation) any other Person, or (2) sell, lease, license, assign, transfer, convey or otherwise dispose of all or substantially all of its respective properties or assets to any other Person, or (3) allow any other Person to make a purchase, tender or exchange offer that is accepted by the holders of more than 50% of the outstanding shares of Voting Stock of the Company (not including any shares of Voting Stock of the Company held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer), or (4) consummate a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with any other Person whereby such other Person acquires more than 50% of the outstanding shares of Voting Stock of the Company (not including any shares of Voting Stock of the Company held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination), or (5) reorganize, recapitalize or reclassify the Common Stock, or (ii) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the 1934 Act and the rules and regulations promulgated thereunder) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of 50% of the aggregate ordinary voting power represented by issued and outstanding Voting Stock of the Company.

(k) " **Holder Pro Rata Amount** " means, with respect to any Holder, a fraction (i) the numerator of which is the number of Preferred Shares issued to such Holder pursuant to the Securities Purchase Agreement on the Initial Issuance Date and (ii) the denominator of which is the number of Preferred Shares issued to all Holders pursuant to the Securities Purchase Agreements.

(l) " **Liquidation Event** " means, whether in a single transaction or series of transactions, the voluntary or involuntary liquidation, dissolution or winding up of the Company or such Subsidiaries the assets of which constitute all or substantially all of the assets of the business of the Company and its Subsidiaries, taken as a whole.

(m) " **Options** " means any rights, warrants or options to subscribe for or purchase shares of Common Stock or Convertible Securities.

(n) " **Parent Entity** " of a Person means an entity that, directly or indirectly, controls the applicable Person and whose common stock or equivalent equity security is quoted or listed on an Eligible Market, or, if there is more than one such Person or Parent Entity, the Person or Parent Entity with the largest public market capitalization as of the date of consummation of the Fundamental Transaction.

(o) " **Person** " means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity or a government or any department or agency thereof.

(p) " **Principal Market** " means the OTCQB.

(q) " **SEC** " means the Securities and Exchange Commission or the successor thereto.

(r) " **Securities** " means, collectively, the Preferred Shares and the shares of Common Stock issuable upon conversion of (or otherwise in accordance with) the Preferred Shares.

(s) " **Securities Purchase Agreement** " means that certain securities purchase agreement by and among the Company and the initial holders of Preferred Shares, as may be amended from time in accordance with the terms thereof.

(t) " **Stated Value** " shall mean $ 0.40 per share, subject to adjustment for stock splits, stock dividends, recapitalizations, reorganizations, reclassifications, combinations, subdivisions or other similar events occurring after the Initial Issuance Date with respect to the Preferred Shares.

(u) " **Subsidiaries** " shall have the meaning as set forth in the Securities Purchase Agreement.

(v) " **Successor Entity** " means the Person (or, if so elected by the Required Holders, the Parent Entity) formed by, resulting from or surviving any Fundamental Transaction or the Person (or, if so elected by the Required Holders, the Parent Entity) with which such Fundamental Transaction shall have been entered into.

(w) " **Trading Day** " means, as applicable, (x) with respect to all price determinations relating to the Common Stock, any day on which the Common Stock is traded on the Principal Market, or, if the Principal Market is not the principal trading market for the Common Stock, then on the principal securities exchange or securities market on which the Common Stock is then traded, provided that "Trading Day" shall not include any day on which the Common Stock is scheduled to trade on such exchange or market for less than 4.5 hours or any day that the Common Stock is suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York time) unless such day is otherwise designated as a Trading Day in writing by the Required Holders or (y) with respect to all determinations other than price determinations relating to the Common Stock, any day on which The New York Stock Exchange (or any successor thereto) is open for trading of securities.

(x) " **Transaction Documents** " means the Securities Purchase Agreement, this Certificate of Designations, the Warrant and each of the other agreements and instruments entered into or delivered by the Company or any of the Holders in connection with the transactions contemplated by the Securities Purchase Agreement, all as may be amended from time to time in accordance with the terms thereof.

(y) " **Unpaid Dividend Amount** " means, as of the applicable date of determination, with respect to each Preferred Share, all accrued and unpaid Dividends on such Preferred Share.

(z) " **Voting Stock** " of a Person means capital stock of such Person of the class or classes pursuant to which the holders thereof have the general voting power to elect, or the general power to appoint, at least a majority of the board of directors, managers, trustees or other similar governing body of such Person (irrespective of whether or not at the time capital stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

(aa) " **VWAP** " means, for any security as of any date, the dollar volume-weighted average price for such security on the Principal Market (or, if the Principal Market is not the principal trading market for such security, then on the principal securities exchange or securities market on which such security is then traded) during the period beginning at 9:30:01 a.m., New York time, and ending at 4:00:00 p.m., New York time, as reported by Bloomberg through its "HP" function set to "weighted average" or, if the foregoing does not apply, the dollar volume-weighted average price of such security in the over-the-counter market on the electronic bulletin board for such security during the period beginning at 9:30:01 a.m., New York time, and ending at 4:00:00 p.m., New York time, as reported by Bloomberg, or, if no dollar volume-weighted average price is reported for such security by Bloomberg for such hours, the average of the highest closing bid price and the lowest closing ask price of any of the market makers for such security as reported in the "pink sheets" by OTC Markets Group Inc. (formerly Pink Sheets LLC). If the VWAP cannot be calculated for such security on such date on any of the foregoing bases, the VWAP of such security on such date shall be the fair market value as mutually determined by the Company and such Holder. If the Company and such Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved in accordance with the procedures in Section 22. All such determinations shall be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during such period.

24. Disclosure . Upon receipt or delivery by the Company of any notice in accordance with the terms of this Certificate of Designations, unless the Company has in good faith determined that the matters relating to such notice do not constitute material, non-public information relating to the Company or any of its Subsidiaries, the Company shall simultaneously with any such receipt or delivery publicly disclose such material, non-public information on a Current Report on Form 8-K or otherwise. In the event that the Company believes that a notice contains material, non-public information relating to the Company or any of its Subsidiaries, the Company so shall indicate to each Holder contemporaneously with delivery of such notice, and in the absence of any such indication, each Holder shall be allowed to presume that all matters relating to such notice do not constitute material, non-public information relating to the Company or its Subsidiaries. Nothing contained in this Section 24 shall limit any obligations of the Company, or any rights of any Holder, under the Securities Purchase Agreement.

* * * * *

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Designations of Series D Convertible Preferred Stock of VerifyMe, Inc. to be signed by its Chief Executive Officer on this 15thday of November_____, 2016.

VERIFYME, INC.

By: _____

Name:

Title:

EXHIBIT I

VERIFYME, INC.

CONVERSION NOTICE

Reference is made to the Certificate of Designations, Preferences and Rights of the 0% Series D Convertible Preferred Stock of VerifyMe, Inc. (the " **Certificate of Designations** "). In accordance with and pursuant to the Certificate of Designations, the undersigned hereby elects to convert the number of shares of Series D Convertible Preferred Stock, $0.001 par value per share (the " **Preferred Shares** "), of VerifyMe, Inc., a Nevada corporation (the " **Company** "), indicated below into shares of common stock, $0.001 par value per share (the " **Common Stock** "), of the Company, as of the date specified below.

Date of Conversion: _____

Number of Preferred Shares to be converted: _____

Share certificate no(s). of Preferred Shares to be converted: _____

Tax ID Number (If applicable): _____

Conversion Price:_____

Number of shares of Common Stock to be issued: _____

Please issue the shares of Common Stock into which the Preferred Shares are being converted in the following name and to the following address:

Issue to: _____

_____

Address: _____

Telephone Number: _____

Facsimile Number: _____

Holder: _____

By: _____

Title: _____

Dated:_____

Account Number (if electronic book entry transfer): _____

Transaction Code Number (if electronic book entry transfer): _____

EXHIBIT II

ACKNOWLEDGMENT

The Company hereby acknowledges this Conversion Notice and hereby directs _____ to issue the above indicated number of shares of Common Stock in accordance with the Irrevocable Transfer Agent Instructions dated _____, 2016 from the Company and acknowledged and agreed to by _____.

VERIFYME, INC.

By: _____
Name:

Title:

Exhibit 4.2

NEITHER THIS SECURITY NOR THE SECURITIES FOR WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE " SECURITIES ACT "), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON STOCK PURCHASE WARRANT

VERIFYME, INC.

Warrant Shares: _____ Issue Date: November 15, 2016

THIS COMMON STOCK PURCHASE WARRANT (the " Warrant ") certifies that, for value received, _____ or its assigns (the " Holder ") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the date hereof (the " Initial Exercise Date ") and on or prior to the close of business on the three year anniversary of the Initial Exercise Date (the " Termination Date ") but not thereafter, to subscribe for and purchase from VerifyMe, Inc., a Nevada corporation (the " Company "), up to _____ shares (as subject to adjustment hereunder, the " Warrant Shares ") of Common Stock. The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1 . Definitions . Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the " Purchase Agreement "), dated November 15, 2016, among the Company and the purchasers signatory thereto.

Section 2. Exercise.

a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of the Holder appearing on the books of the Company) of a duly executed facsimile copy (or e-mail attachment) of the Notice of Exercise in the form annexed hereto and within three (3) Trading Days of the date said Notice of Exercise is delivered to the Company, the Company shall have received payment of the aggregate Exercise Price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank or, if available, pursuant to the cashless exercise procedure specified in Section 2(c) below. No ink-original Notice of Exercise shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any Notice of Exercise form be required. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise within one (1) Business Day of receipt of such notice. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

b) Exercise Price. The exercise price per share of the Common Stock under this Warrant shall be $0.40, subject to adjustment hereunder (the "Exercise Price").

c) Cashless Exercise. If at any time there is no effective Registration Statement registering, or no current prospectus available for, the resale of the Warrant Shares by the Holder, then this Warrant may also be exercised, in whole or in part, at such time by means of a "cashless exercise" in which the Holder shall be entitled to receive a number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) the last VWAP immediately preceding the time of delivery of the Notice of Exercise giving rise to the applicable "cashless exercise", as set forth in the applicable Notice of Exercise;

(B) = the Exercise Price of this Warrant, as adjusted hereunder; and

(X) = the number of Warrant Shares that would be issuable upon exercise of this Warrant in accordance with the terms of this Warrant if such exercise were by means of a cash exercise rather than a cashless exercise.

If Warrant Shares are issued in such a cashless exercise, the parties acknowledge and agree that in accordance with Section 3(a)(9) of the Securities Act, the Warrant Shares shall take on the characteristics of the Warrants being exercised, and the holding period of the Warrants being exercised may be tacked on to the holding period of the Warrant Shares. The Company agrees not to take any position contrary to this Section 2(c).

" VWAP " means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)), (b) if OTCBB, OTCQB or OTCQX is not a Trading Market, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on OTCBB, OTCQB or OTCQX as applicable, (c) if the Common Stock is not then listed or quoted for trading on OTCBB, OTCQB or OTCQX and if prices for the Common Stock are then reported in the "Pink Sheets" published by OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported, or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Holders of a majority in interest of the Securities then outstanding and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

Notwithstanding anything herein to the contrary, on the Termination Date, this Warrant shall be automatically exercised via cashless exercise pursuant to this Section 2(c).

d) Mechanics of Exercise .

i. Delivery of Warrant Shares Upon Exercise . Warrant Shares purchased hereunder shall be transmitted by the Transfer Agent to the Holder (A) by crediting the account of the Holder's or its designee's balance account with The Depository Trust Company through its Deposit or Withdrawal at Custodian system (" DWAC ") if the Company is then a participant in such system and either (1) there is an effective registration statement permitting the issuance of the Warrant Shares to or resale of the Warrant Shares by the Holder or (2) the Warrant Shares are eligible for resale by the Holder without volume or manner-of-sale limitations pursuant to Rule 144, or (B) otherwise by physical delivery of a certificate, registered in the Company's share register in the name of the Holder or its designee, for the number of Warrant Shares to which the Holder is entitled pursuant to such exercise to the address specified by the Holder in the Notice of Exercise by the date that is three (3) Trading Days after the delivery to the Company of the Notice of Exercise (such date, the " Warrant Share Delivery Date "). Upon delivery of the Notice of Exercise the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date of delivery of the Warrant Shares; provided payment of the aggregate Exercise Price (other than in the case of a Cashless Exercise) is received within three Trading Days of delivery of the Notice of Exercise. If the Company fails for any reason to deliver to the Holder the Warrant Shares subject to a Notice of Exercise by the Warrant Share Delivery Date, the Company shall pay to the Holder, in cash, as liquidated damages and not as a penalty, for each $1,000 of Warrant Shares subject to such exercise (based on the VWAP of the Common Stock on the date of the applicable Notice of Exercise), $10 per Trading Day (increasing to $20 per Trading Day on the fifth Trading Day after such liquidated damages begin to accrue) for each Trading Day after such Warrant Share Delivery Date until such Warrant Shares are delivered or Holder rescinds such exercise. The Company agrees to maintain a transfer agent that is a participant in the FAST program so long as this Warrant remains outstanding and exercisable.

ii. Delivery of New Warrants Upon Exercise . If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant certificate, at the time of delivery of the Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iii. Rescission Rights . If the Company fails to cause the Transfer Agent to transmit to the Holder the Warrant Shares pursuant to Section 2(d)(i) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

iv. Compensation for Buy-In on Failure to Timely Deliver Warrant Shares Upon Exercise . In addition to any other rights available to the Holder, if the Company fails to cause the Transfer Agent to transmit to the Holder the Warrant Shares in accordance with the provisions of Section 2(d)(i) above pursuant to an exercise on or before the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a " Buy-In "), then the Company shall (A) pay in cash to the Holder the amount, if any, by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (1) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (2) the price at which the sell order giving rise to such purchase obligation was executed, and (B) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored (in which case such exercise shall be deemed rescinded) or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Holder $1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

v. No Fractional Shares or Scrip . No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such exercise, the Company shall, at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

vi. Charges, Taxes and Expenses . Issuance of Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such Warrant Shares, all of which taxes and expenses shall be paid by the Company, and such Warrant Shares shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided , however , that in the event Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto. The Company shall pay all Transfer Agent fees required for same-day processing of any Notice of Exercise and all fees to the Depository Trust Company (or another established clearing corporation performing similar functions) required for same-day electronic delivery of the Warrant Shares.

vii. Closing of Books . The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

e) Holder's Exercise Limitations . The Company shall not effect any exercise of this Warrant, and a Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2 or otherwise, to the extent that after giving effect to such issuance after exercise as set forth on the applicable Notice of Exercise, the Holder (together with the Holder's Affiliates, and any other Persons acting as a group together with the Holder or any of the Holder's Affiliates, such other Persons, " Attribution Parties ")), would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder, its Affiliates and Attribution Parties shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (i) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by the Holder or any of its Affiliates or Attribution Parties and (ii) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other Common Stock Equivalents) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its Affiliates or Attribution Parties. Except as set forth in the preceding sentence, for purposes of this Section 2(e), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Company is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(e) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates or Attribution Parties) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of a Notice of Exercise shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates or Attribution Parties) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 2(e), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in (A) the Company's most recent periodic or annual report filed with the Commission, as the case may be, (B) a more recent public announcement by the Company or (C) a more recent written notice by the Company or the Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Company shall within two Trading Days confirm orally or in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder or its Affiliates or Attribution Parties since the date as of which such number of outstanding shares of Common Stock was reported. The " Beneficial Ownership Limitation " shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The Holder, upon notice to the Company, may increase or decrease the Beneficial Ownership Limitation provisions of this Section 2(e), provided that the Beneficial Ownership Limitation in no event exceeds 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this Warrant held by the Holder and the provisions of this Section 2(e) shall continue to apply. Any increase in the Beneficial Ownership Limitation will not be effective until the 61 st day after such notice is delivered to the Company. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 2(e) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant.

Section 3. Certain Adjustments.

a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include (A) any shares of Common Stock issued by the Company upon exercise of this Warrant), or (B) any shares or any other equity or equity equivalent issued by the Company pursuant to any employee benefit plan of the Company or pursuant to any employment agreement to which the Company is a party, (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares or (iv) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Adjustment of Exercise Price Upon Issuance of New Securities at Less Than the Exercise Price . In the event the Company shall, during the period beginning on the Closing Date and ending on the date that is the earlier of (i) the expiration of the Protection Period and (ii) the National Securities Exchange Listing Date, other than in connection with an Exempt Issuance, issue any Common Stock or Common Stock Equivalents, for a consideration less than the Exercise Price that would be in effect at the time of such issuance, then, and thereafter successively upon each such issuance, the Exercise Price shall be reduced to such other lower price for then outstanding Warrants. For purposes of this adjustment, any agreement entered for or the issuance of any security or debt instrument of the Company carrying the right to convert such security or debt instrument into Common Stock or of any warrant, right or option to purchase Common Stock shall result in an adjustment to the Exercise Price upon the issuance of the above-described security, debt instrument, warrant, right, or option if such issuance is at a price lower than the Exercise Price in effect upon such issuance and again at any time upon any actual, permitted, optional, or allowed issuances of shares of Common Stock upon any actual, permitted, optional, or allowed exercise of such conversion or purchase rights if such issuance is at a price lower than the Exercise Price in effect upon any actual, permitted, optional, or allowed such issuance. Common Stock issued or issuable by the Company for no consideration will be deemed issuable or to have been issued for $0.001 per share of Common Stock. Simultaneously with any adjustment to the Exercise Price pursuant to this Section 3(b), the number of Warrant Shares that may be purchased upon exercise of this Warrant shall be increased proportionately, so that after such adjustment the aggregate Exercise Price payable hereunder for the adjusted number of Warrant Shares shall be the same as the aggregate Exercise Price in effect immediately prior to such adjustment (without regard to any limitations on exercise contained herein).

c) Subsequent Rights Offerings . In addition to any adjustments pursuant to Section 3(a) and (b) above, if at any time other than in connection with an Exempt Issuance, the Company grants, issues or sells any Common Stock Equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the " Purchase Rights "), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation, the Beneficial Ownership Limitation) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights (provided, however, to the extent that the Holder's right to participate in any such Purchase Right would result in the Holder exceeding the Beneficial Ownership Limitation, then the Holder shall not be entitled to participate in such Purchase Right to such extent (or beneficial ownership of such shares of Common Stock as a result of such Purchase Right to such extent) and such Purchase Right to such extent shall be held in abeyance for the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Beneficial Ownership Limitation).

d) Pro Rata Distributions . During such time as this Warrant is outstanding, if the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a " Distribution "), at any time after the issuance of this Warrant, then, in each such case, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation, the Beneficial Ownership Limitation) immediately before the date of which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the participation in such Distribution (provided , however , to the extent that the Holder's right to participate in any such Distribution would result in the Holder exceeding the Beneficial Ownership Limitation, then the Holder shall not be entitled to participate in such Distribution to such extent (or in the beneficial ownership of any shares of Common Stock as a result of such Distribution to such extent) and the portion of such Distribution shall be held in abeyance for the benefit of the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Beneficial Ownership Limitation).

e) Fundamental Transaction . If, at any time while this Warrant is outstanding, (i) the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another Person, (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) the Company, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property, or (v) the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person or group of Persons whereby such other Person or group acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a " Fundamental Transaction "), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder (without regard to any limitation in Section 2(e) on the exercise of this Warrant), the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the " Alternate Consideration ") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such Fundamental Transaction (without regard to any limitation in Section 2(e) on the exercise of this Warrant). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. The Company shall cause any successor entity in a Fundamental Transaction in which the Company is not the survivor (the " Successor Entity ") to assume in writing all of the obligations of the Company under this Warrant and the other Transaction Documents in accordance with the provisions of this Section 3(e) pursuant to written agreements in form and substance reasonably satisfactory to the Holder and shall, at the option of the Holder, deliver to the Holder in exchange for this Warrant a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant which is exercisable for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity) equivalent to the shares of Common Stock acquirable and receivable upon exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) prior to such Fundamental Transaction, and with an exercise price which applies the exercise price hereunder to such shares of capital stock (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such exercise price being for the purpose of protecting the economic value of this Warrant immediately prior to the consummation of such Fundamental Transaction), and which is reasonably satisfactory in form and substance to the Holder. Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Warrant and the other Transaction Documents referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant and the other Transaction Documents with the same effect as if such Successor Entity had been named as the Company herein.

f) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

g) Notice to Holder.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly mail to the Holder a notice setting forth the Exercise Price after such adjustment and any resulting adjustment to the number of Warrant Shares and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property, or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided in this Warrant constitutes, or contains, material, non-public information regarding the Company or any of the Subsidiaries, the Company shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K. The Holder shall remain entitled to exercise this Warrant during the period commencing on the date of such notice to the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 4. Transfer of Warrant.

a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Section 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder (including, without limitation, any registration rights) are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees, as applicable, and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company unless the Holder has assigned this Warrant in full, in which case, the Holder shall surrender this Warrant to the Company within three (3) Trading Days of the date the Holder delivers an assignment form to the Company assigning this Warrant full. The Warrant, if properly assigned in accordance herewith, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice. All Warrants issued on transfers or exchanges shall be dated the original Issue Date and shall be identical with this Warrant except as to the number of Warrant Shares issuable pursuant thereto.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be either (i) registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws or (ii) eligible for resale without volume or manner-of-sale restrictions or current public information requirements pursuant to Rule 144, the Company may require, as a condition of allowing such transfer, that the Holder or transferee of this Warrant, as the case may be, comply with the provisions of Sections 4.1 and 5.7 of the Purchase Agreement.

e) Representation by the Holder. The Holder, by the acceptance hereof, represents and warrants that it is acquiring this Warrant and, upon any exercise hereof, will acquire the Warrant Shares issuable upon such exercise, for its own account and not with a view to or for distributing or reselling such Warrant Shares or any part thereof in violation of the Securities Act or any applicable state securities law, except pursuant to sales registered or exempted under the Securities Act.

Section 5. Miscellaneous.

a) No Rights as Stockholder Until Exercise. This Warrant does not entitle the Holder to any voting rights, dividends or other rights as a stockholder of the Company prior to the exercise hereof as set forth in Section 2(d)(i), except as expressly set forth in Section 3.

b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then, such action may be taken or such right may be exercised on the next succeeding Business Day.

d) Authorized Shares.

The Company covenants that, during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock 125% of the maximum number of shares required to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant (without giving effect to any limitations on ownership). The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of issuing the necessary Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant and payment for such Warrant Shares in accordance herewith, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its articles of incorporation, as amended, or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (i) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (ii) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant and (iii) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof, as may be, necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

e) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

f) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered and the Holder does not utilize cashless exercise, will have restrictions upon resale imposed by state and federal securities laws.

g) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice the Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to the Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by the Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

h) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

i) Limitation of Liability. No provision hereof, in the absence of any affirmative action by the Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

j) Remedies. The Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive and not to assert the defense in any action for specific performance that a remedy at law would be adequate.

k) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of any Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of Warrant Shares.

l) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and holders of at least 60% of the Warrants issued under the Purchase Agreement then outstanding .

m) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

n) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

****

(Signature Page Follows)

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

VERIFYME, INC.

By: _____
Name:
Title:

NOTICE OF EXERCISE

TO: **VERIFYME, INC.**

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

☐ in lawful money of the United States; or

☐ [if permitted the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(c).

(3) Please issue said Warrant Shares in the name of the undersigned or in such other name as is specified below:

_____

The Warrant Shares shall be delivered to the following DWAC Account Number:

_____

_____

_____

(4) Accredited Investor . The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity:

_____

Signature of Authorized Signatory of Investing Entity :

_____

Name of Authorized Signatory:

_____

Title of Authorized Signatory:

_____

Date:

_____

EXHIBIT B

ASSIGNMENT FORM

(To assign the foregoing Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

Name: _____

(Please Print)

Address: _____

(Please Print)

Phone Number: _____

Email Address: _____

Dated: _____ __, _____

Holder's Signature: _____

Holder's Address: _____

Exhibit 10.15

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this " Agreement ") is dated as of November 15, 2016, between VerifyMe, Inc., a Nevada corporation (the " Company "), and each purchaser identified on the signature pages hereto (each, including its successors and assigns, a " Purchaser " and collectively, the " Purchasers ").

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the " Securities Act "), and Rule 506 promulgated thereunder, the Company desires to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, desires to purchase from the Company, securities of the Company as more fully described in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agree as follows:

ARTICLE I.
DEFINITIONS

1.1 Definitions . In addition to the terms defined elsewhere in this Agreement, for all purposes of this Agreement, the following terms have the meanings set forth in this Section 1.1:

" Acquiring Person " shall have the meaning ascribed to such term in Section 4.5.

" Action " shall have the meaning ascribed to such term in Section 3.1(j).

" Affiliate " means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the Securities Act.

" Board of Directors " means the board of directors of the Company.

" Business Day " means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

" Closing " means the closing of the purchase and sale of the Securities pursuant to Section 2.1.

" Closing Date " means the Trading Day on which all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Purchasers' obligations to pay the Subscription Amount and (ii) the Company's obligations to deliver the Securities, in each case, have been satisfied or waived.

" Commission " means the United States Securities and Exchange Commission.

" Common Stock " means the common stock of the Company, par value $0.001 per share, and any other class of securities into which such securities may hereafter be reclassified or changed.

" Common Stock Equivalents " means any securities of the Company which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, right, option, warrant or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

"Conversion Shares " means the shares of Common Stock issuable upon conversion of the Series D Preferred Stock.

" Disclosure Schedules " shall have the meaning ascribed to such term in Section 3.1.

" Effective Date " means the earliest of the date that (a) the initial Registration Statement has been declared effective by the Commission, (b) all of the Conversion Shares and Warrant Shares have been sold pursuant to Rule 144 or may be sold pursuant to Rule 144 without the requirement for the Company to be in compliance with the current public information required under Rule 144 and without volume or manner-of-sale restrictions or (c) following the one year anniversary of the Closing Date provided that a holder of Conversion Shares or Warrant Shares is not an Affiliate of the Company, all of the Conversion Shares and Warrant Shares may be sold pursuant to an exemption from registration under Section 4(a)(1) of the Securities Act without volume or manner-of-sale restrictions and Company Counsel has delivered to such holders a standing written unqualified opinion that resales may then be made by such holders of the Conversion Shares and Warrant Shares pursuant to such exemption which opinion shall be in form and substance reasonably acceptable to such holders.

" Evaluation Date " shall have the meaning ascribed to such term in Section 3.1(s).

" Exchange Act " means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

" Exempt Issuance " means the issuance of (i) Common Stock, grants of options to purchase Common Stock or other types of awards issuable to officers, employees, directors, and consultants under plans that are approved by the board of directors of the Company, (ii) securities upon the exercise or exchange of or conversion of any securities exercisable or exchangeable for or convertible into shares of Common Stock issued and outstanding on the Closing Date on the terms in effect on the date hereof and (iii) Conversion Shares or Warrant Shares.

" FCPA " means the Foreign Corrupt Practices Act of 1977, as amended.

" GAAP " shall have the meaning ascribed to such term in Section 3.1(h).

" Indebtedness " shall have the meaning ascribed to such term in Section 3.1(bb).

" Intellectual Property Rights " shall have the meaning ascribed to such term in Section 3.1(p).

" Legend Removal Date " shall have the meaning ascribed to such term in Section 4.1(c).

" Liens " means a lien, charge pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

" Material Adverse Effect " shall have the meaning assigned to such term in Section 3.1(b).

" Material Permits " shall have the meaning ascribed to such term in Section 3.1(n).

" Per Share Purchase Price " equals $0.40, subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Stock that occur after the date of this Agreement.

" Person " means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

" Proceeding " means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

" Public Information Failure " shall have the meaning ascribed to such term in Section 4.2(b).

" Public Information Failure Payments " shall have the meaning ascribed to such term in Section 4.2(b).

" Purchaser Party " shall have the meaning ascribed to such term in Section 4.8.

"

" Registration Statement " means a registration statement meeting the requirements set forth in the Registration Rights Agreement and covering the resale by the Purchasers of the Conversion Shares and the Warrant Shares.

" Required Approvals " shall have the meaning ascribed to such term in Section 3.1(e).

" Rule 144 " means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

" Rule 424 " means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

" SEC Reports " shall have the meaning ascribed to such term in Section 3.1(h).

" Securities " means the Shares, the Conversion Shares, the Warrants and the Warrant Shares.

" Securities Act " means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

" Series D Preferred Stock " means the 0% Series D Convertible Preferred Stock of the Company, par value $0.001 per share, offered, issued or sold by the Company hereunder.

" Shares " means the shares of Series D Preferred Stock issued or issuable to each Purchaser pursuant to this Agreement.

" Short Sales " means all "short sales" as defined in Rule 200 of Regulation SHO under the Exchange Act (but shall not be deemed to include the location and/or reservation of borrowable shares of Common Stock) .

"

" Subscription Amount " means, as to each Purchaser at each Closing, the aggregate amount to be paid for Shares and Warrants purchased hereunder at such Closing as specified below such Purchaser's name on the signature page of this Agreement and next to the heading "Subscription Amount," in United States dollars and in immediately available funds.

" Subsidiary " means any subsidiary of the Company.

" Trading Day " means a day on which the principal Trading Market is open for trading.

" Trading Market " means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, OTCBB, OTCQB or OTCQX (or any successors to any of the foregoing).

" Transaction Documents " means this Agreement, the Warrant, the Certificate of Designation of Rights, Preferences and Limitations of the 0% Series D Convertible Preferred Stock in the form attached hereto as Exhibit B (the " Series D Certificate of Designation "), all exhibits and schedules thereto and hereto and any other documents or agreements executed in connection with the transactions contemplated hereunder.

" Transfer Agent " means Interwest Transfer Co., Inc., the current transfer agent of the Company, with a mailing address of P. O. Box 17136, Salt Lake City, UT 84117 and a facsimile number of (801) 277-3147, and any successor transfer agent of the Company.

"

" Warrants " means, collectively, the Common Stock purchase warrants delivered to the Purchasers at the Closing in accordance with Section 2.2(a) hereof, which Warrants shall be exercisable immediately and have a term of exercise equal to three years, in the form of Exhibit C attached hereto.

" Warrant Shares " means the shares of Common Stock issuable upon exercise of the Warrants.

ARTICLE II.
PURCHASE AND SALE

2.1 Closing . On the Closing Date, upon the terms and subject to the conditions set forth herein, substantially concurrent with the execution and delivery of this Agreement by the parties hereto, the Company agrees to sell, and the Purchasers, severally and not jointly, agree to purchase up to Two Million Dollars ($2,000,000) of Shares and Warrants. Each Purchaser shall deliver to the Company, via wire transfer or a certified check, immediately available funds equal to such Purchaser's Subscription Amount as set forth on the signature page hereto executed by such Purchaser, and the Company shall deliver to each Purchaser its respective Shares and Warrants, as determined pursuant to Section 2.2(a), and the Company and each Purchaser shall deliver the other items set forth in Section 2.2 deliverable at the Closing. Upon satisfaction of the covenants and conditions set forth in Sections 2.2 and 2.3, the Closing shall occur at the offices of SRFF or such other location as the parties shall mutually agree.

2.2 Deliveries .

(a) On or prior to the Closing Date, the Company shall deliver or cause to be delivered to each Purchaser, as applicable, the following:

(i) this Agreement duly executed by the Company;

(ii) a certificate evidencing a number of Shares equal to such Purchaser's Subscription Amount divided by the Per Share Purchase Price, registered in the name of such Purchaser;

(iii) a Warrant registered in the name of such Purchaser to purchase up to a number of shares of Common Stock equal to 400% of such Purchaser's Conversion Shares, with an exercise price equal to $0.40, subject to adjustment therein (such Warrant certificate may be delivered within three Trading Days of the Closing Date);

(iv) the Company shall have delivered to such Purchaser a certificate, in the form acceptable to such Purchaser, executed by the Secretary of the Company and dated as of the Closing Date, as to the resolutions adopted by the Company's board of directors in a form reasonably acceptable to such Purchaser;

(v) the Officer's Certificate (as defined herein);

(vi) The file stamped Certificate of Designation certified by the Secretary of State of the State of Nevada.

(b) On or prior to the Closing Date, each Purchaser shall deliver or cause to be delivered to the Company or the Escrow Agent, as applicable, the following:

(i) this Agreement duly executed by such Purchaser;

(ii) to Company, such Purchaser's Subscription Amount by wire transfer;

(iii) the Registration Rights Agreement duly executed by such Purchaser.

2.3 Closing Conditions .

(a) The obligations of the Company hereunder in connection with the Closing are subject to the following conditions being met:

(i) the accuracy in all material respects (or, to the extent representations or warranties are qualified by materiality or Material Adverse Effect, in all respects) on the Closing Date of the representations and warranties of the Purchasers contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of each Purchaser required to be performed at or prior to the Closing Date shall have been performed; and

(iii) the delivery by each Purchaser of the items set forth in Section 2.2(b) of this Agreement.

(b) The respective obligations of the Purchasers hereunder in connection with the Closing are subject to the following conditions being met:

(i) the accuracy in all material respects (or, to the extent representations or warranties are qualified by materiality or Material Adverse Effect, in all respects) when made and on the Closing Date of the representations and warranties of the Company contained herein (unless as of a specific date therein in which case they shall be accurate as of such date) and the Company shall deliver a certificate, duly executed by its Chief Executive Officer, attesting to the foregoing (the " Officer's Certificate ");

(ii) all obligations, covenants and agreements of the Company required to be performed at or prior to the Closing Date shall have been performed;

(iii) the delivery by the Company of the items set forth in Section 2.2(a) of this Agreement; and

(iv) from the date hereof to the Closing Date, trading in the Common Stock shall not have been suspended by the Commission or the Company's principal Trading Market.

ARTICLE III.
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company . Except as set forth in the disclosure schedules, as may be amended or supplemented (the " Disclosure Schedules "), which Disclosure Schedules shall be deemed a part hereof and shall qualify any representation or otherwise made herein to the extent of the disclosure contained in the corresponding section of the Disclosure Schedules, the Company hereby makes the following representations and warranties to each Purchaser:

(a) Subsidiaries . The Company has no Subsidiaries. All other references to the Subsidiaries or any of them in the Transaction Documents shall be disregarded.

(b) Organization and Qualification . The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Nevada, with the requisite corporate power and authority to own and use its properties and assets and to carry on its business as currently conducted. The Company is not in violation nor default of any of the provisions of its articles of incorporation, as amended or bylaws. The Company is duly qualified to conduct business and is in good standing as a foreign corporation in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in: (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business or condition (financial or otherwise) of the Company, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a " Material Adverse Effect ") and no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement . The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and each of the other Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of each of this Agreement and the other Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, the Board of Directors or the Company's stockholders in connection herewith or therewith other than in connection with the Required Approvals. This Agreement and each other Transaction Document to which it is a party has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts . The execution, delivery and performance by the Company of this Agreement and the other Transaction Documents to which it is a party, the issuance and sale of the Securities and the consummation by it of the transactions contemplated hereby and thereby do not and will not: (i) conflict with or violate any provision of the Company's articles of incorporation, as amended or bylaws, (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company debt or otherwise) or other understanding to which the Company is a party or by which any property or asset of the Company is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. Except as set forth on Schedule 3.1(e) of the Disclosure Schedules, the Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than: (i) the filings required pursuant to Section 4.4 of this Agreement, (ii) the filing with the Commission pursuant to the Registration Rights Agreement, (iii) the notice and/or application(s) to each applicable Trading Market for the issuance and sale of the Securities and the listing of the Conversion Shares and Warrant Shares for trading thereon in the time and manner required thereby, if applicable, and (iv) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws (collectively, the " Required Approvals "). No further approval or authorization of any stockholder, the Board of Directors or others is required for the issuance and sale of the Securities.

(f) Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents and under federal and state securities laws. The Conversion Shares and the Warrant Shares, when issued in accordance with the terms of the Transaction Documents, will be validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents and under federal and state securities laws. The Company has reserved from its duly authorized capital stock 125% of the maximum number of shares of Common Stock issuable pursuant to this Agreement, the Certificate of Designation and the Warrants.

(g) Capitalization. The Company has not issued any capital stock since its most recently filed periodic report under the Exchange Act, other than pursuant to the exercise of employee stock options under the Company's stock option plans, the issuance of shares of Common Stock to employees pursuant to the Company's employee stock purchase plans and pursuant to the conversion and/or exercise of Common Stock Equivalents outstanding as of the date of the most recently filed periodic report under the Exchange Act. No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as a result of the purchase and sale of the Securities, there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. The issuance and sale of the Securities will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. There are no outstanding securities or instruments of the Company that contain any redemption or similar provisions, and there are no contracts, commitments, understandings or arrangements by which the Company is or may become bound to redeem a security of the Company. The Company does not have any stock appreciation rights or "phantom stock" plans or any similar plan or agreement. All of the outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Company's capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's stockholders.

(h) SEC Reports; Financial Statements . Except as set forth on Schedule 3.1(h) of the Disclosure Schedules, the Company has filed all reports, schedules, forms, statements and other documents required to be filed by the Company under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the two years preceding the date hereof (or such shorter period as the Company was required by law or regulation to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the " SEC Reports ") on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Company has never been an issuer subject to Rule 144(i) under the Securities Act. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved (" GAAP "), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes; Undisclosed Events, Liabilities or Developments . Since the date of the latest audited financial statements included within the SEC Reports, except as specifically disclosed in a subsequent SEC Report filed prior to the date hereof: (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) the Company has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing Company stock option plans. The Company does not have pending before the Commission any request for confidential treatment of information. Except for the issuance of the Securities contemplated by this Agreement, no event, liability, fact, circumstance, occurrence or development has occurred or exists, or is reasonably expected to occur or exist, with respect to the Company or its businesses, properties, operations, assets or financial condition, that would be required to be disclosed by the Company under applicable securities laws at the time this representation is made or deemed made that has not been publicly disclosed at least 1 Trading Day prior to the date that this representation is made.

(j) Litigation. There is no material action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, or any of its properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an " Action "), including any one that (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated any investigation by the Commission involving the Company or any current or former director or officer of the Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company under the Exchange Act or the Securities Act.

(k) Labor Relations. No labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company, which could reasonably be expected to result in a Material Adverse Effect. None of the Company's employees is a member of a union that relates to such employee's relationship with the Company, and the Company is not a party to a collective bargaining agreement, and the Company believes that its relationships with its employees are good. To the knowledge of the Company, no executive officer of the Company is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of any third party, and the continued employment of each such executive officer does not subject the Company to any liability with respect to any of the foregoing matters. The Company is in compliance with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(l) Compliance . The Company: (i) is not in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company), nor has the Company received written notice of, or otherwise has knowledge of, a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any judgment, decree, or order of any court, arbitrator or other governmental authority or (iii) is or has been in violation of any statute, rule, ordinance or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws relating to taxes, environmental protection, occupational health and safety, product quality and safety and employment and labor matters, except in each case as could not have or reasonably be expected to result in a Material Adverse Effect.

(m) Environmental Laws . The Company (i) is in compliance with all federal, state, local and foreign laws relating to pollution or protection of human health or the environment (including ambient air, surface water, groundwater, land surface or subsurface strata), including laws relating to emissions, discharges, releases or threatened releases of chemicals, pollutants, contaminants, or toxic or hazardous substances or wastes (collectively, " Hazardous Materials ") into the environment, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials, as well as all authorizations, codes, decrees, demands, or demand letters, injunctions, judgments, licenses, notices or notice letters, orders, permits, plans or regulations, issued, entered, promulgated or approved thereunder (" Environmental Laws "); (ii) has received all permits licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses; and (iii) is in compliance with all terms and conditions of any such permit, license or approval where in each clause (i), (ii) and (iii), the failure to so comply could be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect.

(n) Regulatory Permits . The Company possesses all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct its businesses as described in the SEC Reports, except where the failure to possess such permits could not reasonably be expected to result in a Material Adverse Effect (" Material Permits "), and the Company has not received any written notice, or otherwise has knowledge, of proceedings relating to the revocation or modification of any Material Permit.

(o) Title to Assets . The Company has good and marketable title in fee simple to all real property owned by it and good and marketable title in all personal property owned by it that is material to the business of the Company, in each case free and clear of all Liens, except for (i) Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and (ii) Liens for the payment of federal, state or other taxes, for which appropriate reserves have been made therefor in accordance with GAAP and the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by the Company are held under valid, subsisting and enforceable leases with which the Company is in compliance.

(p) Intellectual Property . Except as set forth on Schedule 3.1(p) of the Disclosure Schedules, the Company has, or has rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, trade secrets, inventions, copyrights, licenses and other intellectual property rights and similar rights as described in the SEC Reports as necessary or required for use in connection with their respective businesses and which the failure to so have could have a Material Adverse Effect (collectively, the " Intellectual Property Rights "). The Company has not received a written notice, or otherwise has knowledge of the fact, that any of the Intellectual Property Rights has expired, terminated or been abandoned, or is expected to expire or terminate or be abandoned, within two (2) years from the date of this Agreement. The Company has not received, since the date of the latest audited financial statements included within the SEC Reports, a written notice of a claim or otherwise has any knowledge that the Intellectual Property Rights violate or infringe upon the rights of any Person, except as could not have or reasonably be expected to not have a Material Adverse Effect. To the knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights. The Company has taken reasonable security measures to protect the secrecy, confidentiality and value of all of their intellectual properties, except where failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(q) Insurance . The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company is engaged, including, but not limited to, directors and officers insurance coverage at least equal to the aggregate Subscription Amount. The Company has no reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(r) Transactions With Affiliates and Employees . None of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, providing for the borrowing of money from or lending of money to or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee, stockholder, member or partner, in each case in excess of $120,000 other than for: (i) payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) other employee benefits, including stock option agreements under any stock option plan of the Company.

(s) Sarbanes-Oxley; Internal Accounting Controls . The Company is in compliance in all material respects with all applicable requirements of the Sarbanes-Oxley Act of 2002 that are effective as of the date hereof, and any and all applicable rules and regulations promulgated by the Commission thereunder that are effective as of the date hereof and as of the Closing Date. The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company has established disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and designed such disclosure controls and procedures to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The Company's certifying officers have evaluated the effectiveness of the disclosure controls and procedures of the Company as of the end of the period covered by the most recently filed periodic report under the Exchange Act (such date, the " Evaluation Date "). The Company presented in its most recently filed periodic report under the Exchange Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date. Since the Evaluation Date, there have been no changes in the internal control over financial reporting (as such term is defined in the Exchange Act) of the Company that have materially affected, or is reasonably likely to materially affect, the internal control over financial reporting of the Company.

(t) Certain Fees . No brokerage or finder's fees or commissions are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. The Purchasers shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

(u) Private Placement . Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer and sale of the Securities by the Company to the Purchasers as contemplated hereby. The issuance and sale of the Securities hereunder does not contravene the rules and regulations of the Trading Market.

(v) Investment Company . The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Securities, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become an "investment company" subject to registration under the Investment Company Act of 1940, as amended.

(w) Listing and Maintenance Requirements. The Common Stock is registered pursuant to Section 12(b) or 12(g) of the Exchange Act, and the Company has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act nor has the Company received any notification that the Commission is contemplating terminating such registration. The Company has not, in the 12 months preceding the date hereof, received notice from any Trading Market on which the Common Stock is or has been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements. The Common Stock is currently eligible for electronic transfer through the Depository Trust Company or another established clearing corporation and the Company is current in payment of the fees to the Depository Trust Company (or such other established clearing corporation) in connection with such electronic transfer.

(x) Application of Takeover Protections. The Company and the Board of Directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's articles of incorporation, as amended (or similar charter documents) or the laws of its state of incorporation that is or could become applicable to the Purchasers as a result of the Purchasers and the Company fulfilling their obligations or exercising their rights under the Transaction Documents, including without limitation as a result of the Company's issuance of the Securities and the Purchasers' ownership of the Securities.

(y) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information that it believes constitutes or might constitute material, non-public information. The Company understands and confirms that the Purchasers will rely on the foregoing representation in effecting transactions in securities of the Company. All of the disclosure furnished by or on behalf of the Company to the Purchasers regarding the Company, its businesses and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, is true and correct in all material respects (except where such disclosure is qualified by materiality, then such disclosure shall be true and correct in all respects) and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The press releases disseminated by the Company during the twelve months preceding the date of this Agreement taken as a whole do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made and when made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 3.2 hereof.

(z) No Integrated Offering . Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, neither the Company, nor any of its Affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Securities to be integrated with prior offerings by the Company for purposes of (i) the Securities Act which would require the registration of any such securities under the Securities Act, or (ii) any applicable shareholder approval provisions of any Trading Market on which any of the securities of the Company are listed or designated.

(aa) Solvency . Based on the consolidated financial condition of the Company as of the Closing Date, after giving effect to the receipt by the Company of the proceeds from the sale of the Securities hereunder: (i) the fair saleable value of the Company's assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature, (ii) the Company's assets do not constitute unreasonably small capital to carry on its business as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company, consolidated and projected capital requirements and capital availability thereof, and (iii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its liabilities when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt). The Company has no knowledge of any facts or circumstances which lead it to believe that it will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. The Company has no Indebtedness. For the purposes of this Agreement, " Indebtedness " means (x) any liabilities for borrowed money or amounts owed in excess of $150,000 in each instance (other than trade accounts payable incurred in the ordinary course of business), (y) all guaranties, endorsements and other contingent obligations in respect of indebtedness of others, whether or not the same are or should be reflected in the Company's consolidated balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (z) the present value of any lease payments in excess of $150,000 due under leases required to be capitalized in accordance with GAAP.

(bb) Tax Status . Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company (i) has made or filed (taking into account extensions of time to file) all United States federal, state and local income and all foreign income and franchise tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due and payable on such returns, reports and declarations and (iii) has set aside on its books provision reasonably adequate for the payment of all material taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim.

(cc) No General Solicitation. Neither the Company nor any Person acting on behalf of the Company has offered or sold any of the Securities by any form of general solicitation or general advertising. The Company has offered the Securities for sale only to the Purchasers and certain other "accredited investors" within the meaning of Rule 501 under the Securities Act.

(dd) Foreign Corrupt Practices. Neither the Company nor, to the knowledge of the Company, any agent or other person acting on behalf of the Company, has: (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company (or made by any person acting on its behalf of which the Company is aware) which is in violation of law or (iv) violated in any material respect any provision of FCPA.

(ee) Accountants. The Company's accounting firm is set forth on Schedule 3.1(ff) of the Disclosure Schedules. To the knowledge and belief of the Company, such accounting firm: (i) is a registered public accounting firm as required by the Exchange Act and (ii) shall express its opinion with respect to the financial statements to be included in the Company's Annual Report for the fiscal year ending December 31, 2015.

(ff) No Disagreements with Accountants and Lawyers. There are no disagreements of any kind presently existing, or reasonably anticipated by the Company to arise, between the Company and the accountants and lawyers formerly or presently employed by the Company and the Company is current with respect to any fees owed to its accountants and lawyers which could affect the Company's ability to perform any of its obligations under any of the Transaction Documents.

(gg) Acknowledgment Regarding Purchasers' Purchase of Securities. The Company acknowledges and agrees that each of the Purchasers is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated thereby. The Company further acknowledges that no Purchaser is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated thereby and any advice given by any Purchaser or any of their respective representatives or agents in connection with the Transaction Documents and the transactions contemplated thereby is merely incidental to the Purchasers' purchase of the Securities. The Company further represents to each Purchaser that the Company's decision to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(hh) Acknowledgment Regarding Purchaser's Trading Activity. Anything in this Agreement or elsewhere herein to the contrary notwithstanding (except for Sections 3.2(g) and 4.14 hereof), it is understood and acknowledged by the Company that: (i) none of the Purchasers has been asked by the Company to agree, nor has any Purchaser agreed, to desist from purchasing or selling, long and/or short, securities of the Company, or "derivative" securities based on securities issued by the Company or to hold the Securities for any specified term, (ii) past or future open market or other transactions by any Purchaser, specifically including, without limitation, Short Sales or "derivative" transactions, before or after the closing of this or future private placement transactions, may negatively impact the market price of the Company's publicly-traded securities, (iii) any Purchaser, and counter-parties in "derivative" transactions to which any such Purchaser is a party, directly or indirectly, may presently have a "short" position in the Common Stock and (iv) each Purchaser shall not be deemed to have any affiliation with or control over any arm's length counter-party in any "derivative" transaction. The Company further understands and acknowledges that (y) one or more Purchasers may engage in hedging activities at various times during the period that the Securities are outstanding, including, without limitation, during the periods that the value of the Conversion Shares or Warrant Shares deliverable with respect to Securities are being determined, and (z) such hedging activities (if any) could reduce the value of the existing stockholders' equity interests in the Company at and after the time that the hedging activities are being conducted. The Company acknowledges that such aforementioned hedging activities do not constitute a breach of any of the Transaction Documents.

(ii) Regulation M Compliance. The Company has not, and to its knowledge no one acting on its behalf has, (i) taken, directly or indirectly, any action designed to cause or to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of any of the Securities, (ii) sold, bid for, purchased, or paid any compensation for soliciting purchases of, any of the Securities, or (iii) paid or agreed to pay to any Person any compensation for soliciting another to purchase any other securities of the Company.

(jj) Stock Option Plans. Each stock option granted by the Company under the Company's stock option plan was granted (i) in accordance with the terms of the Company's stock option plan and (ii) with an exercise price at least equal to the fair market value of the Common Stock on the date such stock option would be considered granted under GAAP and applicable law. No stock option granted under the Company's stock option plan has been backdated. The Company has not knowingly granted, and there is no and has been no Company policy or practice to knowingly grant, stock options prior to, or otherwise knowingly coordinate the grant of stock options with, the release or other public announcement of material information regarding the Company or its financial results or prospects.

(kk) Office of Foreign Assets Control. Neither the Company nor, to the Company's knowledge, any director, officer, agent, employee or affiliate of the Company, is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC").

(ll) U.S. Real Property Holding Corporation. The Company is not and has never been a U.S. real property holding corporation within the meaning of Section 897 of the Internal Revenue Code of 1986, as amended, and the Company shall so certify upon Purchaser's request.

(mm) Bank Holding Company Act . Neither the Company nor any of its Affiliates is subject to the Bank Holding Company Act of 1956, as amended (the " BHCA ") and to regulation by the Board of Governors of the Federal Reserve System (the " Federal Reserve "). Neither the Company nor any of its Affiliates owns or controls, directly or indirectly, five percent (5%) or more of the outstanding shares of any class of voting securities or twenty-five percent or more of the total equity of a bank or any entity that is subject to the BHCA and to regulation by the Federal Reserve. Neither the Company nor any of its Affiliates exercises a controlling influence over the management or policies of a bank or any entity that is subject to the BHCA and to regulation by the Federal Reserve.

(nn) Money Laundering . The operations of the Company are and have been conducted at all times in compliance with applicable financial record-keeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, applicable money laundering statutes and applicable rules and regulations thereunder (collectively, the " Money Laundering Laws "), and no Action or Proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened.

(oo) No Disqualification Events . With respect to the Securities to be offered and sold hereunder in reliance on Rule 506 under the Securities Act, none of the Company, any of its predecessors, any affiliated issuer, any director, executive officer, other officer of the Company participating in the offering hereunder, any beneficial owner of 20% or more of the Company's outstanding voting equity securities, calculated on the basis of voting power, nor any promoter (as that term is defined in Rule 405 under the Securities Act) connected with the Company in any capacity at the time of sale (each, an " Issuer Covered Person " and, together, " Issuer Covered Persons ") is subject to any of the "Bad Actor" disqualifications described in Rule 506(d)(1)(i) to (viii) under the Securities Act (a " Disqualification Event "), except for a Disqualification Event covered by Rule 506(d)(2) or (d)(3). The Company has exercised reasonable care to determine whether any Issuer Covered Person is subject to a Disqualification Event. The Company has complied, to the extent applicable, with its disclosure obligations under Rule 506(e), and has furnished to the Purchasers a copy of any disclosures provided thereunder.

(pp) Other Covered Persons . The Company is not aware of any person that has been or will be paid (directly or indirectly) remuneration for solicitation of purchasers in connection with the sale of the Securities.

(qq) Notice of Disqualification Events . The Company will notify the Purchasers in writing, prior to the Closing Date of (i) any Disqualification Event relating to any Issuer Covered Person and (ii) any event that would, with the passage of time, become a Disqualification Event relating to any Issuer Covered Person.

3.2 Representations and Warranties of the Purchasers . Each Purchaser, for itself and for no other Purchaser, hereby represents and warrants as of the date hereof and as of the Closing Date to the Company as follows (unless as of a specific date therein in which case they shall be accurate as of such date):

(a) Organization; Authority . Such Purchaser is either an individual or an entity duly incorporated or formed, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation with full right, corporate, partnership, limited liability company or similar power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of the Transaction Documents and performance by such Purchaser of the transactions contemplated by the Transaction Documents have been duly authorized by all necessary corporate, partnership, limited liability company or similar action, as applicable, on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Own Account . Such Purchaser understands that the Securities are "restricted securities" and have not been registered under the Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Securities in violation of the Securities Act or any applicable state securities law (this representation and warranty not limiting such Purchaser's right to sell the Securities pursuant to the Registration Statement or otherwise in compliance with applicable federal and state securities laws). Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business.

(c) Purchaser Status . At the time such Purchaser was offered the Securities, it was, and as of the date hereof it is, and on each date on which it converts the Series D Preferred Stock or exercises any Warrants, it will be either: (i) an "accredited investor" as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7) or (a)(8) under the Securities Act or (ii) a "qualified institutional buyer" as defined in Rule 144A(a) under the Securities Act.

(d) Experience of Such Purchaser . Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(e) General Solicitation. The Purchaser represents that (i) the Purchaser was contacted regarding the sale of the Securities by the Company (or an authorized agent or representative thereof) and the Purchaser had a prior pre-existing relationship with the Company under the US securities laws and interpretations, (ii) to the knowledge of such Purchaser, no Securities were offered or sold to it by means of any form of general solicitation or general advertising, and in connection therewith, the Purchaser did not (A) receive or review any advertisement, article, notice or other communication published in a newspaper or magazine or similar media or broadcast over television or radio, whether closed circuit, or generally available; or (B) attend any seminar meeting or industry investor conference whose attendees were invited by any general solicitation or general advertising, and (iii) the Purchaser has not become interested in the offering of the Securities as a result of any registration statement of the Company filed with the Commission or any other securities agency or regulator.

(f) Access to Information. Such Purchaser acknowledges that it has had the opportunity to review the Transaction Documents (including all exhibits and schedules thereto) and the SEC Reports and has been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Securities and the merits and risks of investing in the Securities; (ii) access to information about the Company and its financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment; and (iii) the opportunity to obtain such additional information that the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the investment. Such Purchaser acknowledges and agrees that neither the Company nor any Affiliate of the Company has provided such Purchaser with any information or advice with respect to the Securities nor is such information or advice necessary or desired.

(g) Certain Transactions and Confidentiality. Other than consummating the transactions contemplated hereunder, such Purchaser has not directly or indirectly, nor has any Person acting on behalf of or pursuant to any understanding with such Purchaser, executed any purchases or sales, including Short Sales, of the securities of the Company during the period commencing as of the time that such Purchaser first received a term sheet (written or oral) from the Company or any other Person representing the Company setting forth the material terms of the transactions contemplated hereunder and ending immediately prior to the execution hereof. Notwithstanding the foregoing, in the case of a Purchaser that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Purchaser's assets and the portfolio managers have no direct knowledge of the investment decisions made by the portfolio managers managing other portions of such Purchaser's assets, the representation set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Securities covered by this Agreement. Other than to other Persons party to this Agreement or to such Purchaser's representatives, including, without limitation, its officers, directors, partners, legal and other advisors, agents and Affiliates, such Purchaser has maintained the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction). Notwithstanding the foregoing, for avoidance of doubt, nothing contained herein shall constitute a representation or warranty, or preclude any actions, with respect to the identification of the availability of, or securing of, available shares to borrow in order to effect Short Sales or similar transactions in the future.

The Company acknowledges and agrees that the representations contained in this Section 3.2 shall not modify, amend or affect such Purchaser's right to rely on the Company's representations and warranties contained in this Agreement or any representations and warranties contained in any other Transaction Document or any other document or instrument executed and/or delivered in connection with this Agreement or the consummation of the transaction contemplated hereby.

ARTICLE IV.
OTHER AGREEMENTS OF THE PARTIES

4.1 Transfer Restrictions .

(a) The Securities may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of Securities other than pursuant to an effective registration statement or Rule 144, to the Company or to an Affiliate of a Purchaser or in connection with a pledge as contemplated in Section 4.1(b), the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor and reasonably acceptable to the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and the Registration Rights Agreement and shall have the rights and obligations of a Purchaser under this Agreement and the Registration Rights Agreement.

(b) The Purchasers agree to the imprinting, so long as is required by this Section 4.1, of a legend on the certificates evidencing any of the Securities in the following form:

[NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN][THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN] REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL TO THE HOLDER (IF REQUESTED BY THE COMPANY), IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD OR ELIGIBLE TO BE SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

The Company acknowledges and agrees that a Purchaser may from time to time pledge pursuant to a bona fide margin agreement with a registered broker-dealer or grant a security interest in some or all of the Securities to a financial institution that is an "accredited investor" as defined in Rule 501(a) under the Securities Act and, if required under the terms of such arrangement, such Purchaser may transfer pledged or secured Securities to the pledgees or secured parties. Such a pledge or transfer would not be subject to approval of the Company and no legal opinion of legal counsel of the pledgee, secured party or pledgor shall be required in connection therewith. Further, no notice shall be required of such pledge. At the appropriate Purchaser's expense, the Company will execute and deliver such reasonable documentation as a pledgee or secured party of Securities may reasonably request in connection with a pledge or transfer of the Securities, including, if the Securities are subject to registration pursuant to the Registration Rights Agreement, the preparation and filing of any required prospectus supplement under Rule 424(b)(3) under the Securities Act or other applicable provision of the Securities Act to appropriately amend the list of Selling Stockholders (as defined in the Registration Rights Agreement) thereunder.

(c) Certificates evidencing the Conversion Shares and Warrant Shares shall not contain any legend (including the legend set forth in Section 4.1(b) hereof), (i) while a registration statement (including the Registration Statement) covering the resale of such security is effective under the Securities Act, (ii) following any sale of such Conversion Shares or Warrant Shares pursuant to Rule 144, (iii) if such Conversion Shares or Warrant Shares are eligible for sale under Rule 144, or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the staff of the Commission). The Company shall cause its counsel to issue a legal opinion to the Transfer Agent promptly after the Effective Date if required by the Transfer Agent to effect the removal of the legend hereunder. If all or any portion of a Warrant or Series D Preferred Stock is exercised (or converted, as applicable) at a time when there is an effective registration statement to cover the resale of the Warrant Shares or Conversion Shares, or if such Conversion Shares or Warrant Shares may be sold under Rule 144 and the Company is then in compliance with the current public information required under Rule 144, or if the Conversion Shares or Warrant Shares may be sold under Rule 144 without the requirement for the Company to be in compliance with the current public information required under Rule 144 as to such Conversion Shares or Warrant Shares or if such legend is not otherwise required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the staff of the Commission) then such Conversion Shares or Warrant Shares shall be issued free of all legends. The Company agrees that following the Effective Date or at such time as such legend is no longer required under this Section 4.1(c), it will, no later than three (3) Trading Days following the delivery by a Purchaser to the Company or the Transfer Agent of a certificate representing Conversion Shares or Warrant Shares, as the case may be, issued with a restrictive legend (such third Trading Day, the " Legend Removal Date "), deliver or cause to be delivered to such Purchaser a certificate representing such shares that is free from all restrictive and other legends. The Company may not make any notation on its records or give instructions to the Transfer Agent that enlarge the restrictions on transfer set forth in this Section 4. Certificates for Securities subject to legend removal hereunder shall be transmitted by the Transfer Agent to the Purchaser by crediting the account of the Purchaser's prime broker with the Depository Trust Company System as directed by such Purchaser.

(d) In addition to such Purchaser's other available remedies, the Company shall pay to a Purchaser, in cash, the greater of (i) as partial liquidated damages and not as a penalty, for each $1,000 of Conversion Shares or Warrant Shares (based on the VWAP of the Common Stock on the date such Securities are submitted to the Transfer Agent) delivered for removal of the restrictive legend and subject to Section 4.1(c), $10 per Trading Day (increasing to $20 per Trading Day five (5) Trading Days after such damages have begun to accrue) for each Trading Day after the Legend Removal Date until such certificate is delivered without a legend and (ii) if the Company fails to (i) issue and deliver (or cause to be delivered) to a Purchaser by the Required Delivery Date a certificate representing the Securities so delivered to the Company by such Purchaser that is free from all restrictive and other legends or (ii) if after the Required Delivery Date such Purchaser purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by such Purchaser of all or any portion of the number of shares of Common Stock, or a sale of a number of shares of Common Stock equal to all or any portion of the number of shares of Common Stock that such Purchaser anticipated receiving from the Company without any restrictive legend, then, an amount equal to the excess of such Purchaser's total purchase price (including brokerage commissions and other out-of-pocket expenses, if any) for the shares of Common Stock so purchased (including brokerage commissions and other out-of-pocket expenses, if any) (the " **Buy-In Price** ") over the product of (A) such number of Conversion Shares or Warrant Shares that the Company was required to deliver to such Purchaser by the Legend Removal Date multiplied by (B) the lowest closing sale price of the Common Stock on any Trading Day during the period commencing on the date of the delivery by such Purchaser to the Company of the applicable Conversion Shares or Warrant Shares (as the case may be) and ending on the date of such delivery and payment under this clause (ii).

(e) Each Purchaser, severally and not jointly with the other Purchasers, agrees with the Company that such Purchaser will sell any Securities pursuant to either the registration requirements of the Securities Act, including any applicable prospectus delivery requirements, or an exemption therefrom, and that if Securities are sold pursuant to a Registration Statement, they will be sold in compliance with the plan of distribution set forth therein, and acknowledges that the removal of the restrictive legend from certificates representing Securities as set forth in this Section 4.1 is predicated upon the Company's reliance upon this understanding.

4.2 Furnishing of Information; Public Information .

(a) If the Common Stock is not registered under Section 12(b) or 12(g) of the Exchange Act on the date hereof, the Company agrees to cause the Common Stock to be registered under Section 12(g) of the Exchange Act on or before the 60 th calendar day following the date hereof. Until the earliest of the time that (i) no Purchaser owns Securities or (ii) the Warrants have expired, the Company covenants to maintain the registration of the Common Stock under Section 12(b) or 12(g) of the Exchange Act and to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to the Exchange Act even if the Company is not then subject to the reporting requirements of the Exchange Act.

(b) In the event there is no effective registration statement for the Securities, at any time during the period commencing from the six (6) month anniversary of the date hereof and ending at such time that all of the Securities may be sold by any Purchaser without the requirement for the Company to be in compliance with Rule 144(c)(1) and otherwise without restriction or limitation pursuant to Rule 144, if the Company (i) shall fail for any reason to satisfy the current public information requirement under Rule 144(c) or (ii) has ever been an issuer described in Rule 144(i)(1)(i) or becomes an issuer in the future, and the Company shall fail to satisfy any condition set forth in Rule 144(i)(2) (a " Public Information Failure ") then, in addition to such Purchaser's other available remedies, the Company shall pay to a Purchaser, in cash, as partial liquidated damages and not as a penalty, by reason of any such delay in or reduction of its ability to sell the Securities, an amount in cash equal to one percent (1.0%) of the aggregate Subscription Amount of such Purchaser's Securities on the day of a Public Information Failure and on every thirtieth (30 th) day (pro-rated for periods totaling less than thirty days) thereafter until the earlier of (a) the date such Public Information Failure is cured and (b) such time that such public information is no longer required for the Purchasers to transfer the Conversion Shares and Warrant Shares pursuant to Rule 144. The payments to which a Purchaser shall be entitled pursuant to this Section 4.2(b) are referred to herein as " Public Information Failure Payments ." Public Information Failure Payments shall be paid on the earlier of (i) the last day of the calendar month during which such Public Information Failure Payments are incurred and (ii) the third (3 rd) Business Day after the event or failure giving rise to the Public Information Failure Payments is cured. In the event the Company fails to make Public Information Failure Payments in a timely manner, such Public Information Failure Payments shall bear interest at the rate of 1.5% per month (prorated for partial months) until paid in full. Nothing herein shall limit such Purchaser's right to pursue actual damages for the Public Information Failure, and such Purchaser shall have the right to pursue all remedies available to it at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief.

4.3 Integration . The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities or that would be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any Trading Market such that it would require shareholder approval prior to the closing of such other transaction unless shareholder approval is obtained before the closing of such subsequent transaction.

4.4 Securities Laws Disclosure; Publicity . The Company shall (a) by 9:30 a.m. (New York City time) on the Trading Day immediately following the date hereof, issue a press release disclosing the material terms of the transactions contemplated hereby, and (b) file a Current Report on Form 8-K, including the Transaction Documents as exhibits thereto, with the Commission within the time required by the Exchange Act. From and after the issuance of such press release, the Company represents to the Purchasers that it shall have publicly disclosed all material, non-public information delivered to any of the Purchasers by the Company, or any of its officers, directors, employees or agents in connection with the transactions contemplated by the Transaction Documents. In addition, effective upon the issuance of such press release, the Company acknowledges and agrees that any and all confidentiality or similar obligations under any agreement, whether written or oral, between the Company, or any of its officers, directors, agents, employees or Affiliates on the one hand, and any of the Purchasers or any of their Affiliates on the other hand, shall terminate. The Company and each Purchaser shall consult with each other in issuing any other press releases with respect to the transactions contemplated hereby, and neither the Company nor any Purchaser shall issue any such press release nor otherwise make any such public statement without the prior consent of the Company, with respect to any press release of any Purchaser, or without the prior consent of each Purchaser, with respect to any press release of the Company, which consent shall not unreasonably be withheld or delayed, except if such disclosure is required by law, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency or Trading Market, without the prior written consent of such Purchaser, except: (a) as required by federal securities law in connection with (i) any registration statement contemplated by the Registration Rights Agreement and (ii) the filing of final Transaction Documents with the Commission and (b) to the extent such disclosure is required by law or Trading Market regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure permitted under this clause (b).

4.5 Shareholder Rights Plan . No claim will be made or enforced by the Company or, with the consent of the Company, any other Person, that any Purchaser is an " Acquiring Person " under any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or similar anti-takeover plan or arrangement in effect or hereafter adopted by the Company, or that any Purchaser could be deemed to trigger the provisions of any such plan or arrangement, by virtue of receiving Securities under the Transaction Documents or under any other agreement between the Company and the Purchasers.

4.6 Non-Public Information . Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, which shall be disclosed pursuant to Section 4.4, the Company covenants and agrees that neither it, nor any other Person acting on its behalf will provide any Purchaser or its agents or counsel with any information that constitutes, or the Company reasonably believes constitutes, material non-public information, unless prior thereto such Purchaser shall have consented to the receipt of such information and agreed with the Company to keep such information confidential. The Company understands and confirms that each Purchaser shall be relying on the foregoing covenant in effecting transactions in securities of the Company. To the extent that the Company delivers any material, non-public information to a Purchaser without such Purchaser's consent, the Company hereby covenants and agrees that such Purchaser shall not have any duty of confidentiality to Company or any of its officers, directors, agents, employees or Affiliates, or a duty to the Company, and of its officers, directors, agents, employees or Affiliates not to trade on the basis of, such material, non-public information, provided that the Purchaser shall remain subject to applicable law. To the extent that any notice provided pursuant to any Transaction Document constitutes, or contains, material, non-public information regarding the Company, the Company shall promptly file such notice with the Commission pursuant to a Current Report on Form 8-K. The Company understands and confirms that each Purchaser shall be relying on the foregoing covenant in effecting transactions in securities of the Company.

4.7 Use of Proceeds . Except as set forth on Schedule 4.7 attached hereto, the Company shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and shall not use such proceeds: (a) for the satisfaction of any portion of the Company's debt (other than payment of trade payables in the ordinary course of the Company's business and prior practices), (b) for the redemption of any Common Stock or Common Stock Equivalents, (c) for the settlement of any outstanding litigation or (d) in violation of FCPA or OFAC regulations.

4.8 Indemnification of Purchasers . Subject to the provisions of this Section 4.8, the Company will indemnify and hold each Purchaser and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Purchaser (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling persons (each, a " Purchaser Party ") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any material breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against the Purchaser Parties in any capacity, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Purchaser Parties, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is based upon a breach of such Purchaser Party's representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser Parties may have with any such stockholder or any violations by such Purchaser Parties of state or federal securities laws or any conduct by such Purchaser Parties which constitutes fraud, gross negligence, willful misconduct or malfeasance). If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Purchaser Party. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party, in which case the Company shall be responsible for the reasonable fees and expenses of no more than one such separate counsel. The Company will not be liable to any Purchaser Party under this Agreement (y) for any settlement by a Purchaser Party effected without the Company's prior written consent, which shall not be unreasonably withheld or delayed; or (z) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party's breach of any of the representations, warranties, covenants or agreements made by such Purchaser Party in this Agreement or in the other Transaction Documents. The indemnification required by this Section 4.8 shall be made by periodic payments of the amount thereof during the course of the investigation or defense. The indemnity agreements contained herein shall be in addition to any cause of action or similar right of any Purchaser Party against the Company or others and any liabilities the Company may be subject to pursuant to law.

4.9 Reservation of Common Stock . As of the date hereof, the Company has reserved and the Company shall continue to reserve and keep available at all times, free of preemptive rights, a sufficient number of shares of Common Stock for the purpose of enabling the Company to issue Conversion Shares pursuant to this Agreement and the Certificate of Designation and Warrant Shares pursuant to any exercise of the Warrants.

4.10 L isting of Common Stock . The Company hereby agrees to use best efforts to maintain the listing or quotation of the Common Stock on the Trading Market on which it is currently listed, and concurrently with the Closing, the Company shall apply to list or quote all of the Conversion Shares and Warrant Shares on such Trading Market and promptly secure the listing of all of the Conversion Shares and Warrant Shares on such Trading Market. The Company further agrees, if the Company applies to have the Common Stock traded on any other Trading Market, it will then include in such application all of the Conversion Shares and Warrant Shares, and will take such other action as is necessary to cause all of the Conversion Shares and Warrant Shares to be listed or quoted on such other Trading Market as promptly as possible. The Company will then take all action reasonably necessary to continue the listing or quotation and trading of its Common Stock on a Trading Market and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Trading Market. The Company agrees to maintain the eligibility of the Common Stock for electronic transfer through the Depository Trust Company or another established clearing corporation, including, without limitation, by timely payment of fees to the Depository Trust Company or such other established clearing corporation in connection with such electronic transfer.

4.11 Limitations on Issuances and Financings. Provided the Protection Period has not expired, for the period beginning on such date that the Company's securities are listed on a national securities exchange (the "National Securities Exchange Listing Date") and until the date that is the expiration of the Protection Period, except with respect to Excepted Issuances, the Company shall not issue any Common Stock or securities convertible into or exercisable for shares of Common Stock (or modify any of the foregoing which may be outstanding) to any person or entity or incur any financing debt, without the express written consent of holders representing Majority Approval.

4.12 Subsequent Equity Sales.

(a) From the date hereof until sixty (60) days after the Effective Date, the Company shall not issue, enter into any agreement to issue or announce the issuance or proposed issuance of any shares of Common Stock or Common Stock Equivalents without Majority Approval.

(b) From the date of this Agreement until no Purchaser or any of his permitted assignees or successors (other than any successor or assignee pursuant to an open market sale) holds any Securities (the " Protection Period "), the Company shall be prohibited, without Majority Approval, from effecting or entering into an agreement to effect any issuance by the Company of Common Stock or Common Stock Equivalents (or a combination of units thereof) involving a Variable Rate Transaction. " Variable Rate Transaction " means a transaction in which the Company (i) issues or sells any debt or equity securities that are convertible into, exchangeable or exercisable for, or include the right to receive, additional shares of Common Stock either (A) at a conversion price, exercise price or exchange rate or other price that is based upon, and/or varies with, the trading prices of or quotations for the shares of Common Stock at any time after the initial issuance of such debt or equity securities or (B) with a conversion, exercise or exchange price that is subject to being reset at some future date after the initial issuance of such debt or equity security upon the occurrence of specified or contingent events directly or indirectly related to the business of the Company or the market for the Common Stock or (ii) enters into any agreement, including, but not limited to, an equity line of credit, whereby the Company may issue securities at a future determined price. Any Purchaser shall be entitled to obtain injunctive relief against the Company to preclude any such issuance, which remedy shall be in addition to any right to collect damages.

(c) Notwithstanding the foregoing, Section 4.12 shall not apply in respect of an Exempt Issuance, except that no Variable Rate Transaction shall be an Exempt Issuance.

4.13 Equal Treatment of Purchasers . No consideration (including any modification of any Transaction Document) shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of the Transaction Documents unless the same consideration is also offered to all of the parties to the Transaction Documents. For clarification purposes, this provision constitutes a separate right granted to each Purchaser by the Company and negotiated separately by each Purchaser, and is intended for the Company to treat the Purchasers as a class and shall not in any way be construed as the Purchasers acting in concert or as a group with respect to the purchase, disposition or voting of Securities or otherwise.

4.14 Certain Transactions and Confidentiality. Each Purchaser, severally and not jointly with the other Purchasers, covenants that neither it, nor any Affiliate acting on its behalf or pursuant to any understanding with it will execute any purchases or sales, including Short Sales, of any of the Company's securities during the period commencing with the execution of this Agreement and ending at such time that the transactions contemplated by this Agreement are first publicly announced pursuant to the initial press release as described in Section 4.4. Each Purchaser, severally and not jointly with the other Purchasers, covenants that until such time as the transactions contemplated by this Agreement are publicly disclosed by the Company pursuant to the initial press release as described in Section 4.4, such Purchaser will maintain the confidentiality of the existence and terms of this transaction and the information included in the Transaction Documents and the Disclosure Schedules. Notwithstanding the foregoing, and notwithstanding anything contained in this Agreement to the contrary, the Company expressly acknowledges and agrees that (i) no Purchaser makes any representation, warranty or covenant hereby that it will not engage in effecting transactions in any securities of the Company after the time that the transactions contemplated by this Agreement are first publicly announced pursuant to the initial press release as described in Section 4.4, (ii) no Purchaser shall be restricted or prohibited from effecting any transactions in any securities of the Company in accordance with applicable securities laws from and after the time that the transactions contemplated by this Agreement are first publicly announced pursuant to the initial press release as described in Section 4.4 and (iii) no Purchaser shall have any duty of confidentiality or duty not to trade in the securities of the Company to the Company after the issuance of the initial press release as described in Section 4.4. Notwithstanding the foregoing, in the case of a Purchaser that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Purchaser's assets and the portfolio managers have no direct knowledge of the investment decisions made by the portfolio managers managing other portions of such Purchaser's assets, the covenant set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Securities covered by this Agreement.

4.15 Form D; Blue Sky Filings. The Company agrees to timely file a Form D with respect to the Securities as required under Regulation D and to provide a copy thereof, promptly upon written request of any Purchaser. The Company shall take such action as the Company shall reasonably determine is necessary in order to obtain an exemption for, or to qualify the Securities for, sale to the Purchasers at the Closing under applicable securities or "Blue Sky" laws of the states of the United States, and shall provide evidence of such actions promptly upon request of any Purchaser.

4.16 Most Favored Nation Provision. During the Protection Period, in the event that the Company issues or sells any Common Stock or Common Stock Equivalents, if a Purchaser then holding outstanding Securities reasonably believes that any of the terms and conditions appurtenant to such issuance or sale are more favorable to such investors than are the terms and conditions granted to the Purchasers hereunder, upon notice to the Company by such Purchaser within five Trading Days after disclosure of such issuance or sale, the Company shall amend the terms of this transaction as to such Purchaser only so as to give such Purchaser the benefit of such more favorable terms or conditions. This Section 4.16 shall not apply with respect to an Exempt Issuance.

4.17 Acknowledgment of Dilution. The Company acknowledges that the issuance of the Securities may result in dilution of the outstanding shares of Common Stock, which dilution may be substantial under certain market conditions. The Company further acknowledges that its obligations under the Transaction Documents, including, without limitation, its obligation to issue the Conversion Shares and Warrant Shares pursuant to the Transaction Documents, are unconditional and absolute and not subject to any right of set off, counterclaim, delay or reduction, regardless of the effect of any such dilution or any claim the Company may have against any Purchaser and regardless of the dilutive effect that such issuance may have on the ownership of the other stockholders of the Company.

4.18 Counsel . Immediately after the Closing Date, the Company covenants and agrees to engage outside securities counsel for a minimum period of twelve (12) months, which such counsel shall be subject to the approval of the Purchasers. For the avoidance of doubt, Sichenzia Ross Friedman Ference LLP or any firm with which Harvey J. Kesner is associated shall be deemed acceptable to the Purchasers.

ARTICLE V.
MISCELLANEOUS

5.1 Termination . This Agreement may be terminated by any Purchaser, as to such Purchaser's obligations hereunder only and without any effect whatsoever on the obligations between the Company and the other Purchasers, by written notice to the other parties, if the Closing has not been consummated on or before February 28, 2016; provided , however , that such termination will not affect the right of any party to sue for any breach by any other party (or parties).

5.2 Fees and Expenses . Except as expressly set forth in the Transaction Documents to the contrary, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all Transfer Agent fees (including, without limitation, any fees required for same-day processing of any instruction letter delivered by the Company and any exercise notice delivered by a Purchaser), stamp taxes and other taxes and duties levied in connection with the delivery of any Securities to the Purchasers.

5.3 Entire Agreement . The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.4 Notices . Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of: (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number or email attachment as set forth on the signature pages attached hereto at or prior to 5:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number or email attachment as set forth on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (c) the second (2 nd) Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto. To the extent that any notice provided pursuant to any Transaction Document constitutes, or contains material, non-public information regarding the Company, the Company shall promptly file such notice with the Commission pursuant to a Current Report on Form 8-K.

5.5 Amendments; Waivers . No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and holders of at least a majority of the aggregate amount of then outstanding Shares and Warrants (including Conversion Shares and Warrant Shares) (without regard to any restriction or limitation on the conversion of the Series D Preferred Stock or exercise of the Warrants contained therein) (the " Majority Approval ") or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought; provided , that if any amendment, modification or waiver disproportionately and adversely impacts a Purchaser (or group of Purchasers), the consent of such disproportionately impacted Purchaser (or group of Purchasers) shall also be required. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

5.6 Headings . The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

5.7 Successors and Assigns . This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser (other than by merger). Any Purchaser may assign any or all of its rights under this Agreement to any Person to whom such Purchaser assigns or transfers any Securities, provided that such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions of the Transaction Documents that apply to the "Purchasers."

5.8 No Third-Party Beneficiaries . This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.8.

5.9 Governing Law . All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal Proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any Action or Proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such Action or Proceeding is improper or is an inconvenient venue for such Proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such Action or Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. If any party hereto shall commence an Action or Proceeding to enforce any provisions of the Transaction Documents, then, in addition to the obligations of the Company under Section 4.8, the prevailing party in such Action or Proceeding shall be reimbursed by the non-prevailing party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Action or Proceeding.

5.10 Survival. The representations and warranties contained herein shall survive the Closing and the delivery of the Securities.

5.11 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to each other party, it being understood that the parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original thereof.

5.12 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

5.13 Rescission and Withdrawal Right. Notwithstanding anything to the contrary contained in (and without limiting any similar provisions of) any of the other Transaction Documents, whenever any Purchaser exercises a right, election, demand or option under a Transaction Document and the Company does not timely perform its related obligations within the periods therein provided, then such Purchaser may rescind or withdraw, in its sole discretion from time to time upon written notice to the Company, any relevant notice, demand or election in whole or in part without prejudice to its future actions and rights; provided, however, that in the case of a rescission of a conversion of the Series D Preferred Stock or an exercise of a Warrant, the applicable Purchaser shall be required to return any shares of Common Stock subject to any such rescinded conversion or exercise notice concurrently with the return to such Purchaser of the aggregate exercise price paid to the Company for such shares and the restoration of such Purchaser's right to acquire such shares pursuant to such Purchaser's Series D Preferred Stock or Warrant, as applicable (including, issuance of a replacement Series D Preferred Stock or Warrant certificate evidencing such restored right).

5.14 Replacement of Securities. If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof (in the case of mutilation), or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction. The applicant for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs (including customary indemnity) associated with the issuance of such replacement Securities.

5.15 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations contained in the Transaction Documents and hereby agree to waive and not to assert in any Action for specific performance of any such obligation the defense that a remedy at law would be adequate.

5.16 Payment Set Aside. To the extent that the Company makes a payment or payments to any Purchaser pursuant to any Transaction Document or a Purchaser enforces or exercises its rights thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other Person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

5.17 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance or non-performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereof or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in its review and negotiation of the Transaction Documents. For reasons of administrative convenience only, each Purchaser and its respective counsel have chosen to communicate with the Company through SRFF who represents only the lead Purchaser and no other Purchaser. The Company has elected to provide all Purchasers with the same terms and Transaction Documents for the convenience of the Company and not because it was required or requested to do so by any of the Purchasers.

5.18 Liquidated Damages. The Company's obligations to pay any partial liquidated damages or other amounts owing under the Transaction Documents is a continuing obligation of the Company and shall not terminate until all unpaid partial liquidated damages and other amounts have been paid notwithstanding the fact that the instrument or security pursuant to which such partial liquidated damages or other amounts are due and payable shall have been canceled.

5.19 Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding Business Day.

5.20 Construction. The parties agree that each of them and/or their respective counsel have reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments thereto. In addition, each and every reference to share prices and shares of Common Stock in any Transaction Document shall be subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Stock that occur after the date of this Agreement.

5.21 **WAIVER OF JURY TRIAL. IN ANY ACTION, SUIT, OR PROCEEDING IN ANY JURISDICTION BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY, THE PARTIES EACH KNOWINGLY AND INTENTIONALLY, TO THE GREATEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND EXPRESSLY WAIVES FOREVER TRIAL BY JURY.**

(Signature Pages Follow)

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

VERIFYME, INC.

Address for Notice:
526 Pacific Avenue
Suite 2105
Atlantic City, New Jersey 08401

By: _____
Name:
Title:

With a copy to (which shall not constitute notice):

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

SIGNATURE PAGE FOR PURCHASER FOLLOWS]

PURCHASER SIGNATURE PAGES TO SECURITIES PURCHASE AGREEMENT

IN WITNESS WHEREOF, the undersigned have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

Name of Purchaser: _____

Signature of Authorized Signatory of Purchaser : _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Email Address of Authorized Signatory: _____

Facsimile Number of Authorized Signatory: _____

Address for Notice to Purchaser:

_____

_____

Address for Delivery of Securities to Purchaser (if not same as address for notice):

_____

_____

Subscription Amount: $_____

Shares: _____

Warrant Shares: _____

EIN Number: _____

[SIGNATURE PAGES CONTINUE]

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934

I, Norman Gardner, certify that:

1. I have reviewed this Annual Report on Form 10-K of VerifyMe, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 12, 2017

By: /s/ Norman Gardner
Norman Gardner
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934

I, Scott McPherson, certify that:

1. I have reviewed this Annual Report on Form 10-K of VerifyMe, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 12, 2017

By: /s/ Scott McPherson
Scott McPherson
Chief Financial Officer

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with this Annual Report of VerifyMe, Inc. (the "Registrant") on Form 10-K for the year ending December 31, 2016, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Norman Gardner, Chief Executive Officer (Principal Executive Officer) of the Registrant, and I, Scott McPherson, Chief Financial Officer (Principal Financial Accounting Officer) of the Registrant certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) This Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: April 12, 2017

By: /s/ Norman Gardner
Norman Gardner
Chief Executive Officer

By: /s/ Scott McPherson
Scott McPherson
Chief Financial Officer