

BLUE CALYPSO, INC.  
Form 10-K  
March 31, 2014

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

**FORM 10-K**

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

**For the fiscal year ended: December 31, 2013**

**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 333-143570**

**BLUE CALYPSO, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**20-8610073**  
(I.R.S. Employer Identification No.)

**19111 North Dallas Parkway, Suite 200**

**Dallas, TX**  
(Address of principal executive offices)

**75287**  
(Zip Code)

**(972) 695-4776**

(Registrant's telephone number, including area code)

Securities Registered pursuant to Section 12(b) of the Act: **None**

Securities Registered pursuant to Section 12(g) of the Exchange Act: **Common Stock, \$0.0001 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  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (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 Act). Yes  No

On June 30, 2013, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value (based on the closing sales price on that date) of the voting stock held by non-affiliates of the registrant was \$18,218,077. 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 number of outstanding shares of the registrant's common stock as of March 31, 2014, was 199,437,262.

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**BLUE CALYPSO, INC.**

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**PART I**

**ITEM 1. BUSINESS**

**OUR COMPANY**

We develop and deliver advocacy marketing and analytics solutions and services for the business-to-consumer (B2C) marketplace leveraging mobile, social media, gamification and our intellectual property portfolio. We have developed a patented technology platform that enables brands to leverage customer and employee relationships to increase brand loyalty and drive revenue. We generate revenue from consulting fees, licensing and/or enforcement of such patented technologies. Our intellectual property portfolio consists of five patents and six pending patent applications that cover methods and systems for communicating advertisements and electronic offers between mobile and desktop communication devices. All of the patents and patent applications that cover the core of our business, *i.e.*, a System and method for peer-to-peer advertising between mobile communication devices, have been developed internally by our Founder and Chief Technology Officer, Andrew Levi, and our Director of Innovation, Bradley Bauer, and assigned to our wholly owned subsidiary, Blue Calypso, LLC. In September 2013, we acquired proprietary mobile gamification technology and subsequently applied for two additional patents based upon the enhancement and integration of this technology into our platform.

Our proprietary technology platform enables businesses to leverage word-of-mouth marketing through the delivery of advertising campaigns, content and promotions across multiple social media channels using multiple device types. Our technology facilitates the connection of brands to consumers and enables them to customize and share brand content across the most popular social media channels. Our platform then tracks performance, monitors engagement and includes robust, real-time analytics that provide acute insight regarding the adoption, performance and return on investment of our client's promotions. Our technology is designed to help clients spread their marketing messages, acquire new customers, increase awareness and drive product sales. For example, campaigns facilitated through our platform can encourage consumers to learn more about our client's products, watch promotional videos about particular products or click to buy products. Our platform can also assist in increasing Likes on Facebook, Followers on Twitter and encourage consumers to join our client's email list, newsletter or blogs. All of this is accomplished by encouraging advocates of a company to interact, personalize and share messages with their friends via social media channels such as Facebook, Twitter, and LinkedIn. Our clients are able to thank advocates for sharing, including offering incentives, coupons and other perks to consumer advocates who share the message. Our technology platform creates multiple opportunities for companies to interact with their most vocal brand advocates (influencers) and reward them for their loyalty.

Over the last five years, the world has seen social media, mobile technologies and digital advertising evolve dramatically and actually converge. Through this technological evolution, a sociological shift has occurred in how influential digital media can be when promoted within one's social circles, friend-to-friend. We believe that people will actively endorse products with which they have a strong emotional connection or brand loyalty. When they do, these

endorsements reach groups of like-minded individuals, as people generally associate with others of like mind. Social communities such as Facebook, Twitter, LinkedIn, Google+ and various blogs incorporate and build on this common idea. Our platform goes a step further, leveraging mobile and social technologies and rewarding the advocates for their loyalty and performance. We believe that we have created a platform that solves advertisers' desire for targeted and personal messaging as well as mobile subscribers' desire for content relevance in advertising.

Today large companies are becoming their own social media networks, disseminating content to their millions of advocates through email addresses, Facebook fans, Twitter followers, etc. These social media channels and mobile delivery capabilities have created a significant opportunity for companies to leverage their marketing assets by having their fans tell their friends about a company or product thus increasing adoption/conversion, reducing their media expenses and increasing their return on investment.

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Through mobile and social media, everyone has their own unique and significant audience. According to Facebook, the average user has 130 friends; Twitter states the average user has 300 followers; and on average an individual has 25 unique frequent contacts they communicate with weekly via text messages or mobile calls. Active participation in LinkedIn, Google+, Tumblr and/or a personal blog can further extend one's direct social reach significantly. With our platform, advertiser content is not bound by any single app, social media community, website, carrier or device. Once the message is shared by an advocate, it can be accessed via texts, Twitter tweets LinkedIn or Facebook posts. As a result, our individual advocates have the capability to immediately reach hundreds or even thousands of people through their direct personal and digital social relationships.

As a by-product of campaign delivery and recipient interaction, we deliver real-time analytics and business intelligence capabilities, which provide advertisers the ability to see how campaigns are deployed, where they are getting the most traction, and which are seeing the most activity. The platform also allows advertisers to assess the conversational response to their messages which enables them to adjust their campaigns based on performance.

## **OUR PRODUCTS AND SERVICES**

We have developed four core products that form the basis of our technology platform: **SOCIALECHO** , **EMGAGE** , **POPSHARE** and **DASHTAGG** .

**SOCIALECHO** allows brands to leverage their customers and social media fans to spread their brand content through their social networks. **SOCIALECHO** allows brands to white label our technology and make branded content, such as promotions and offers available to their fans, employees, and customers. Should these advocates choose to, they can post these promotions and offers through social media channels with a personal message, a picture or video customizing the brand promotion. Then with one click the advocate can send their personalized message to the most popular social media channels like Facebook, Twitter and others. Our technology then tracks, monitors, and provides analytics within and across these multiple social media channels. Valuable information on receptivity to brand content and destination of shared content is delivered through our analytics. We generate revenue from this product through a one-time enterprise license per use of the technology per campaign.

**EMGAGE** enables brands to mobilize their employees to spread brand messages and promotions through their social networks. **EMGAGE** leverages our base technology of launching promotions but instead of consumers, engages an overlooked brand amplification resource within a company, the employee base. Much like **SOCIALECHO**, tracking,

monitoring, and analytics are performed on these promotions as they spread across multiple social media platforms and provide valuable data to the brand. We are targeting companies with large employee bases as the key channel of message distribution. By offering employees incentives, employers can encourage their employees to let their friends know about upcoming products and promotions or company programs that can increase sales as well as improve employee morale. We generate revenue from this product through a one-time enterprise license per use of the technology per campaign.

**POPSHARE** launched in July 2013, allows companies to install our applet on their website and place POPSHARE on any page where a product is featured or where shopping cart functionality exists. POPSHARE helps the website viewers and buyers that like the products to easily share that branded content and customize it with a message, picture or video. Rather than a simple one-way share that is in use by most shopping carts today, POPSHARE's individual customization significantly validates the share and demonstrates the consumer's commitment to the product. POPSHARE thanks the customer for sharing and offers the client the ability to serve up a coupon or highlight upcoming promotions. As the content goes viral Blue Calypso provides the robust analytics to the brand on the shares as they proliferate across the social media platforms. We generate revenue from this product based upon a monthly license to use the applet on an ongoing basis.



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**DASHTAGG** is our Mobile Gamification Technology. It is a unique social and mobile game of tag or scavenger hunt and is designed to increase in-store foot traffic and grow visitor-to-buyer conversion rates. We believe that gamification has become an increasingly important element in brand development. **DASHTAGG** combines both physical and digital participation ensuring the maximum engagement with traditional brands. **DASHTAGG** players take pictures of each other to earn points and win prizes and awards. Games are sponsored by retailers or events that provide physical locations to activate TAGGs by scanning specific QR codes. Game sponsors may offer cool prizes, merchandise, trophies and access to exclusive events like parties, shows and concerts.

**Blue Calypso Labs**, or BC Labs, was launched in October 2013 to offer software development, innovation and related consulting services to clients. BC Labs mission is to help clients develop unique software solutions that solve strategic business problems, focus on integrating our digital marketing and analytics technologies into various client applications as well as seek licensing revenue from our broad portfolio of intellectual property.

We intend to continue to develop new technology and expand on our intellectual property portfolio and product offerings to meet the needs of companies seeking to amplify their brand messages through social media networks.

Our principal executive offices are located at 19111 North Dallas Parkway Suite 200, Dallas Texas 75287. Our telephone number is (972) 695-4776. Our website address is <http://www.bluecalypso.com>.

### **Market Opportunity**

We believe that as advertisers adapt to the changing media and content distribution landscape, they will place an increasing priority on the next frontier of mobile while leveraging social media networks, communities and properties. We believe that historical advertising media such as print, television and radio, and even Internet banner ads, are beginning to shift to mobile platforms and generally explore alternatives to traditional advertising techniques. Mobile platforms enable advertisers to put relevant messages out to a more highly targeted buyer community, while encouraging branded and personal content syndication. In addition, mobile devices have become a ubiquitous extension of many target buyers and a critical part of the lifestyle of most generations.

We believe that one of the most attractive characteristics of mobile consumers for advertisers is the opportunity for more accurate content targeting. Typical parameters include carrier, device type and mobile channel, with the possibility to add geo-location, behavioral, demographic and interest-based information (the latter two generally

require user opt in) infused with user actual purchase history.

We believe that peer-to-peer or friend-to-friend advertising (also known as digital word-of-mouth advertising) is the most powerful and effective form of advertising. According to eMarketer, two-thirds of all economic activity in the United States is influenced by shared opinions about a product, brand or service. GfK NOP reports that 92% of consumers cite word-of-mouth as one of the best sources for ideas about new products. Additionally, Forrester Research showed that over 60% of consumers trust product recommendations found in online sources like discussion boards, and Google's research shows that 78% of consumers trust peer recommendations versus 14% of consumers who trust recommendations from advertisers.

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Mobile marketing has the ability to connect brands with users on an intimate one-to-one basis, providing customers with relevant information that is important to them. While the sector is still in its infancy, we believe that brands, operators, advertising executives, content publishers and technology enablers have high expectations regarding the potential of the mobile advertising market. We believe that our platform offers an effective tool for advertisers seeking to enter or expand their advertising presence in the mobile market, target specific customers with selected messages, and capitalize on the power of peer recommendations. We believe that any consumer product, retail or audience-based entity, whether for-profit or non-profit, is a potential user of our platform.

## COMPETITIVE STRENGTHS

Product advertising, awareness and branding through social media is an extremely competitive and fragmented industry. Adequate protection of intellectual property, successful product development, adequate funding and retention of experienced personnel are critical to our success. We believe that our position in the industry is attributable to the following strengths:

- ***Prominent Intellectual Property Position.*** We believe that our patents provide us with broad and comprehensive coverage for methods and systems for communicating advertisements and electronic offers between communication devices, including mobile and desktop devices. Our policy is to seek to protect our proprietary position by filing patent applications related to our proprietary technology and improvements that we believe are important to the development of our business. We also target select companies that we believe are infringing on our intellectual property in order to maintain our competitive position.
- ***Extensive Knowledge and Experience in Product Advertising, Awareness and Branding.*** We believe that our management and personnel have extensive knowledge and experience in product advertising, awareness and branding which significant adds to our competitive position.
- ***Highly Customizable Platform.*** We have the ability to rapidly customize products to meet our client's needs. We believe that our current patents provide us with broad and comprehensive coverage and we intend to continue to expand upon our intellectual property portfolio as we innovate new products and services in response to new opportunities in the market.

## OUR STRATEGY

We intend to continue innovating and will attempt to maximize the economic benefits of our intellectual property. We currently have two key areas of operation:

- development and delivery of digital word-of-mouth technology solutions; and
- maximization of the economic benefits of our intellectual property.

We have developed a proprietary platform that enables brands to leverage customer and employee relationships to increase brand loyalty and drive revenue. We believe that our strong intellectual property and our extensive experience in product advertising, awareness and branding will enable us to continue to develop new products and services.

We intend to expand our intellectual property portfolio through both internal development and acquisition. We intend to monetize our intellectual property through licensing, strategic partnerships, and litigation.

Initially, we intend to focus on the enforcement of our patents in three categories of infringers: deal of the day offerings, check-in companies and social promotion companies.

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**Marketing**

We seek to work with mid to large size companies that spend much of their marketing budgets attracting new customers or encouraging their current customers to purchase more often. We market our POPSHARE , SOCIALECHO , EMGAGE and DASHTAGG products through current relationships that our team members develop as well as through agencies that develop the marketing strategy for their clients. We provide the agency with our white label technology and they introduce it to their clients. We also attend conferences and trade shows to provide a vehicle for us to communicate the benefits of our technology to prospective clients. We have a sophisticated direct marketing process that involves, data base development, management and prospect development.

**Customers**

As a development stage company, we are in the early stages of developing a customer base. We enter into written agreements with each of our customers, which typically include a one to six month timeframe. Customers fees are based on the products and services actually provided. Further, our test programs tend to be much smaller as we seek to prove the concept with a particular customer before rolling out a full national campaign. We have also entered into license agreements pursuant to which we derive revenue for the use of our intellectual property on a perpetual license basis. Through BC Labs we provide IT consulting and programming services.

**Advocates**

An important strategic element of our business model is to ensure that each advocate is an authentic advocate of a brand, allowing us to be the technology support for the brand that enhances the relationship between brand and advocate. We aim to achieve this by providing them with access to innovative, timely and relevant content in addition to exclusive offers provided by the brand. We are an engine that allows brands to provide content to their advocates, and then leverage our technology to track, monitor, and provide analytics on the spread of that content. We also provide analytics on engagement levels for brands to understand which advocates re-shares are most interested in their content, and thus who have the highest propensity to purchase their product.

**Technology to Capture Data**

Our platform allows the collection of business intelligence and analytics resulting from data accumulated as content is shared and consumed. We do not share any data collected with any entity except with our client who launches the promotion/content. Our technology allows the brand/advertiser to monitor the full cycle of an advertising campaign from the first subscriber to the final redemption or intent to purchase. With this data, we show each advertiser the return on investment (ROI) of each dollar spent on an advertising campaign. This allows us to prove the effectiveness of the platform in near real time and enables clients to quickly improve their campaign effectiveness.

## **Intellectual Property**

We believe we have advantages over competitors in the mobile advertising industry due to the intellectual property we possess and have on file with the United States Patent and Trademark Office. In February 2010, we received United States Patent number 7,664,516.

Subsequently we have received continuation-in-part (CIP) patents 8,155,679, 8,438,055, 8,452,646 and 8,457,670. With the payment of all maintenance fees, these patents will not expire until December 14, 2026. We believe that the patents cover the core of our business, *i.e.*, a basic method and system for peer-to-peer advertising between mobile communication devices. We also have three additional CIP patent applications pending which build on the functionality of our issued patent, one patent application which covers a digital game of tag played on mobile devices through which participants can earn points and incentives from game sponsors, and one patent application that covers cumulative incentives.

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Below is a brief overview of our issued patents:

U.S. Patent No. 7,644,516

The 516 Patent discloses a method and system for communicating advertisements between mobile communication devices. An advertising campaign and a set of incentives are arranged between an advertiser and an intermediary, such as Blue Calypso. A subscriber is identified for the advertiser based on a profile of a subscriber. A subscriber, once qualified for the advertising campaign, is presented with an opportunity to participate. In operation, when a communication transmission is received from the participant, the advertisement is associated with the communication transmission and sent to a destination.

U.S. Patents 8,155,679 and 8,457,670 are continuations of the 516 Patent and include claims which disclose similar subject matter.

U.S. Patent No. 8,438,055

The 055 Patent discloses a system and method for distribution of advertisements between communication devices. The system and method provides for accounting and distribution of incentives related to distribution of the advertisements. The system further provides for association of testimonials from advertising recipients related to the advertisement and for distribution of the testimonials to communication devices. A bi-lateral selection between subscribers and advertisers using the system is created whereby both advertisers and subscribers agree to participate in the distribution of advertisements and testimonials.

U.S. Patent No. 8,452,646

The 646 Patent discloses a system and method for distribution of advertisements and electronic offers between communication devices. The system and method provides for accounting and distribution of incentives related to distribution of the advertisements and offers. A bi-lateral selection between subscribers and advertisers using the system is created whereby both advertisers and subscribers agree to participate in the distribution of advertisements and offers. The system further provides for a means of redeeming offers utilizing points of sale and analytics

associated to the redemption of electronic offers.

We believe that all of the technology that delivers our platform to both advertisers and endorsers has been developed and is fully owned by us with the exception of several web controls that are licensed by us pursuant to a royalty-free license with unlimited distribution rights. The architecture of the platform was designed to support millions of participants through server and application clustering and load-balancing. We believe the elegance of the data flow makes for an extremely light-weight and highly scalable system that can easily be enhanced. By using a standards-based SMS protocol coupled with tight integration to social communities such as Facebook, Twitter, LinkedIn and blogs as the primary delivery mechanisms, and by serving the dynamic content via a standard mobile web browser, we are capable of supporting most any receiving mobile device with Internet access. Platform smartphone support is available for Apple iPhone and Google Android devices as well as through a standard desktop web browser.

We own six registered trademarks in the United States: BLUE CALYPSO, WHEN FRIENDS TALK, FRIENDS LISTEN, CALYP, POWER TO THE PEOPLE, SOCIALLY YOURS, and ENDORSE SHARE EARN, In addition we have pending trademark applications for the following: EMGAGE, POPSHARE, SOCIALECHO, DASHTAG, and DASHTAG.

We also believe that we have common law rights in these trademarks that arise from use of the marks in commerce. The trademark registrations will continue in force as long as all renewals are timely paid and use of the marks continues. Our common law trademark rights will continue as long as the marks are used in commerce.



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**Back Office Support**

Until August 2012, Aztec Systems, Inc. provided administrative and technical support services to us, at which time we brought all services provided by Aztec Systems to us in house. Aztec Systems was owned by our founder, Chief Technology Officer and Director, Andrew Levi, until its sale on June 15, 2012. Aztec Systems owns and manages a certified data center that has delivered high-availability secure managed services and hosting to its customers for over ten years, which continues to service our secure data hosting needs.

**Employees**

As of December 31, 2013, we had a total of 10 full-time employees. We also utilize the services of independent contractors. We have no labor union contracts and believe relations with our employees are satisfactory.

**Competition**

We face formidable competition in every aspect of our business, particularly from other companies that seek to connect social communities via mobile technologies and provide them with relevant advertising and brand content. First and foremost, we consider ourselves a next generation social sharing, brand loyalty and rewards platform, so we believe our primary competitors are companies that embrace true brand loyalty, not just providers of discounted transactions. Currently, we consider our primary competitors to be Zuberance, Extole, MyLikes, WeReward (IZEA), and BzzAgent (recently acquired by Dunhumby). Each of these companies is different in terms of size, market share and other unique attributes of their offering where all but BzzAgent are early stage and, with the exception of IZEA, are privately held so little detailed information is available. We believe that the social, mobile marketing and advertising space is large and has no first movers or any company with a notable share of the market. We believe that our approach to the market, value proposition to large brands, use of compelling rewards and incentives, combined with our strong intellectual property are clear differentiators in a nascent yet quickly evolving industry for social mobile word-of-mouth advertising and marketing.

We also face competition from other mobile and Internet advertising providers, including companies that are not yet known to us. We may compete with companies that sell products and services online, because these companies, like us, are trying to attract users to their websites to search for information about products and services. In addition to Internet companies, we face competition for advertising dollars from companies that offer traditional media advertising.

We believe that we compete favorably on the factors described above. However, product advertising, marketing, awareness and branding through social media sites is an extremely competitive space. As we expand our product offerings to include private branded products, employee engagement products, instant access products, as well as other technology offerings, we will continue to face new competitors. Further, as the technology marketplace is always expanding, new competitors continuously innovate, and can become a competitor in the future.

## **Government Regulation**

Aspects of the digital marketing and advertising industry and how our business operates are highly regulated. We are subject to a number of domestic and, to the extent our operations are conducted outside the U.S., foreign laws and regulations that affect companies conducting business on the Internet and through other electronic means, many of which are still evolving and could be interpreted in ways that could harm our business. In particular, we are subject to rules of the Federal Trade Commission ( *FTC* ), the Federal Communications Commission ( *FCC* ) and potentially other federal agencies and state laws related to our advertising content and methods, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or *CAN-SPAM Act*, which establishes certain requirements for commercial electronic mail messages and specifies penalties for the transmission of commercial electronic mail messages that follow a recipient's opt-out request or are intended to deceive the recipient as to source or content, federal and state regulations covering the treatment of member data that we collect from endorsers.

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U.S. and foreign regulations and laws potentially affecting our business are evolving frequently. We are, and will continue to update and improve our regulatory compliance features and functionality, and we will need to continue to identify and determine how to effectively comply with all the regulations to which we are subject now or in the future. If we are unable to identify all regulations to which our business is subject and implement effective means of compliance, we could be subject to enforcement actions, lawsuits and penalties, including but not limited to fines and other monetary liability or injunction that could prevent us from operating our business or certain aspects of our business. In addition, compliance with the regulations to which we are subject now or in the future may require changes to our products or services, restrict or impose additional costs upon the conduct of our business or cause users to abandon material aspects of our services. Any such action could have a material adverse effect on our business, results of operations and financial condition.

The FTC adopted Guides Concerning the Use of Endorsements and Testimonials in Advertising ( Guides ) on October 5, 2009. The Guides recommend that advertisers and publishers clearly disclose in third-party endorsements made online, such as in social media, if compensation was received in exchange for said endorsements. Because our business connects endorsers and advertisers, relies on endorsers sharing their brand endorsements within their digital social circles, and both we and endorsers may earn cash and other incentives, any failure on our part to comply with the Guides may be damaging to our business. We are currently taking several steps to ensure that our endorsers indicate in social media posts that compensation is being provided to the endorsers, including by listing the phrase paid or ad or other appropriate language in advertisements that our endorsers circulate on social media. We also advise endorsers of the need to comply with the Guides, and we can terminate accounts with endorsers for noncompliance. Nonetheless, the FTC could potentially identify a violation of the Guides, which could subject us to a financial penalty or loss of endorsers or advertisers.

In the area of information security and data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as the 2002 amendment to California's Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to practically implement. The costs of compliance with these laws may increase in the future as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws may subject us to significant liabilities.

We are also subject to federal, state, and foreign laws regarding privacy and protection of member data. Any failure by us to comply with these privacy-related laws and regulations could result in proceedings against us by governmental authorities or others, which could harm our business. In addition, the interpretation of data protection laws, and their application to the Internet is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways from state to state, country to country, or region to region, and in a manner that is not consistent with our current data protection practices. Complying with these varying international requirements could cause us to incur additional costs and change our business practices. Further, any failure by us to adequately protect our members' privacy and data could result in a loss of member confidence in our services and

ultimately in a loss of members and customers, which could adversely affect our business.

We post on our website our privacy policy and user agreement, which describe our practices concerning the use, transmission and disclosure of member data. Any failure by us to comply with our privacy policy and user agreement could result in proceedings against us by members, customers, governmental authorities or others, which could harm our business.

Many states have passed laws requiring notification to subscribers when there is a security breach of personal data. There are also a number of legislative proposals pending before the United States Congress, various state legislative bodies and foreign governments concerning data protection. In addition, data protection laws in Europe and other jurisdictions outside the United States may be more restrictive, and the interpretation and application of these laws are still uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business. Furthermore, the Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for linking to third-party websites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this Act. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

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Our client's consumers/brand advocates communicate across email, mobile, social and/or web-based channels. These communications are governed by a variety of U.S. federal, state, and foreign laws and regulations. With respect to email campaigns, for example, in the United States, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or the CAN-SPAM Act, establishes certain requirements for the distribution of commercial email messages for the primary purpose of advertising or promoting a commercial product, service, or Internet website and provides for penalties for transmission of commercial email messages that are intended to deceive the recipient as to source or content or that do not give opt-out control to the recipient. The U.S. Federal Trade Commission, a federal consumer protection agency, is primarily responsible for enforcing the CAN-SPAM Act, and the U.S. Department of Justice, other federal agencies, state attorneys general, and Internet service providers also have authority to enforce certain of its provisions.

The CAN-SPAM Act's main provisions include:

§ prohibiting false or misleading email header information;

§ prohibiting the use of deceptive subject lines;

§ ensuring that recipients may, for at least 30 days after an email is sent, opt out of receiving future commercial email messages from the sender, with the opt-out effective within 10 days of the request;

§ requiring that commercial email be identified as a solicitation or advertisement unless the recipient affirmatively assented to receiving the message; and

§ requiring that the sender include a valid postal address in the email message.

The CAN-SPAM Act preempts most state restrictions specific to email marketing. However, some states have passed laws regulating commercial email practices that are significantly more punitive and difficult to comply with than the CAN-SPAM Act, particularly Utah and Michigan, which have enacted do-not-email registries listing minors who do not wish to receive unsolicited commercial email that markets certain covered content, such as adult content or content regarding harmful products. Some portions of these state laws may not be preempted by the CAN-SPAM Act.

Violations of the CAN-SPAM Act's provisions can result in criminal and civil penalties, including statutory penalties that can be based in part upon the number of emails sent, with enhanced penalties for commercial email senders who harvest email addresses, use dictionary attack patterns to generate email addresses, and/or relay emails through a network without permission.

With respect to text message campaigns, for example, the CAN-SPAM Act and regulations implemented by the U.S. Federal Communications Commission pursuant to the CAN-SPAM Act, and the Telephone Consumer Protection Act, also known as the Federal Do-Not-Call law, among other requirements, prohibit companies from sending specified types of commercial text messages unless the recipient has given his or her prior express consent.

We, our clients and our client's consumers/brand advocates may all be subject to various provisions of the CAN-SPAM Act. If we are found to be subject to the CAN-SPAM Act, we may be required to change one or more aspects of the way we operate our business.

If we were found to be in violation of the CAN-SPAM Act, other federal laws, applicable state laws not preempted by the CAN-SPAM Act, or foreign laws regulating the distribution of commercial email, whether as a result of violations by our endorsers or any determination that we are directly subject to and in violation of these requirements, we could be required to pay penalties, which would adversely affect our financial performance and significantly harm our reputation and our business.

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In addition, because our services are accessible worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, including in jurisdictions where we have no local entity, employees, or infrastructure.

## **Corporate History**

We were incorporated as a Nevada corporation on March 2, 2007 under the name JJ&R Ventures, Inc. for the purpose of developing and marketing an educational book series, consisting of books, presentations and flash cards focusing on healthy nutrition for children. On or about July 2011, we were presented with a business opportunity by the management of a privately held Texas company named Blue Calypso Holdings, Inc. that upon evaluation was determined to be more desirable than our previous business plan. As a result, we suspended our efforts in relation to our original business plan and entered into negotiations with Blue Calypso Holdings, Inc. to consummate a reverse merger transaction.

In contemplation of a possible transaction with Blue Calypso Holdings, Inc., we changed our name from JJ&R Ventures, Inc. to Blue Calypso, Inc. on July 21, 2011 and completed a three and four tenths (3.4) for one (1) forward stock split of our common stock.

On September 1, 2011, in order to effectuate the reverse merger transaction, Blue Calypso Acquisition Corp., a wholly-owned subsidiary of ours, merged with and into Blue Calypso Holdings, Inc., with Blue Calypso Holdings, Inc. being the surviving corporation and becoming our wholly-owned subsidiary. In connection with this merger, we discontinued all of our prior operations and assumed the business of Blue Calypso Holdings, Inc. as our sole line of business. We refer to this merger transaction as the reverse merger.

Immediately following the closing of the reverse merger, we transferred all of our pre-merger assets and liabilities to JJ&R Ventures Holdings, Inc., a wholly-owned subsidiary, and transferred all of the outstanding stock of JJ&R Ventures Holdings, Inc. to Deborah Flores, our then majority stockholder and our former president, secretary, treasurer and sole director, in exchange for the cancellation of 51,000,000 shares of our common stock then owned by Ms. Flores.

On October 17, 2011, we merged with and into Blue Calypso, Inc., a Delaware corporation and wholly-owned subsidiary, for the sole purpose of changing our state of incorporation from Nevada to Delaware. We refer to this

merger transaction as the reincorporation merger.

**ITEM 1A. RISK FACTORS.**

*Investing in our common stock involves a high degree of risk. Before investing in our common stock, you should carefully consider the risks described below and the financial and other information included in this Annual report. If any of the following risks, or any other risks not described below, actually occur, it is likely that our business, financial condition, and/or operating results could be materially adversely affected. In such case, the trading price and market value of our common stock could decline and you may lose part or all of your investment in our common stock. The risks and uncertainties described below include forward-looking statements and our actual results may differ from those discussed in these forward-looking statements.*



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**Risks Relating to our Business**

We have a history of losses which may continue, which may negatively impact our ability to achieve our business objectives.

We incurred net losses of \$6,823,789 and \$5,075,659 for the years ended December 31, 2013 and 2012, respectively. While a significant portion of the losses for the years ended December 31, 2013 and 2012 is attributed to non-cash equity compensation expense, we cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise in the relatively new and volatile market for product marketing and branding through social media communities. Revenues and profits, if any, will depend upon various factors, including whether we will be able to continue expansion of our revenue model. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

***Our limited operating history makes it difficult to evaluate our current business and future prospects.***

We are a development stage company and we have generated very limited revenue to date. To date, our business focuses on the development of our patented proprietary technology platform, through which we offer various social media advertising and loyalty campaigns, and the assertion of our patents. Therefore, we not only have a very limited operating history, but also a limited track record of executing our business model which includes, among other things, creating, prosecuting, licensing, litigating or otherwise monetizing our patent assets. Our limited operating history and limited revenues generated to date make it difficult to evaluate our current business model and future prospects.

In light of the costs, uncertainties, delays and difficulties frequently encountered by companies in the early stages of development with no operating history, there is a significant risk that we will not be able to:

- implement or execute our current business plan, or demonstrate that our business plan is sound; and/or
- raise sufficient funds in the capital markets to effectuate our long-term business plan.

If we are unable to execute any one of the foregoing or similar matters relating to our operations, our business may fail.

***We may require additional capital to support our present business plan and our anticipated business growth, and such capital may not be available on acceptable terms, or at all, which would adversely affect our ability to operate.***

Based on our current operating plans, our current resources are expected to be sufficient to fund our planned operations through August 2014. We may nonetheless seek to raise additional financing if our board of directors determines that it is advisable to do so. We may also need to raise additional funds in connection with any acquisitions of technology or intellectual property assets that we pursue or to fund licensing and enforcement actions.

While we may need to seek additional funding, we may not be able to obtain financing on acceptable terms, or at all. If we are unable to obtain additional funding on a timely basis, we may be required to curtail or terminate some or all of our business plans.

***Our independent registered public accounting firm's report contains an explanatory paragraph that expresses substantial doubt about our ability to continue as a going concern.***

As of December 31, 2013, our deficit accumulated during the development stage was \$24,431,770. Primarily as a result of our recurring losses from operations, negative cash flows and our accumulated deficit, our independent registered public accounting firm has included in its report for the year ended December 31, 2013 an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is contingent upon, among other factors, our ability to obtain sufficient financing to support our operations. If we are not able to obtain sufficient financing to support our operations, we may be forced to limit or cease our operations.

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***The markets that we are targeting for revenue opportunities may change before we can access them.***

The markets for traditional Internet and mobile web products and services that we target for revenue opportunities change rapidly and are being pursued by many other companies. Further, the barriers to entry are relatively low. Therefore, we cannot provide assurance that we will be able to realize our targeted revenue opportunities before they change or before other companies dominate the market. With the introduction of new technologies and the influx of new entrants to the market, we expect competition to persist and intensify in the future, which could harm our ability to increase sales, limit client attrition and maintain our prices.

***We operate within a highly competitive and complex market, which could have an adverse effect on our business.***

Product advertising, marketing, awareness and branding through social media sites is an extremely competitive and fragmented industry. The industry can be significantly affected by many factors, including changes in local, regional, and national economic conditions, changes in consumer preferences, brand name recognition, marketing and the development of new and competing products or new social media companies. We expect that existing businesses that compete with us and have greater financial resources will be able to undertake more extensive marketing campaigns and more aggressive advertising strategies than us, thereby generating more attention to their companies. These competitive pressures could have a material adverse effect on our business, prospects, financial condition, and results of operations.

***We are presently reliant exclusively on a limited number of patented technologies.***

We derive substantially all of our revenue from a relatively small number of key technologies. As new technological advances occur, many of our patented technologies may become obsolete before they are completely monetized. If we are unable to monetize our current patent assets for any reason, including obsolescence of our technology, the expiration of our patents or any other reason, we may be unable to acquire additional assets. If this occurs, our business and prospects would be materially harmed.

***Any failure to protect or enforce our patent or other intellectual property rights could significantly impair our business.***

Our ability to successfully operate our business depends largely on the validity and enforceability of our patent rights and the relevance of our patent rights to commercially viable products or services. Third parties have challenged, and we expect will continue to challenge, the infringement, validity and enforceability of certain of our patents. In some instances, our patent claims could be substantially narrowed or declared invalid, unenforceable, not essential or not infringed. We cannot assure you that the validity and enforceability of our patents will be maintained or that our patent claims will be applicable to any particular product or service. In addition, the U.S. Patent and Trademark Office, or the USPTO, could invalidate or render unenforceable our current or future patents (if any) or materially

narrow the scope of their claims during the course of a re-examination. Any significant adverse finding as to the validity, enforceability or scope of certain of our patents and/or any successful design around certain of our patents could materially and adversely affect our ability to secure future settlements or licenses on beneficial terms, if at all, and otherwise harm our business.

*The value of our patent assets may decline.*

We will likely be required to spend significant time and resources to maintain the effectiveness of our issued patents by paying maintenance fees and making filings with the USPTO as well as prosecuting our patent applications. In the future, we may acquire patent assets, including patent applications, which require us to spend resources to prosecute the applications with the USPTO.

Despite efforts to protect our intellectual property rights, any of the following or similar occurrences may reduce the value of our intellectual property:

our applications for patents may not be granted and, if granted, may be challenged or invalidated;

issued patents may not provide us with any competitive advantages versus potentially infringing parties;

our efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology; or

our efforts may not prevent the development and design by others of products or technologies similar to or competitive with, or superior to those we acquire and/or prosecute.

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Moreover, we may not be able to effectively protect our intellectual property rights in certain foreign countries where we may do business in the future or where competitors may operate. If we fail to maintain, defend or prosecute our patent assets properly, the value of those assets would be reduced or eliminated, and our business would be harmed.

***We commenced legal proceedings against leading daily deal, social promotion and check-in applications and we expect such proceedings to be time-consuming, which may adversely affect our ability to operate our business.***

We commenced legal proceedings against certain daily deal, social promotion and check-in applications (including Groupon, LivingSocial, Yelp, IZEA, MyLikes, and Foursquare), pursuant to which we alleged that such companies infringe on our patents. Certain of these defendants have substantially more resources than we do, which could make our litigation efforts more difficult. We reached settlement in our patent infringement disputes with MyLikes in July 2013 and with LivingSocial in August 2013.

We anticipate that certain of our ongoing legal proceedings may continue for several years and will require significant attention from our senior management. Disputes regarding the assertion of patents and other intellectual property rights are highly complex and technical. Once initiated, we may be forced to litigate against others to enforce or defend our intellectual property rights or to determine the validity and scope of other parties' proprietary rights. The defendants or other third parties involved in the lawsuits in which we are involved may allege defenses and/or file counterclaims in an effort to avoid or limit liability and damages for patent infringement. If such defenses or counterclaims are successful, they may preclude our ability to derive licensing revenue from the patents. A negative outcome of any such litigation, or one or more claims contained within any such litigation, could materially and adversely impact our business. Our failure to monetize our patent assets could significantly harm our business and financial position.

***While we believe that the patents we own are being infringed by certain leading daily deal, social promotion and check-in applications, there is a risk that a court will find the patents invalid, not infringed or unenforceable and/or that the U.S. Patent Office (USPTO) will either invalidate the patents or materially narrow the scope of their claims during the course of a re-examination. In addition, even with a positive trial court verdict, the patents may be invalidated, found not infringed or rendered unenforceable on appeal. This risk may occur either presently or from time to time in connection with future litigations we may bring. If this were to occur, it could have a material adverse effect on the viability of our company and our operations.***

We believe that there are companies that have, and continue to, infringe our patents, but actually obtaining and collecting a judgment against such companies may be difficult or impossible. Patent litigation is inherently risky and the outcome is uncertain. Some of the parties we believe infringe on our patents are large and well-financed companies with substantially greater resources than ours. We believe that these parties would devote a substantial amount of resources in an attempt to avoid or limit a finding that they are liable for infringing our patents or, in the

event liability is found, to avoid or limit the amount of associated damages. In addition, there is a risk that these parties may file re-examinations or other proceedings with the USPTO or other government agencies in an attempt to invalidate, narrow the scope or render unenforceable the patents we own.

Moreover, in connection with any of our present or future patent enforcement actions, it is possible that a defendant may request and/or a court may rule that we violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against us or our operating subsidiaries or award attorneys' fees and/or expenses to one or more defendants, which could be material, and if we or our subsidiaries are required to pay such monetary sanctions, attorneys' fees and/or expenses, such payment could materially harm our operating results and financial position.

In addition, it is difficult in general to predict the outcome of patent enforcement litigation at the trial or appellate level. There is a higher rate of appeals in patent enforcement litigation than standard business litigation. The defendants in any patent action we bring in the United States may file an appeal to the Court of Appeals to the Federal Circuit and possibly in the United States Supreme Court. Such appeals are expensive and time-consuming, and the outcomes of such appeals are sometimes unpredictable, resulting in increased costs and reduced or delayed revenue.

Finally, we believe that the more prevalent patent enforcement actions become, the more difficult it will be for us to license our patents without engaging in litigation. As a result, we may need to increase the number of our patent enforcement actions to cause infringing companies to license the patent or pay damages for lost royalties. This will adversely affect our operating results due to the high costs of litigation and the uncertainty of the results.

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***Trial judges and juries often find it difficult to understand complex patent enforcement litigation, and as a result, we may need to appeal adverse decisions by lower courts in order to successfully enforce our patents.***

It is difficult to predict the outcome of patent enforcement litigation at the trial level. It is often difficult for juries and trial judges to understand complex, patented technologies, and as a result, there is a higher rate of successful appeals in patent enforcement litigation than more standard business litigation. Such appeals are expensive and time consuming, resulting in increased costs and delayed revenue. Although we will diligently pursue enforcement litigation, we cannot predict with significant reliability the decisions made by juries and trial courts.

***Federal courts are becoming more crowded, and as a result, patent enforcement litigation is taking longer.***

Federal trial courts that hear our patent enforcement actions also hear criminal cases. Criminal cases always take priority over patent enforcement actions. As a result, it is difficult to predict the length of time it will take to complete an enforcement action. Moreover, we believe there is a trend in increasing numbers of civil lawsuits and criminal proceedings before federal judges, and as a result, we believe that the risk of delays in our patent enforcement actions will have a greater effect on our business in the future unless this trend changes.

***As patent enforcement litigation becomes more prevalent, it may become more difficult for us to voluntarily license our patents.***

We believe that the more prevalent patent enforcement actions become, the more difficult it will be for us to voluntarily license our patents. As a result, we may need to increase the number of our patent enforcement actions to cause infringing companies to license the patent or pay damages for lost royalties. This may increase the risks associated with an investment in our company.

***If a court finds that any of our patents are invalid or narrows their scope over the course of a re-examination or we are otherwise unable to protect our proprietary rights, our ability to competitively conduct our business will be adversely affected.***

We rely on our proprietary rights to deliver our platform. To protect our proprietary rights, we rely on a combination of patent and trade secret laws, confidentiality agreements, and protective contractual provisions. Despite these efforts, our patents and intellectual property relating to our business may not provide us with adequate protection of our platform or any competitive advantages.

Our five issued patents may be subject to challenge and possibly invalidated by third parties. Changes in either the patent laws or in the interpretations of patent laws in the United States or other countries may diminish the value of our intellectual property.

We own five pending patent applications in the United States. We cannot assure that these patent applications will be issued, in whole or in part, as patents. Patent applications in the United States are maintained in secrecy until the patents are published or issued. Since publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries by several months, we cannot be certain that we are the first creator of the inventions covered by pending patent applications.

The status of patents involves complex legal and factual questions and the breadth of claims allowed is uncertain. Accordingly, we cannot be certain that the patent applications that we file will actually afford protection against competitors with similar technology. Others may independently develop similar or alternative products and technologies that may be outside the scope of our intellectual property. In addition, patents issued to us may be infringed upon or designed around by others and others may obtain blocking patents that we need to license or design around, either of which would increase costs and may adversely affect our operations.



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Further, effective protection of intellectual property rights may be unavailable or limited in some foreign countries. Our inability to adequately protect our proprietary rights would have an adverse impact on our ability to competitively market our platform on a world-wide basis.

We also rely on trade secrets law to protect our technology. Trade secrets, however, are difficult to protect. While we believe that we use reasonable efforts to protect our trade secrets, our or our strategic partners' employees, consultants, contractors or advisors may unintentionally or willfully disclose our information to competitors. We seek to protect this information, in part, through the use of non-disclosure and confidentiality agreements with employees, consultants, advisors, and others. However, these agreements may be breached and we may not have adequate remedies for a breach. In addition, we cannot ensure that those agreements will provide adequate protection for our trade secrets, know-how or other proprietary information or prevent their unauthorized use or disclosure.

If our trade secrets become known to competitors with greater experience and financial resources, the competitors may copy or use our trade secrets and other proprietary information in the advancement of their products, methods or technologies. If we were to prosecute a claim that a third party had illegally obtained and was using our trade secrets, it could be expensive and time consuming and the outcome could be unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets than courts in the United States. Moreover, if our competitors independently develop equivalent knowledge, we would lack any contractual claim to this information, and our business could be harmed.

To the extent that consultants and key employees apply technological information independently developed by them or by others to our potential products, disputes may arise as to the proprietary rights of the information, which may not be resolved in our favor. Consultants and key employees that work with our confidential and proprietary technologies are required to assign all intellectual property rights in their discoveries to us. However, these consultants and key employees may terminate their relationship with us, and we cannot preclude them indefinitely from dealing with our competitors.

***We may seek to internally develop additional new inventions and intellectual property, which would take time and would be costly. Moreover, the failure to obtain or maintain intellectual property rights for such inventions could lead to the loss of our investments in such activities.***

Members of our management team have significant experience as inventors. As such, part of our business may include the internal development of new inventions or intellectual property that we will seek to monetize. However, this aspect of our business would likely require significant capital and would be time consuming. Such activities could

also distract our management team from its present business initiatives, which could have a material and adverse effect on our business. There is also the risk that our initiatives in this regard would not yield any viable new inventions or technology, which would lead to a loss of our investments in time and resources in such activities.

In addition, even if we are able to internally develop new inventions, in order for those inventions to be viable and to compete effectively, we would need to develop and maintain a proprietary position with respect to such inventions and intellectual property. However, there are significant risks associated with any such intellectual property we may develop principally including the following:

- patent applications we file may not result in issued patents or may take longer than we expect to result in issued patents;
- we may be subject to interference proceedings;
- we may be subject to opposition proceedings in the U.S. or foreign countries;
- any patents that are issued to us may not provide meaningful protection;
- we may not be able to develop additional proprietary technologies that are patentable;
- other companies may challenge patents issued to us;
- other companies may have independently developed and/or patented (or may in the future independently develop and patent) similar or alternative technologies, or duplicate our technologies;

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- other companies may design around technologies we have developed; and
- enforcement of our patents would be complex, uncertain and very expensive.

We cannot be certain that patents will be issued as a result of any future applications, or that any of our patents, once issued, will provide us with adequate protection from competing products. For example, issued patents may be circumvented or challenged, declared invalid or unenforceable, or narrowed in scope. In addition, since publication of discoveries in scientific or patent literature often lags behind actual discoveries, we cannot be certain that we will be the first to make our additional new inventions or to file patent applications covering those inventions. It is also possible that others may have or may obtain issued patents that could prevent us from commercializing our products or require us to obtain licenses requiring the payment of significant fees or royalties in order to enable us to conduct our business. As to those patents that we may license or otherwise monetize, our rights will depend on maintaining our obligations to the licensor under the applicable license agreement, and we may be unable to do so. Our failure to obtain or maintain intellectual property rights for our inventions would lead to the loss of our investments in such activities, which would have a material and adverse effect on our company.

Moreover, patent application delays could cause delays in recognizing revenue from our internally generated patents and could cause us to miss opportunities to license patents before other competing technologies are developed or introduced into the market.

***We could become involved in intellectual property disputes that create a drain on our resources and could ultimately impair our assets.***

We do not knowingly infringe on any patents, copyrights or other intellectual property rights owned by other parties; however, in the event of an infringement claim, we may be required to spend a significant amount of money to defend a claim, develop a non-infringing alternative or to obtain licenses. We may not be successful in developing such an alternative or obtaining licenses on reasonable terms, if at all. Any litigation, even if without merit, could result in substantial costs and diversion of our resources and could materially and adversely affect our business and operating results.

Third-party intellectual property rights in our field are complicated and continuously evolving. We have not performed searches for third-party intellectual property rights that may raise freedom-to-operate issues, and we have not obtained legal opinions regarding commercialization of our potential products. As such, there may be existing patents that may affect our ability to commercialize our potential products.

In addition, because patent applications are published up to 18 months after their filing, and because applications can take several years to issue, there may be currently pending third-party patent applications that are unknown to us, which may later result in issued patents that result in challenges to our use of intellectual property.

If a third party claims that we infringe on its patents or other proprietary rights, we could face a number of issues that could seriously harm our competitive position, including:

- infringement claims, with or without merit, which can be costly and time consuming to litigate, delay any regulatory approval process and divert management's attention from our core business strategy;
- substantial damages for past infringement, which we may have to pay if a court determines that our products or technologies infringe upon a competitor's patent or other proprietary rights; and
- a court order prohibiting us from commercializing our potential products or technologies unless the holder licenses the patent or other proprietary rights to us, which such holder is not required to do.

***Future competitive technology for advertising, branding and awareness campaigns in the mobile device market may render our technology obsolete.***

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Newer technology may render our technology obsolete which would have a material adverse effect on our business and results of operations. In addition, in order to adapt to new technology, we may be required to collaborate with third parties to develop and deploy our services, and we may not be able to do so on a timely and cost-effective basis, if at all.

***New legislation, regulations or court rulings related to enforcing patents could harm our business and operating results.***

If Congress, the USPTO or courts implement new legislation, regulations or rulings that impact the patent enforcement process or the rights of patent holders, these changes could negatively affect our business model. For example, limitations on the ability to bring patent enforcement claims, limitations on potential liability for patent infringement, lower evidentiary standards for invalidating patents, increases in the cost to resolve patent disputes and other similar developments could negatively affect our ability to assert our patent or other intellectual property rights.

On June 4, 2013, the Obama administration issued a fact sheet detailing a set of legislative recommendations and executive actions aimed at addressing abusive patent infringement lawsuits brought by patent assertion entities (entities that use patents primarily to obtain license fees rather than to support the development or transfer of technology). The White House announced that its actions are intended to protect innovators from frivolous patent litigation, ensure high-quality patents, and improve incentives for future innovation in high tech patents. The Obama administration recommended that Congress pursue several legislative measures which would:

- Require patentees and applicants to disclose the real Party-in-Interest in USPTO proceedings and in patent lawsuits.
- Give courts more discretion to award fees to the winning parties in patent cases.
- Expand the USPTO's program that allows the review and (possible invalidation) of business method patents.
- Protect off-the-shelf use of technology by end-user consumers and businesses by providing them with better legal protection against liability. This measure includes halting judicial proceedings against such end-users when an infringement suit has also been brought against a vendor, retailer, or manufacturer of the technology being used.
- Change the International Trade Commission's, or ITC, standard for awarding injunctions so that the ITC has more discretion in awarding injunctions to patentees. This would reflect recent changes in the law used by District Courts.

- Incentivize public filing of demand/threat letters to make them accessible and searchable to the public in order to help curb abusive suits.
- Ensure that the ITC has adequate flexibility in hiring judges.

The Obama administration also announced five executive actions that would help bring greater transparency to the patent system. These actions would:

- Identify the real party interest in USPTO proceedings. The USPTO will begin a rulemaking process to require patent applicants and owners to regularly update ownership information when they are involved in proceedings before the USPTO. The rules would require designating the ultimate parent entity in control of the patent or application.
- Provide additional training to patent examiners in the USPTO to scrutinize functional claiming, which the Obama administration believes will help clarify the scope of patents.
- Require the USPTO to provide education and outreach materials to end-users of technology about how to deal with demands from patent trolls.
- Institute new, high-profile events by the USPTO, the U.S. Department of Justice, or DOJ, and the Federal Trade Commission, or FTC, to develop new ideas and consensus around updates to patent policies and laws.
- Review and improve existing procedures that the Customs and Border Protection and the ITC use to evaluate the scope of ITC exclusion orders that prevent infringing goods from being brought into the U.S.

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In addition to these actions, Congress is also currently considering other legislation on patent reform. This legislation includes the bipartisan reintroduction of the SHIELD Act (Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013) that would force non-practicing entities to pay for instituting patent lawsuits that are unsuccessful. The Patent Abuse Reduction Act is another recently introduced patent reform bill with similar provisions. As of the date of filing this Annual Report on Form 10-K, neither the SHIELD Act nor the Patent Abuse Reduction Act has been passed out of committee for consideration by the full House of Representatives or Senate.

Recently, United States patent laws were amended with the enactment of the Leahy-Smith America Invents Act, or the America Invents Act, which took effect on March 16, 2013. The America Invents Act includes a number of significant changes to U.S. patent law. In general, the legislation attempts to address issues surrounding the enforceability of patents and the increase in patent litigation by, among other things, establishing new procedures for patent litigation. For example, the America Invents Act changes the way that parties may be joined in patent infringement actions, increasing the likelihood that such actions will need to be brought against individual parties allegedly infringing by their respective individual actions or activities. At this time, it is not clear what, if any, impact the America Invents Act will have on the operation of our enforcement business. However, the America Invents Act and its implementation could increase the uncertainties and costs surrounding the enforcement of our patented technologies, which could have a material adverse effect on our business and financial condition.

Further, and in general, it is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become enacted as laws. Compliance with any new or existing laws or regulations could be difficult and expensive, affect the manner in which we conduct our business and negatively impact our business, prospects, financial condition and results of operations.

***Our dependence on the continued growth in the use of the web and mobile smartphone networking could adversely affect our results of operations.***

Our business depends on consumers continuing to increase their use of the mobile smartphone for social networking, to obtain product content, reward type offers as well as for conducting commercial transactions. The rapid growth and use of the smartphone as an information conduit is a relatively recent phenomenon. As a result, the acceptance and use of smartphones may not continue to develop at historical rates. Mobile web usage may be inhibited for a number of reasons, such as inadequate network infrastructure, security concerns, inconsistent quality of service and availability of cost-effective, high-speed service or smart mobile devices.

If mobile web usage grows, the mobile Internet infrastructure may not be able to support the demands placed on it by this growth or its performance and reliability may decline. In addition, websites and mobile networks have experienced interruptions in their service as a result of outages and other delays occurring throughout the Internet and mobile network infrastructure. If these outages and delays occur frequently in the future, web usage, as well as usage of our website, could grow more slowly or decline, which could adversely affect our results of operations.

*Difficulty accommodating increases in the number of users of our services and Internet service problems outside of our control ultimately could result in the reduction of users.*

Our website must accommodate a high volume of traffic and deliver frequently updated information. Our website may in the future experience slower response times or other problems for a variety of reasons. In addition, our website could experience disruptions or interruptions in service due to the failure or delay in the transmission or receipt of this information. In addition, our users depend on Internet service providers, online service providers and other website operators for access to our website. Each of them has experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems.



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***Given our early stage of development, we are still developing our regulatory compliance program and our failure to comply with existing and future regulatory requirements could adversely affect our business, results of operations and financial condition.***

Aspects of the digital marketing and advertising industry and how our business operates are highly regulated. We are subject to a number of domestic and, to the extent our operations are conducted outside the U.S., foreign laws and regulations that affect companies conducting business on the Internet and through other electronic means, many of which are still evolving and could be interpreted in ways that could harm our business. In particular, we are subject to rules of the FTC, the Federal Communications Commission (FCC) and potentially other federal agencies and state laws related to our advertising content and methods, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or CAN-SPAM Act, which establishes certain requirements for commercial electronic mail messages and specifies penalties for the transmission of commercial electronic mail messages that follow a recipient's opt-out request or are intended to deceive the recipient as to source or content, federal and state regulations covering the treatment of member data that we collect from endorsers.

U.S. and foreign regulations and laws potentially affecting our business are evolving frequently. We are, and will continue to update and improve our regulatory compliance features and functionality, and we will need to continue to identify and determine how to effectively comply with all the regulations to which we are subject now or in the future. If we are unable to identify all regulations to which our business is subject and implement effective means of compliance, we could be subject to enforcement actions, lawsuits and penalties, including but not limited to fines and other monetary liability or injunction that could prevent us from operating our business or certain aspects of our business. In addition, compliance with the regulations to which we are subject now or in the future may require changes to our products or services, restrict or impose additional costs upon the conduct of our business or cause users to abandon material aspects of our services. Any such action could have a material adverse effect on our business, results of operations and financial condition.

***Existing federal, state and foreign laws regulating email and text messaging marketing practices impose certain obligations on the senders of commercial emails and text messages, which could minimize the effectiveness of our on-demand software or increase our operating expenses to the extent financial penalties are triggered.***

The CAN-SPAM Act, establishes certain requirements for commercial email messages and specifies penalties for the transmission of commercial email messages that are intended to deceive the recipient as to source or content. The CAN-SPAM Act, among other things, obligates the sender of commercial emails, and someone who initiates commercial emails, to provide recipients with the ability to opt out of receiving future emails from the sender. In addition, some states have passed laws regulating commercial email practices that are significantly more punitive and difficult to comply with than the CAN-SPAM Act, particularly Utah and Michigan, which have enacted do-not-email

registries listing minors who do not wish to receive unsolicited commercial email that markets certain covered content, such as adult content or content regarding harmful products. Some portions of these state laws may not be preempted by the CAN-SPAM Act. We, our clients and our client's consumers/brand advocates may all be subject to various provisions of the CAN-SPAM Act. If we are found to be subject to the CAN-SPAM Act, we may be required to change one or more aspects of the way we operate our business, including by eliminating the option for endorsers to send emails containing our advertisers' messages or by not allowing endorsers to receive compensation directly or indirectly as a result of distributing emails containing our advertisers' messages.

If we were found to be in violation of the CAN-SPAM Act, other federal laws, applicable state laws not preempted by the CAN-SPAM Act, or foreign laws regulating the distribution of commercial email, whether as a result of violations by our endorsers or any determination that we are directly subject to and in violation of these requirements, we could be required to pay penalties, which would adversely affect our financial performance and significantly harm our reputation and our business.

***Security breaches and other disruptions could compromise our information and expose us to liability, which could cause our business and reputation to suffer.***

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In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our endorsers, and personally identifiable information of our endorsers and employees in our data center and on our network. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our network and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of information, disrupt our operations and the services we provide to customers, and damage our reputation, which could adversely affect our business, revenues and competitive position.

***We could be subject to enforcement action or civil liability under federal and state law regarding privacy and the use and sharing of personal information.***

Our business model includes the collection of certain personal information from our endorsers. Federal and state privacy laws regulate the circumstances under which we may use or share this information. We take steps to ensure our compliance with these laws, and we take steps to ensure compliance by those with whom we share personal information through non-disclosure agreements and contract provisions. Nonetheless, we may be subject to federal or state governmental enforcement action or civil litigation for improper use or sharing of personal identifying information. This risk could result in substantial costs to our business and materially and adversely affect our business and operating results. Further, if any party overcomes our physical, electronic, and procedural safeguards implemented to protect personal information, we may be subject to federal or state governmental enforcement action or civil litigation for inadequately protecting personal identifying information.

***Our business method relies heavily on circulating endorsements, including through social media, which if conducted improperly, could subject our business to liability under Federal Trade Commission regulations.***

The FTC adopted Guides Concerning the Use of Endorsements and Testimonials in Advertising, or Guides, on October 5, 2009. The Guides recommend that advertisers and publishers clearly disclose in third-party endorsements made online, such as in social media, if compensation was received in exchange for said endorsements. Because our business connects endorsers and advertisers, relies on endorsers sharing their brand endorsements within their digital social circles, and both we and endorsers may earn cash and other incentives, the Guides are relevant to our business.

We are currently taking several steps to ensure that our endorsers or other appropriate language indicate in social media posts that compensation or incentives are being provided to the endorsers. First, the media content provided to endorsers includes the phrase "paid" or "ad." Our system generally provides for endorsers to post advertising content on social media in the exact form provided. An endorser would have to take steps to individually modify the content provided in order to delete the phrase "paid" or "ad." Second, when registering as endorsers with us, endorsers are required to agree to abide by the terms and conditions regarding the use of our website and mobile platform. These terms and conditions specifically require compliance with the FTC Guides regarding paid endorsements, and contain other, general prohibitions against deceptive posts. The terms and conditions also allow us to terminate an endorser's access to the system at any time for non-compliance with the terms and conditions, and it is our policy to terminate the accounts of endorsers for noncompliance with the Guides. Nonetheless, the FTC could potentially identify a violation of the Guides, which could subject us to a financial penalty or loss of endorsers or advertisers.

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**Risks Relating to Our Common Stock**

***We have not paid dividends in the past and do not expect to pay dividends in the future. Any return on investment may be limited to the value of our common stock.***

We have never paid cash dividends on our common stock and do not anticipate doing so in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting us at such time as our board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

***We have identified certain material weaknesses in the design or operation of internal control over financial reporting which could have adversely affected our ability to record, process, summarize and report financial data. Ineffective internal controls could impact our business and operating results. Any inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our common stock.***

Effective internal control is necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed. As a result, our small size and any current internal control deficiencies may adversely affect our financial condition, results of operation and access to capital.

As of December 31, 2013, we had identified certain matters that constituted a material weakness in our internal controls over financial reporting. Specifically, we have limited segregation of duties within our accounting and financial reporting functions. Segregation of duties within our company is limited due to the small number of employees that are assigned to positions that involve the processing of financial information.

On August 27, 2013, after consulting with our Audit Committee and with our newly appointed Independent Registered Public Accounting Firm, Marcum LLP, management changed its accounting for certain of our warrants and conversion features related to previously issued convertible notes and preferred stock which were recorded in periods prior to the engagement of Marcum LLP in order to comply with US GAAP. Such warrants and the embedded

conversion options should have been reflected as liabilities on the consolidated balance sheets included in our previously filed Annual Report on Form 10-K for the year ended December 31, 2012 and the Quarterly Reports on Form 10-Q for the periods ended March 31, 2012, June 30, 2012, September 30, 2012 and March 31, 2013, rather than as a component of equity. In addition, we determined that we had not properly accreted compensation expense for certain restricted stock grants in 2012.

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Since the determination regarding this deficiency, we have devoted significant effort and resources to remediation and improvement of our internal control over financial reporting. While we had processes in place to identify and apply developments in accounting standards, we enhanced these processes to better evaluate our research of the nuances of complex accounting standards and engaged a third party financial reporting and consulting firm to assist the Company in its financial reporting compliance. Our enhancements included retaining a third party consultant, who is a technical accounting professional, to assist us in the interpretation and application of new and complex accounting guidance. The firm has been engaged to assist in the analysis of complex financial instruments. Management will continue to review and make necessary changes to the overall design of our internal control environment.

In addition, prior to the engagement of an outside financial reporting consultant in August 2013, we lacked adequately trained accounting personnel with appropriate expertise in complex transactions under United States generally accepted accounting principles. While we believe that the addition of a consultant with such experience has assisted us in mitigating this weakness as of December 31, 2013, we need to perform a full evaluation of our internal controls and procedures before we deem the weakness to be fully remediated. Management is currently in the process of determining how to implement a more effective system to insure that information required to be disclosed in our periodic reports has been recorded, processed, summarized and reported accurately. Our management acknowledges the existence of this problem, and intends to develop procedures to address them to the extent possible given limitations in manpower resources. While management is working on a plan, no assurance can be made at this point that the implementation of such controls and procedures will be completed in a timely manner or that they will be adequate once implemented.

***Because we became public by means of a reverse merger, we may not be able to attract the attention of major brokerage firms.***

There may be risks associated with us becoming public through a reverse merger with a shell company. Although the shell company did not have recent or past operations or assets and we performed a due diligence review of the shell company, there can be no assurance that we will not be exposed to undisclosed liabilities resulting from the prior operations of the shell company. Securities analysts of major brokerage firms and securities institutions may also not provide coverage of us because there were no broker-dealers who sold our stock in a public offering that would be incentivized to follow or recommend the purchase of our common stock. The absence of such research coverage could limit investor interest in our common stock, resulting in decreased liquidity. No assurance can be given that established brokerage firms will, in the future, want to cover our securities or conduct any secondary offerings or other financings on our behalf.

***The public trading market for our common stock is volatile and may result in higher spreads in stock prices, which may limit the ability of our investors to sell their Shares at a profit, if at all.***

Our common stock trades in the over-the-counter market and is quoted on the Over-the-Counter Bulletin Board, or OTCBB, and in the Over-the-Counter Markets on the OTCQB. The over-the-counter market for securities has historically experienced extreme price and volume fluctuations during certain periods. These broad market fluctuations may adversely affect the market price of our common stock and result in substantial losses to our investors. In addition, the spreads on stock traded through the over-the-counter market are generally unregulated and higher than on national stock exchanges, which means that the difference between the price at which shares could be purchased by investors in the over-the-counter market compared to the price at which they could be subsequently sold would be greater than on these exchanges. Significant spreads between the bid and asked prices of the stock could continue during any period in which a sufficient volume of trading is unavailable or if the stock is quoted by an insignificant number of market makers. Historically our trading volume has been insufficient to significantly reduce this spread and we have had a limited number of market makers sufficient to affect this spread. These higher spreads could adversely affect investors who purchase the shares at the higher price at which the shares are sold, but subsequently sell the shares at the lower bid prices quoted by the brokers. Unless the bid price for the stock exceeds the price paid for the shares by the investor, plus brokerage commissions or charges, the investor could lose money on the sale. For higher spreads such as those on over-the-counter stocks, this is likely a much greater percentage of the price of the stock than for exchange listed stocks. There is no assurance that at the time an investor in our common stock wishes to sell the shares, the bid price will have sufficiently increased to create a profit on the sale.



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***We do not know whether a market for our common stock will be sustained or what the market price of our common stock will be and as a result it may be difficult for you to sell your shares of our common stock.***

Although our common stock now trades on the OTCBB and OTCQB, an active trading market for our shares may not be sustained. It may be difficult for our stockholders to sell their shares without depressing the market price for our shares or at all. As a result of these and other factors, our stockholders may not be able to sell their shares. Further, an inactive market may also impair our ability to raise capital by selling shares of our common stock and may impair our ability to enter into strategic partnerships or acquire companies or products by using our shares of common stock as consideration. If an active market for our common stock does not develop or is not sustained, it may be difficult for our stockholders to sell shares of our common stock.

***Our cash flows are unpredictable, and this may harm our financial condition or the market price for our common stock.***

The amount and timing of cash flows from our licensing and enforcement activities are subject to uncertainties stemming primarily from uncertainties regarding the rates of adoption of our patented technologies, the growth rates of our licensees, the outcome of enforcement actions and certain other factors. As such, our income and cash flows may vary significantly from period to period, which could make our business difficult to manage, adversely affect our business and operating results, cause our annual or quarterly results to fall below market expectations and adversely affect the market price of our common stock.

***The market price for our common stock may fluctuate significantly, which could result in substantial losses by our investors.***

The market price of our common stock may fluctuate significantly in response to numerous factors, some of which are beyond our control, such as:

- the outcomes of our current and potential future patent litigation;
- our ability to monetize our patents;
- changes in our industry;

- announcements of technological innovations, new products or product enhancements by us or others;
- announcements by us of significant strategic partnerships, out-licensing, in-licensing, joint ventures, acquisitions or capital commitments;
- changes in earnings estimates or recommendations by security analysts, if our common stock is covered by analysts;
- investors' general perception of us;
- future issuances of common stock;
- the addition or departure of key personnel;
- general market conditions, including the volatility of market prices for shares of technology companies, generally, and other factors, including factors unrelated to our operating performance; and
- the other factors described in this "Risk Factors" section.

These factors and any corresponding price fluctuations may materially and adversely affect the market price of our common stock and result in substantial losses by our investors.

Further, the stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations in the past. Continued market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock.

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Price volatility of our common stock might be worse if the trading volume of our common stock is low. In the past, following periods of market volatility, stockholders have often instituted securities class action litigation. If we were involved in securities litigation, it could have a substantial cost and divert resources and attention of management from our business, even if we are successful. Future sales of our common stock could also reduce the market price of such stock.

Moreover, the liquidity of our common stock is limited, not only in terms of the number of shares that can be bought and sold at a given price, but by delays in the timing of transactions and reduction in security analysts' and the media's coverage of us, if any. These factors may result in lower prices for our common stock than might otherwise be obtained and could also result in a larger spread between the bid and ask prices for our common stock. In addition, without a large float, our common stock is less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile. In the absence of an active public trading market, an investor may be unable to liquidate its investment in our common stock. Trading of a relatively small volume of our common stock may have a greater impact on the trading price of our stock than would be the case if our public float were larger. We cannot predict the prices at which our common stock will trade in the future.

Some or all of the restricted shares of our common stock issued in connection with the closing of the reverse acquisition transaction in September 2011 or held by other of our stockholders may be offered from time to time in the open market pursuant to an effective registration statement or Rule 144 promulgated under Regulation D of the Securities Act, or Rule 144, and these sales may have a depressive effect on the market for our common stock.

***Our common stock is a penny stock, which makes it more difficult for our investors to sell their shares.***

Our common stock is subject to the penny stock rules adopted under Section 15(g) of the Securities Exchange Act of 1934, as amended. The penny stock rules generally apply to companies whose common stock is not listed on The NASDAQ Stock Market or other national securities exchange and trades at less than \$5.00 per share, other than companies that have had average revenue of at least \$6,000,000 for the last three years or that have tangible net worth of at least \$5,000,000 (\$2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than established customers complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. If we remain subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for our securities. If our securities are subject to the penny stock rules, investors will find it more difficult to dispose of our securities.

***Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.***

If our stockholders sell substantial amounts of our common stock in the public market, it could create a circumstance commonly referred to as an overhang, in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

***Our stockholders may experience substantial dilution as a result of the conversion of outstanding convertible preferred stock, convertible debentures, convertible notes, or the exercise of options and warrants to purchase shares of our common stock.***

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As of March 31, 2014, we have granted options to purchase 15,119,073 shares of common stock and have reserved 30,499,175 shares of our common stock for issuance upon the exercise of options pursuant to our 2011 Long-Term Incentive Plan. In addition, as of March 31, 2014, we have reserved for issuance 11,045,655 shares of our common stock for issuance upon conversion or outstanding convertible preferred stock and 12,004,578 shares of our common stock for issuance upon exercise of outstanding warrants. As of March 31, 2014, we have also reserved 3,000,000 shares of our common stock for issuance upon conversion of outstanding convertible debentures.

***Because our directors and executive officers are among our largest stockholders, they can exert significant control over our business and affairs and have actual or potential interests that may depart from those of our other stockholders.***

Our directors and executive officers own or control a significant percentage of our common stock. Additionally, the holdings of our directors and executive officers may increase in the future upon vesting or other maturation of exercise rights under any of the options or warrants they may hold or in the future be granted or if they otherwise acquire additional shares of our common stock. As of March 31, 2014, our officers and directors beneficially own approximately 28% of the outstanding shares of our common stock. The interests of such persons may differ from the interests of our other stockholders. As a result, in addition to their board seats and offices, such persons will have significant influence over and control all corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including the following actions:

- to elect or defeat the election of our directors;
- to amend or prevent amendment of our certificate of incorporation or bylaws;
- to effect or prevent a merger, sale of assets or other corporate transaction; and
- to control the outcome of any other matter submitted to our stockholders for vote.

In addition, such persons' stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

## **ITEM 2. PROPERTIES**

We owned no properties and had no property leases at December 31, 2013. We currently have one month to month sub-lease for office space at our current location.

## **ITEM 3. LEGAL PROCEEDINGS**

On July 31, 2012, the Company filed suit against Groupon, Inc. in the Eastern District of Texas in Civil Action No. 6:12-cv-00486. The Company filed additional suits against Izea, Inc. on October 17, 2012; Yelp, Inc. on October 17, 2012; and Foursquare Labs, Inc. on October 31, 2012 in Civil Action Nos. 6:12-cv-786, 6:12-cv-788, 6:12-cv-837, respectively. Each of these cases alleges that the defendants infringe U.S. Patent Nos. 7,664,516 entitled "Method and System for Peer-to-Peer Advertising Between Mobile Communication Devices" and 8,155,679 entitled "System and Method for Peer-to-Peer Advertising Between Mobile Communication Devices." The Company subsequently added U.S. Patent Nos. 8,438,055, 8,452,646, and 8,457,670 to the cases, alleging each defendant infringed the newly added patents. Each of the defendants have answered, denying infringement and claiming that the asserted patents are invalid. Groupon, Yelp, and Foursquare filed counterclaims for declaratory judgment that the asserted patents are invalid and not infringed. Yelp filed an additional counterclaim for declaratory judgment that the asserted patents are unenforceable. The Court subsequently consolidated the actions for at least pre-trial purposes. Groupon filed a motion to transfer the case against it to the U.S. District Court for the Northern District of California, which the Court denied on September 27, 2013.

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Between July 19, 2013 and October 3, 2013, Groupon filed petitions with the Patent Trial & Appeals Board ( PTAB ) requesting institution of Covered Business Method Review of all asserted claims. On December 19, 2013 and January 17, 2014, the PTAB issued decisions instituting review on all but four of the asserted claims. On January 14, 2014, the Company and all defendants filed a joint motion to stay the district court litigation. The Court granted the motion and stayed the case on January 16, 2014 pending a decision by the PTAB. Trial on the Covered Business Method Reviews at the PTAB is set for September 5, 2014. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer, which remains pending as of the date of this report.

The court dockets for each case, including the parties' briefs are publicly available on the Public Access to Court Electronic Records website, or PACER, [www.pacer.gov](http://www.pacer.gov), which is operated by the Administrative Office of the U.S. Courts.

Other than as noted above, the Company is not a party to any pending legal proceeding nor is its property the subject of any pending legal proceeding that is not in the ordinary course of business or otherwise material to the financial condition of its business. Further, to the knowledge of management, no director or executive officer is party to any action in which any has an interest adverse to us.

**ITEM 4. MINE SAFETY DISCLOSURES.**

None.

**PART II**

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

Our common stock was originally approved for quotation on the OTC Bulletin Board on July 13, 2011 and since August 8, 2012, has been quoted under the trading symbol BCYP. The following table sets forth the high and low bid prices for our common stock for the periods indicated, as reported by the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	<b>High</b>	<b>Low</b>
<b>Fiscal Year 2012</b>		
First Quarter	\$ 1.05	\$ 1.01
Second Quarter	\$ 0.92	\$ 0.40
Third Quarter	\$ 0.98	\$ 0.65
Fourth Quarter	\$ 0.85	\$ 0.30
<b>Fiscal Year 2013</b>		
First Quarter	\$ 0.45	\$ 0.13
Second Quarter	\$ 0.36	\$ 0.12
Third Quarter	\$ 0.19	\$ 0.12
Fourth Quarter	\$ 0.22	\$ 0.14



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The last reported sales price of our common stock on the OTC Bulletin Board on March 31, 2014, was \$0.130 per share. As of March 31, 2014, there were approximately 50 holders of record of our common stock.

**Dividends**

We have not paid, nor declared, any cash dividends since our inception and do not intend to declare any such dividends in the foreseeable future. Our ability to pay cash dividends is subject to limitations imposed by Delaware law. Under Delaware law, cash dividends may be paid to the extent that a corporation's assets exceed its liabilities and it is able to pay its debts as they become due in the usual course of business.

**Securities Authorized for Issuance Under Equity Compensation Plans**

On August 31, 2012, the board adopted, subject to stockholder approval, the Blue Calypso, Inc. 2011 Long-Term Incentive Plan, or the Plan. Our stockholders approved the Plan on September 9, 2011. The Plan is intended to enable us to remain competitive and innovative in our ability to attract, motivate, reward and retain the services of key employees, certain key contractors, and non-employee directors. The Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards which may be granted singly, in combination, or in tandem, and which may be paid in cash or shares of common stock. The Plan is expected to provide flexibility to our compensation methods in order to adapt the compensation of employees, contractors, and non-employee directors to a changing business environment, after giving due consideration to competitive conditions and the impact of federal tax laws. Subject to certain adjustments, the maximum number of shares of our common stock that may be delivered pursuant to awards under the Plan is 35,000,000 shares.

As of December 31, 2013, securities issued and securities available for future issuance under the Blue Calypso 2011 Long-Term Incentive Plan were as follows:

<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding</b>
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			<b>securities reflected in column (a)</b>
Equity compensation plans approved by security holders	4,500,825	\$0.265	30,499,175
Equity compensation plans not approved by security holders	9,376,748	\$0.156	
Total	13,877,573	\$0.191	30,499,175

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**Recent Sales of Unregistered Securities**

During the three months ended December 31, 2013, the Company issued an aggregate of 472,574 shares of Common Stock as settlement of certain accounts payable.

During the three months ended December 31, 2013, the Company granted options to purchase an aggregate of 280,000 shares of Common Stock pursuant to the Company's 2011 Long-Term Incentive Plan. The options have a term of 10 years and are exercisable at an exercise price of \$0.172 per share.

The foregoing securities were issued without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon an exemption from registration provided by Section 4(2) under the Securities Act. The securities may not be transferred or sold absent registration under the Securities Act or the availability of an applicable exemption therefrom.

**ITEM 6. SELECTED FINANCIAL DATA.**

Since we are a smaller reporting company, as defined by SEC regulation, we are not required to provide the information required by this Item.

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

**Forward-Looking Statements**

The statements made herein for fiscal 2013 and beyond represent forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 and are subject to a number of risks and uncertainties. These include, among other risks and uncertainties, whether we will be able to generate sufficient cash flow from our operations or other sources to fund our working capital needs, maintain existing relationships with our lender, successfully introduce and attain market acceptance of any new products, attract and retain qualified personnel both in our existing markets and in new territories in an extremely competitive environment, and potential obsolescence of our technologies.

In some cases, you can identify forward-looking statements by terms such as may, will, should, could, would, plans, anticipates, believes, estimates, projects, predicts, potential and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as otherwise required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. We qualify all of our forward-looking statements by these cautionary statements.

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes thereto that are included in this Annual Report. In addition to historical information, the following discussion and analysis includes forward-looking information that involves risks, uncertainties, and assumptions. Actual results and the timing of events could differ materially from those anticipated by these forward looking statements as a result of many factors.*

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**Recent Events**

*General*

On May 6, 2013, we entered into a securities purchase agreement with an accredited investor pursuant to which we issued and sold a 10% Convertible Debenture (the "May 2013 Debenture") in the principal amount of \$2,400,000 and 1,200,000 shares of our common stock in consideration of gross proceeds of \$2,400,000. The Debenture bears interest at a rate of 10% per annum, is due two years from the issuance date and is convertible into shares of our common stock at a conversion price of \$0.25 per share. On September 13, 2013, we entered into a series of agreements with the holder of the May 2013 Debenture and certain of our outstanding warrants. Pursuant to such agreements, we agreed to provide for a temporary reduction in the conversion price of the May 2013 Debenture from \$0.25 to \$0.13 per share through December 31, 2013 and the holder agreed to the elimination of certain restrictive covenants in the May 2013 Debenture. In addition, we agreed to amend the terms of certain of our outstanding warrants in order to induce the holder to exercise such warrants as well as to eliminate the cashless exercise feature and certain anti-dilution protections contained in such warrants. In exchange, we agreed to provide for a temporary reduction in the exercise price of such warrants from \$0.10 to \$0.05 through the later of December 31, 2013 or 45 days after a registration statement covering the underlying shares is declared effective by the Securities and Exchange Commission. The registration statement covering such shares was declared effective by the Securities and Exchange Commission on November 25, 2013.

As of December 31, 2013, the May 2013 Debenture together with all accrued but unpaid interest thereon was converted into an aggregate of 19,400,000 shares of our common stock. On January 9, 2014, we further extended the period during which the warrants were exercisable at the reduced exercise price until March 10, 2014. Following such date, the exercise price shall increase to \$0.15 per share. On January 10, 2014, an aggregate of 11,200,000 warrants have been exercised in consideration of proceeds to the Company of \$560,000.

On October 7, 2013, we entered into a securities purchase agreement with an accredited investor pursuant to which we issued and sold 7,700,000 shares of our common stock at a purchase price of \$0.13 per share in consideration of gross proceeds of \$1,001,000. On October 15, 2013, we entered into a securities purchase agreement with an accredited investor pursuant to which we issued and sold 3,846,154 shares of our common stock at a purchase price of \$0.13 per share in consideration of gross proceeds of \$500,000.

*Litigation*

On July 31, 2012, the Company filed suit against Groupon, Inc. in the Eastern District of Texas in Civil Action No. 6:12-cv-00486. The Company filed additional suits against Izea, Inc. on October 17, 2012; Yelp, Inc. on October 17, 2012; and Foursquare Labs, Inc. on October 31, 2012 in Civil Action Nos. 6:12-cv-786, 6:12-cv-788, 6:12-cv-837, respectively. Each of these cases alleges that the defendants infringe U.S. Patent Nos. 7,664,516 entitled "Method and System for Peer-to-Peer Advertising Between Mobile Communication Devices" and 8,155,679 entitled "System and Method for Peer-to-Peer Advertising Between Mobile Communication Devices." The Company subsequently added U.S. Patent Nos. 8,438,055, 8,452,646, and 8,457,670 to the cases, alleging each defendant infringed the newly added patents. Each of the defendants have answered, denying infringement and claiming that the asserted patents are invalid. Groupon, Yelp, and Foursquare filed counterclaims for declaratory judgment that the asserted patents are invalid and not infringed. Yelp filed an additional counterclaim for declaratory judgment that the asserted patents are unenforceable. The Court subsequently consolidated the actions for at least pre-trial purposes. Groupon filed a motion to transfer the case against it to the U.S. District Court for the Northern District of California, which the Court denied on September 27, 2013.

Between July 19, 2013 and October 3, 2013, Groupon filed petitions with the Patent Trial & Appeals Board ( PTAB ) requesting institution of Covered Business Method Review of all asserted claims. On December 19, 2013 and January 17, 2014, the PTAB issued decisions instituting review on all but four of the asserted claims. On January 14, 2014, the Company and all defendants filed a joint motion to stay the district court litigation. The Court granted the motion and stayed the case on January 16, 2014 pending a decision by the PTAB. Trial on the Covered Business Method Reviews at the PTAB is set for September 5, 2014. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer, which remains pending as of the date of this report.

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The court dockets for each case, including the parties' briefs are publicly available on the Public Access to Court Electronic Records website, or PACER, [www.pacer.gov](http://www.pacer.gov), which is operated by the Administrative Office of the U.S. Courts.

Other than as noted above, the Company is not a party to any pending legal proceeding nor is its property the subject of any pending legal proceeding that is not in the ordinary course of business or otherwise material to the financial condition of its business. Further, to the knowledge of management, no director or executive officer is party to any action in which any has an interest adverse to us.

The court dockets for each case, including the parties' briefs are publicly available on the Public Access to Court Electronic Records website, or PACER, [www.pacer.gov](http://www.pacer.gov), which is operated by the Administrative Office of the U.S. Courts.

Other than as noted above, the Company is not a party to any pending legal proceeding nor is its property the subject of any pending legal proceeding that is not in the ordinary course of business or otherwise material to the financial condition of its business. Further, to the knowledge of management, no director or executive officer is party to any action in which any has an interest adverse to us.

## **Critical Accounting Policies**

### *Development Stage Company*

We are a development stage company as defined by Accounting Standards Codification (ASC) 915, Development Stage Entities and are still devoting substantial efforts to establishing our business. Our principal operations have commenced but there has been no significant revenue thus far. All losses accumulated since inception have been considered part of our development stage activities.

### *Principles of Consolidation and Basis of Presentation*

The consolidated financial statements are stated in U.S. dollars and include the accounts of Blue Calypso, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in

the United States of America.

### *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates include the recoverability and useful lives of long-lived assets, the fair value of the Company's stock, stock-based compensation, fair values relating to warrant and other derivative liabilities, debt discounts and the valuation allowance related to deferred tax assets. Actual results may differ from these estimates.

### *Revenue Recognition*

Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product or service has occurred, all obligations have been performed pursuant to the terms of the agreement, the sales price is fixed or determinable, and collectability is reasonably assured. Revenue includes fees received from customers for advertising and marketing services. In each case Revenue is recognized when services are performed or licenses are granted to customers.

Revenue from the licensing of the Company's intellectual property and settlements reached from legal enforcement of the Company's patent rights is recognized when the arrangement with the licensee has been signed and the license has been delivered and made effective, provided license fees are fixed or determinable and collectability is reasonably assured. The fair value of licenses achieved by ordinary business negotiations is recognized as revenue.



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The amount of consideration received upon any settlement or judgment is allocated to each element of the settlement based on the fair value of each element. Elements related to licensing agreements, royalty revenues, net of contingent legal fees, are recognized as revenue in the consolidated statement of operations. Elements that are not related to license agreements and royalty revenue in nature will be reflected as a separate line item within the other income section of the consolidated statements of operations. Elements provided in either settlement agreements or judgments include: the value of a license, legal release, and interest. When settlements or judgments are achieved at discounts to the fair value of a license, the Company allocates the full settlement or judgment, excluding specifically named elements as mentioned above, to the value of the license agreement or royalty revenue under the residual method. Legal release as part of a settlement agreement is recognized as a separate line item in the consolidated statements of operations when value can be allocated to the legal release. When the Company reaches a settlement with a defendant, no value is allocated to the legal release since the existence of a settlement removes legal standing to bring a claim of infringement and without a legal claim, the legal release has no economic value. The element that is applicable to interest income will be recorded as a separate line item in other income. The Company does not assume future performance obligations in its license arrangements.

The Company also has revenue from information technology consulting services. Revenue is recognized in the periods that satisfactory performance of services is delivered to customers. Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the service has occurred, all obligations have been performed pursuant to the terms of the agreement, the sales price is fixed or determinable, and collectability is reasonably assured.

*Cost of Revenue*

Cost of revenue includes technical service costs directly associated with initiating and supporting a customer social media program, technical service costs directly associated with providing IT consulting and legal fees directly related to the settlement of intellectual property claims that result in licensing and royalty revenue.

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### *Intangible Assets*

The Company capitalizes certain software development costs as well as purchased software upon achieving technological feasibility of the related products. Software development costs incurred and software purchased prior to achieving technological feasibility are charged to engineering and product development expense as incurred. Commencing upon initial product release, capitalized costs are amortized to cost of software licenses using the straight-line method over the estimated life of the product (which approximates the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product), which is generally up to five years.

### *Impairment of Long-Lived Assets*

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value. No impairment was deemed to exist as of December 31, 2013 and 2012. The Company re-evaluates the carrying amounts of its amortizable intangibles at least quarterly to identify any triggering events. As described above, if triggering events require us to undertake an impairment review, it is not possible at this time to determine whether it would be necessary to record a charge or if such charge would be material.

### *Fair Value Measurements*

We have adopted ASC Topic 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs

are unobservable inputs for the asset or liability.

### *Stock-Based Compensation*

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on vesting dates and interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Stock-based compensation expense is recorded by the Company in the same expense classifications in the consolidated statements of operations, as if such amounts were paid in cash.

### *Restatement of Previously Issued Financial Statements*

This annual report contains the restated consolidated balance sheet as of December 31, 2012 and the effects of the restated consolidated statements of operations for the years ended December 31, 2013 and 2012 and from September 11, 2009 (date of inception) through December 31, 2013.

On August 26, 2013, after consulting with the Company's Audit Committee and with the Company's newly appointed Independent Registered Public Accounting Firm, Marcum LLP, management changed its accounting for certain of the Company's warrants previously issued in connection with preferred stock and common stock and conversion features related to previously issued convertible notes which were recorded in periods prior to the engagement of Marcum LLP in order to comply with US GAAP. Such warrants and the embedded conversion options should have been reflected as liabilities on the consolidated balance sheets included in the original 10-K, rather than as a component of equity.

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Specifically, the change in treatment of the warrants and the conversion feature embedded in certain convertible notes resulted in a change to the equity, and liability portions of the consolidated balance sheets as of December 31, 2013 and resulted in a loss on the fair value of the derivative liabilities which impacted our results of operations and earnings (loss) per share as reported in our original 10-K.

## **Results of Operations**

### *Comparison of Year Ended December 31, 2013 and 2012*

*Net Loss.* For the year ended December 31, 2013, we had a net loss of \$6,823,789 compared to a net loss of \$5,075,659 for the year ended December 31, 2012. The increase in loss was primarily due an increase in other income and (expense) from a gain in 2012 of \$479,300 to a loss of \$1,195,693 in 2013. Other income and (expense) was impacted by an unfavorable loss on a settlement or modification of debt of \$6,810,982. Additionally, interest expense increased from \$1,188,782 in 2012 to \$2,015,145 in 2013. These negative impacts were partially offset by a favorable change in the fair value of derivative liabilities of \$7,630,434 in 2013 in comparison to a favorable impact of \$1,668,082 in 2012. Operating expenses were \$5,827,313 in 2013 versus \$5,474,521 in 2012. Sales and marketing increased by \$261,908 as sales staffing was expanded in 2013. Depreciation and amortization increased by \$33,232 in comparison to 2012.

*Revenue.* Revenue for the year ended December 31, 2013 increased to \$341,972 as compared to \$74,584 for the same period in 2012. We are a development stage company and have modest revenue to date. Sales increased as the Company broadened its revenue streams to include social media licensing, settlement and fees of \$245,981 and consulting fees of \$95,991. The increase was the result of two settlements of intellectual property claims that resulted in licensing fees in 2013. Without these two settlements, sales would have increased by 55%.

*Cost of Revenue.* Cost of revenue for the year ended December 31, 2013 was \$142,755. This amount included charges directly related at generating social media, licensing fee and consulting fee revenue. In the year 2012, cost of revenue was \$155,022. The prior year amount was primarily comprised of payments to endorsers as the Company focused on building a captive endorser base.

*Sales and Marketing.* For the year ended December 31, 2013, sales and marketing expenses increased by \$261,908 to \$682,600 during the same period in 2012. The increase was due primarily to increased staffing and advertising

expenses.

*General and Administrative.* For the year ended December 31, 2013, general and administrative expenses increased \$57,652 to \$4,843,804, as compared to \$4,786,152, for the year ended December 31, 2012. Stock compensation expenses declined by \$698,896 to \$ 2,530,061 in 2013 as overall stock option and restricted stock grant expense declined in 2013. This was offset by increased professional fees associated with the continued fund raising activities, restatement of prior year's results and increased investor relations and public relations as the Company sought to increase awareness of the Company in the financial community as well as our prospective customer base.

*Depreciation and Amortization.* Depreciation and amortization expenses, increased from \$267,677 for the year ended December 31, 2012 to \$300,909 for the year ended December 31, 2013 as the Company invested \$355,515 in capitalized software, which includes a common stock grant valued at \$150,000 to acquire software during 2013.

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*Interest Expense.* Interest expense was \$2,015,145 for the year ended December 31, 2013 as compared to \$1,188,782 for the year ended December 31, 2012. Interest expense was incurred related to the Company's long-term debt obligations at various interest rates ranging from 8% to 10% and the amortization of debt discount aggregating \$751,126. Also, there was interest in 2013 related to the warrant modification for reset provision of \$1,027,381.

**Cash Flows**

*Comparison of Year Ended December 31, 2013 and 2012*

Cash used in operating activities during the year ended December 31, 2013 was \$2,756,901, as compared to \$1,930,737 for the year ended December 31, 2012. The change was due to an increase in net loss of \$1,748,130. Cash used was impacted favorably by a non-cash loss on the settlement of notes payable of \$6,810,982. This was offset by the net change in non-cash gain associated with the fair market value adjustment in derivative liabilities of \$7,630,434.

Cash used in investing activities during the year ended December 31, 2013 was \$205,515, as compared to \$331,689 for the year ended December 31, 2012. The decrease in cash used in investing activities resulted primarily from a decrease in cash paid for software development expenses. We expect that cash used in investing activities to remain at the current level for the foreseeable future as we continue to expand our website service offerings.

During the year ended December 31, 2013, cash provided by financing was \$4,038,500 as compared to \$2,109,831 for the same period in 2012. In the current year, the Company secured an aggregate of \$2.6 million in notes payable and \$1.5 million from the sale of common stock associated with two private transactions. These monies were secured to address the cash requirements during the continued development stage of the business.

*Going Concern*

Our independent registered public accounting firm, in their report accompanying our consolidated financial statements for the year ended December 31, 2013, expressed substantial doubt about our ability to continue as a going concern due to our recurring losses from operations, negative cash flows from operating activities and our accumulated deficit. Our ability to continue as a going concern is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies, reduce expenditures, dispose of selective assets, and ultimately, generate additional revenue. The going concern opinion may also limit our ability to access certain types of financing, prevent

us from obtaining financing on acceptable terms, and limit our ability to obtain new business due to potential customers' concern about our ability to deliver products or services. We must raise capital to implement our project and stay in business.

### *Liquidity and Capital Resources*

We are a development stage company and have incurred cumulative losses of \$24,431,770 since beginning operations on September 11, 2009. At December 31, 2013, we had a cash balance of \$1,294,882 and favorable working capital of \$1,006,009.

On May 6, 2013, we entered into a securities purchase agreement with an accredited investor pursuant to which we issued and sold a 10% Convertible Debenture (the "May 2013 Debenture") in the principal amount of \$2,400,000 and 1,200,000 shares of our common stock in consideration of gross proceeds of \$2,400,000. The Debenture bears interest at a rate of 10% per annum, is due two years from the issuance date and is convertible into shares of our common stock at a conversion price of \$0.25 per share. On September 13, 2013, we entered into a series of agreements with the holder of the May 2013 Debenture and certain of our outstanding warrants. Pursuant to such agreements, we agreed to provide for a temporary reduction in the conversion price of the May 2013 Debenture from \$0.25 to \$0.13 per share through December 31, 2013 and the holder agreed to the elimination of certain restrictive covenants in the May 2013 Debenture. In addition, we agreed to amend the terms of certain of our outstanding warrants in order to induce the holder to exercise such warrants as well as to eliminate the cashless exercise feature and certain anti-dilution protections contained in such warrants. In exchange, we agreed to provide for a temporary reduction in the exercise price of such warrants from \$0.10 to \$0.05 through the later of December 31, 2013 or 45 days after a registration statement covering the underlying shares is declared effective by the Securities and Exchange Commission. The registration statement covering such shares was declared effective by the SEC on November 25, 2013.

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On October 7, 2013, we entered into a securities purchase agreement with an accredited investor pursuant to which we issued and sold 7,700,000 shares of our common stock at a purchase price of \$0.13 per share in consideration of gross proceeds of \$1,001,000. On October 15, 2013, we entered into a securities purchase agreement with an accredited investor pursuant to which we issued and sold 3,846,154 shares of our common stock at a purchase price of \$0.13 per share in consideration of gross proceeds of \$500,000.

As of December 31, 2013, the May 2013 Debenture together with all accrued but unpaid interest thereon was converted into an aggregate of 19,400,000 shares of our common stock. On January 9, 2014, an aggregate of 11,200,000 warrants have been exercised in consideration of proceeds to the Company of \$560,000. On January 9, 2014, we further extended the period during which the warrants were exercisable at the reduced exercise price until March 10, 2014. Following such date, the exercise price shall increase to \$0.15 per share.

**Off-Balance Sheet Arrangements**

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition or results of operations.

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

Since we are a smaller reporting company, as defined by SEC regulation, we are not required to provide the information required by this Item.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The required financial statements are included following the signature page of this Form 10-K.



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

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES.**

Evaluation of Disclosure Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act )) as of the end of the period covered by this Annual Report on Form 10-K. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were not effective.

## **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined In Exchange Act Rule 13a-15(f). The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel,

- 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 and includes those policies and procedures that:
- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. In addition, because of changes in conditions, the effectiveness of internal control may vary over time.

As of December 31, 2013, management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992) ( COSO ) and identified material weaknesses. As of December 31, 2013, management conducted an evaluation of the effectiveness of our internal control over financial reporting and concluded that the material weaknesses identified below continue to exist and the Company's internal control over financial reporting still was not effective. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statement will not be presented or detected by our employees.

The specific material weaknesses that management identified in our internal controls as of December 31, 2013 that persist was the insufficient experience to account for and disclose complex transactions under US GAAP and a limited segregation of duties within our accounting and financial reporting functions due to the small number of employees assigned to positions that involve the processing of financial information. Although we are aware that segregation of duties within our company is limited, we believe (based on our current roster of employees and certain control mechanisms we have in place), that the risks associated with having limited segregation of duties is currently minimal.

The Company is a non-accelerated filer and is not subject to Section 404(b) of the Sarbanes Oxley Act. Accordingly, this Annual Report does not contain an attestation report of our independent registered public accounting firm regarding internal control over financial reporting, since the rules for smaller reporting companies provide for this exemption.

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*Restatement of Previously Issued Financial Statements.* On August 26, 2013, after consulting with the Company's Audit Committee and with the Company's newly appointed Independent Registered Public Accounting Firm, Marcum LLP, management changed its accounting for certain of the Company's warrants previously issued in connection with preferred stock and common stock and conversion features related to previously issued convertible notes which were recorded in periods prior to the engagement of Marcum LLP in order to comply with US GAAP. Such warrants and the embedded conversion options should have been reflected as liabilities on the consolidated balance sheets included in the original 10-K, rather than as a component of equity.

Specifically, the change in treatment of the warrants and the conversion feature embedded in certain convertible notes resulted in a change to the equity, and liability portions of the consolidated balance sheets as of March 31, 2012, June 30, 2012, September 30, 2012, December 31, 2012 and March 31, 2013 and resulted in a loss on the fair value of the derivative liabilities which impacted our results of operations and earnings (loss) per share as reported in our original 10-K and 10-Q filings.

*Remediation plan.* Since the determination regarding this deficiency, we have devoted significant effort and resources to remediation and improvement of our internal control over financial reporting. While we had processes in place to identify and apply developments in accounting standards, we enhanced these processes to better evaluate our research of the nuances of complex accounting standards and engaged a third party financial reporting consulting firm to assist the Company in its financial reporting compliance. Our enhancements included retaining a third party consultant, who is a technical accounting professional, to assist us in the interpretation and application of new and complex accounting guidance. The firm has been engaged to assist in the analysis of complex financial instruments. Management will continue to review and make necessary changes to the overall design of our internal control environment.

(b) *Changes in internal control over financial reporting.* There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2013, that have materially affected or are 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.**

**Executive Officers and Directors**

Set forth below is certain information regarding our current executive officers and directors. Each of the directors listed below was appointed to our board of directors to serve until our next annual meeting of stockholders or until his successor is elected and qualified. All directors hold office for one-year terms until the election and qualification of their successors.

<b>Name</b>	<b>Age</b>	<b>Position with the Company</b>	<b>Director/Officer Since</b>
William Ogle	46	Chairman of the Board and Chief Executive Officer, Director	2012
Andrew Levi	47	Chief Technology Officer, Director	2011
Ian Wolfman	40	Director	2012
Charles Thomas	47	Director	2012
Andrew Malloy	56	Director	2013
David S. Polster	61	Chief Financial Officer	2012

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**Biographical Information**

*William Ogle, Chairman of the Board and Chief Executive Officer, Director*

Mr. Ogle was appointed as our Chairman and Chief Executive Officer in June 2012. Prior to joining the Company, Mr. Ogle previously served as chief marketing officer at Motorola Mobility, an S&P 500 company that was acquired by Google in May 2012. Mr. Ogle joined Motorola Mobility in 2009. Prior to that, he served as chief marketing officer for Samsung Telecommunications America. Earlier in his career, he was chief marketing officer at Pizza Hut and held brand management positions at Proctor & Gamble and Sara Lee Corp. He received his Bachelor of Business Administration degree from the University of Cincinnati. Mr. Ogle serves on the board of directors of the United States Ad Council and the Arts Community Alliance Board and the board of advisors of the CMO Council. His achievements, experience and knowledge led the board to believe that he is qualified to serve on the board of directors.

*Andrew Levi, Chief Technology Officer, Director*

Mr. Levi founded Blue Calypso Holdings, Inc. in September 2009. In June 2012, he was appointed as our Chief Technology officer. He previously served as our Chairman and Chief Executive Officer. From November 1991 until June 2012, Mr. Levi served as the founder, president and chief executive officer of Aztec Systems, Inc., a Dallas-based provider of mid-market ERP, managed services and related technology solutions. Mr. Levi has been named to SmartPartner Magazine's list of 50 Smartest People in the technology industry and to D Magazine's Top Entrepreneurs under 40. Mr. Levi has been involved in numerous business and association ventures in the technology industry such as Boardroom Software, Inc., Critical Devices, Inc., Aztec Business Solutions, L.L.P., REES Associates, the board of the International Association of Microsoft Certified Partners (IAMCP) and the Information Technology Solution Provider Alliance (ITSPA). Mr. Levi holds a Bachelor of Science degree in finance from Florida State University in addition to numerous technical certifications and ten United States patents. His achievements, experience and knowledge led the board to believe that he is qualified to serve on the board of directors.

*Ian Wolfman, Director*

Mr. Wolfman was appointed to our board in June 2012. Mr. Wolfman has served as chief marketing officer of MEplusYOU, a strategic and creative agency based in Dallas, Texas since August 1998. As chief marketing officer of MEplusYOU, he leads the marketing, public relations and business development functions. Mr. Wolfman received an

MBA from the Cox School of Business at Southern Methodist University and a Bachelor of Science in corporate communications from the University of Texas. His achievements, experience and knowledge led the board to believe that he is qualified to serve on the board of directors.

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*Charles Thomas, Director*

Mr. Thomas was appointed to our board in June 2012. He is the senior vice president of sales for Centro, a media logistics company based in Chicago, Illinois. At Centro, Mr. Thomas leads the company's sales efforts and oversees the strategic direction of the sales force. Mr. Thomas was associated with Time Inc. from 1996 through 1998. Mr. Thomas became the company's first online ad sales person and was promoted to advertising sales director and VP of online sales and marketing. During his tenure at Time Inc., he also contributed to the industry as a founding member of the Internet Advertising Bureau (IAB). Mr. Thomas then joined Broadcast.com as the VP of advertising sales, which was later purchased by Yahoo. He remained Yahoo's central region sales VP until 2007 and was later promoted to the VP of display sales strategy. When Mr. Thomas left Yahoo, he founded Step Ahead Strategies (SAS), a sales and marketing consulting firm. Mr. Thomas graduated from Ohio Wesleyan University in 1980. His achievements, experience and knowledge led the board to believe that he is qualified to serve on the board of directors.

*Andrew Malloy, Director*

Mr. Malloy is a Managing Director of Monument Capital Group LLC, a Washington DC based private investment firm, where he serves as the head of their Denver, Colorado office. He has 30 years of experience in alternative investments, family office and wealth management industries. Prior to joining Monument Capital Group, Mr. Malloy served as a Managing Director of Massey Quick & Co., a multi-family investment office, from March 2011 through December 2011. Prior to joining Massey Quick, he served as a Managing Principal of Shepherd Kaplan LLC, an investment advisory firm based in Boston, Massachusetts from February 2009 through July 2010. Previous to Shepherd Kaplan, Mr. Malloy was an initial investor in, and the Director of Business Strategy and Development for WisdomTree Asset Management, Inc. from June 2006 through October 2008. Mr. Malloy also previously served as a Senior Managing Director and the Chief Investment Officer of TAG Associates, Ltd., as a Senior Vice President at Oppenheimer & Co. He also served in the corporate and executive services group of Bear, Stearns & Co. Mr. Malloy is also an Associate General Partner of his family's real estate holding company. He attended Villanova University and the Harvard Business School Executive MBA program. His achievements, experience and knowledge led the board to believe that he is qualified to serve on the board of directors.

*David S. Polster, Chief Financial Officer*

Mr. Polster was appointed as our Chief Financial Officer in March 2012. Prior to joining the Company, Mr. Polster served as vice president and controller of ASAP Software from April 1992 until its acquisition by Dell in November 2007. Mr. Polster also previously served as the director of financial analysis of Dell's software and peripherals business. Earlier in his career, Mr. Polster held the positions of treasurer of Katalco Corporation and controller of



Berlin Packaging, Inc. He received his Bachelor of Arts from the University of Colorado and his Masters in Business Administration from Northwestern University's Kellogg School of Management. He is a CPA and CMA and is a member of the Beta Gamma Sigma Honorary Business Society.

### **Independent Directors**

Our board of directors has determined that each of Messrs. Ian Wolfman, Charles Thomas and Andrew Malloy is independent within the meaning of applicable listing rules of the Nasdaq Stock Market and the rules and regulations promulgated by the Securities and Exchange Commission. We anticipate that we will add additional independent directors in the future.

### **Committees of the Board of Directors**

*Audit Committee.* We established an audit committee of the board of directors on October 25, 2011. The audit committee consists of Messrs. Wolfman, Thomas and Malloy, each of whom our board has determined to be financially literate and qualify as an independent director under Section 5605(a)(2) of the rules of the Nasdaq Stock Market. In addition, Mr. Malloy qualifies as a financial expert, as defined in Item 407(d)(5)(ii) of Regulation S-K. The function of the audit committee is to oversee our accounting and financial reporting and the audits of our financial statements. The audit committee assists the board in monitoring the integrity of the financial statements, the qualifications, independence and appointment of the independent registered public accounting firm, the performance of our internal audit function and independent auditors, our systems of internal control and our compliance with legal and regulatory requirements. Copies of our audit committee charter can be obtained free of charge from our web site, [www.bluecalypso.com](http://www.bluecalypso.com).

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*Compensation Committee.* We established a compensation committee of the board of directors October 25, 2011. The compensation committee consists of Messrs. Wolfman, Thomas and Malloy, each of whom our board has determined qualifies as an independent director under Section 5605(a)(2) of the rules of the Nasdaq Stock Market, as an outside director for purposes of Section 162(m) of the Internal Revenue Code and as a non-employee director for purposes of Section 16b-3 under the Exchange Act. The function of the compensation committee is to assist the board in overseeing our management compensation policies and practices, including (i) determining and approving the compensation of the our chief executive officer and other executive officers, (ii) reviewing and approving management incentive compensation policies and programs, and exercising discretion in the administration of such programs, (iii) reviewing and approving the form and amount of director compensation and (iv) reviewing and approving equity compensation programs for employees and exercising discretion in the administration of such programs. Copies of our compensation committee charter can be obtained free of charge from our web site, [www.bluecalypso.com](http://www.bluecalypso.com).

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 (the Act ) requires the Company s directors, executive officers, and persons who beneficially own more than 10 percent of our Common Stock, to file reports of ownership and changes in ownership with the SEC. Directors, executive officers, and greater than 10 percent stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such forms received by us or filed with the SEC, we believe that during the year ended December 31, 2013, all persons subject to the reporting requirements of Section 16(a) with respect to the Company filed the required reports on a timely basis.

**Code of Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to directors, officers and other employees of the Company and its subsidiaries, including our principal executive officer, principal financial officer and principal accounting officer. Copies of the code can be obtained free of charge from our web site, [www.bluecalypso.com](http://www.bluecalypso.com). We intend to post any amendments to; or waivers from, our code of ethics on our web site.

Table of Contents**ITEM 11. EXECUTIVE COMPENSATION****2013 and 2012 Summary Compensation Table**

The following table sets forth the compensation earned by the Company's principal executive officer, and each of the Company's two most highly compensated executive officers other than the principal executive officer whose compensation exceeded \$100,000 (collectively, the Named Executive Officers), during the years ended December 31, 2013 and 2012.

Name and Principal	Year	Nonequity		Nonqualified		Incentive	Nonqualified	All Other	Total
		Stock	Option	Plan	Compensation				
		Salary	Bonus	Awards	Awards	Compensation	Earnings	Compensation	Total
Position	Year	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
William Ogle Chairman and Chief Executive Officer (1)	2013	383,333			399,841				783,174
David Polster Chief Financial Officer (2)	2013	101,125		5,234,337	1,719,139				7,194,502
Andrew Levi Chief Technology Officer, Former Chairman and Chief Executive Officer (3)	2013	64,625			45,925				110,550
James Craig Former Chief Financial Officer (4)	2012	193,703							193,703
	2012	18,974							18,974

(1) Mr. Ogle was appointed as our Chairman and Chief Executive Officer effective June 11, 2012.

(2) Mr. Polster was appointed as our Chief Financial Officer in March 2012.

(3) Mr. Levi served as our Chairman and Chief Executive Officer from September 1, 2011 through June 10, 2012. He currently serves as our chief technology officer.

(4) Mr. Craig served as our Chief Financial Officer from September 1, 2011 through February 7, 2012.

### *Employment Agreements*

On June 1, 2012, we entered into an employment letter agreement with our Chief Executive Officer, William Ogle, which was effective on June 11, 2012. The agreement does not have a specified term and Mr. Ogle's employment is on an at-will basis. The agreement provides that Mr. Ogle is entitled to an annual base salary of \$400,000. He is also entitled to annual incentive-based compensation with a target value of 100% of his base salary with an upper limit of 200%, to be determined and administered by our board of directors. Such incentive-based compensation may be paid in the form of shares of our common stock or cash. Mr. Ogle was awarded a restricted stock award equal to 7% of our total issued and outstanding shares calculated as of June 11, 2012. The restricted stock award will vest: (i) one-third on the one year anniversary of the grant date, and (ii) the remaining two-thirds will vest pro rata in eight equal quarterly installments. Mr. Ogle may also be offered additional annual equity awards of up to 200% of his base salary subject to mutually agreeable and reasonable targets beginning in 2013. In addition, on June 11, 2012, pursuant to his employment letter agreement, we also granted to Mr. Ogle options to purchase 3% of the issued and outstanding shares of common stock of the Company on a fully-diluted basis. The options will be exercisable at an exercise price equal to \$0.10 per share for a term of 10 years. Mr. Ogle will also be eligible to participate in the Company's comprehensive medical and dental program. In the event that we terminate Mr. Ogle's employment without cause or Mr. Ogle terminates his employment for good reason, we will pay him his base salary for a period of 12 months from the date of separation and he will be eligible to receive any incentive compensation subject to the applicable targets being achieved. During such severance period, we will pay the premiums for health insurance coverage substantially similar to the benefits provided to Mr. Ogle and his dependents as of the date of termination.

Table of Contents**Director Compensation**

We do not currently compensate our directors, except as described below. We expect that the future compensation arrangements may be comprised of a combination of cash and/or equity awards.

On January 16, 2013, we granted stock options under the Blue Calypso, Inc. 2011 Long-Term Incentive Plan to the directors as follows:

<b>Name</b>	<b>Shares Subject to Option</b>	<b>Exercise Price</b>	<b>Vesting Provisions</b>	<b>Expiration Date</b>
Andrew Malloy (1)	450,000	\$ 0.220	Pro-rata vesting quarterly over two years	May 31, 2022

(1) Mr. Malloy was appointed to the board of directors effective January 16, 2013.

**Compensation Committee Interlocks and Insider Participation**

No member of our compensation committee is an employee of the company. None of our executive officers serve on the board of directors or compensation committee of a company that has an executive officer that serves on our board of directors or compensation committee. No member of our board of directors serves as an executive officer of a company in which one of our executive officers serves as a member of the board of directors or compensation committee of that company.

To the extent any members of our compensation committee and affiliates of theirs have participated in transactions with us meeting the requirements of Item 404 of Regulation S-K, a description of those transactions is described in Certain Relationships and Related Party Transactions. See Item 10. Directors, Executive Officers and Corporate Governance Committees of the Board of Directors for further information regarding our compensation committee.

**Termination of Employment and Change of Control Arrangement**

Mr. Ogle's employment letter agreement provides that in the event that he is terminated without cause (as such term is defined in the letter agreement) or if Mr. Ogle terminates his employment with the Company for good reason (as such term is defined in the letter agreement), the Company will pay him his base salary for a period of twelve months from the date of his separation and that he will be eligible to receive an incentive compensation subject to the applicable targets being achieved. In addition, Mr. Ogle's restricted stock and equity grants will continue to vest for a period of eighteen months from the date of his termination. During the severance period, the Company will also pay the premiums for Mr. Ogle's health insurance coverage substantially similar to that provided to Mr. Ogle and his family as of the date of his termination under the Company's group health and medical policies for so long as he elects to continue such coverage.

Table of Contents**Outstanding Equity Awards at Fiscal Year End**

The following table provides information about the number of outstanding equity awards held by our named executive officers as of December 31, 2013.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)
William Ogle	5,608,218(1)	-	5,608,218	0.10	6/11/2022	2,035,575 (2)	264,625	-	-
	1,256,177	2,512,353	3,768,530	0.24	3/31/2023	2,512,353 (4)	326,606		
David Polster	250,000 (3)	-	250,000	0.50	7/18/2022	-	-	-	-
	33,333	66,667	100,000	.024	3/31/2023	66,667 (4)	8,667		

(1) All of these options were immediately exercisable on June 11, 2012.

(2) Of these shares, 4,361,947 shares vested on June 11, 2013, and the remaining 8,723,895 shares will vest pro-rata in eight equal installments with each installment vesting on the last day of each calendar quarter.

(3) All of these options vested on July 18, 2013.

(4) These options vest equally over three anniversary dates after their issuance.



Table of Contents**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The following table sets forth the number and percentage of outstanding shares of common stock and other classes of our equity securities entitled to vote on all matters submitted to a vote by holders of common stock beneficially owned as of March 31, 2014, by (i) each of our directors and named executive officers; (ii) all persons who are known by us to be beneficial owners of 5% or more of our outstanding common stock; and (iii) all of our officers and directors as a group. The percentages of common stock beneficially owned are reported on the basis of regulations of the Securities and Exchange Commission governing the determination of beneficial ownership of securities. Under the rules of the Securities and Exchange Commission, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of the security, or investment power, which includes the power to dispose of or to direct the disposition of the security. Unless otherwise noted, to our knowledge and subject to community property laws where applicable, each of the persons listed below has sole voting and investment power with respect to the shares indicated as beneficially owned by such person. Unless otherwise noted, each person's address is c/o Blue Calypso, Inc. 19111 North Dallas Parkway, Suite 200, Dallas, Texas 75287.

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership(1)</b>	<b>Percentage of Class (1)(2)</b>
William Ogle 19111 North Dallas Parkway, Suite 200 Dallas, TX 75287	(3) 20,630,255	10.32%
Andrew Levi 19111 North Dallas Parkway, Suite 200 Dallas, TX 75287	33,737,139(4)	16.88%
David Polster 19111 North Dallas Parkway, Suite 200 Dallas, TX 75287	283,333(5)	0.14 %
Ian Wolfman	375,000(5)	0.19%

19111 North Dallas Parkway, Suite 200

Dallas, TX 75287

Charles Thomas

19111 North Dallas Parkway, Suite 200

375,000(5)

0.19%

Dallas, TX 75287

Andrew Malloy

19111 North Dallas Parkway, Suite 200

225,000(5)

0.11 %

Dallas, TX 75287

Esousa Holdings LLC(6)

317 Madison Ave., Suite 1621

12,487,350(7)

6.25%

New York, NY 10017

All directors and executive officers as a group (5 persons)

55,625,733

27.83%

(1) Shares of common stock beneficially owned and the respective percentages of beneficial ownership of common stock assumes the exercise of all options, warrants and other securities convertible into common stock beneficially owned by such person or entity currently exercisable or exercisable within 60 days of March 31, 2014, except as otherwise noted. Shares issuable pursuant to the exercise of stock options and warrants exercisable within 60 days are deemed outstanding and held by the holder of such options or warrants for computing the percentage of outstanding common stock beneficially owned by such person, but are not deemed outstanding for computing the percentage of outstanding common stock beneficially owned by any other person.

(2) These percentages have been calculated based on 199,437,262 shares of common stock outstanding as of March 31, 2014.

(3) Includes (i) 5,608,218 shares issuable upon exercise of vested stock options, (ii) 500,000 shares issuable upon conversion of 10% convertible debentures, and 13,085,842 shares issued pursuant to a restricted stock grant.

(4) Includes (i) 250,000 shares issuable upon conversion of 10% convertible debentures, and (ii) 33,487,139 shares of common stock.

(5) Includes shares issuable upon exercise of vested stock options.(6)

(6) Rachel Glicksman, as managing director of Esousa Holdings LLC, has voting and dispositive control over such shares.

(7) Based upon a Schedule 13G/A filed by Esousa Holdings LLC on February 14, 2012.



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

**Procedures for the Approval of Related Person Transactions**

Our Audit Committee on a timely basis reviews and, if appropriate, approves all related person transactions. At any time in which an executive officer, director or nominee for director becomes aware of any contemplated or existing transaction that, in that person's judgment may be a related person transaction, the executive officer, director or nominee for director is expected to notify the chairman of the Audit Committee of the transaction. Generally, the chairman of the Audit Committee reviews any reported transaction and may consult with outside legal counsel regarding whether the transaction is, in fact, a related person transaction requiring approval by the Audit Committee. If the transaction is considered to be a related person transaction, then the Audit Committee will review the transaction at its next scheduled meeting or at a special meeting of the committee.

**Independent Directors**

Our board of directors has determined that each of Messrs. Wolfman, Thomas and Malloy is independent within the meaning of applicable listing rules of the Nasdaq Stock Market and the rules and regulations promulgated by the Securities and Exchange Commission. We anticipate that we will add additional independent directors in the future.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

We have engaged Marcum LLP ("Marcum") as our registered independent public accounting firm for the audit of our financial statements for the year ended December 31, 2013. Our predecessor auditor, Montgomery Coscia Greulich LLP, Certified Public Accountants ("MCG") audited our financial statements for the year ended December 31, 2012, and the reviews of our financial statements contained in each of our quarterly reports on Form 10-Q during the years ended December 31, 2012 as well as our first quarter review for 2013.

During the years ended December 31, 2013 and 2012, we were billed or expect to be billed by our independent registered public accounting firms the following fees:

**Audit Fee**

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of our financial statements were \$85,000 for fiscal year ended 2013 associated with Marcum and \$54,548 for MCG. Audit fees for the fiscal year 2012 were from MCG and were \$46,000.

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**Audit-Related Fees**

The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of our financial statements that are not reported above were \$-0- for fiscal year ended 2013 and \$-0- for fiscal year ended 2012. The fees for 2013 related to the restatement of the Company's financial statements.

**Tax Fees**

The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, and tax planning were \$6,000 for fiscal year ended 2013 from Marcum and \$2,165 for fiscal year ended 2012 from MCG.

**All Other Fees**

The aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported above were \$0 for fiscal year ended 2013 and \$0 for fiscal year ended 2012.

Our audit committee will evaluate and approve in advance, the scope and cost of the engagement of an auditor before the auditor renders audit and non-audit services.

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Exhibits

**Description**

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**Exhibit  
Number**

- 2.1 Agreement and Plan of Merger and Reorganization, dated as of September 1, 2011, by and among Blue Calypso, Inc., Blue Calypso Acquisition Corp., and Blue Calypso Holdings, Inc. (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
- 2.2 Agreement and Plan of Merger, dated September 9, 2011, by and between Blue Calypso, Inc., a Nevada corporation, and Blue Calypso, Inc., a Delaware corporation (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 15, 2011)
- 3.1 Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011)
- 3.2 Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011)
- 3.3 Bylaws of Blue Calypso, Inc., a Delaware corporation, adopted September 9, 2011 (incorporated by reference to Exhibit 3.3 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011)
- 10.1 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
- 10.2 Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
- 10.3 Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
- 10.4 Form Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
- 10.5 Agreement of Conveyance, Transfer and Assignment of Assets and Assumption of Obligations, dated as of September 1, 2011 (incorporated by reference to Exhibit 10.5 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
- 10.6 Stock Purchase Agreement, by and between Blue Calypso, Inc. and Deborah Flores, dated as of September 1, 2011 (incorporated by reference to Exhibit 10.6 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
- 10.7 Securities Purchase Agreement, dated as of September 1, 2011, by and among Blue Calypso, Inc. and certain purchasers set forth therein (incorporated by reference to Exhibit 10.7 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
- 10.8 Registration Rights Agreement, dated as of September 1, 2011, by and among Blue Calypso, Inc. and certain purchasers set forth therein (incorporated by reference to Exhibit 10.9 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
- 10.9 Form of Warrant (incorporated by reference to Exhibit 10.10 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
- 10.10 Letter Agreement, dated January 16, 2012, by and between Blue Calypso, Inc. and Aztec Systems, Inc. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 20, 2012)
- 10.11 Promissory Note, dated January 17, 2012, issued by Blue Calypso, Inc. to Aztec Systems, Inc. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 20, 2012)
- 10.12 Securities Purchase Agreement, dated April 19, 2012, by and between Blue Calypso, Inc. and the Buyer thereto (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.13 Senior Secured Convertible Note issued April 19, 2012 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.14

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- 10.15 Common Stock Purchase Warrant issued April 19, 2012 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)  
Security Agreement, dated April 19, 2012, by and between the Company, Blue Calypso, LLC and the Buyer (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.16 Intellectual Property Security Agreement, dated April 19, 2012, by and between the Company, Blue Calypso, LLC, and the Buyer (incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.17 Subsidiary Guarantee, dated April 19, 2012, by Blue Calypso, LLC, in favor of the Buyer (incorporated by reference to Exhibit 10.6 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.18 Form of Lock-Up Agreement (incorporated by reference to Exhibit 10.7 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.19 Amendment No. 1 to Common Stock Purchase Warrant (incorporated by reference to Exhibit 10.8 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.20 Stockholder s Agreement, dated April 19, 2012, by and between Andrew Levi and the Company (incorporated by reference to Exhibit 10.9 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.21 Letter Agreement dated June 1, 2012, between Blue Calypso, Inc. and Bill Ogle effective as of June 1, 2012 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 4, 2012)
- 10.22 Form of Subscription Agreement June 2012 Private Placement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2012)
- 10.23 Form of Warrant June 2012 Private Placement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2012)
- 10.24 Exchange Agreement dated November 9, 2012 between Blue Calypso, Inc. and Aztec Systems, Inc. (incorporated by reference to Exhibit 10.24 to our Quarterly Report on Form 10-Q for the period ended September 30, 2012 filed with the Securities and Exchange Commission on November 19, 2012)
- 10.25 8% Convertible Note dated November 9, 2012 (incorporated by reference to Exhibit 10.24 to our Quarterly Report on Form 10-Q for the period ended September 30, 2012 filed with the Securities and Exchange Commission on November 19, 2012)
- 10.26 Amendment No. 1 to 8% Senior Secured Convertible Debentures between Blue Calypso, Inc. and the Holder dated April 29, 2013 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2013)
- 10.27 Amendment No. 2 to Common Stock Purchase Warrants between the Company and the Holder dated April 29, 2013 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2013)
- 10.28 Amendment No. 2 to Common Stock Purchase Warrants between the Company and the Holder dated April 29, 2013 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2013)
- 10.29 Securities Purchase Agreement dated May 6, 2013 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2013)
- 10.30 10% Convertible Debenture dated May 6, 2013 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2013)
- 10.31 Amendment No. 1 to 10% Convertible Debenture between Blue Calypso, Inc. and the Holder dated September 13, 2013 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 16, 2013)
- 10.32 Amendment No. 3 to Common Stock Purchase Warrants between the Company and the Holder dated September 13, 2013 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 16, 2013)
- 10.33



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- Amendment No. 2 to Common Stock Purchase Warrant between the Company and the Holder dated September 13, 2013 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 16, 2013)
- 10.34 Securities Purchase Agreement dated October 7, 2013 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 11, 2013)
- 10.35 Amendment No. 4 to Common Stock Purchase Warrants between the Company and the Holder dated January 9, 2014 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2014)
- 10.36 Amendment No. 3 to Common Stock Purchase Warrant between the Company and the Holder dated January 9, 2014 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2014)
- 21.1 List of subsidiaries (incorporated by reference to Exhibit 21.1 to our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on April 16, 2012)
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Blue Calypso, Inc.**

Date March 31, 2014

*/s/ William Ogle*  
 William Ogle  
 Chief Executive Officer

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

Signature	Title	Date
<u><i>/s/ William Ogle</i></u> William Ogle	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 2014
<u><i>/s/ David Polster</i></u> David Polster	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2014
<u><i>/s/ Andrew Levi</i></u> Andrew Levi	Director	March 31, 2014
<u><i>/s/ Charles Thomas</i></u> Charles Thomas	Director	March 31, 2014
	Director	March 31, 2014

/s/ Ian

Wolfman \_\_\_\_\_

Ian Wolfman

/s/Andrew

Malloy \_\_\_\_\_

Director

March 31, 2014

Andrew Malloy

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**(a development stage company)**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Audit Committee of the Board of Directors and Stockholders of Blue Calypso, Inc.

We have audited the accompanying consolidated balance sheets of Blue Calypso, Inc. and Subsidiaries (a development stage company) (the "Company") as of December 31, 2013, and related consolidated statements of operations, stockholders' equity (deficiency), and cash flows for the year ended, and for the cumulative period from September 11, 2009 (inception) to December 31, 2013. The financial statements for the period September 11, 2009 (inception) through December 31, 2012 were audited by other auditors. The financial statements for the period from September 11, 2009 (inception) to December 31, 2012 include total revenue and net loss of \$126,211 and \$17,607,980, respectively. Our opinion on the statements of operations, stockholders' equity (deficiency) and cash flows for the period from September 11, 2009 (inception) to December 31, 2013, insofar as it relates to amounts through December 31, 2012 is based solely on the report of other auditors. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Blue Calypso, Inc. and Subsidiaries as of December 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended and the cumulative period from September 11, 2009 (inception) to December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully discussed in Note 2, the Company is in the development stage, has incurred net losses since inception and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP  
Marcum LLP  
New York, NY  
March 31, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Board of Directors and Stockholders of Blue Calypso, Inc., and Subsidiary**

We have audited the accompanying consolidated balance sheets of Blue Calypso, Inc. and subsidiary (a development stage company, the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for each of the years then ended and the period from September 11, 2009 (inception) to December 31, 2012. 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 auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether these 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Calypso, Inc. and subsidiary as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended and for the period from September 11, 2009 (inception) to December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 12 to the consolidated financial statements, the Company has had recurring losses from operations, negative cash flows from operating activities and has an accumulated deficit. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

As further discussed in Note 2 to the financial statements, restatement adjustments were made to the financial statements for the year ended December 31, 2012 and 2011 with regard to a loss on change in fair value of derivative liabilities of \$10,284,733 for the year ended December 31, 2011 and a change in fair value of derivative liabilities of \$1,668,082, an increase in interest expense related to derivative liabilities of \$611,007 and an understatement of restricted stock expense of \$1,017,786 for the year ended December 31, 2012.

/s/ Montgomery Coscia Greilich LLP  
Plano, Texas

March 28, 2013 except for Note 4, which is dated October 9, 2013





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**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**(a development stage company)**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,294,882	\$ 218,798
Accounts receivable, net	64,300	43,868
Prepaid expenses	57,371	3,052
Total current assets	1,416,553	265,718
Property and equipment, net	10,009	16,628
Other assets:		
Capitalized software development costs, net of accumulated amortization of \$647,247 and \$352,957 as of December 31, 2013 and 2012, respectively	984,674	923,449
Total assets	\$ 2,411,236	\$ 1,205,795
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)</b>		
Current liabilities:		
Accounts payable	\$ 161,225	\$ 84,947
Accrued expenses	4,878	209,575
Deferred revenue	-	10,000
Convertible notes payable net of discount of \$207,589 and \$-0- as of December 31, 2013 and 2012, respectively	242,411	465,000
Convertible notes payable-affiliate, net of discount of \$-0- and \$244,705 as of December 31, 2013 and 2012, respectively	-	278,186
Conversion option liability	-	109,802
Warrant liabilities	2,030	10,854,204
Total current liabilities	410,544	12,011,714
Long term debt:		
Convertible notes payable, net of discount of \$15,830 and \$213,500 as of December 31, 2013 and 2012, respectively	134,170	236,500
Total liabilities	544,714	12,248,214

Commitments and contingencies

Stockholders' equity (deficiency):

Preferred stock, \$0.0001 par value, 5,000,000 shares authorized Series A convertible preferred stock, \$0.0001 par value; 1,700,000 shares designated; 750,068 and 1,700,000 shares issued and outstanding as of December 31, 2013 and 2012, respectively	75	170
Common stock, \$0.0001 par value; 680,000,000 shares authorized, 188,237,262 and 125,135,096 shares issued and outstanding as of December 31, 2013 and 2012, respectively	18,824	12,514
Additional paid in capital	26,279,393	6,552,878
Deficit accumulated during development stage	(24,431,770)	(17,607,981)
Total stockholders' equity (deficiency)	1,866,522	(11,042,419)
Total liabilities and stockholders' equity (deficiency) \$	2,411,236	\$ 1,205,795

See the accompanying notes to these consolidated financial statements

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**(a development stage company)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year ended December 31,		From September 11, 2009 (date of inception)  Through December 31,
	2013	2012	2013
REVENUE	\$ 341,972	\$ 74,584	\$ 468,183
Cost of revenue	142,755	155,022	409,288
Gross profit (loss)	199,217	(80,438)	58,895
<b>OPERATING EXPENSES:</b>			
Sales and marketing	682,600	420,692	1,970,954
General and administrative	4,843,804	4,786,152	10,733,025
Depreciation and amortization	300,909	267,677	681,520
Total operating expenses	5,827,313	5,474,521	13,385,499
Loss from operations	(5,628,097)	(5,554,959)	(13,326,603)
Other income (expense):			
Change in fair value of derivative liabilities	7,630,434	1,668,082	(986,218)
Loss on settlement or modification of debt	(6,810,982)	-	(6,810,982)
Interest expense	(2,015,145)	(1,188,782)	(3,307,967)
Total other income (expense)	(1,195,693)	479,300	(11,105,167)
<b>NET LOSS</b>	<b>\$ (6,823,789)</b>	<b>\$ (5,075,659)</b>	<b>\$ (24,431,770)</b>
Net loss per common share, basic and diluted	\$ (0.05)	\$ (0.04)	
Weighted average common shares outstanding, basic and diluted	144,270,454	133,060,503	

See the accompanying notes to these consolidated financial statements



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**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**(a development stage company)**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)**  
**PERIOD FROM SEPTEMBER 11, 2009 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2013**

	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated	Total Stockholders' Deficiency
	Shares	Amount	Shares	Amount		Deficit during	
						Development Stage	
Balance, September 11, 2009 (date of inception)	-	\$ -	-	\$ -	\$ -	\$ -	\$ -
Net loss	-	-	-	-	-	(23,653)	(23,653)
Balance, December 31, 2009	-	-	-	-	-	(23,653)	(23,653)
Shares issued at \$0.001 per share on March 10, 2010	-	-	65,448,269	6,545	(5,525)	-	1,020
Affiliate payable converted to equity on March 31, 2010	-	-	-	-	21,958	-	21,958
Shares issued on June 10, 2010 for future services	-	-	5,133,183	513	(513)	-	-
Shares issued on September 20, 2010 for future services	-	-	1,604,124	160	(160)	-	-
Stock based compensation	-	-	-	-	22	-	22
Net loss	-	-	-	-	-	(389,035)	(389,035)
Balance, December 31, 2010	-	-	72,185,576	7,218	15,782	(412,688)	(389,688)
Shares issued on January 10, 2011 for future services	-	-	1,283,299	128	(128)	-	-
Shares issued on April 29, 2011 for future services	-	-	1,283,299	128	(128)	-	-
Shares cancelled as of July 25, 2011	-	-	(2,887,423)	(288)	288	-	-
	-	-	28,135,234	2,814	1,562,274	-	1,565,088

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Shares issued upon debt conversion								
Shares issued upon reverse merger	-	-	24,974,700	2,498	(2,498)	-	-	
Shares issued on September 8, 2011 for future services	-	-	320,825	32	(32)	-	-	
Shares issued upon debt conversion	1,500,000	150	-	-	1,499,850	-	1,500,000	
Shares issued on December 30, 2011 for future services	-	-	1,550,115	155	(155)	-	-	
Donated capital	-	-	-	-	4,249	-	4,249	
Stock based compensation	-	-	-	-	5,473	-	5,473	
Allocation of proceeds from warrants as of December 31, 2011	-	-	-	-	(712,827)	-	(712,827)	
Net loss	-	-	-	-	-	(12,119,634)	(12,119,634)	
Balance, December 31, 2011	1,500,000	\$ 150	126,845,625	\$ 12,685	\$ 2,372,148	\$ (12,532,322)	\$ (10,147,339)	
Balance, January 1, 2012	1,500,000	\$ 150	126,845,625	\$ 12,685	\$ 2,372,148	\$ (12,532,322)	\$ (10,147,339)	
Sale of preferred stock at \$1.00 per share	200,000	20	-	-	199,980	-	200,000	
Restricted shares net cancellations	-	-	(1,700,529)	(171)	171	-	-	
Sale of common stock at \$0.50 per share	-	-	890,000	90	448,916	-	449,006	
Shares issued as settlement of accounts payable at \$0.33 per share	-	-	1,068,105	107	354,788	-	354,895	
Return of common shares from founder	-	-	(1,968,105)	(197)	197	-	-	
Reclassification of warrants as derivative liabilities	-	-	-	-	(1,003,920)	-	(1,003,920)	
Fair value of warrants issued in connection with debt	-	-	-	-	416,528	-	416,528	
Beneficial conversion feature associated with notes payable	-	-	-	-	614,696	-	614,696	
Stock based compensation	-	-	-	-	3,149,374	-	3,149,374	

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Net loss	-	-	-	-	-	(5,075,659)	(5,075,659)
Balance, December 31, 2012	1,700,000	\$ 170	125,135,096	\$ 12,514	\$ 6,552,878	\$ (17,607,981)	(11,042,419)
Balance-January 1, 2013	1,700,000	\$ 170	125,135,096	\$ 12,514	\$ 6,552,878	\$ (17,607,981)	(11,042,419)
Conversion of note payable-former Affiliate to equity at \$0.15 per share	-	-	3,686,634	369	552,994	-	553,363
Conversion of preferred shares to common shares at \$0.0679 per share	(949,932)	(95)	13,991,162	1,399	(1,304)	-	-
Return of shares from Founder	-	-	(16,572,980)	(1,658)	1,658	-	-
Conversion of notes payable and accrued interest into common stock at \$0.03 per share	-	-	20,000,000	2,000	542,106	-	544,106
Shares issued to third party as debt discount in connection with notes payable at \$0.18 per share	-	-	1,200,000	120	229,571	-	229,691
Shares issued as deferred financing costs in connection with notes payable at \$0.172 per share	-	-	1,000,000	100	171,900	-	172,000
Subtotal	750,068	\$ 75	148,439,912	\$ 14,844	\$ 8,049,803	\$ (17,607,981)	\$ (9,543,259)
Balance forward	750,068	\$ 75	148,439,912	\$ 14,844	\$ 8,049,803	\$ (17,607,981)	\$ (9,543,259)
Shares issued to acquire software at \$0.15 per share	-	-	1,000,000	100	149,900	-	150,000
Vesting of restricted stock units at \$0.40 per share (prior year expense of \$872,387)	-	-	6,673,127	667	1,783,347	-	1,784,014
Sale of common stock associated with two private transactions at \$0.13 per share	-	-	11,546,154	1,155	1,499,845	-	1,501,000
Conversion of notes payable and accrued interest into common stock at \$0.13 per	-	-	19,400,000	1,940	2,518,060	-	2,520,000

share								
Shares issued in settlement of accounts payable at \$0.235 per share	-	-	1,178,069	118	276,921	-		277,039
Reclassification of derivative liabilities to equity	-	-	-	-	6,384,814	-		6,384,814
Reclassification of warrants as derivative liabilities	-	-	-	-	(2,013,972)	-		(2,013,972)
Loss on debt modification of notes payable	-	-	-	-	6,810,982	-		6,810,982
Stock based compensation	-	-	-	-	551,483	-		551,483
Beneficial conversion feature associated with notes payable	-	-	-	-	268,210	-		268,210
Net loss	-	-	-	-	-	(6,823,789)		(6,823,789)
Balance-December 31, 2013	750,068	\$ 75	188,237,262	\$ 18,824	\$ 26,279,393	\$ (24,431,770)	\$	1,866,522

See the accompanying notes to these consolidated financial statements



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**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**(a development stage company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31,		From September 11, 2009 (date of inception) Through December 31, 2013
	2013	2012	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (6,823,789)	\$ (5,075,659)	\$ (24,431,770)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	300,909	267,677	681,520
Amortization of debt discount	751,126	529,777	1,298,328
Amortization of deferred financing costs	234,500	611,007	845,507
Change in fair value of derivative liabilities	(7,630,434)	(1,668,082)	986,217
Loss on modification of warrants	1,027,371	-	1,027,371
Non-cash loss on settlement of notes payable	6,810,982	-	6,810,982
Stock based compensation	2,530,061	3,168,957	5,704,386
Changes in operating assets and liabilities:			
Accounts receivable	(20,432)	8,032	(64,300)
Prepaid expenses	(54,319)	31,754	(57,371)
Accounts payable	221,821	371,679	306,768
Accounts payable-affiliate	-	(254,838)	21,958
Accrued expenses	(94,697)	93,133	95,397
Deferred revenue	(10,000)	(14,174)	-
Net cash used in operating activities	(2,756,901)	(1,930,737)	(6,775,007)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Software development costs	(205,515)	(331,689)	(1,379,939)
Purchase of fixed assets	-	-	(23,781)
Net cash used in investing activities	(205,515)	(331,689)	(1,403,720)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from notes payable	2,600,000	1,460,958	7,186,236
Proceeds from notes payable, affiliate	-	-	200,000

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Fees paid to third party in connection with issuance of notes payable	(62,500)	-	(62,500)
Proceeds from sale of preferred stock	-	200,000	200,000
Proceeds from sale of common stock	1,501,000	448,873	1,949,873
Net cash provided by financing activities	4,038,500	2,109,831	9,473,609
Net increase (decrease) in cash and cash equivalents	1,076,084	(152,595)	1,294,882
Cash at beginning of period	218,798	371,393	-
Cash at end of period	\$ 1,294,882	\$ 218,798	\$ 1,294,882

SUPPLEMENTAL INFORMATION

Cash paid for interest	\$ 63,510	\$ -	\$ 63,510
Cash paid for income taxes	\$ -	\$ -	\$ -

Non-cash investing and financing activities:

Conversion of notes payable and accounts payable-former affiliate to common stock	\$ 553,363	\$ 200,000	\$ 975,321
Former affiliate payable converted to note payable	\$ -	\$ 545,958	\$ 545,958
Conversion of notes payable to common and preferred stock	\$ 2,915,000	\$ -	\$ 5,684,214
Conversion of accrued interest on notes payable to common stock	\$ 149,106	\$ -	\$ 149,106
Fair value of warrants issued in connection with preferred, common stock and notes payable	\$ -	\$ 1,031,224	\$ 12,153,957
Fair value of conversion option issued in connection with notes payable	\$ -	\$ -	\$ 787,192
Reclassification of derivative liability to equity	\$ 6,384,814	\$ -	\$ 6,384,814
Reclassification of warrants as derivative liability	\$ 2,013,972	\$ 1,003,920	\$ 3,017,892
Shares issued to third party as debt discount on note payable	\$ 229,691	\$ -	\$ 229,691
Fair value of warrants issued in settlement of accounts payable	\$ -	\$ -	\$ 45,206
Common stock issued to acquire software	\$ 150,000	\$ -	\$ 150,000
Fair value of conversion option issued in connection with convertible notes	\$ 11,930	\$ 71,184	\$ 83,114
Fair value of exercise option issued in connection with warrants	\$ 3,041,342	\$ 1,452,335	\$ 4,493,677
Issuance of shares as deferred financing costs related to note payable	\$ 172,000	\$ -	\$ 172,000
Issuance of stockholder subscription receivable	\$ -	\$ (120,000)	\$ -
Issuance of stock to settle accounts payable	\$ 277,039	\$ 354,895	\$ 631,934

See the accompanying notes to these consolidated financial statements



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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**(a development stage company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

**NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

Blue Calypso Holdings, Inc. (a development stage company), a Texas corporation ( BCHI ), was formed in February 2010 as an investment entity to hold a 100% single-member ownership interest in Blue Calypso, LLC, a Texas Limited Liability Company formed on September 11, 2009. The companies are under common control and in February 2010 were merged for strategic operating purposes.

On September 1, 2011, BCHI entered an Agreement of Merger and Plan of Reorganization (the Merger Agreement ) and merged with Blue Calypso Acquisition, Corp., a wholly-owned subsidiary of Blue Calypso, Inc. formerly known as JJ&R Ventures, Inc. Pursuant to the terms and conditions of the Merger Agreement, (i) each share of Blue Calypso common stock issued and outstanding immediately prior to the closing of the Merger was exchanged for the right to receive 64.165 shares of the Company s common stock. Accordingly, an aggregate of one hundred million (100,000,000) shares of the Company s common stock were issued to the holders of Blue Calypso s common stock. The merger was accounted for as a reverse merger and recapitalization in accordance with generally accepted accounting principles in the United States of America whereby BCHI was deemed the accounting acquirer for financial reporting purposes. Consequently, the assets and liabilities and the operations that are reflected in the historical financial statements prior to the merger were those of BCHI and were recorded at its historical cost basis. The operations after completion of the merger include those of BCHI and Blue Calypso Inc. Common stock and corresponding capital amounts of BCHI pre-merger have been retroactively restated as capital stock shares reflecting the exchange ratio in the merger. Effective October 7, 2011 the Company changed its state of incorporation from Nevada to Delaware pursuant to an Agreement and Plan of Merger dated September 9, 2011, providing for the merger of the Company with and into a newly formed wholly owned subsidiary incorporated in Delaware.

The Company is engaged in the development, licensing and enforcement of technology and intellectual property focused on digital word-of-mouth marketing and advertising. The Company has been presented as a "development stage enterprise. The Company s primary activities since inception, have been the design and development of its

products, negotiating strategic alliances and other agreements, and raising capital. The Company has not commenced its principal operations, nor has it generated significant revenues from its operations since inception.

## **NOTE 2 GOING CONCERN AND MANAGEMENT S LIQUIDITY PLANS**

As of December 31, 2013, the Company had cash and cash equivalents of \$1,294,882 and working capital of \$1,003,009. During the year ended December 31, 2013, the Company used net cash in operating activities of \$2,756,901. The Company has not yet generated any significant revenues, and has incurred net losses since inception. These conditions raise substantial doubt about the Company s ability to continue as a going concern.

During the year ended December 31, 2013, the Company raised \$1,501,000 in cash proceeds from the sale of common stock and \$2,600,000 through the issuance of notes payable. Subsequent to December 31, 2013, the Company received \$560,000 from the exercise of certain warrants (see Note 13). The Company believes that its current cash on hand will be sufficient to fund its projected operating requirements through August 2014.

The Company's primary source of operating funds since inception has been cash proceeds from the issuance of common shares and preferred shares to its initial investors, proceeds from the issuance of convertible secured debentures and the sale of common stock and debentures in private placements. The Company intends to raise additional capital through private debt and equity investors, but there can be no assurance that these funds will be available on terms acceptable to the Company, or will be sufficient to enable the Company to fully complete its development activities or sustain operations. If the Company is unable to raise sufficient additional funds, it will have to develop and implement a plan to further extend payables, reduce overhead, or scale back its current business plan until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.

Accordingly, the accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**(a development stage company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

**NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Revenue Recognition*

Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product or service has occurred, all obligations have been performed pursuant to the terms of the agreement, the sales price is fixed or determinable, and collectability is reasonably assured. Revenue includes fees received from customers for advertising and marketing service. Revenue is recognized when services are performed or licenses are granted to customers.

Revenue from the licensing of the Company's intellectual property and settlements reached from legal enforcement of the Company's patent rights is recognized when the arrangement with the licensee has been signed and the license has been delivered and made effective, provided license fees are fixed or determinable and collectability is reasonably assured. The fair value of licenses achieved by ordinary business negotiations is recognized as revenue.

The amount of consideration received upon any settlement or judgment is allocated to each element of the settlement based on the fair value of each element. Elements related to licensing agreements, royalty revenues, net of contingent

legal fees, are recognized as revenue in the consolidated statement of operations. Elements that are not related to license agreements and royalty revenue in nature will be reflected as a separate line item within the other income section of the consolidated statements of operations. Elements provided in either settlement agreements or judgments include: the value of a license, legal release, and interest. When settlements or judgments are achieved at discounts to the fair value of a license, the Company allocates the full settlement or judgment, excluding specifically named elements as mentioned above, to the value of the license agreement or royalty revenue under the residual method. Legal release as part of a settlement agreement is recognized as a separate line item in the consolidated statements of operations when value can be allocated to the legal release. When the Company reaches a settlement with a defendant, no value is allocated to the legal release since the existence of a settlement removes legal standing to bring a claim of infringement and without a legal claim, the legal release has no economic value. The element that is applicable to interest income will be recorded as a separate line item in other income. The Company does not assume future performance obligations in its license arrangements. Revenue from licensing and related service fees aggregated \$245,981 during the year ended December 31, 2013 and \$74,584 during the year ended December 31, 2012. Revenues from September 11, 2009 (inception) through December 31, 2013 were \$372,192.

The Company also has revenue from information technology design and programming consulting services. Revenue is recognized in the periods that satisfactory performance of services is delivered to customers. Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the service has occurred, all obligations have been performed pursuant to the terms of the agreement, the sales price is fixed or determinable, and collectability is reasonably assured. Revenue from consulting services was \$95,991 during the year ended December 31, 2013 and \$-0- during the year ended December 31, 2012. Revenues from September 11, 2009 (inception) through December 31, 2013 were \$95,991.

#### *Cost of Revenue*

Legal costs directly related to the settlement of intellectual property and patent enforcement litigation are recognized as cost of revenue. Other legal expenses incurred in the normal course of the company's business are expensed when incurred as selling, general and administrative expenses.

#### *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates include the recoverability and useful lives of long-lived assets, the fair value of the Company's stock, stock-based compensation, fair values relating to warrant and other derivative liabilities, debt discounts and the valuation allowance related to deferred tax assets. Actual results may differ from these estimates.

#### *Reclassifications*

Certain prior period amounts have been reclassified for comparative purposes to conform to the fiscal 2013 presentation. These reclassifications have no impact on the previously reported net loss.

*Concentrations of Credit Risk*

The Company's financial instruments that are exposed to a concentration of credit risk are cash and accounts receivable.

As of December 31, 2013, two customers represented 49% and 24% of the Company's accounts receivable. As of December 31, 2012, one customer represented 100% of the Company's accounts receivable.

During the year ending December 31, 2013, two agreements represented 37% and 29% of total revenue.



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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**(a development stage company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

*Cash*

Cash consist of cash held in bank demand deposits. The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

The Company maintains cash in bank accounts located in the United States, which, at times, may exceed federally insured limits or be uninsured. The Company has not experienced any losses in such accounts.

*Accounts Receivable*

Accounts receivable primarily consists of trade receivables, net of allowances. On a periodic basis, the Company evaluates its trade receivables and establishes an allowance for doubtful accounts based on its history of past bad debt expense, collections and current credit conditions. The Company performs on-going credit evaluations of its customers and the customer's current credit worthiness. Collections and payments from customers are continuously monitored. The Company maintains an allowance for doubtful accounts, which is based upon historical experience as well as specific customer collection issues that have been identified. As of December 31, 2013 and 2012, the Company's allowance for doubtful accounts was \$0. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, an allowances may be required in future periods.

*Property and Equipment*

Property and equipment consists of office equipment and is recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which for office equipment is three to five years. Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

### *Intangible Assets*

The Company capitalizes certain software development costs as well as purchased software upon achieving technological feasibility of the related products. Software development costs incurred and software purchased prior to achieving technological feasibility are charged to engineering and product development expense as incurred. Commencing upon initial product release, capitalized costs are amortized to cost of software licenses using the straight-line method over the estimated life of the product (which approximates the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product), which is generally up to five years.

### *Impairment of Long-lived Assets*

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value. No impairment was deemed to exist as of December 31, 2013 and 2012. The Company re-evaluates the carrying amounts of its amortizable intangibles at least quarterly to identify any triggering events. As described above, if triggering events require us to undertake an impairment review, it is not possible at this time to determine whether it would be necessary to record a charge or if such charge would be material.

### *Income Taxes*

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of items that have been included or excluded in the financial statements or tax returns. Deferred tax assets and liabilities are determined on the basis of the difference between the tax basis of assets and liabilities and their respective financial reporting amounts ( temporary differences ) at enacted tax rates in effect for the years in which the temporary differences are expected to reverse.

The Company adopted the provisions of Accounting Standards Codification ( ASC ) Topic 740-10, which prescribes a recognition threshold and measurement process for financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return.

Management has evaluated and concluded that there were no material uncertain tax positions requiring recognition in the Company's consolidated financial statements as of December 31, 2013 and 2012. The Company does not expect any significant changes in its unrecognized tax benefits within twelve months of the reporting date.

The Company's policy is to classify assessments, if any, for tax related interest as interest expense and penalties as general and administrative expenses in the consolidated statements of operations.

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Table of Contents**BLUE CALYPSO, INC. AND SUBSIDIARIES****(a development stage company)****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013***Net Loss per Share*

The Company computes basic net income (loss) per share by dividing net income (loss) per share available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the treasury stock and/or if converted methods as applicable. The computation of basic and diluted loss per share as of December 31, 2013 and 2012 excludes potentially dilutive securities when their inclusion would be anti-dilutive, or if their exercise prices were greater than the average market price of the common stock during the period.

Potentially dilutive securities excluded from the computation of basic and diluted net income (loss) per share are as follows:

	December 31, 2013	December 31, 2012
Convertible notes payable	3,000,000	-
Series A convertible preferred stock	11,045,655	25,036,820
Options to purchase common stock	13,877,573	9,460,543
Warrants to purchase common stock	32,495,753	32,495,753
Restricted stock units	13,456,667	13,456,667
Totals	73,875,648	80,449,783

*Preferred Stock*

Preferred shares subject to mandatory redemption (if any) are classified as liability instruments and are measured at fair value. The Company classifies conditionally redeemable preferred shares, which includes preferred shares that

feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control, as temporary equity. At all other times, the Company classifies its preferred shares in stockholders' deficiency. As of December 31, 2013, the Company does not have any preferred shares subject to mandatory redemption outstanding.

*Convertible Instruments*

GAAP requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. An exception to this rule is when the host instrument is deemed to be conventional, as that term is described under applicable GAAP.

When the Company has determined that the embedded conversion options should not be bifurcated from their host instruments, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption. The Company also records, when necessary, deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the transaction and the effective conversion price embedded in the preferred shares.

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**(a development stage company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

Common Stock Purchase Warrants and Other Derivative Financial Instruments

The Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) provide the Company with a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement) providing that such contracts are indexed to the Company's own stock. The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the Company's control) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). The Company assesses classification of its common stock purchase warrants and other free standing derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

The Company's free standing derivatives consisted of warrants to purchase common stock that were issued in connection with its private placement transactions (see Note 4) and embedded conversion options with convertible notes. The Company evaluated these derivatives to assess their proper classification in the consolidated balance sheets as of December 31, 2013 and 2012 using the applicable classification criteria enumerated under GAAP. The Company determined that certain common stock purchase warrants and the embedded conversion features do not contain fixed settlement provisions. The exercise price of such warrants is subject to adjustment in the event that the Company subsequently issues equity securities or equity linked securities with exercise prices lower than the exercise price in these warrants. The convertible notes contained a conversion feature such that the Company could not ensure it would have adequate authorized shares to meet all possible conversion demands.

As such, the Company was required to record the warrants and debt derivatives which do not have fixed settlement provisions as liabilities and mark to market all such derivatives to fair value at the end of each reporting period.

The Company has adopted a sequencing policy that reclassifies contracts (from equity to assets or liabilities) with the most recent inception date first. Thus any available shares are allocated first to contracts with the most recent inception dates.

#### *Stock-Based Compensation*

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on vesting dates and interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Stock-based compensation expense is recorded by the Company in the same expense classifications in the consolidated statements of operations, as if such amounts were paid in cash.

#### *Advertising*

The Company's advertising costs are expensed as incurred. Advertising expense was \$13,589 and \$128,007 for the years ended December 31, 2013 and 2012, respectively, and \$378,845 for the period from September 11, 2009 (inception) through December 31, 2013.

#### *Recent Accounting Pronouncements*

There are various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

#### *Subsequent Events*

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the consolidated financial statements, except as disclosed below.

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**(a development stage company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

**NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company measures the fair value of financial assets and liabilities based on the guidance of ASC 820 Fair Value Measurements and Disclosures which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

ASC 820 describes three levels of inputs that may be used to measure fair value:

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

Level 2 quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 inputs that are unobservable based on an entity's own assumptions, as there is little, if any, related market activity. (for example, cash flow modeling inputs based on assumptions)

Financial liabilities as of December 31, 2013 and 2012 measured at fair value on a recurring basis are summarized below:

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	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative liabilities	\$ 2,030	\$ --	\$ --	\$ 2,030

	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative liabilities	\$ 10,964,006	\$ --	\$ --	\$ 10,964,006

The Company determined that the warrants issued in connection with certain financing transactions and certain conversion options related to convertible notes did not have fixed settlement provisions and are deemed to be derivative financial instruments, since the exercise prices were subject to adjustment based on certain subsequent equity issuances. Accordingly, the Company was required to record such warrants and conversion option as liabilities and mark all such derivatives to fair value each reporting period. Such instruments were classified within Level 3 of the valuation hierarchy.

The fair value of the warrants and the conversion options was calculated using a binomial lattice formula with the following weighted average assumptions during the years ended December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Dividend Yield	0.00%	0.00%
Volatility	80.34% to 85.43%	85.99% to 95.63%
Risk-free Interest Rate	0.10% -1.71%	0.25% -0.72%
Term	0.90 3.5 years	1.6 4.3 years

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**(a development stage company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

The risk-free interest rate is the United States Treasury rate on the measurement date having a term equal to the remaining contractual life of the instrument. The volatility is a measure of the amount by which the Company's share price has fluctuated or is expected to fluctuate. Since the Company's common stock has not been publicly traded for a long period of time, an average of the historical volatility of comparative companies was used. The dividend yield is 0% as the Company has not made any dividend payment and has no plans to pay dividends in the foreseeable future.

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the derivative liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's Chief Financial Officer, who reports to the Chief Executive Officer, determine its valuation policies and procedures.

The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's Chief Financial Officer and are approved by the Chief Executive Officer.

Level 3 financial liabilities consist of the derivative liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

Significant observable and unobservable inputs include stock price, exercise price, annual risk free rate, term, and expected volatility, and are classified within Level 3 of the valuation hierarchy. An increase or decrease in volatility or interest free rate, in isolation, can significantly increase or decrease the fair value of the derivative liabilities. Changes in the values of the derivative liabilities are recorded as a component of other income (expense) on the Company's consolidated statements of operations.

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis for the years ended December 31, 2013 and 2012:

Balance-January 1, 2012	\$	10,997,560
Aggregate fair value of derivative instruments issued		1,634,528
Change in fair value of derivative liabilities		(1,668,082)
Balance December 31, 2012		10,964,006
Aggregate fair value of derivative instruments issued		3,053,272
Transfers out due to the expiration and modification of derivative aspect of financial instrument		(6,384,814)
Change in fair value of derivative liabilities		(7,630,434)
Balance December 31, 2013	\$	2,030

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**(a development stage company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

**NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment include the following:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>
Office Equipment	\$ 23,781	\$ 23,781
Less: Accumulated depreciation	(13,772)	(7,153)
Property and equipment, net	\$ 10,009	\$ 16,628

Depreciation expense was \$6,619 and \$4,756 for the years ended December 31, 2013 and 2012, respectively and \$13,772 for the period from September 11, 2009 (inception) through December 31, 2013.

**NOTE 6 INTANGIBLE ASSETS**

Intangible assets consist of the following:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>
Capitalized Software Development Costs	\$ 1,631,921	\$ 1,276,406
Less: Accumulated amortization	(647,247)	(352,957)

Net capitalized development costs	\$ 984,674	\$ 923,449
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During the year ended December 31, 2013, the Company issued 1,000,000 shares of its common stock valued at \$150,000 to acquire certain software technology. The shares were valued based upon the volume weighted average price of the Company's for the thirty days prior to the closing of the transaction. The Company recorded the fair value of the shares issued as an intangible asset with an estimated useful life of 5 years.

Amortization expense relating to the capitalized development costs was \$294,290 and \$226,503 for the year ended December 31, 2013 and 2012, respectively, and \$647,247 for the period from September 11, 2009 (inception) through December 31, 2013.

The estimated future amortization of intangible assets over the remaining weighted average useful life of approximately 4 years is as follows:

2014	\$	327,333
2015		304,148
2016		212,497
2017		100,829
Thereafter	\$	39,867
		984,674

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**(a development stage company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

**NOTE 7 NOTES PAYABLE**

*April 12, 2012 Senior Secured Convertible Debentures*

From April 2012 through January 2013, the Company issued senior secured convertible debentures (the Secured Convertible Debentures ) in exchange for an aggregate cash proceeds of \$515,000 (\$50,000 of which were received on January 15, 2013). The Secured Convertible Debentures had a stated interest rate of 8% per annum, were due on June 30, 2013 and were originally convertible into shares of the Company s common stock at the option of the holder at a conversion price equal to the closing price of the Company s common stock on the date of the conversion.

The Company identified an embedded derivative related to a conversion option in the Secured Convertible Debentures. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivative as of the inception date of the Secured Convertible Debentures and to fair value the derivative as of each subsequent reporting date.

During the year ended December 31, 2013, the holder of the Secured Convertible Debentures converted the aggregate principal amount of \$515,000 and accrued interest and fees aggregating \$30,764 into 20,000,000 shares of common stock. Concurrently with this transaction, a shareholder cancelled 12,886,346 shares of his common stock, which were being held in escrow pursuant to an escrow agreement between the shareholder and the Company. In connection with the debt modification, the Company recorded a loss on debt modification of \$5,459,582 representing the difference between the fair value of the aggregate shares issuable under the new conversion price and the original conversion terms of the Secured Convertible Debenture.

*November 9, 2012 Exchange Agreement*

On November 9, 2012, the Company entered into the exchange agreement with Aztec Systems, Inc ( Aztec ) (see Note 10), pursuant to which the Company and Aztec agreed to exchange a promissory note with a balance of \$368,059 and the Company's existing accounts payable to Aztec of \$177,899 for an 8% Convertible Note in the original principal amount of \$545,958. The 8% Convertible Note was due on March 31, 2013. Pursuant to the exchange agreement, the Company agreed to register the shares of Common Stock issuable upon conversion of the 8% Convertible Note and an aggregate of 3,733,428 shares of Common Stock currently held by Aztec on or before December 31, 2012. The 8% Convertible Note is convertible into shares of the Company's Common Stock at a conversion price equal to the greater of: (i) \$0.15 per share or (ii) the price per share at which Common Stock is sold in a subsequent financing. Upon effectiveness of the registration statement covering the resale of such shares, the 8% Convertible Note will automatically convert into shares of the Company's Common Stock at the applicable conversion price. The aggregate grant date fair value of the common stock was applied to the principal amount of the May 2013 Debenture to determine the debt discount. Accordingly, the Company allocated \$229,691 of the proceeds to the relative fair value of the common stock on the grant date and recorded such amount as a debt discount on the date of the transaction. A discount of \$341,224 was recorded at issuance and amortization expense of \$244,705 and \$96,519 was recognized for the years ended December 31, 2013 and 2012, respectively. The note balance was \$301,253 net of discount of \$244,705 at December 31, 2012.

Upon effectiveness of the registration statement on February 12, 2013, the 8% Convertible Note and accrued interest, in the aggregate amount of approximately \$550,000 automatically converted at the fixed conversion price of \$0.15 per share into an aggregate of 3,686,634 shares of the Company's common stock.

#### *November 15, 2012 Unit Offering*

On November 15, 2012, the Company commenced a private offering of up to \$3,000,000 of units (the "Units") at a purchase price of \$50,000 per unit pursuant to the securities purchase agreement dated November 15, 2012 (the Purchase Agreement ). Each Unit consisted of a 10% Convertible Debenture in the principal amount of \$50,000 (the 10% Debenture ) and 12,500 shares of the Company's common stock. The 10% Debenture bears interest at a rate of 10% per annum, is due two years from the issuance date and is convertible into shares of the Company's common stock at a conversion price of \$0.20 per share. Through December 31, 2012, we issued and sold an aggregate of 9 units totaling \$450,000. The 10% Debentures were determined to have an embedded beneficial conversion feature ( BCF ) under the provisions of ASC 470-20, Debt with Conversion and Other Options based on the issue date market value and the exercise price of \$0.20 per share. In accordance with ASC 470-20, a discount of \$225,000 was recorded at issuance in 2012 based on the relative fair value of the instruments. During the year ended December 31, 2013 an additional \$150,000 of 10% Debentures were issued. An additional discount of \$268,210 was recorded in 2013. Amortization expense of \$267,272 and \$23,000 was recorded during the year ended December 31, 2013 and 2012, respectively. The note balance was \$376,581 net of discount of \$223,419 at December 31, 2013.



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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

*May 6, 2013 Convertible Debentures*

On May 6, 2013, the Company issued a convertible debenture in exchange for cash proceeds of \$2,400,000 (the May 2013 Debenture). The May 2013 Debenture bears interest at a rate of 10% per annum, is due two years from the issuance date and is convertible into shares of the Company's common stock at the option of the holder at a conversion price of \$0.25 per share. In connection with the May 2013 Debenture, the Company granted the note holder an aggregate of 1,200,000 shares of common stock with a grant date fair value of \$254,400. The aggregate grant date fair value of the common stock was applied to the principal amount of the May 2013 Debenture to determine the debt discount. Accordingly, the Company allocated \$229,691 of the proceeds to the relative fair value of the common stock on the grant date and recorded such amount as a debt discount on the date of the transaction.

On September 13, 2013, the Company modified certain terms of the May 2013 Debenture in order to induce the holder to convert the May 2013 Debenture into shares of the Company's common stock as well as to eliminate certain restrictive covenants in the May 2013 Debenture. In exchange, the Company provided for a temporary reduction in the conversion price of the May 2013 Debenture to \$0.13 per share through December 31, 2013, after which the conversion price will revert back to the original conversion price of \$0.25 per share. In December 2013, the holder elected to convert the convertible debenture of \$2,400,000 and related accrued interest of \$120,000 at the conversion price of \$0.13 per share for an aggregate of 19,400,000 shares of the Company's common stock. In accordance with ASC 470-20, the fair value of the consideration was measured and recognized as an expense on the date that the inducement offer is accepted by the holder. In connection with the debt modification, the Company recorded a loss on debt modification of \$1,351,400 representing the difference between the fair value of the aggregate shares issuable under the new conversion price and the original conversion terms of the May 2013 Debenture.

During the year ended December 31, 2013, the Company recognized \$229,691 in amortization of the deferred debt discount relating to the May 2013 Debenture. In connection with the May 2013 Debenture, the Company incurred fees payable to a third party aggregating \$62,500, and issued an aggregate of 1,000,000 shares with a grant date fair value of \$172,000 to a third-party. Such amounts were recognized as Deferred Financing Costs on the date of the transaction, and were amortized over the term of the May 2013 Debenture. During the year ended December 31,

2013, the Company recognized \$234,500 in amortization of the deferred financing costs relating to the May 2013 Debenture.

#### **NOTE 8 - WARRANT DERIVATIVE LIABILITIES**

The Company issued warrants in conjunction with the issuance of convertible debentures and the sale of Series A Convertible Preferred and Common Stock. These warrants contained certain reset provisions. Therefore, in accordance with ASC 815-40, the Company classified the fair value of the warrant as a liability at the date of issuance. Subsequent to the initial issuance date, the Company is required to adjust the warrant to fair value as an adjustment to current period operations.

During 2012, the Company reclassified additional paid in capital to warrant liabilities in the amount of \$1,003,920 related reset provisions on warrants.

On April 19, 2013, the reset provisions of an aggregate of 22,091,310 warrants expired. Accordingly, the fair value at the date of expiration of \$4,027,945 was reclassified from liabilities to equity.

On April 29, 2013, in connection with an amendment to the Secured Convertible Debentures, the Company reinstated the reset provisions of an aggregate of 11,045,655 warrants and extended their term from August 31, 2016 to April 30, 2018. The fair value of the modified warrants of \$3,041,342 was recorded as a liability with \$2,013,972 reclassified from equity (based on original terms) and \$1,027,381 charged to current period interest (based on term modifications). The fair values were determined using the binomial lattice model.

On September 13, 2013, in connection with an amendment to the Secured Convertible Debentures, the Company modified the terms of 11,045,655 warrants as described above, 2,945,508 warrants issued on March 31, 2012 and 6,500,000 warrants issued on April 12, 2012, reducing the exercise prices from \$0.10 per share to \$0.05 per share; and eliminating the embedded reset provisions. Accordingly, the Company determined the change in fair values of \$64,017 to current period expense and reclassified the adjusted liability to equity of \$2,356,869. The fair values were determined using the binomial lattice model.

As of December 31, 2013, the Company had outstanding 487,235 warrants with embedded reset provisions. See Note 4).



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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**(a development stage company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

**NOTE 9 STOCKHOLDERS DEFICIENCY**

*Common Stock*

During the year ended December 31, 2012, the Company issued an aggregate of 1,068,105 shares of its common stock to various consultants for services rendered valued at \$354,895.

During the year ended December 31, 2012, in connection with the sale of 200,000 shares of the Company's Series A Convertible Preferred Stock at a conversion price of \$0.0679 per share, the Company issued an aggregate of 2,945,508 warrants to purchase the Company's common stock at \$0.10 per share, expiring five years from the date of issuance. These warrants contained certain reset provisions (see Note 8).

During the years ended December 31, 2012 and 2013 the Company's founder cancelled 1,968,105 and 16,572,980 shares of common stock, respectively from an escrow as part of an agreement to facilitate financing for the Company.

During the year ended December 31, 2012, the Company sold an aggregate of 890,000 shares of common stock as part of a private placement. The Company received consideration of gross cash proceeds of approximately \$449,000.

During the year ended December 31, 2013, 949,932 shares of the Company's Series A Convertible Preferred Stock were converted into an aggregate of 13,991,162 shares of common stock at the stated conversion price of \$0.0679 per share.

During the year ended December 31, 2013, the Company issued an aggregate of 1,178,069 shares of common stock to consultants valued at approximately \$277,039 for services previously rendered. The issuance was related to 1,428,069

granted shares and 250,000 shares that were cancelled.

In two private placement transactions dated October 7, 2013 and October 15, 2013, an aggregate of 11,546,154 shares of common stock were sold at \$0.13 per share for total proceeds of \$1,501,000.

#### *Long-Term Incentive Plan*

The stockholders approved the Blue Calypso, Inc. 2011 Long-Term Incentive Plan (the Plan) on September 9, 2011. The Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards which may be granted singly, in combination, or in tandem, and which may be paid in cash or shares of common stock. Subject to certain adjustments, the maximum number of shares of common stock that may be delivered pursuant to awards under the Plan is 35,000,000 shares.

#### *Options*

Option valuation models require the input of highly subjective assumptions. The fair value of stock-based payment awards was estimated using the Black-Scholes option model with a volatility figure derived from an index of historical stock prices of comparable entities until sufficient data exists to estimate the volatility using the Company's own historical stock prices. Management determined this assumption to be a more accurate indicator of value. The Company accounts for the expected life of options in accordance with the simplified method which enables the use of the simplified method for plain vanilla share options as defined in Staff Accounting Bulletin No. 107. The risk-free interest rate was determined from the implied yields of U.S. Treasury zero-coupon bonds with a remaining life consistent with the expected term of the options. The fair value of stock-based payment awards during the year ended December 31, 2013 was estimated using the Black-Scholes pricing model.

In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the number of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period. The Company estimated forfeitures related to option grants at a weighted average annual rate of 0% per year, as the Company does not yet have adequate historical data, for options granted during the years ended December 31, 2013 and 2012, respectively.

The following assumptions were used in determining the fair value of employee and vesting non-employee options:

December 31,      December 31,

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	2013	2012
Risk-free interest rate	0.62%-0.86%	0.25%
Dividend yield	0%	0%
Stock price volatility	35%-118%	20%-37%
Expected life	6-10 years	6-10 years
Weighted average grant date fair value	\$0.11	\$0.23

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Table of Contents**BLUE CALYPSO, INC. AND SUBSIDIARIES****(a development stage company)****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013***Employee options*

During the year ended December 31, 2013, the Company granted options to purchase an aggregate of 4,908,530 shares of common stock to certain employees. These options vest over a 2 or 3 year period, have a term of 10 years, and contain exercise prices between \$0.14 and \$0.24 per share. The options had an aggregate grant fair date value of \$538,727.

During the year ended December 31, 2012, the Company granted options to purchase an aggregate of 8,223,543 shares of common stock to certain employees. These options vest immediately to over a 2 year or 3 year period, have a term of 10 years, and contain exercise prices between \$0.68 and \$1.01 per share. The options had an aggregate grant fair date value of \$1,396,521.

The following table summarizes the stock option activity for the years ended December 31, 2013 and 2012:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2012	-			
Grants	8,223,543	\$ 0.1866	10.00	\$ -
Exercised	-			
Forfeitures or expirations	(1,333,000)	\$ 0.1036		
Outstanding at January 1, 2013	6,890,543	\$ 0.2027	9.35	\$ -
Grants	4,908,530	\$ 0.2323	10.00	\$ -
Exercised	-			
Forfeitures or expirations	(941,500)	0.8215		

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Outstanding at December 31, 2013	10,857,573	\$	0.1627	8.8	\$	259,558
Vested and expected to vest at December 31, 2013	10,857,573	\$	0.1627	8.8	\$	259,558
Exercisable at December 31, 2013	5,865,436	\$	0.1000	8.4	\$	251,426

The following table presents information related to employee stock options at December 31, 2013:

Exercise Price	Options Outstanding		Options Exercisable	
	Number of Options	Weighted Average Remaining Life In Years	Number of Options	Exercisable Number of Options
\$ 0.00-0.10	5,929,043	8.4	5,822,102	
0.11-0.25	4,858,530	9.3	20,000	
0.26-0.75	70,000	8.7	23,334	
	10,857,573	8.7	5,865,436	

As of December 31, 2013, stock-based compensation of \$375,428 remains unamortized and is expected to be amortized over the weighted average remaining period of 2 years.

*Non-employee options*

During the year ended December 31, 2013, the Company granted options to purchase an aggregate of 750,000 shares of common stock to certain consultants. These options vest over a 3 year period, have a term of 10 years, and contain an exercise price of \$0.14 to \$0.24 per share. The vested options had an aggregate grant date fair value of \$75,615.

During the year ended December 31, 2012, the Company granted options to purchase an aggregate of 1,650,000 shares of common stock to certain consultants. These options vest over a 1 year, 2 year or 3 year period, have a term of 10 years, and contain an exercise price of \$0.14 to \$0.24 per share. The vested options had an aggregate grant date fair value of \$904,080.



Table of Contents**BLUE CALYPSO, INC. AND SUBSIDIARIES****(a development stage company)****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013**

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2012	2,420,000	\$ 0.0679		
Grants	1,650,000	0.6210	10.00	\$ -
Exercised	-			
Forfeitures or expirations	(1,500,000)	0.0679		
Outstanding at January 1, 2013	2,570,000	\$ 0.3800	9.35	\$ -
Grants	750,000	\$ 0.2280	10.00	\$ -
Exercised	-			
Forfeitures or expirations	(300,000)	0.8567		
Outstanding at December 31, 2013	3,020,000	\$ 0.2949	8.3	\$ 77,435
Vested and expected to vest at December 31, 2013	3,020,000	\$ 0.2439	8.8	\$ 77,435
Exercisable at December 31, 2013	2,195,000	\$ 0.2500	8.1	\$ 77,435

The following table presents information related to non-employee stock options at December 31, 2013:

Exercise Price	Options Outstanding Number of Options	Options Exercisable	
		Weighted Average Remaining Life In Years	Exercisable Number of Options
\$ 0.00-0.10	1,120,000	7.7	1,120,000
0.11-0.25	700,000	9.1	168,750

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0.26-0.50	750,000	8.4	656,250
0.51-0.90	450,000	8.6	250,000
	3,020,000	8.3	2,195,000

As of December 31, 2013, stock-based compensation of \$95,321 remaining unamortized and is expected to be amortized over the weighted average remaining period of 2 years.

The stock-based compensation expense related to option grants was \$551,483 and \$2,126,142 during the years ended December 31, 2013 and 2012, respectively

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**(a development stage company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

*Restricted Stock*

The following table summarizes the restricted stock activity for the two years ended December 31, 2013:

Restricted shares issued as of January 1, 2012	1,870,940
Granted	13,085,842
Forfeited	(1,500,115)
Total Restricted Shares Issued at December 31, 2012	13,456,667
Granted	-
Total Restricted Shares Issued at December 31, 2013	13,456,667
Vested at December 31, 2013	(6,833,539)
Unvested restricted shares as of December 31, 2013	6,623,128

A total of 13,085,842 shares were granted in 2012 to one employee and will vest 1/3 in the first year following the grant and the balance over the following 8 calendar quarters.

Stock based compensation expense related to restricted stock grants was \$1,784,014 and \$1,023,232 for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013, the stock-based compensation relating to restricted stock of \$2,477,216 remains unamortized and is expected to be amortized over the remaining period of approximately 1.5 years.

*Warrants*

The following table summarizes information with respect to outstanding warrants to purchase common stock of the Company, all of which were exercisable, at December 31, 2013:

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Exercise	Price	Number	<u>Expiration Date</u>
\$	0.05	31,536,818	March 2017 to April 2018
\$	0.50	487,235	November 2014 to December 2014
\$	0.75	471,700	July 2014
		32,495,753	

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The following table summarizes the warrant activity for the two years ended December 31, 2013:

		Weighted-Average	Remaining	Aggregate	
	Shares	Exercise Price	Contractual Term	Intrinsic	Value
Outstanding at January 1, 2012	22,091,310	\$ 0.05	4.5		
Issued	10,404,443	0.134	4.3	\$	-
Exercised	-				
Forfeitures or expirations	-				
Outstanding at January 1, 2013	32,495,753	\$ 0.0769	4.4	\$	-
Grants	-			\$	-
Exercised	-				
Forfeitures or expirations	-				
Outstanding at December 31, 2013	32,495,753	\$ 0.0769	3.4	\$	-
Vested and expected to vest at					
December 31, 2013	32,495,753	\$ 0.0769	3.4	\$	-
Exercisable at December 31, 2013	32,495,753	\$ 0.0769	3.4	\$	-

On April 19, 2012, in connection with the issuance of a senior secured 8% convertible debenture, the Company issued 6,500,000 warrants to purchase the Company's common stock at \$0.10 per share, expiring five years from the date of issuance. These warrants contained certain reset provisions (see Note 8)

On June 13, 2012, in connection with the sale of the Company's common stock, the Company issued 445,000 warrants to purchase the Company's common stock at an exercise price of \$0.75 per share for two years from the date of

issuance.

During the year ended December 31, 2012, in connection with the settlement of outstanding accounts payable, the Company issued an aggregate of 487,235 warrants to purchase the Company's common stock at an exercise price of \$0.50 per share for two years from the date of issuance. The fair value of the warrants were determined by Black-Scholes option pricing model.

During the year ended December 31, 2012, in consideration of a portion of the investment banking fees associated with the common stock private placement, the Company issued 26,700 warrants to purchase the Company's common stock at an exercise price of \$0.75 per share for two years from the date of issuance. The fair value of the warrants were determined by Black-Scholes option pricing model. The assumptions used in the valuation of warrants were as follows:

Risk-free interest rate	0.77 to 1.75%
Life of warrant	4.75 to 4.01 years
Expected stock price volatility	91.31% to % 102.46
Expected dividend yield	\$ 0.0

The risk-free interest rate is based on the yield of Daily U.S. Treasury Yield Curve Rates with terms equal to the life of the warrants as of the grant date. The expected stock price volatility is based on comparable companies' historical stock price volatility since the Company does not have sufficient historical volatility data because its equity shares have been publicly traded for only a limited period of time.

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

**NOTE 10 RELATED PARTY TRANSACTIONS**

Aztec was an affiliate of the Company that provided administrative and technical support services to the Company. The majority owner of Aztec was also the majority stockholder of the Company until the sale of Aztec on June 15, 2012. During the year ended December 31, 2013, Aztec converted convertible debentures aggregating \$522,891 and accrued interest aggregating approximately \$30,000 into 3,686,634 shares of common stock. Concurrently with this issuance a shareholder cancelled 3,686,634 shares of his common stock and returned them to the Company. During the year ended December 31, 2013, the Company recorded amortization of the debt discount relating to this note aggregating approximately \$254,162.

**NOTE 11 COMMITMENTS AND CONTINGENCIES**

*Operating leases*

The Company leases office space under a month to month operating lease with no minimum future rental payments. The operating lease does not involve contingent liabilities. Rental expense under the operating lease totaled \$36,857 and \$30,534 for the years ended December 31, 2013 and 2012, respectively and \$80,511 from September 11, 2009 (inception to date) through December 31, 2013.

*Litigation*

On July 31, 2012, the Company filed suit against Groupon, Inc. in the Eastern District of Texas in Civil Action No. 6:12-cv-00486. The Company filed additional suits against Izea, Inc. on October 17, 2012; Yelp, Inc. on October 17, 2012; and Foursqaure Labs, Inc. on October 31, 2012 in Civil Action Nos. 6:12-cv-786, 6:12-cv-788, 6:12-cv-837, respectively. Each of these cases alleges that the defendants infringe U.S. Patent Nos. 7,664,516 entitled "Method and

System for Peer-to-Peer Advertising Between Mobile Communication Devices" and 8,155,679 entitled "System and Method for Peer-to-Peer Advertising Between Mobile Communication Devices." The Company subsequently added U.S. Patent Nos. 8,438,055, 8,452,646, and 8,457,670 to the cases, alleging each defendant infringed the newly added patents. Each of the defendants have answered, denying infringement and claiming that the asserted patents are invalid. Groupon, Yelp, and Foursquare filed counterclaims for declaratory judgment that the asserted patents are invalid and not infringed. Yelp filed an additional counterclaim for declaratory judgment that the asserted patents are unenforceable. The Court subsequently consolidated the actions for at least pre-trial purposes. Groupon filed a motion to transfer the case against it to the U.S. District Court for the Northern District of California, which the Court denied on September 27, 2013.

Between July 19, 2013 and October 3, 2013, Groupon filed petitions with the Patent Trial & Appeals Board ( PTAB ) requesting institution of Covered Business Method Review of all asserted claims. On December 19, 2013 and January 17, 2014, the PTAB issued decisions instituting review on all but four of the asserted claims. On January 14, 2014, the Company and all defendants filed a joint motion to stay the district court litigation. The Court granted the motion and stayed the case on January 16, 2014 pending a decision by the PTAB. Trial on the Covered Business Method Reviews at the PTAB is set for September 5, 2014. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer, which remains pending as of the date of this report.

On July 25, 2013, the Company entered into a Settlement Agreement and a License Agreement with MyLikes, Inc. to resolve the patent litigation that was pending in the U.S. District Court for the Eastern District of Texas, Tyler Division (*Blue Calypso, Inc. v. MyLikes Inc. Case Nos. 6:12-CV-838, 6:13-cv-00376, 6:13-cv-00428 and 6:13-cv-00457*). Pursuant to the Settlement Agreement and License Agreement, MyLikes has agreed to pay the Company the equivalent of a 3.5% royalty for use of the Company's patents.

On August 16, 2013, the Company dismissed its patent infringement action against Living Social, Inc. (Civil Action No. 2:12cv518-JRG United States District Court for the Eastern District of Texas) pursuant to the terms of an otherwise confidential settlement and license agreement.

As part of the Company's settlement with Living Social, the Company's attorney is entitled to additional compensation for the value of certain non-monetary arrangements. As of December 31, 2013, the payment of such compensation is not probable or measurable.

In the normal course of business the Company may be involved in legal proceedings, claims and assessments arising in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Legal fees for such matters are expensed as incurred and we accrue for adverse outcomes as they become probable and estimable.





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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

**NOTE 12 INCOME TAXES**

The tax effects of temporary differences that give rise to deferred tax assets are presented below:

	For The Years Ended	
	December 31,	
	2013	2012
Deferred Tax Assets:		
Net operating loss carryforward	\$ 3,327,518	\$ 1,845,621
Stock-based compensation	1,862,399	1,097,845
Total deferred tax assets	5,189,917	2,943,467
Valuation allowance	(5,189,917)	(2,943,467)
Deferred tax asset, net of valuation allowance	\$ -	\$ -
Changes in valuation allowance	\$ 2,246,450	\$ 1,927,667

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

	For The Years Ended	
	December 31,	
	2013	2012

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Federal:			
Current	\$	-	\$ -
Deferred		(2,246,450)	(1,927,667)
State and local:			
Current		-	-
Deferred		-	-
		(2,246,450)	(1,927,667)
Change in valuation allowance		2,246,450	1,927,667
Income tax provision (benefit)	\$	-	\$ -

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	For The Years Ended	
	December 31, 2013	2012
Tax benefit at federal statutory rate	(34.0)%	(34.0)%
Permanent differences	1.1%	-
Change in valuation allowance	32.9%	34.0%
Effective income tax rate	0%	0%

The Company assesses the likelihood that deferred tax assets will be realized. To the extent that realization is not likely, a valuation allowance is established. Based upon the Company's history of losses since inception, management believes that it is more likely than not that future benefits of deferred tax assets will not be realized.

At December 31, 2013 and 2012, the Company had \$9,786,817 and \$5,428,298, respectively, of federal net operating losses that may be available to offset future taxable income. The net operating loss carry forwards, if not utilized, will expire from 2030 to 2033 for federal purposes. In accordance with Section 382 of the Internal Revenue Code, the usage of the Company's net operating loss carry forwards are subject to annual limitations in the event of a greater than 50% ownership change.

The Company files income tax returns in the U.S. federal jurisdiction is subject to examination by the various taxing authorities. The Company's federal income tax returns for the tax years 2010 and forward remain subject to examination.

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

**NOTE 13 SUBSEQUENT EVENTS**

On January 9, 2014, the Company and an investor agreed to Amendment No. 4 of the warrant agreement that was initially entered into on September 1, 2011 associated with the issuance of 13,991,175 warrants. Amendment No. 4 extends the date of the price adjustment on the exercise price of the warrants to \$0.05 per share until March 10, 2014.

On January 9, 2014, the Company and an investor agreed to Amendment No. 3 of the warrant agreement that was initially entered into on April 19, 2012 associated with the issuance of 6,500,000 warrants. Amendment No. 3 extends the date of the price adjustment on the exercise price of the warrants to \$0.05 per share until March 10, 2014.

On January 10, 2014, two investors exercised an aggregate of 11,200,000 warrants to purchase common stock at an exercise price per share of \$0.05 resulting in \$560,000 in cash proceeds.

On March 14, 2014, the Compensation Committee awarded a performance bonus to the Company's Chief Executive Officer. The base bonus was \$340,000 and will be paid 25% in cash payment and 75% in the equivalent value of stock options. In addition, the Compensation Committee approved an equity bonus for Mr. Ogle consisting of stock options with a fair value of \$800,000. The total bonus awarded was \$1,140,000 of which \$85,000 will be paid in cash and \$1,055,000 will be paid in stock options valued using the Black Scholes method.

On March 24, 2014, one investor exercised an aggregate of 9,291,175 warrants to purchase common stock at an exercise price per share of \$0.05 resulting in \$464,558 in cash proceeds.



