

BLUE CALYPSO, INC.  
Form 10-K/A  
October 09, 2013

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

**FORM 10-K/A**

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

**For the fiscal year ended: December 31, 2012**

**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, 2012, 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 \$54,839,687. 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 28, 2013, was 138,381,367.

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**EXPLANATORY NOTE**

This Amendment No. 1 hereby amends our Annual Report on Form 10-K ( Form 10-K/A ) for the period ended December 31, 2012, which was originally filed with the Securities and Exchange Commission on March 29, 2013 (the Original 10-K ). This Amendment is being filed mainly to include restated financial statements as described in Note 2, Restatement of Previously Issued Financial Statements of the Notes to the condensed consolidated financial statements. The condensed consolidated financial statements are being restated to reflect the following:

On August 26, 2013, after consulting with the Company's Audit Committee and with the Company's newly appointed Independent Registered Public Accounting Firm, 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 December 31, 2012 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.

In addition, management determined that the Company had not properly accreted compensation expense for certain restricted stock grants for the period June 1, 2012 to March 31, 2013.

In addition, the Company has concluded that these accounting changes constitute an additional deficiency in the Company's internal control over financial reporting as of December 31, 2012 and that its disclosure controls and procedures were not effective as of December 31, 2012.

The following sections of this Form 10-K/A have been amended to reflect the restatement:

- Part I Item 1 Financial Statements and Notes to the Condensed Consolidated Financial Statements;

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- Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations; and
- Part I Item 4 Controls and Procedures.

For the convenience of the reader, this Form 10-K/A sets forth the Original 10-K in its entirety, as amended by, and to reflect the restatements, as described above. Except as described above, the Company has not modified or updated disclosures presented in this Amendment No. 1. Accordingly, this Amendment No. 1 does not reflect events occurring after the Original 10-K or modify or update those disclosures affected by subsequent events, except as specifically referenced herein. Information not affected by the restatements is unchanged and reflects the disclosures made at the time of filing of the Original 10-K.

This Form 10-K/A has been signed as of a current date and all certifications of the Company's Chief Executive Officer/Principal Executive Officer and Chief Financial Officer/Chief Accounting Officer and Principal Financial Officer are given as of a current date. Accordingly, this Form 10-K/A should be read in conjunction with the Company's filings with the Securities and Exchange Commission subsequent to the filing of the Original 10-K, including any amendments to those filings.

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**BLUE CALYPSO, INC.**

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### **PART I**

#### **ITEM 1. BUSINESS**

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.

### **The Company**

Through our platform, participating consumers can use the mobile and social technologies they regularly use for digital communications to endorse our participating advertisers' brands, offerings or causes. These consumer endorsers deliver advertiser-created content to their friends and followers and are sometimes rewarded for promoting participating advertisers' brands with incentives and reward perks.

Today, large companies are becoming their own media networks, disseminating digital content to their millions of 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 impact through influence, reducing their media expenses and growing their return on investment.

We help companies who market to consumers by cultivating, activating, and monetizing their social media presence. Our technology facilitates content delivery across multiple social channels and then tracks performance, monitors engagement, and uses robust analytics to help client companies improve their marketing returns.

Brand content, such as promotions and offers, are offered by client companies to their fans, employees, and customers. Should these advocates choose to, they can forward these promotions and offers through social media channels with a personal message. Our technology tracks, monitors, and performs analytics for client to help them improve their returns on marketing investments.



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Our technology allows us to help clients spread their marketing message, and can help them reach new prospective customers. This can be done by encouraging customers to learn more about a new product, watch a promotional video, increase likes on Facebook, increase followers on Twitter, join email lists, etc. This is done by encouraging advocates of a company to interact and personalize messages to people that they think would like to hear about an offer. Advocates of a company can add comments, a photo or video, and share it with their social networks. Brands will many times offer incentives or VIP perks to advocates who share. Many times, brands will offer incentives in a loyalty program that already exists as a thank you to advocates for sharing a message.

It is also clear that many companies are beginning to see their employees as a key channel to spread the message about new products and promotions. We have created a new product, EmGage, that leverages our base technology of tracking, monitoring, and performing analytics on the spread of social media, but 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, which can increase sales as well as employee satisfaction, and potentially reduce turnover.

When leveraging our proprietary technology and patents, we are constantly looking for opportunities to help companies spread their message more effectively and efficiently using social media channels as a significant cost savings vs. traditional media channels such as television, radio, and newspapers. We will continue to innovate, creating new products and services to help companies leverage the significant cost reduction capabilities that our technology offers.

Our proprietary ad-rendering and delivery engine gives advertisers the ability to serve multiple creative display ads within the same campaign, targeting such specific conditions as geo-location, day-of-week, time-of-day, and even weather conditions. Our technology identifies the recipient's circumstance upon campaign view and delivers a relevant message. We believe that our ability to implement targeted advertisements, including point-of-sale, geo-location specific offers, and metered mobile coupon redemptions, extends the capability of our platform beyond current digital or mobile advertising.

As a by-product of campaign delivery and recipient interaction, we offer analytics and business intelligence capabilities, which provide advertisers the ability to see how campaigns are delivered, where they are getting the most traction, and which are seeing the most activity. The platform also allows advertisers to assess the response to their messages in real-time and adjust their campaigns based on performance. For example, advertisers can launch multiple campaigns and monitor their analytics to see which content is getting a more viral response and igniting the most conversation.

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**

The global wireless industry continues to experience explosive growth, with consumers embracing mobile technologies like never before as new services, capabilities and cost efficiencies drive global adoption. Infonetics Research estimates global mobile phone subscribers will grow to 6.4 billion by 2015.

According to Cellular Telecommunications Industry Association (CTIA), at December 31, 2010, there were 302 million mobile subscribers in the United States, representing 96% of the United States population. The Cellular Telecommunications Industry Association reports that as of December 2010 there were 270 million data-capable devices, including 78.2 million smart phones or wireless-enabled personal digital assistants and 13.6 million wireless-enabled laptops, notebooks, tablets or wireless broadband modems. International Data Corporation research estimates that smart phone penetration will increase from approximately 30% in 2010 to 45% in 2015, while Nielsen expects that by the end of 2011 there will be more smart phones in use in the United States market than feature phones. We believe that we are just at the beginning of a new wireless era where smart phones will become the standard device consumers use to connect to friends, the Internet and the world at large.

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A recent JP Morgan report predicts 2011 mobile ad spending will increase to \$1.2 billion. This is approximately double the 2010 mobile ad spending reported in the IAB Internet Advertising Report. In a recent study conducted by ABI Research, 27 percent of mobile phone users accessing websites using mobile phones clicked on a mobile banner ad or text link. One thousand United States consumers participated in the survey.

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 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 purchase history.

We believe that peer-to-peer or friend-to-friend advertising (also known as 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, up from 67% a generation ago. 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% from advertisers.

According to Forrester Research interactive marketing forecasts from 2011, interactive marketing spend in the United States should reach \$41 billion in 2012, growing to over \$76 billion in 2016. The two fastest sub-segments, mobile marketing and social media, should have a compounded annual growth rate of 38% and 26%, respectively. These two segments are the primary markets that we plan on competing in. We believe that the significant spend currently, combined with the superior forecasted growth in spending by marketers, present the best opportunity to monetize our technology innovations.

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 recommendation. We believe that any consumer product, retail or audience-based entity, whether for-profit or non-profit, is a potential user of our platform.

## **Marketing**

We believe that we will attract advertisers and subscribers simultaneously by engaging with advertisers who have developed social media traction or have email contacts for existing customers and encouraging those brand loyalists to become subscribers who will be encouraged to join our program and endorse a particular advertiser. We believe that as potential advertisers see their customers become endorsers, they will appreciate the power of our platform.

We seek to work with large companies that spend much of their marketing budgets attracting new customers or encouraging their current customers to purchase more often. We market our white label SocialEcho product to them via current relationships that our team members have, or we leverage agency relationships as conduits to be introduced to prospective clients which can be delivered as a "white label" experience by the agency. Further, we go to conferences and trade shows to provide a platform for us to communicate the benefits of our technology to prospective clients.

The initiatives described above are also aimed at attracting endorser interest. In addition, we attract endorsers through invitation by advertisers, through viral techniques within social media communities (e.g., when friends see friends participating in our platform), through direct marketing efforts (e.g., emails, attendance at community events and trade shows) and through word of mouth.

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### **Advertisers**

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 three to six month commitment on the part of our customers. Customers' fees are based on the services actually provided, *i.e.*, on the level of campaign activity selected, the level of consultation provided by us with respect to such campaign or campaigns, the level of specific targeting selected (*e.g.*, geo-location, day-of-week, time of day, etc.), any analytics purchased, the number of endorsements actually given and sometimes on results actually achieved. In accordance with our customer agreements, we reserve the right to close a customer account that has been inactive for more than 12 months and to terminate a customer's status as a registered advertiser for any reason. Our written agreements also include general terms and conditions.

We also pick up advertising campaigns for various advertisers who are not customers through our participation in affiliate programs through Amazon, LinkShare and Commission Junction. We have agreements directly with these three companies, not with the advertisers they represent. These agreements provide general payment terms, which are tied to actual generation of activity or purchases for their advertisers. Neither we nor our advertisers are obligated to pick up any advertisements through these affiliate programs.

### **Endorsers**

An important strategic element of our business model is to ensure that each endorser has a positive experience using our platform. We aim to achieve this by providing them with access to innovative, timely and relevant content in addition to exclusive offers provided by the advertiser community. The goal is to provide messages and offers that endorsers will enjoy sharing within their professional and personal circles, and that recipients will enjoy receiving. We believe that our ability to automate features that allow the endorser to shape and group what type of content is shared within sub-sets of his or her personal and professional communications circles is of utmost importance in order to avoid the potential annoyance factor.

When they sign up with us, endorsers agree to a set of written terms and conditions. These terms and conditions cover the general terms of our rewards programs and include a code of conduct aimed at curtailing potentially offensive, deceptive or otherwise harmful communications in connection with endorsements. We have the right to terminate an endorser's account due to inappropriate content, if an account is inactive for six months, or for a violation of our terms and conditions, which closure would result in the endorser's loss of any earned but unused rewards or perks. There are no other penalties or fees endorsers may face for discontinuing their participation with your platform. Endorsers receive rewards and other benefits only to the extent that they provide endorsements for our advertisers.

## **Technology to Capture Data**

Our platform allows the collection of business intelligence and analytics resulting from data accumulated as content is shared and consumed. Endorsers provide demographic data such as interests, age, income bracket, geographic region, historical usage patterns and hobbies, which is available to advertisers in targeting their campaigns. Our technology then allows the advertiser to monitor the full cycle of an advertising campaign from the first subscriber to the final redemption or intent to purchase. Given this data, we show each advertiser the return on investment (ROI) of each dollar spent on an advertising campaign, which allows us to prove the effectiveness of the platform in near real time, allows advertisers to test-market different campaigns and offers based on attributes such as income level, geography, store location, age group or other compelling criteria taken in combination, and helps advertisers 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 and in April 2012 we received United States Patent number 8,155,679. 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 continuation-in-part (CIP) patent applications pending which build on the functionality of our issued patent.

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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, with development plans to support Microsoft Windows Mobile and a touch mobile web application that will be capable of operating on most popular smartphones with browser capabilities.

We own six registered trademarks in the United States. 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.

## **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 Chief Technology Officer and director, Andrew Levi, until its sale on June 15, 2012. Aztec Systems owns and manages an SAS70-II 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.

## **Outsourced Processes**

We track the accumulated rewards that the endorsers earn as they interact with the platform. We outsource the endorser reloadable Visa Debit card processing to an organization that is responsible for filing necessary tax documents, preserving personally identifying information (PII/PCI) and maintaining and issuing the cash rewards to the endorsers.

## **Research and Development Activities**

During the fiscal years 2012 and 2011, we spent \$331,689 and \$490,218 on research and development activities, respectively.

## **Financing**

We are in the process of raising additional capital to meet our minimum projected expenditures over the next 12 months. We intend to keep our operating costs to a minimum until adequate cash is available from operating activities and/or additional financing(s). We can provide no assurances that adequate financing can be obtained or, if obtained, on terms favorable to us. If we are unable to generate profits or unable to obtain additional funds to meet our working capital needs, we may need to cease or curtail our business operations. Further, there is no assurance that the net proceeds from any successful financing arrangement will be sufficient to cover our cash requirements during the initial stages of our business development. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

## **Employees**

As of December 31, 2012, we had a total of 5 employees, all of whom are full-time. We also utilize the services of independent contractors. We have no labor union contracts and believe relations with our employees are satisfactory.



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### 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 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, 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 very little detailed information is available. We believe that this social mobile marketing and advertising space is quite large with no first movers or any company with a notable share of the market. We believe that our approach to the market, value proposition to both the advertiser and Endorser communities, use of cash incentives, and 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 compete to attract and retain relationships with endorsers and advertisers. The bases on which we compete differ among the groups.

- *Endorsers.* We compete to attract and retain endorsers of our advertisers' products and services. We provide our endorsers with cash and other brand loyalty-based incentives but we compete with other social networking environments for the attention and mind share of the endorsers. We believe that our unique value proposition to endorsers is the opportunity to earn meaningful cash incentives and exclusive VIP perks, as well as the quality of our platform.
- *Advertisers.* We compete to attract and retain advertisers. We compete in this area principally on the basis of the return on investment realized by advertisers using our mobile advertising platform. We also compete based on the quality of customer service, features and ease of use of our platform. We believe that our unique value proposition to advertisers is the speed and method of our ad delivery system; the quality of our analytics and business intelligence available in near real-time, and the ability to target recipients and content so

specifically.

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 offering to include white label products, employee engagement products, instant access products, as well as other technology plays, 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, and federal and state rules related to our use of prepaid Visa debit cards to compensate our 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 Federal Trade Commission ( 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.

The CARD Act, as well as the laws of most states, contains provisions governing product terms and conditions of gift cards, gift certificates, stored value or prepaid cards or coupons ( prepaid cards ). The CARD Act and its implementing regulations concerning prepaid cards located in Regulation E are administered by the Consumer Financial Protection Bureau (the CFPB ), which was formed as a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act ).

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The reloadable branded Visa debit cards provided to endorser are prepaid cards that fall under the jurisdiction of the CFPB. In addition, the Company is indirectly subject to supervision by the appropriate Federal banking regulator of the bank that issues the reloadable branded Visa debit cards. In addition, certain state and foreign jurisdictions have laws that govern disclosure and certain product terms and conditions, including restrictions on expiration dates and fees that may apply to reloadable branded Visa debit cards. However, the CARD Act and its implementing regulations, as well as a number of states and certain foreign jurisdictions, also have exemptions from the operation of these provisions or otherwise modify the application of these provisions applicable to prepaid cards that are issued as part of a loyalty, award or promotional program.

We believe that the reloadable branded Visa debit cards used in this program fall within the exemption under the CARD Act for loyalty, award or promotional programs contained in Regulation E because the cards are part of a referral program that subject to certain limitations provides prepaid cards in exchange for referring other potential consumers to a merchant, the cards are redeemable at any place Visa debit cards are accepted and the cards and other materials contain required disclosures set forth in the CARD Act provisions in Regulation E. However, regardless of an exemption for the reloadable branded Visa debit cards under the CARD Act and its implementing regulations, in those states that prohibit or otherwise restrict expiration dates on prepaid cards that are defined to include our reloadable branded Visa debit cards and do not have exemptions that apply to our Visa debit cards, the reloadable branded Visa debit cards used in our program may be required to be honored for full value until redeemed.

In addition, some states and foreign jurisdictions also include prepaid cards under their unclaimed and abandoned property laws which require companies to remit to the government the value of the unredeemed balance on the prepaid cards after a specified period of time (generally between one and five years) and subject companies to certain reporting and recordkeeping obligations.

Various federal laws, such as the Bank Secrecy Act and the USA PATRIOT Act, impose certain anti-money laundering requirements on companies that are financial institutions. These laws are designed to prevent the U.S. financial system from being used to launder money generated from illegal conduct, such as illegal drug smuggling, as well as terrorist financing. For these purposes, financial institutions is broadly defined and includes providers of prepaid access and sellers of prepaid access such as prepaid cards like our Visa debit cards. Examples of anti-money laundering requirements imposed on financial institutions include customer identification and verification programs, record retention policies and procedures, transaction monitoring and reporting, and reporting suspicious activities to law enforcement. The Financial Crimes Enforcement Network ( FinCEN ), a division of the U.S. Treasury Department tasked with implementing the requirements of the Bank Secrecy Act and the USA PATRIOT Act, published a final rule on July 29, 2011 setting forth the scope and requirements for certain parties involved in prepaid cards, but also extended the date for compliance with most aspects of the final rule until March 31, 2012. We have commenced discussions with the entities that assist us in issuing our reloadable branded Visa debit cards to our endorser and believe we will be able to amend our agreements with these parties prior to the March 31, 2012 effective date to, among other things, establish that these third parties (rather than us) are the providers of prepaid access under the FinCEN final rule, which will subject them (rather than us) to the Bank Secrecy Act program compliance requirements discussed above and require them (rather than us) to register with FinCEN as a money services business. Our agreements with our vendors also include other terms that we believe protect us from being deemed a

seller of prepaid access, for example, they are limited to \$5,000 in transactions per person and per day and the program requires that complete cardholder information be provided for each card issued at the time of issuance, including name, address, home phone number (if available), date of birth and social security number. Accordingly, the Company is not a provider or seller of prepaid access subject to these Bank Secrecy Act and USA Patriot Act laws and regulations based on our agreement with our vendor and our role with respect to the distribution of the cards to customers.

In addition, foreign laws and regulations, such as the European Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. Although we do not believe we are a financial institution or otherwise subject to these laws and regulations, it is possible that we could be considered a financial institution or provider of financial products.

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Our endorsers 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 endorsers and our advertisers 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.

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.

#### **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 \$5,075,659 and \$12,119,633 for the years ended December 31, 2012 and December 31, 2011, respectively. As of December 31, 2012, we had a stockholders' deficit of \$11,042,419. While a significant portion of the loss is attributed to 2012 is 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.

***We have a limited operating history and if we are not successful in continuing to grow our business, then we may have to scale back or even cease our ongoing business operations.***

We have a limited operating history. Our operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. We have nominal revenues from operations and limited assets. We have yet to generate positive earnings and there can be no assurance that we will ever operate profitably. If our business plan is not successful, and we are not able to operate profitably, investors may lose some or all of their investment in our company.

***We will need additional capital to fund our operations.***

As of December 31, 2012, we have 8% debentures in the aggregate principal amount of \$465,000 which are currently past due. These debentures are secured by a first priority security interest in all of our assets. Our inability to satisfy these obligations upon demand by the lender may subject us to costly litigation and adversely affect our business, financial condition and results of operations. In the event that the lender declares these 8% debentures to be in default, the lender shall have all rights and remedies of a secured party under the UCC, including but not limited to, taking possession of and/or selling the collateral in order to satisfy the outstanding obligations. We are currently in discussions with the lender regarding a further extension of the 8% debentures, however we can provide no assurance that such extension will be granted, and if granted, on terms acceptable to us. We will require additional capital to satisfy our outstanding debt obligations, fund the anticipated expansion of our business and to pursue targeted revenue opportunities. We cannot assure you that we will be able to raise additional capital. If we are able to raise additional capital, we do not know what the terms of any such capital would be. In addition, any future sale of our equity

securities would dilute the ownership and control of our current stockholders and could be at prices substantially below prices at which our shares currently trade. Our inability to raise capital could require us to significantly curtail or terminate our operations.

***Our failure to manage growth effectively could impair our business.***

Our business strategy envisions a period of rapid growth that may put a strain on our administrative, operational resources and funding requirements. Our ability to effectively manage growth will require us to continue to expand the capabilities of our operational and management systems and to attract, train, manage and retain qualified personnel. There can be no assurance that we will be able to do so, particularly if losses continue and we are unable to obtain sufficient financing. If we are unable to successfully manage growth, our business, prospects, financial condition, and results of operations could be adversely affected.

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

The markets for social media and mobile web products and services that we are targeting for revenue opportunities are changing rapidly and are being pursued by many other companies, and the barriers to entry are relatively low. 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 than us 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.

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

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.

***We may not be able to adequately protect our proprietary rights, which would have an adverse effect on our ability to competitively conduct our business.***

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 issued patent 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 three 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.

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 own 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. 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.

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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 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 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.

*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.

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***If we are unable to establish and maintain strategic relationships with advertisers or are unable to attract users to endorse the advertisers' products, our business could be adversely affected.***

We depend on establishing and maintaining relationships with advertisers and matching users with advertisers' products for a significant portion of our traffic. Our mobile advertising platform matches advertisers with their target customers through a union of mobile devices and social media psychology. To initiate an advertising campaign on our platform, an advertiser requests to be matched with a group of our subscribers that meet their target demographic and interest criteria. Consumers' tastes may change and it may become difficult to match advertisers' products with consumer tastes. In addition, we may not be able to establish or maintain relationships with advertisers.

Currently, we have only a small number of paying advertisers. We are continuing to evaluate our pricing strategies and value proposition to both the advertiser and endorser communities. As such, we are very early in creation of brand awareness and name recognition. Due to these factors as well as current and future competition from startups as well as large existing social media, search, or other well-known brands, we cannot guarantee that we will be successful in growing our business. In addition, while we have conducted hundreds of limited launch programs to date, it is not certain that people will be willing to participate as endorsers due to their perception of our offering being spam, annoying or lacking value to themselves or their social circles for which our platform is intended.

***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 platform must accommodate a high volume of traffic and deliver frequently updated information. Our platform may in the future experience slower response times or other problems for a variety of reasons. In addition, our platform 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 platform. 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.

***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 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, and federal and state rules related to our use of prepaid Visa debit cards to compensate our 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.



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***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 Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or 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 endorsers and our advertisers 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.

***Information technology, network and data security risks could harm our business.***

Our business faces security risks. Our failure to adequately address these risks could have an adverse effect on our business and reputation. Computer viruses, break-ins, or other security problems could lead to misappropriation of proprietary information and interruptions, delays, or cessation in service to our customers.

***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 Federal Trade Commission ( 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, the Guides may be 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 is 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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***If we do not develop new and enhanced services and features, we may not be able to attract and retain a sufficient number of users.***

We believe that our platform will be more attractive to advertisers if we develop a larger audience comprised of demographically favorable subscribers. Accordingly, we intend to introduce additional or enhanced services in the future in order to retain current users and attract new users. If we introduce a service that is not favorably received, the current users may not continue using our service as frequently. New users could also choose a competitive service over ours.

We may also experience difficulties that could delay or prevent us from introducing new services. Furthermore, these services may contain errors that are discovered after the services are introduced. We may need to significantly modify the design of these services on our website to correct these errors. Our business could be adversely affected if it experiences difficulties in introducing new services or if users do not accept these new services.

***The laws concerning reloadable branded Visa debit cards are evolving, which could have an adverse effect on our business.***

Federal, state and foreign laws related to the issuance of reloadable branded Visa debit cards are evolving and the implementation of the Credit Card Accountability, Responsibility, and Disclosure Act (the CARD Act), the Bank Secrecy Act and the USA PATRIOT Act as well as increasing government focus in this area could increase our costs of compliance or subject us to government enforcement actions or lawsuits that could result in penalties, fines, damages and defense costs. Confusion exists regarding how these laws will be interpreted, applied and enforced among the various entities that assist us with providing reloadable branded Visa debit cards to endorsers. These costs and the ongoing uncertainty could cause us to change our business model for rewarding endorsers, which could have a material adverse effect on our business and results of operations.

## **Risks Relating to Our Common Stock**

***We are subject to the reporting requirements of federal securities laws, which can be expensive and may divert resources from other projects, impairing our ability to grow.***

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, and other federal securities laws, including compliance with the Sarbanes-Oxley Act of 2002. The costs of preparing and filing annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission and furnishing audited reports to stockholders will cause our expenses to be higher than they would be if

we remained privately held.

It may be time consuming, difficult and costly for us to develop and implement the internal controls and reporting procedures required by the Sarbanes-Oxley Act of 2002. We will need to hire additional financial reporting, internal controls and other finance personnel in order to develop and implement appropriate internal controls and reporting procedures. If we are unable to comply with the internal controls requirements of the Sarbanes-Oxley Act of 2002, then we may not be able to obtain the independent accountant certifications required by such Act, which may preclude us from keeping our filings with the Securities and Exchange Commission current and interfere with the ability of investors to trade our securities and for our shares to continue to be quoted on the OTC Bulletin Board or to list on any national securities exchange.

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***If we fail to establish and maintain an effective system of internal control, we may not be able to report our financial results accurately or to prevent fraud. 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. We have not performed an in-depth analysis to determine if historical un-discovered failures of internal controls exist, and may in the future discover areas of our internal control that need improvement.

***Public company compliance may make it more difficult to attract and retain officers and directors.***

The Sarbanes-Oxley Act of 2002 and rules implemented by the Securities and Exchange Commission have required changes in corporate governance practices of public companies. As a public company, we expect these rules and regulations to increase our compliance costs in 2013 and beyond and to make certain activities more time consuming and costly. As a public company, we also expect that these rules and regulations may make it more difficult and expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers, and to maintain insurance at reasonable rates, or at all.

***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.

***Our stock price may be volatile.***

The market price of our common stock is highly volatile and subject to wide fluctuations in price in response to various factors, some of which are beyond our control. These factors include:

- changes in our industry;
- competitive pricing pressures;
- our ability to obtain working capital financing;
- quarterly variations in our results of operations;
- changes in estimates of our financial results;
- investors' general perception of us;
- disruption to our operations;
- the emergence of new sales channels in which we are unable to compete effectively;
- commencement of, or our involvement in, litigation;
- any major change in our board or management; and
- changes in governmental regulations or in the status of our regulatory approvals.

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our actual operating performance.

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***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.

***Our shares of common stock are very thinly traded, and the price may not reflect our value and there can be no assurance that there will be an active market for our shares of common stock either now or in the future.***

Our shares of common stock are very thinly traded, only a small percentage of our common stock is available to be traded and is held by a small number of holders and the price, if traded, may not reflect our actual or perceived value. There can be no assurance that there will be an active market for our shares of common stock either now or in the future. The market liquidity will be dependent on the perception of our operating business, among other things. We intend to take certain steps, including utilizing investor awareness campaigns, press releases, road shows and conferences to increase awareness of our business and any steps that we might take to bring us to the awareness of investors may require we compensate consultants with cash and/or stock. There can be no assurance that there will be any awareness generated or the results of any efforts will result in any impact on our trading volume. Consequently, investors may not be able to liquidate their investment or liquidate it at a price that reflects the value of the business and trading may be at an inflated price relative to the performance of our company due to, among other things, availability of sellers of our shares. If a market should develop, the price may be highly volatile. Because there may be a low price for our shares of common stock, many brokerage firms or clearing firms may not be willing to effect transactions in the securities or accept our shares for deposit in an account. Even if an investor finds a broker willing to effect a transaction in the shares of our common stock, the combination of brokerage commissions, transfer fees, taxes, if any, and any other selling costs may exceed the selling price. Further, many lending institutions will not permit the use of low priced shares of common stock as collateral for any loans.

***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 upon the expiration of any statutory holding period under Rule 144, 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.



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***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.***

As of March 28, 2013, we have granted options to purchase 13,979,073 shares of common stock and have reserved 16,941,008 shares of our common stock for future issuance pursuant to our 2011 Long-Term Incentive Plan. We have also granted restricted stock awards totaling 13,456,667 shares of our common stock. In addition, as of March 28, 2013, we have reserved for issuance 25,036,818 shares of our common stock for issuance upon conversion or outstanding convertible preferred stock and 32,495,755 shares of our common stock for issuance upon exercise of outstanding warrants. The respective exercise prices of certain of our outstanding warrants are also subject to anti-dilution adjustments. As of March 28, 2013, we have also reserved 3,433,333 shares of our common stock for issuance upon conversion of outstanding convertible debentures. The conversion price of our outstanding convertible debentures are also subject to anti-dilution adjustments. On December 12, 2012, we entered into a financial advisory agreement, pursuant to which we agreed to issue 4.9% of our issued and outstanding common stock on a fully-diluted basis to such financial advisor in the event that we complete capital raising transactions that generate at least \$4 million in net proceeds and complete an uplisting of our common stock to a national securities exchange during the term of the agreement.

In connection with the issuance of the convertible debentures, we entered into a stockholder's agreement with our chief technology officer, Andrew Levi, pursuant to which Mr. Levi agreed to place 25,000,000 shares of our common stock owned by him in escrow until April 19, 2013. Pursuant to the stockholder's agreement, Mr. Levi agreed that if the Company issues shares of Common Stock in a financing transaction or in connection with the hiring or retention of senior management or directors during such period of time, the corresponding number of escrowed shares will be cancelled and returned to the Company's treasury. Any shares remaining in escrow at the end of the one-year period will be released to Mr. Levi. As of March 28, 2013, 22,828,199 shares remain in escrow.

***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 28, 2013, our officers and directors beneficially own approximately 49% 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, 2012. We currently have one sub-lease for office space at our current location.

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**ITEM 3. LEGAL PROCEEDINGS**

On July 31, 2012, the Company filed a patent infringement complaint against Groupon, Inc. alleging infringement of two of its patents, 7,664,516 and 8,155,679, focused on its peer-to-peer marketing technology. The complaint was filed in the U.S. District Court in the Eastern District of Texas.

On August 24, 2012, the Company filed a patent infringement complaint against Living Social, Inc. alleging infringement of two of its patents, 7,664,516 and 8,155,679, focused on its peer-to-peer marketing technology. The complaint was filed in the U.S. District Court in the Eastern District of Texas. A Claim Construction Hearing or "Markman" hearing has been set for August 27, 2013.

On October 17, 2012, the Company filed patent infringement complaints against YELP, Inc. and IZEA, Inc. The suits allege infringement of two of its patents, 7,664,516 and 8,155,679, focused on its peer-to-peer marketing technology. The complaint was filed in the U.S. District Court in the Eastern District of Texas.

On November 6, 2012, the Company filed patent infringement complaints against MyLikes. and Foursquare. The suits allege infringement of two of its patents, 7,664,516 and 8,155,679, focused on its peer-to-peer marketing technology. The complaint was filed in the U.S. District Court in the Eastern District of Texas.

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, our common stock has been quoted under the trading symbol BCYP.OB. 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 2011</b>                       |             |            |
| Third Quarter (commencing September 14, 2011) | \$ 3.00     | \$ 3.00    |
| Fourth Quarter                                | \$ 1.10     | \$ 1.01    |
| <b>Fiscal Year 2012</b>                       |             |            |
| First Quarter (through March 31, 2012)        | \$ 1.05     | \$ 1.00    |
| Second Quarter                                | \$ 0.92     | \$ 0.40    |
| Third Quarter                                 | \$ 0.98     | \$ 0.65    |
| Fourth Quarter                                | \$ 0.85     | \$ 0.30    |

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The last reported sales price of our common stock on the OTC Bulletin Board on March 28, 2013, was \$0.13 per share. As of March 28, 2013, there were approximately 38 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, 2012, 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 securities reflected in column (a))</b> |
|--|--|--|
|--|--|--|

|   |            |          |            |
|---|------------|----------|------------|
| Equity compensation plans approved<br>by security holders     | 71,769,360 | \$0.1135 | 33,234,896 |
| Equity compensation plans not<br>approved by security holders |            |          |            |
| Total   | 71,769,360 | \$0.1135 | 33,234,896 |

### Recent Sales of Unregistered Securities

On December 12, 2012, we entered into a financial advisory agreement, pursuant to which we agreed to issue 500,000 shares of our common stock as consideration for such financial advisory services. As further compensation for the services to be provided, we agreed to issue 4.9% of our common stock on a fully diluted basis to such advisor upon the closing of capital raising transactions which in the aggregate generate at least \$4 million in net proceeds and the completion of an uplisting of our common stock to a national securities exchange, provided that both events occur during the one year term of the agreement. The securities were not registered under the Securities Act or the securities laws of any state, and were offered and issued in reliance on the exemption from registration under the Securities Act, provided by Section 4(2) and Regulation D (Rule 506) 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.

On November 15, 2012, we commenced a private offering of up to \$3,000,000 of 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 consists of a 10% Convertible Debenture in the principal amount of \$50,000 (the "Debenture") and 12,500 shares of the Company's common stock. 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 the Company's common stock at a conversion price of \$0.20 per share. As of December 31, 2012, we have issued and sold an aggregate of 9 units.

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On November 9, 2012, we entered into an exchange agreement with Aztec Systems, Inc., pursuant to which we agreed to exchange a promissory note with a balance of \$368,059.23 and our existing accounts payable to Aztec of \$177,898.92 for an 8% convertible note in the original principal amount of \$545,958.16. The 8% convertible note is 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 our common stock then held by Aztec on or before December 31, 2012. The 8% convertible note is convertible into shares of our common stock at a conversion price equal to the greater of: (i) \$0.15 per share or (ii) the price per share at which our common stock is sold in a subsequent financing. Upon effectiveness of the registration statement covering the resale of such shares, the 8% convertible note automatically converted into shares of our common stock. The foregoing securities were sold to a limited number of accredited investors, 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 and Rule 506 of Regulation D promulgated thereunder. The securities may not be transferred or sold absent registration under the Securities Act or the availability of an applicable exemption therefrom.

On August 28, 2012, we issued an aggregate of 44,007 shares of our common stock as consideration for consulting services rendered. On November 21, 2012, we issued an aggregate of 36,863 shares of our common stock as consideration for consulting services rendered. The shares were not registered under the Securities Act of 1933, as amended, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration under the Securities Act of 1933, as amended, provided by Section 4(2) of the Securities Act of 1933, as amended. The securities may not be transferred or sold absent registration under the Securities Act or the availability of an applicable exemption therefrom.

On June 14, 2012, we commenced a private offering of up to \$10,000,000 of units, at a purchase price of \$1.00 per unit. Each unit consisted of: (i) two shares of our common stock and (ii) a warrant to purchase one share of our common stock. The warrant is exercisable for a term of two years at an exercise price of \$0.75 per share. The warrants contain provisions that protect their holders against dilution by adjustment of the purchase price in certain events such as stock dividends, stock splits, issuances of securities at a purchase price less than \$0.75 per share (subject to certain exceptions) and other similar events. As of the termination date of the private offering, we had issued and sold an aggregate of 445,000 units in consideration of gross cash proceeds of \$445,000. As a result, we issued an aggregate of 890,000 shares of common stock and warrants to purchase an aggregate of 445,000 shares of common stock. WFG Investments, Inc. acted as placement agent in connection with the private placement and received a cash fee of \$44,500 and warrants to purchase 26,700 shares of Common Stock. The securities were not registered under the Securities Act or the securities laws of any state, and were offered and issued in reliance on the exemption from registration under the Securities Act, provided by Section 4(2) and Regulation D (Rule 506) 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.

On June 1, 2012, we entered into an employment letter agreement with William Ogle, our chief executive officer. Pursuant to his employment letter agreement, Mr. Ogle is entitled to receive a restricted stock award equal to 7% of our total issued and outstanding shares as of June 11, 2012. This restricted stock award vests: (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, pursuant to his employment letter agreement, we also granted to Mr. Ogle options to purchase 3% of our issued and outstanding shares of common stock on a fully-diluted basis. The options are exercisable at an exercise price equal to \$0.10 per share for a term of 10 years. . The shares and options issued were not registered under the Securities Act of 1933, as amended, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration under the Securities Act of 1933, as amended, provided by Section 4(2) of the Securities Act of 1933, as amended. The securities may not be transferred or sold absent registration under the Securities Act or the availability of an applicable exemption therefrom.

On April 19, 2012, we entered into a securities purchase agreement with an existing stockholder, pursuant to which we issued an 8% senior secured convertible debenture in the principal amount of \$35,000 and a warrant to purchase 6,500,000 shares of our common stock at an exercise price of \$0.10 per share for a term of five years. Pursuant to the securities purchase agreement, the investor covenanted to purchase up to an additional \$465,000 of senior secured convertible debentures in a series of closings to occur at our discretion through October 19, 2012. As of December 31, 2012, we have issued and sold an aggregate of \$465,000 of such debentures in consideration of gross proceeds of \$465,000. The debentures are convertible into shares of our common stock at the option of the holder at a conversion price equal to the closing price of our common stock on the date of conversion. The 8% debentures contain provisions that protect their holders against dilution by adjustment of the purchase price in certain events such as stock dividends, stock splits, issuances of securities at a purchase price less than the closing price of our common stock on the date of conversion (subject to certain exceptions) and other similar events. The debentures and the warrant issued to the investor were not registered under the Securities Act or the securities laws of any state, and were offered and issued in reliance on the exemption from registration under the Securities Act, provided by Section 4(2) and Regulation D (Rule 506) under the Securities Act.



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### **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 2012 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.*

## Recent Events

Prior to September 1, 2011, we were a public shell company without material assets or liabilities. On September 1, 2011, Blue Calypso Holdings, Inc. completed a reverse merger with us, pursuant to which Blue Calypso Holdings, Inc. became our wholly-owned subsidiary and we succeeded to the business of Blue Calypso Holdings, Inc. as our sole line of business and the former security holders of Blue Calypso Holdings, Inc. became our controlling stockholders. For financial reporting purposes, Blue Calypso Holdings, Inc. is considered the accounting acquirer in the reverse merger and the former public shell company is considered the acquired company. Accordingly, the historical financial statements presented and the discussion of financial condition and results of operations herein are those of Blue Calypso Holdings, Inc., and do not include the historical financial results of our former business. The accumulated earnings of Blue Calypso Holdings, Inc. were also carried forward after the reverse merger for all periods presented. Operations reported for periods prior to the reverse merger are those of Blue Calypso Holdings, Inc.

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### **Business Overview**

We offer a patented social mobile advertising platform through which advertisers offer advertising content to our subscribers, who publicly endorse the products and services of these advertisers using their mobile smartphones or personal computers. Endorsers may receive cash and other rewards for each endorsement they make.

### **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 Holdings, Inc. and its subsidiary Blue Calypso LLC, which is wholly owned. 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 accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Significant estimates include: the useful lives of intangible assets and the recoverability or impairment of tangible and intangible asset values; deferred revenues; legal and other contingencies that are recorded when it is probable that a loss has been incurred and the amount is reasonably estimable; and our effective income tax rate and the valuation allowance applied against deferred tax assets, which are based upon the expectations of future taxable income, allowable deductions, and

projected tax credits. Actual results may differ from these estimates.

### *Revenue Recognition*

We recognize revenue in accordance with ASC 605, Revenue Recognition when persuasive evidence of an arrangement exists, the fee is fixed or determinable, delivery of the product has occurred or services have been rendered and collectability is reasonably assured. Revenue includes fees received from customers for advertising and marketing services provided by us and is recognized as earned when brand loyalists personally endorse and share the advertising campaigns with others in their digital social stream.

### *Cost of Revenue*

Cost of revenue is accrued and recorded as earned by the endorser under the defined reward programs. Expense related to our payments to endorsers is recognized when we recognize revenue for such payments, in the case of endorsements related to our customers, and when the endorsement is made, in the case of endorsements of advertisers who are endorsed through our participation in one of the affiliate programs in which we participate. This is in accordance with the terms and conditions agreed to by the endorsers.

Rewards are delivered periodically to the endorser by loading loyalty cards. Endorsers are required to provide certain information before loyalty cards can be issued and loaded. Endorsers retain rights to any unpaid rewards until they have been inactive for three months or the applicable time frame specified in the endorser terms and conditions, if such time frame is changed. There is no additional expense to us associated with compensating endorsers through cash that is reloaded on a personal Visa debit card rather than compensating endorsers through cash sent directly to them.

### *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash held in bank demand deposits. We consider all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

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### *Property and Equipment and Long-Lived Assets*

Property and equipment consists of office equipment and is recorded at cost, less accumulated depreciation and amortization. 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*

Software development costs are accounted for in accordance with ASC 350-40, Intangibles—Goodwill and Other: Internal Use Software. According to ASC 350-40, capitalization of costs related to a computer software project should begin when both of the following occur: (a) the preliminary project stage is complete; and (b) management, with relevant authority, implicitly or explicitly authorizes and commits to funding the project and it is probable that the project will be completed and the software will be used to perform the function intended. The costs capitalized include: fees paid to third parties for services provided to develop the software during the application development stage; payroll and payroll-related costs, such as costs of employee benefits for employees who are directly associated with and who devote time to the software project on activities that include coding and testing during the application development stage; and interest costs incurred while developing the software (in accordance with ASC 835-20). The costs are amortized using straight-line amortization over the estimated useful life of up to five years, once the software is ready for its intended use. The unamortized capitalized cost of the software is compared annually to the net realizable value. The amount by which the unamortized capitalized costs of the internal use software exceed the net realizable value of that asset is written off.

### *Impairment of Long-Lived Tangible Assets and Definite-Lived Intangible Assets*

Long-lived tangible assets and definite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Recoverability of assets held and used is generally measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by that asset. If it is determined that the carrying amount of an asset may not be recoverable, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

### *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.

### *Income Taxes*

Income taxes are recorded in accordance with ASC 740, Income Taxes. Deferred income taxes are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. An allowance is provided when it is more likely than not that tax benefits will not be utilized.

### *Stock-Based Compensation*

We grant stock options and restricted stock as compensation to employees, directors and consultants. Compensation expense is measured in accordance with FASB ASC 718 (formerly Statement of Financial Accounting Standards No. 123R), Compensation Stock Compensation. Compensation expense is recognized over the requisite service period for awards of equity instruments based on the grant date fair value of those awards expected to ultimately vest. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates.

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### *Concentrations of Credit Risk*

Significant concentrations of credit risk may arise from our cash maintained in the bank. We maintain cash in quality financial institutions; however, at times, cash balances may exceed the federal deposit insurance limits.

### *Advertising and Marketing*

Our advertising and marketing costs, which consist primarily of marketing and trade show costs, business development and printed promotional and sales presentation materials, are charged to expense when incurred.

### *Restatement of Previously Issued Financial Statements*

This annual report contains the restated consolidated balance sheet as of December 31, 2012 and 2011 and the effects of the restated consolidated statements of operations for the years ended December 31, 2012 and 2011 and from September 11, 2009 (date of inception) through December 31, 2012. Refer to Note 2 of the Notes to the accompanying Consolidated Financial Statements in this Annual Report on Form 10-K for further detail.

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 December 31, 2012 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 Twelve Months Ended December 31, 2012 and 2011 Net Loss:* For the twelve months ended December 31, 2012, we had a net loss of \$5,075,659 compared to a net loss of \$12,119,633 for the twelve months ended December 31, 2011. The decrease was primarily due to a favorable change in fair value of derivative liabilities in 2012 of \$668,082 versus a loss of \$10,342,150 in change in fair value of derivative liabilities of \$10,284,733 in the prior year. Another significant impact was related to deferred compensation for stock options and restricted stock awards which totaled \$3,228,957 in the current year. Finally, selling, general and administrative expense increased by \$439,223 to \$1,977,885 as a result of increased investment in operations, development and administration as we have ramped up our operations efforts.

*Revenue.* Revenue for the twelve months ended December 31, 2012 increased to \$74,584, as compared to \$51,590 for the same period in 2011. We are a development stage company and have modest revenue to date.

*Cost of Revenue.* Cost of revenue is primarily comprised of payments to endorsers for promoting advertiser content. Our cost of revenue was \$155,022 for the twelve months ended December 31, 2012, as compared to \$111,511 for the same period in 2011. The increase was due to promotions and payments to our endorser base.

*Sales and Marketing.* For the twelve months ended December 31, 2012, sales and marketing expenses decreased by \$310,791 to \$420,692 during the same period in 2011. The decrease was due primarily to decreased staffing and advertising expenses.

*General and Administrative.* For the twelve months ended December 31, 2012, general and administrative expenses were \$4,786,152, as compared to \$862,455 for the twelve months ended December 31, 2011. The increase was primarily due to deferred compensation expenses of \$2,205,727 related to stock options and \$1,017,786 accretion of compensation for restricted stock granted in 2012. Also contributing to the increase was the hiring of a new Chief Executive Officer as well as legal and professional expenses related to meeting the compliance requirements of a publicly owned company as well as costs associated with continued fund raising efforts. We also had increase public relations expenses in the year ended December 31, 2012 as we 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, which relate primarily to the amortization of capitalized software development, increased from \$123,624 for the twelve months ended December 31, 2011 to \$ 797,454 for the twelve months ended December 31, 2012. This increase resulted from our ongoing software development initiative and implementation of improvements and new services related to our network, amortization of notes payable discount of \$416,528 and amortization of beneficial conversion features associated with notes payable of \$156,491.

*Interest Expense.* Interest expense was \$659,005 for the twelve months ended December 31, 2012 as compared to \$57,417 for the twelve months ended December 31, 2011. Interest expense was incurred related to the Company's long-term debt obligations at various interest rates ranging from 8% to 10%. Also, there was interest related to the



amortization of a note payable for \$573,019 in 2012.

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### **Cash Flows**

#### *Comparison of Twelve Months Ended December 31, 2012 and 2011*

Cash used in operating activities during the twelve months ended December 31, 2012 was \$2,225,631, as compared to \$1,526,847 for the twelve months ended December 31, 2011. The change was due to an increase in net loss (net of deferred compensation of \$2,205,727 and depreciation and amortization of \$673,830) of \$400,491.

Cash used in investing activities during the twelve months ended December 31, 2012 was \$331,689, as compared to \$509,634 for the twelve months ended December 31, 2011. 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 twelve months ended December 31, 2012, cash provided by financing was \$2,404,725, as compared to \$2,294,364 for the same period in 2011. The Company continues to secure investment monies from multiple sources to meet its cash requirements during the continued development stage of the business.

#### *Going Concern Consideration*

Our independent registered public accounting firm, in their report accompanying our financial statements for the year ended December 31, 2012, 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 \$17,607,980 since beginning operations on September 11, 2009. At December 31, 2012, we had a cash balance of \$218,798 and negative working capital of \$11,745,996.

On November 15, 2012, we commenced a private offering of up to \$3,000,000 of 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 consists of a 10% Convertible Debenture in the principal amount of \$50,000 (the Debenture ) and 12,500 shares of the Company s common stock. 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 the Company s common stock at a conversion price of \$0.20 per share. As of December 31, 2012, we have issued and sold an aggregate of 9 units.

On November 9, 2012, the Company entered into the exchange agreement with Aztec, pursuant to which the Company and Aztec agreed to exchange the Note and the Company's existing accounts payable to Aztec for an 8% Convertible Note in the original principal amount of \$545,958. The 8% Convertible Note is 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 3,639,732 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 automatically converted into shares of the Company's Common Stock at the applicable conversion price.

On June 13, 2012, the Company commenced a private placement of up to \$10,000,000 of Units, at a purchase price of \$1.00 per Unit. Each Unit consists of: (i) two shares of Common Stock and (ii) a warrant to purchase one share of the Company s Common Stock (the Warrant ). The Warrant is exercisable for a term of two years at an exercise price of \$0.75 per share. As of October 14, 2012, the termination date of the offering, we issued and sold an aggregate of 445,000 Units in consideration of gross proceeds of \$445,000.



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On April 19, 2012 the Company entered into a securities purchase agreement with an existing stockholder pursuant to which the Company issued (i) a senior secured convertible debenture in the original aggregate principal amount of \$35,000 and (ii) a warrant to purchase 6,500,000 shares of common stock of the Company, and the buyer covenanted to purchase up to an additional \$465,000 of senior secured convertible debentures in a series of four closing at such times as may be designated by the Company in its sole discretion through October 19, 2012. The balance outstanding under this agreement was \$292,548. The convertible debentures mature on October 19, 2012 and bear an interest rate of 8%. On October 17, 2012, the Company and LMD Capital, LLC signed an agreement that extended the due date of the debentures issued to LMD Capital to November 30, 2012. On October 31, 2012, LMD loaned an additional \$65,000 to the Company bringing the outstanding principal balance of the 8% debentures to \$365,000. On November 14, 2012, LMD loaned an additional \$50,000 and on November 30, 2012, LMD loaned an additional \$50,000 to the Company bringing the outstanding balance of the 8% debentures as of December 31, 2012 to \$465,000. The 8% debentures were due on November 31, 2012 and are currently past due. We are currently in discussions with the lender regarding a further extension of the 8% debentures, however we can provide no assurance that such extension will be granted, and if granted, on terms acceptable to us. Our inability to satisfy these obligations upon demand by the lender may subject us to costly litigation and adversely affect our business, financial condition, and results of operations.

In connection with this private placement, the Company also entered into a security agreement, an intellectual property security agreement, Amendment No. 1 to the common stock purchase warrant, a stockholder's agreement and various ancillary certificates, disclosure schedules and exhibits in support thereof, each dated April 19, 2012. Pursuant to the security agreement and the intellectual property security agreement, the Company's obligations under the debentures are secured by a first priority perfected security interest in all of the assets and properties of the Company, including the stock of Blue Calypso, LLC. In addition, the subsidiary of the Company, Blue Calypso, LLC, entered into a subsidiary guarantee in favor of the issuer. In the event that the lender declares that the 8% debentures which are currently past due to be in default, the lender shall have all rights and remedies of a secured party under the UCC, including but not limited to, taking possession of and/or selling collateral in order to satisfy the outstanding obligations.

As a development stage company, we have been and continue to be dependent upon outside sources of cash to pay operating expenses. We have had only nominal revenue and we expect operating losses to continue through the foreseeable future. Until we develop a consistent source of revenue to achieve a profitable level of operations that generates sufficient cash flow, we will need additional capital resources to fund growth and operations. We are continuing our efforts to raise capital through equity and/or debt offerings. However, there can be no assurance that we will be able to raise equity or debt capital on terms we consider reasonable and prudent, or at all. The availability of capital to us may be subject to the volatility in the financial markets, our future financial condition and credit rating, and whether sufficient assets are available to be used as debt collateral in connection with any future debt financing, among other factors. Future financings through equity investments are likely to be dilutive to the existing stockholders. Also, the terms of securities we issue in future capital transactions may be more favorable for our new investors. Newly issued securities may include preferences, superior voting rights, and the issuance of warrants or other derivative securities, which may have additional dilutive effects. Further, we may incur substantial costs in pursuing future capital and/or financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash

expenses in connection with certain securities we may issue, such as convertible notes and warrants, which may adversely impact our financial condition.

### **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.

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**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/A. 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.

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.

*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 December 31, 2012 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.

*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, 2012, 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     | 45         | Chairman of the Board and Chief Executive Officer, Director | 2012                          |
| Andrew Levi      | 46         | Chief Technology Officer, Director                          | 2011                          |
| Ian Wolfman      | 39         | Director  | 2012                          |
| Charles Thomas   | 46         | Director  | 2012                          |
| Andrew Malloy    | 55         | Director  | 2013*                         |
| David S. Polster | 60         | Chief Financial Officer                                     | 2012                          |

\* appointed to position effective January 15, 2013

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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's degree in business administration 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, 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 seven 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.

*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., Charlie also contributed to the industry as a founding member of the Internet Advertising Bureau (IAB). Charlie then joined Broadcast.com as the VP of advertising sales, which was later purchased by Yahoo. Charlie remained Yahoo's central region sales VP until 2007 and was later promoted to the VP of display sales strategy. When Charlie left Yahoo, he founded Step Ahead Strategies (SAS), a sales and marketing consulting firm.

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### *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.

### *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 BA from the University of Colorado and an MBA 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).

*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).

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**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, 2012, all persons subject to the reporting requirements of Section 16(a) with respect to the Company filed the required reports on a timely basis, except that Messrs. Ogle, Polster, Wolfman and Thomas failed to timely file a Form 3 and Mr. Polster failed to timely file a Form 4.

**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.

**ITEM 11. EXECUTIVE COMPENSATION**

**2012 and 2011 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, 2012 and 2011.

| <b>Name and Principal Position</b> | <b>Year</b> | <b>Salary (\$)</b> | <b>Bonus (\$)</b> | <b>Stock Awards (\$)</b> | <b>Option Awards (\$)</b> | <b>Nonequity Incentive Plan Compensation (\$)</b> | <b>Nonqualified Deferred Compensation (\$)</b> | <b>All Other Compensation (\$)</b> | <b>Total (\$)</b> |
|------------------------------------|-------------|--------------------|-------------------|--------------------------|---------------------------|---|--|------------------------------------|-------------------|
|------------------------------------|-------------|--------------------|-------------------|--------------------------|---------------------------|---|--|------------------------------------|-------------------|

|   |      | <b>Compensation</b> |  |           |           |                 |  |  |           |
|---|------|---------------------|--|-----------|-----------|-----------------|--|--|-----------|
|   |      | <b>Salary</b>       |  |           |           | <b>Benefits</b> |  |  |           |
|   |      | (\$)                |  |           |           | (\$)            |  |  |           |
| William Ogle                                    | 2012 |                     |  |           |           |                 |  |  |           |
| Chairman and Chief Executive Officer (1)        | 2011 | 241,026             |  | 5,234,337 | 1,719,139 |                 |  |  | 7,194,502 |
| David Polster                                   |      |                     |  |           |           |                 |  |  |           |
| Chief Financial Officer (2)                     | 2012 | 64,625              |  |           |           |                 |  |  | 64,625    |
| Andrew Levi                                     |      |                     |  |           |           |                 |  |  |           |
| Chief Technology Officer,                       | 2012 |                     |  |           |           |                 |  |  |           |
| Former Chairman and Chief Executive Officer (2) | 2011 |                     |  |           |           |                 |  |  |           |
| James Craig                                     |      |                     |  |           |           |                 |  |  |           |
| Former Chief Financial Officer                  | 2012 | 18,974              |  |           |           |                 |  |  | 18,974    |
| Deborah Flores                                  |      |                     |  |           |           |                 |  |  |           |
| Former President, Secretary and Treasurer (3)   | 2011 |                     |  |           |           |                 |  |  |           |

(1) Mr. Ogle was appointed as our chairman and chief executive officer effective June 11, 2012.

(2) 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.

(3) Ms. Flores served as our president, secretary, treasurer and as a member of our board of directors from March 2, 2007 through September 1, 2011.

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During the years ended December 31, 2011 and December 31, 2010, our named executive officers did not receive a salary, and do not have any other compensation arrangements in place, except that they are eligible to receive discretionary awards under the Blue Calypso, Inc. 2011 Long-Term Incentive Plan.

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 will also receive 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.

**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 May 31, 2012, we granted stock options under the Blue Calypso, Inc. 2011 Long-Term Incentive Plan to the directors as follows:

| <b>Name</b>           | <b>Shares<br/>Subject to<br/>Option</b> | <b>Exercise Price</b> | <b>Vesting Provisions</b>                       | <b>Expiration<br/>Date</b> |
|-----------------------|---|-----------------------|---|----------------------------|
| Charles<br>Thomas (1) | 375,000                                 | \$                    | Pro-rata vesting<br>quarterly over two<br>years | May 31, 2022               |



|                 |         |    |       |   |              |
|-----------------|---------|----|-------|---|--------------|
| Ian Wolfman (1) | 375,000 | \$ | 0.454 | Pro-rata vesting<br>quarterly over two<br>years | May 31, 2022 |
|-----------------|---------|----|-------|---|--------------|

(1) Messrs. Thomas and Wolfman were appointed to the board of directors effective May 31, 2012.

### **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.

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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.

**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, 2012.

| Name | Option Awards   |   |  |                            |                        | Stock Awards  |  |   |  |
|------|---|---|--|----------------------------|------------------------|---|--|---|--|
|      | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercisable Options (#) | Equity Incentive Plan Awards: Number of 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 Unearned Shares, or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not |

|               |                |           |      |           |               |           |   | Vested (\$ |
|---------------|----------------|-----------|------|-----------|---------------|-----------|---|------------|
| William Ogle  | 5,608,218(1) - | 5,608,218 | 0.10 | 6/11/2022 | 13,085,842(2) | 6,542,921 | - | -          |
| David Polster | - 250,000(3)   | 250,000   | 0.50 | 7/18/2022 | -             | -         | - | -          |

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

(2) Of these shares, 4,361,947 shares will vest 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 will vest on July 18, 2013. In the event that Mr. Polster's employment is terminated by reason other than cause prior to March 18, 2013, 75% of the options will vest and become exercisable.

**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 28, 2013, 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. Our common stock is our only class of voting securities.

| <b>Name and Address of Beneficial Owner</b>  | <b>Amount and Nature<br/>of Beneficial<br/>Ownership(1)</b> | <b>Percentage<br/>of Class (1)(2)</b> |
|--|---|---------------------------------------|
| William Ogle<br><br>19111 North Dallas Parkway, Suite 200<br><br>Dallas, TX 75287  | 18,956,560(3)   | 13.14%                                |
| Andrew Levi<br><br>19111 North Dallas Parkway, Suite 200<br><br>Dallas, TX 75287   | 51,473,815(4)   | 37.13%                                |
| David Polster<br><br>19111 North Dallas Parkway, Suite 200<br><br>Dallas, TX 75287 | -   | -                                     |
| Ian Wolfman<br><br>19111 North Dallas Parkway, Suite 200<br><br>Dallas, TX 75287   | 140,625(5)  | *                                     |

Charles Thomas

|                                       |            |   |
|---------------------------------------|------------|---|
| 19111 North Dallas Parkway, Suite 200 | 140,625(5) | * |
| Dallas, TX 75287                      |            |   |

Andrew Malloy

|                                       |   |   |
|---------------------------------------|---|---|
| 19111 North Dallas Parkway, Suite 200 | - | * |
| Dallas, TX 75287                      |   |   |

Esousa Holdings LLC(6)

|                              |               |       |
|------------------------------|---------------|-------|
| 317 Madison Ave., Suite 1621 | 12,480,250(7) | 9.01% |
| New York, NY 10017           |               |       |

|   |            |        |
|---|------------|--------|
| All directors and executive officers as a group (5 persons) | 70,711,625 | 48.84% |
|---|------------|--------|

(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 28, 2013, 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 138,381,367 shares of common stock outstanding as of March 28, 2013.

(3) Includes (i) 5,608,218 shares issuable upon exercise of vested stock options, (ii) 250,000 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) 22,954,395 shares of common stock which are being held in escrow until April 19, 2013. Pursuant to the stockholder's agreement, Mr. Levi agreed that if the Company issues shares of Common Stock in a financing transaction or in connection with the hiring or retention of senior management or directors during such period of time, the corresponding number of escrowed shares will be cancelled and returned to the Company's treasury.

(5) Includes 140,625 shares issuable upon exercise of vested stock options.

(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**

Aztec Systems, Inc., is a corporation that has provided us with administrative and technical support services until August 2012 and software development services until October 2012. Until the time of its sale to GLT Aztec LP on June 15, 2012, the majority owner of Aztec Systems, Inc. was Andrew Levi, our chief technology officer. From inception, September 11, 2009, through September 30, 2012, we have incurred management fees of \$90,384 and software development, hosting and infrastructure support fees of \$1,043,334 related to Aztec Systems, Inc.

On January 16, 2012, we entered into a letter agreement with Aztec Systems, pursuant to which Aztec Systems agreed to extend credit to us in an amount requested by us up to a maximum of \$30,000 in any single month through March 31, 2012 to assist us with our ongoing software development efforts. In connection with the credit extension, we agreed to pay Aztec Systems a minimum of \$30,000 per month beginning January 2012 to be applied against any amounts currently owed by us to Aztec Systems or incurred in the future for software development or hosting services. The credit extension was terminable upon notice by Aztec Systems. On January 17, 2012, we issued a promissory note to Aztec Systems in the principal amount of \$254,992.89. The principal amount of the note reflects the balance due to Aztec Systems as of December 31, 2011 for software development and hosting services provided by Aztec Systems. The note bears interest at a rate of 8% per annum and the entire principal and interest under the note was due on September 30, 2012.

On November 9, 2012, we entered into an exchange agreement with Aztec Systems, pursuant to which we agreed to exchange the note which then had a balance of \$368,059.24 and our existing accounts payable to Aztec Systems of \$177,898.92 for an 8% convertible note in the principal amount of \$545,958.16. The 8% convertible note is due on March 31, 2013. Pursuant to the exchange agreement, we 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 then held by Aztec Systems on or before December 31, 2012. The 8% convertible note is convertible into shares of our 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 automatically converted into shares of our common stock.

On September 1, 2011, in connection with our reverse merger and succession to the business of business of Blue Calypso Holdings, Inc. as our sole line of business, we transferred all of our pre-reverse merger operating assets and liabilities to JJ&R Ventures Holdings, Inc., a Delaware corporation and our wholly owned subsidiary. Immediately after this transfer, we transferred all of JJ&R Ventures Holdings, Inc.'s outstanding capital stock to Deborah Flores, our then-majority stockholder and our former president, treasurer, treasurer and sole director, in exchange for the cancellation of 51,000,000 shares of our common stock held by Ms. Flores.

## **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 Montgomery Coscia Greilich LLP, Certified Public Accountants for the audits of our financial statements for the years ended December 31, 2012 and 2011, respectively, 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 and 2011.

### **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 \$46,000 for fiscal year ended 2012 and \$43,966 for fiscal year ended 2011.

### **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 \$2,500 for fiscal year ended 2012 and \$2,165 for fiscal year ended 2011.

### **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, tax advice, and tax planning were \$2,165 for fiscal year ended 2012 and \$575 for fiscal year ended 2011.

### **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 2012 and \$0 for fiscal year ended 2011.

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.

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

(a) Exhibits

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 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                     |  |

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- 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 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)
- 10.15 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)
- 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

+ The Interactive Data Files on Exhibit 101 hereto (XBRL (Extensive Business Reporting Language) information) is furnished and not filed as part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise not subject to liability under these sections.

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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: October 9, 2013

*/s/ Willam 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.

| <b>Signature</b>                                   | <b>Title</b>   | <b>Date</b>     |
|--|--|-----------------|
| <u><i>/s/ William Ogle</i></u><br>William Ogle     | President, Chief Executive Officer and Director<br><br>(Principal Executive Officer) | October 9, 2013 |
| <u><i>/s/ David Polster</i></u><br>David Polster   | Chief Financial Officer<br><br>(Principal Financial and Accounting Officer)          | October 9, 2013 |
| <u><i>/s/ Andrew Levi</i></u><br>Andrew Levi       | Director   | October 9, 2013 |
| <u><i>/s/ Charles Thomas</i></u><br>Charles Thomas | Director   | October 9, 2013 |
|  | Director   | October 9, 2013 |

/s/ Ian

Wolfman \_\_\_\_\_

Ian Wolfman

/s/Andrew

Malloy \_\_\_\_\_

Director

October 9, 2013

Andrew Malloy

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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 2, which is dated October 9, 2013

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**BLUE CALYPSO INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2012 AND 2011**

|  | <b>2012</b>  | <b>2011</b>  |
|--|--------------|--------------|
|  | (RESTATED)   | (RESTATED)   |
| <b>ASSETS</b>  |              |              |
| Current assets:  |              |              |
| Cash and cash equivalents  | 218,798      | 371,393      |
| Accounts receivable  | 43,868       | 51,900       |
| Prepaid expenses   | 3,052        | 34,807       |
| Total current assets   | 265,718      | 458,100      |
| Property and equipment, net of accumulated depreciation of \$7,153 and \$2,397 in 2012 and 2011 respectively                             | 16,628       | 21,384       |
| Capitalized software development costs, net of accumulated amortization of \$352,957 and \$133,279 in 2012 and 2011, respectively        | 923,449      | 814,874      |
| Total assets   | \$ 1,205,795 | \$ 1,294,358 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  |              |              |
| Current liabilities:   |              |              |
| Accounts payable   | 84,947       | 68,162       |
| Accounts payable-affiliate   | -            | 254,838      |
| Accrued liabilities  | 186,508      | 96,962       |
| Unearned revenue   | 10,000       | 24,174       |
| Notes payable - LMD  | 465,000      | -            |
| Notes payable-affiliate (net of discount of \$244,705)   | 301,253      | -            |
| Debt liability -derivative   | 109,802      | -            |
| Warrant liabilities  | 10,854,204   | 10,997,560   |
| Total current liabilities  | 12,011,714   | 11,441,696   |
| Note payable - debentures (net of discount of \$213,500)   | 236,500      | -            |
| Commitments and contingencies (note 13)  | -            | -            |
| Total liabilities  | 12,248,214   | 11,441,696   |
| Stockholders' equity (deficit)   |              |              |
| Series A convertible preferred stock, par value \$.0001 per share (Authorized 5,000,000 shares; issued and outstanding 1,700,000 shares) | 170          | 150          |



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|   |              |              |
|---|--------------|--------------|
| Common stock, par value \$.0001 per share (Authorized 680,000,000 shares; issued and outstanding 125,135,113 shares as of 12/31/12 and 126,845,641 shares at 12/31/11 respectively) | 12,514       | 12,685       |
| Additional paid in capital  | 9,533,095    | 3,954,102    |
| Deferred compensation   | (2,980,218)  | (1,581,954)  |
| Accumulated deficit during development stage  | (17,607,980) | (12,532,321) |
| Total stockholders' equity (deficit)  | (11,042,419) | (10,147,338) |
| Total liabilities and stockholders' equity (deficit)  | \$ 1,205,795 | \$ 1,294,358 |

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**BLUE CALYPSO INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

|  | 2012        | 2011         | FROM<br>INCEPTION                             |
|--|-------------|--------------|---|
|  | (RESTATED)  | (RESTATED)   | SEP 11, 2009 TO<br>DEC 31, 2012<br>(RESTATED) |
| REVENUE  | \$ 74,584   | \$ 51,590    | \$ 126,211                                    |
| COST OF REVENUE                                | 155,022     | 111,511      | 266,533                                       |
| GROSS LOSS                                     | (80,438)    | (59,921)     | (140,322)                                     |
| OPERATING EXPENSES                             |             |              | -   |
| Sales and marketing                            | 420,692     | 731,483      | 1,288,354                                     |
| General and administrative                     | 4,786,152   | 862,455      | 5,896,236                                     |
| Depreciation and amortization                  | 797,454     | 123,624      | 933,179                                       |
|  | 6,004,298   | 1,717,562    | 8,117,769                                     |
| LOSS FROM OPERATIONS                           | (6,084,736) | (1,777,483)  | (8,258,091)                                   |
| OTHER INCOME (EXPENSE)                         |             |              |   |
| Interest income                                | -           | -            | 15  |
| Interest expense                               | (659,005)   | (57,417)     | (733,253)                                     |
| Change in fair value of derivative liabilities | 1,668,082   | (10,284,733) | (8,616,651)                                   |
|  | 1,009,077   | (10,342,150) | (9,349,889)                                   |
| LOSS BEFORE INCOME TAX<br>PROVISION            | (5,075,659) | (12,119,633) | (17,607,980)                                  |
| INCOME TAX PROVISION                           | -           | -            | -   |
| NET LOSS                                       | (5,075,659) | (12,119,633) | (17,607,980)                                  |
| Loss per share:                                |             |              |   |
| Basic and Diluted                              | \$ (0.04)   | \$ (0.13)    |   |
| Weighted Average Shares Outstanding            |             |              |   |
| Basic and Diluted                              | 133,060,503 | 90,751,588   |   |



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**BLUE CALYPSO, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
PERIOD FROM SEPTEMBER 11, 2009 (DATE OF INCEPTION) TO DECEMBER 31, 2012  
(UNAUDITED) (RESTATED)

|  | Preferred Stock |        | Common Stock |        |                                  | Accumulated              |   | Total<br>Stockholders'<br>Equity<br>(Deficit) |
|--|-----------------|--------|--------------|--------|----------------------------------|--------------------------|---|---|
|  | Shares          | Amount | Shares       | Amount | Additional<br>Paid-In<br>Capital | Deferred<br>Compensation | Deficit<br>During<br>Development<br>Stage |   |
| Beginning Balance,<br>September 11, 2009             | -               | \$ -   | -            | \$ -   | \$ -                             | \$ -                     | \$ -                                      | -   |
| Net Loss   | -               | -      | -            | -      | -                                | -                        | (23,653)                                  | (23,653)                                      |
| Ending Balance,<br>December 31, 2009                 | -               | -      | -            | -      | -                                | -                        | (23,653)                                  | (23,653)                                      |
| Shares issued at<br>\$.0001 per<br>share-3/10/2010   | -               | -      | 65,448,269   | 6,545  | (5,525)                          | -                        | -   | 1,020   |
| Affiliate payable<br>converted to equity-<br>3/31/10 | -               | -      | -            | -      | 21,958                           | -                        | -   | 21,958  |
| Net loss   | -               | -      | -            | -      | -                                | -                        | (5,296)                                   | (5,296)                                       |
| Ending Balance,<br>March 31, 2010                    | -               | -      | 65,448,269   | 6,545  | 16,433                           | -                        | (28,949)                                  | (5,971)                                       |
| Restricted shares<br>issued- 6/10/2010               | -               | -      | 5,133,198    | 513    | (433)                            | (80)                     | -   | -   |
| Net loss   | -               | -      | -            | -      | -                                | -                        | (82,668)                                  | (82,668)                                      |
| Ending Balance, June<br>30, 2010                     | -               | -      | 70,581,467   | 7,058  | 16,000                           | (80)                     | (111,617)                                 | (88,639)                                      |
| Restricted shares<br>issued- 9/20/2010               | -               | -      | 1,604,124    | 160    | (135)                            | (25)                     | -   | -   |

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|  |   |   |             |       |           |       |           |           |
|--|---|---|-------------|-------|-----------|-------|-----------|-----------|
| Net loss                                   | - | - | -           | -     | -         | -     | (115,880) | (115,880) |
| Ending Balance,<br>September 30, 2010      | - | - | 72,185,591  | 7,219 | 15,864    | (105) | (227,497) | (204,519) |
| Restricted shares<br>vested as of 12/31/10 | - | - | -           | -     | -         | 22    | -         | 22        |
| Net loss                                   | - | - | -           | -     | -         | -     | (185,191) | (185,191) |
| Ending Balance,<br>December 31, 2010       | - | - | 72,185,591  | 7,219 | 15,864    | (83)  | (412,688) | (389,688) |
| Restricted shares<br>issued- 1/10/11       | - | - | 1,283,299   | 128   | (108)     | (20)  | -         | -         |
| Additional Paid-In<br>Capital              | - | - | -           | -     | 10        | -     | -         | 10        |
| Restricted shares<br>vested as of 03/31/11 | - | - | -           | -     | -         | 12    | -         | 12        |
| Net loss                                   | - | - | -           | -     | -         | -     | (174,767) | (174,767) |
| Ending Balance,<br>March 31, 2011          | - | - | 73,468,891  | 7,347 | 15,766    | (91)  | (587,455) | (564,433) |
| Restricted shares<br>issued- 4/29/11       | - | - | 1,283,299   | 128   | (108)     | (20)  | -         | -         |
| Restricted shares<br>vested as of 06/30/11 | - | - | -           | -     | -         | 15    | -         | 15        |
| Net loss                                   | - | - | -           | -     | -         | -     | (235,432) | (235,432) |
| Ending Balance, June<br>30, 2011           | - | - | 74,752,190  | 7,475 | 15,658    | (96)  | (822,887) | (799,850) |
| Restricted shares<br>cancelled 7/25/11     | - | - | (2,887,423) | (288) | 192       | 96    | -         | -         |
| Restricted shares<br>vested as of 09/30/11 | - | - | -           | -     | -         | -     | -         | -         |
| Conversion of Debt<br>9/1/11               | - | - | 28,135,234  | 2,814 | 1,562,274 | -     | -         | 1,565,088 |
| Reverse merger shares<br>issued 9/1/11     | - | - | 24,974,700  | 2,497 | (2,497)   | -     | -         | -         |

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|  |           |     |             |        |             |             |              |              |
|--|-----------|-----|-------------|--------|-------------|-------------|--------------|--------------|
| Restricted shares issued- 9/8/11                       | -         | -   | 320,825     | 32     | 21,752      | (21,784)    | -            | (0)          |
| Net loss   | -         | -   | -           | -      | -           | -           | (621,271)    | (621,271)    |
| Ending Balance, September 30, 2011                     | -         | -   | 125,295,526 | 12,530 | 1,597,379   | (21,784)    | (1,444,158)  | 143,967      |
| Additional Paid-In Capital-Compensation Expense        | -         | -   | -           | -      | 4,239       | -           | -            | 4,239        |
| Conversion of Debt to Pref Stock 10/17/11              | 1,500,000 | 150 | -           | -      | 1,499,850   | -           | -            | 1,500,000    |
| Restricted shares vested as of 10/1/11                 | -         | -   | -           | -      | -           | 5,446       | -            | 5,446        |
| Restricted shares issued- 12/30/11                     | -         | -   | 1,550,115   | -      | 1,565,461   | (1,565,616) | -            | -            |
| Allocation of proceeds from warrants 12/31/11          | -         | -   | -           | -      | (712,827)   | -           | -            | (712,827)    |
| Net loss   | -         | -   | -           | -      | -           | -           | (11,088,163) | (11,088,163) |
| Ending Balance, December 31, 2011                      | 1,500,000 | 150 | 126,845,641 | 12,685 | 3,954,102   | (1,581,954) | (12,532,321) | (10,147,338) |
| Purchase of Preferred Stock                            | 200,000   | -   | -           | -      | 200,000     | -           | -            | 200,000      |
| Restricted Shares Issued                               | -         | -   | 200,000     | -      | -           | -           | -            | -            |
| Stock Options - Deferred Income                        | -         | -   | -           | -      | -           | 763,480     | -            | 763,480      |
| Allocation of proceeds from warrants 3/31/12           | -         | -   | -           | -      | (946,049)   | -           | -            | (946,049)    |
| Net loss   | -         | -   | -           | -      | -           | -           | (1,785,795)  | (1,785,795)  |
| Ending Balance, March 31, 2012                         | 1,700,000 | 150 | 127,045,641 | 12,685 | 3,208,052   | (818,474)   | (14,318,115) | (11,915,702) |
| Restricted Shares Issued                               | -         | -   | -           | -      | 5,234,337   | (5,234,337) | -            | -            |
| Restricted Shares Cancelled                            | -         | -   | (1,700,115) | (155)  | (1,565,461) | 1,565,616   | -            | -            |
| Restricted Shares - Unvested                           | -         | -   | (290,619)   | (24)   | (16,314)    | 16,338      | -            | -            |
| Purchase of Common Stock - related to Private Offering | -         | -   | 440,000     | 44     | 186,479     | -           | -            | 186,523      |
| Release of Common Stock from Shareholder               | -         | -   | (440,000)   | -      | -           | -           | -            | -            |
| Stock Options - Deferred Income                        | -         | -   | -           | -      | -           | 2,181,627   | -            | 2,181,627    |
|  | -         | -   | -           | -      | 145,398     | -           | -            | 145,398      |

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Recording of restricted  
stock 6/30/12

|          |   |   |   |   |   |   |           |           |
|----------|---|---|---|---|---|---|-----------|-----------|
| Net loss | - | - | - | - | - | - | (979,769) | (979,769) |
|----------|---|---|---|---|---|---|-----------|-----------|

|                                  |           |     |             |        |           |             |              |              |
|----------------------------------|-----------|-----|-------------|--------|-----------|-------------|--------------|--------------|
| Ending Balance, June<br>30, 2012 | 1,700,000 | 150 | 125,054,907 | 12,550 | 7,192,491 | (2,289,230) | (15,297,884) | (10,381,923) |
|----------------------------------|-----------|-----|-------------|--------|-----------|-------------|--------------|--------------|

|  |   |   |           |    |          |        |           |           |
|--|---|---|-----------|----|----------|--------|-----------|-----------|
| Restricted Shares -<br>vested                                | - | - | 80,205    | -  | -        | -      | -         | -         |
| Purchase of Common<br>Stock - related to<br>Private Offering | - | - | 450,000   | 62 | 232,438  | -      | -         | 232,500   |
| Release of Common<br>Stock from<br>Shareholder               | - | - | (450,000) | -  | -        | -      | -         | -         |
| Stock Options -<br>Deferred Income                           | - | - | -         | -  | -        | 13,872 | -         | 13,872    |
| July 2012 warrant<br>adjustment                              | - | - | -         | -  | (29,349) | -      | -         | (29,349)  |
| Recording of restricted<br>stock                             | - | - | -         | -  | 436,194  | -      | -         | 436,194   |
| Net loss   | - | - | -         | -  | -        | -      | (856,619) | (856,619) |

|                                      |           |        |             |           |              |                |                 |                 |
|--------------------------------------|-----------|--------|-------------|-----------|--------------|----------------|-----------------|-----------------|
| Ending Balance<br>September 30, 2012 | 1,700,000 | \$ 150 | 125,135,112 | \$ 12,612 | \$ 7,831,774 | \$ (2,275,358) | \$ (16,154,503) | \$ (10,585,325) |
|--------------------------------------|-----------|--------|-------------|-----------|--------------|----------------|-----------------|-----------------|

|  |   |    |             |       |          |           |   |           |
|--|---|----|-------------|-------|----------|-----------|---|-----------|
| Purchase of common<br>stock - via AP<br>settlements          | - | -  | 1,068,105   | 107   | 354,788  | -         | - | 354,895   |
| Release of common<br>stock from shareholder                  | - | -  | (1,068,105) | -     | -        | -         | - | -         |
| Correction to reflect<br>preferred stock amount              | - | 20 | -           | -     | (20)     | -         | - | -         |
| Purchase of common<br>stock - related to<br>private offering | - | -  | 10,000      | (17)  | (29,983) | -         | - | (30,000)  |
| Release of common<br>stock from shareholder                  | - | -  | (10,000)    | -     | -        | -         | - | -         |
| Stock options -<br>deferred income                           | - | -  | -           | -     | -        | (753,254) | - | (753,254) |
| Cumulative correction<br>- common stock                      | - | -  | 1           | (188) | (42,760) | 42,948    | - | -         |
| Beneficial conversion<br>feature - notes payable             | - | -  | -           | -     | 614,696  | -         | - | 614,696   |
| Value of warrants<br>-note payable                           | - | -  | -           | -     | 416,528  | -         | - | 416,528   |
| Restricted shares<br>vested as of 10/1/12                    | - | -  | -           | -     | -        | 5,446     | - | 5,446     |
| Recording of restricted<br>stock                             | - | -  | -           | -     | 436,193  | -         | - | 436,193   |

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|                       |           |     |             |        |           |             |              |              |
|-----------------------|-----------|-----|-------------|--------|-----------|-------------|--------------|--------------|
| 11/12 warrants        | -         | -   | -           | -      | (21,755)  | -           | -            | (21,755)     |
| 12/12 warrants        | -         | -   | -           | -      | (26,367)  | -           | -            | (26,367)     |
| Net loss              | -         | -   | -           | -      | -         | -           | (1,453,477)  | (1,453,477)  |
| <b>Ending Balance</b> |           |     |             |        |           |             |              |              |
| December 31, 2012     | 1,700,000 | 170 | 125,135,113 | 12,514 | 9,533,095 | (2,980,218) | (17,607,980) | (11,042,419) |

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**BLUE CALYPSO, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

|   | 2012           | 2011            | FROM<br>INCEPTION<br>SEP 11, 2009 TO<br>DEC 31, 2012 |
|---|----------------|-----------------|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |                |                 |  |
| Net loss  | \$ (5,075,659) | \$ (12,119,633) | \$ (17,607,980)                                      |
| Adjustments to reconcile net loss to net cash used in operating activities: |                |                 |  |
| Depreciation and amortization expense                                       | 797,454        | 118,179         | 927,712  |
| Amortization of vested restricted stock and options                         | 3,228,957      | 5,446           | 3,234,425  |
| Change in fair value of derivative liability                                | (1,668,082)    | 10,284,733      | 8,616,651  |
| Amortization of deferred loan discount                                      | 611,007        |                 | 611,007  |
| (Increase) decrease in assets:  |                |                 |  |
| Accounts receivable   | 8,032          | (51,900)        | (43,868)   |
| Prepaid expenses and other current assets                                   | 31,754         | (23,987)        | (3,052)  |
| Increase (decrease) in liabilities:   |                |                 |  |
| Accounts payable  | 16,785         | 52,499          | 84,947   |
| Accounts payable-affiliate  | (254,838)      | 149,423         | 21,958   |
| Accrued expenses  | 93,133         | 41,182          | 190,094  |
| Deferred revenue  | (14,174)       | 17,211          | 10,000   |
| Cash used in operating activities   | (2,225,631)    | (1,526,847)     | (3,958,106)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |                |                 |  |
| Cash paid for software development  | (331,689)      | (490,218)       | (1,174,424)  |
| Cash paid for purchases of fixed assets                                     | -              | (19,416)        | (23,781)   |
| Cash used in investing activities   | (331,689)      | (509,634)       | (1,198,205)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |                |                 |  |
| Contributed capital received  | -              | 150             | 1,170  |
| Notes payable   | 1,460,958      | -               | 1,460,958  |
| Purchase of common stock  | 388,873        | -               | 388,873  |
| Purchase of preferred stock   | 200,000        | -               | 200,000  |
| Conversion of NP affiliate to equity  | -              | 100,000         | 200,000  |
| Conversion of AP to equity  | 354,894        | 2,194,213       | 3,124,108  |
| Cash provided by financing activities                                       | 2,404,725      | 2,294,363       | 5,375,109  |

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|                                 |            |    |         |    |         |
|---------------------------------|------------|----|---------|----|---------|
| Net increase (decrease) in cash | (152,595)  |    | 257,882 |    | 218,798 |
| Cash at beginning of year       | 371,393    |    | 113,511 |    | -       |
| Cash at end of year             | \$ 218,798 | \$ | 371,393 | \$ | 218,798 |

**SUPPLEMENTAL INFORMATION:**

|   |              |    |            |    |            |
|---|--------------|----|------------|----|------------|
| Cash paid for interest  | \$ 0         | \$ | -          | \$ | 0          |
| Cash paid for taxes   | \$ -         | \$ | -          | \$ | -          |
| Non-cash investing and financing activities:  |              |    |            | \$ | -          |
| Conversion of notes payable and accounts payable<br>-former affiliate to common stock         | \$ 200,000   | \$ | 200,000    | \$ | 421,958    |
| Former affiliate payable converted to note payable  | \$ 545,958   | \$ | 0          | \$ | 545,958    |
| Conversion of notes payable to common and<br>preferred stock                                  | \$ 0         | \$ | 2,769,214  | \$ | 2,769,214  |
| Fair value of warrants issued in connection with<br>preferred, common stock and notes payable | \$ 4,766,716 | \$ | 11,122,733 | \$ | 15,889,449 |
| Fair value of conversion option issued in<br>connection with notes payable                    | \$ -         | \$ | 787,192    | \$ | 787,192    |
| Fair value of warrants issued in settlement of<br>accounts payable                            | \$ -         | \$ | 45,206     | \$ | 45,206     |

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**BLUE CALYPSO, INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011 (RESTATED)**

**1. Organization and Nature of Business**

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 executed a share exchange agreement and merged with a public shell company Blue Calypso Acquisition, Corp., a wholly-owned subsidiary of Blue Calypso, Inc. (formerly known as JJ&R Ventures, Inc. ). The Merger was accounted for as a reverse-merger and recapitalization in accordance with the generally accepted accounting principles in the United States. BCHI is the acquirer for financial reporting purposes and Blue Calypso, Inc. is the acquired company. Consequently, the assets and liabilities and the operations that will be reflected in the historical financial statements prior to the Merger will be those of BCHI and will be 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. On December 16, 2011 Blue Calypso Holdings, Inc. was merged into its 100% sole-owner, Blue Calypso, Inc.

The Company is a mobile and social media marketing company that activates and measures branded word of mouth campaigns through consumers personal texts, posts and tweets between friends. The Company activates a friend to friend distribution of branded marketing campaigns by motivating brand loyalists to personally endorse and share these campaigns with their digital social streams. The Company compensates them for their reach with cash, prizes and VIP perks. Marketers enjoy the power of measured personal endorsements that generate buzz, ignite conversation, drive purchase intent, increase loyalty and attract new customers by leveraging the power of social influence.

**2. Restatement of Previously Issued Financial Statements**

On August 26, 2013, after consulting with the Company s Audit Committee, 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. Such warrants and the embedded conversion options are now recorded as derivative liabilities on the consolidated balance sheets rather than as a component of equity as reported in the original 10K.

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, 2012 and resulted in a loss on the fair value of the derivative liabilities which impacted the results of operations and earnings (loss) per share as originally reported.

The effects of the revision on the accompanying balance sheet as of December 31, 2011 and December 31, 2012 is summarized below:

**Condensed Consolidated Balance Sheet  
December 31, 2011**

|  | As previously<br>reported | Adjustment   | Reference | As Restated  |
|--|---------------------------|--------------|-----------|--------------|
| Assets   | \$ 1,294,358              | \$ -         |           | \$ 1,294,358 |
| Current liabilities:                               |                           |              |           |              |
| Conversion option liability                        | -                         | -            | (a)       | 0            |
| Warrant liabilities                                | -                         | 10,997,560   | (a)       | 10,997,560   |
| Other current liabilities                          | 444,136                   | 0            |           | 444,136      |
| Total current liabilities                          | 444,136                   | 10,997,560   |           | 11,441,696   |
| Long term debt:                                    | 0                         | 0            |           | -            |
| Total liabilities                                  | 444,136                   | 10,997,560   |           | 11,441,696   |
| Stockholders' deficiency                           |                           |              |           |              |
| Series A convertible preferred stock               | 150                       | -            |           | 150          |
| Common stock                                       | 12,685                    | -            |           | 12,685       |
| Additional paid in capital                         | 4,666,929                 | (712,827)    | (a)       | 3,954,102    |
| Additional paid in capital - deferred compensation | (1,581,954)               | -            | (a)       | (1,581,954)  |
| Deficit accumulated during the development stage   | (2,247,588)               | (10,284,733) | (a)       | (12,532,321) |
| Total stockholders' deficiency                     | 850,222                   | (10,997,560) |           | (10,147,338) |
|  |                           |              |           | -            |
| Total liabilities and stockholders' deficiency     | \$ 1,294,358              | \$ -         |           | \$ 1,294,358 |

(a) Reclassify cumulative effect of reclassifying warrants and conversion options with reset provisions as a liability and adjustment for accretion of stock based compensation.

**Condensed Consolidated Balance Sheet  
December 31, 2012**

Reference

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|  | As previously<br>reported | Adjustment   |     | As Restated  |
|--|---------------------------|--------------|-----|--------------|
| Assets   | \$ 1,205,795              | \$ -         |     | \$ 1,205,795 |
| Current liabilities:                               |                           |              |     |              |
| Conversion option liability                        | -                         | 109,802      | (a) | 109,802      |
| Warrant liabilities                                | -                         | 10,854,204   | (a) | 10,854,204   |
| Other current liabilities                          | 1,047,708                 | 0            |     | 1,047,708    |
| Total current liabilities                          | 1,047,708                 | 10,964,006   |     | 12,011,714   |
| Long term debt:                                    | 236,500                   | 0            |     | 236,500      |
| Total liabilities                                  | 1,284,208                 | 10,964,006   |     | 12,248,214   |
| Stockholders' deficiency                           |                           |              |     |              |
| Series A convertible preferred stock               | 170                       | -            |     | 170          |
| Common stock                                       | 12,514                    | -            |     | 12,514       |
| Additional paid in capital                         | 10,251,657                | (718,562)    | (a) | 9,533,095    |
| Additional paid in capital - deferred compensation | (2,980,218)               | -            | (a) | (2,980,218)  |
| Deficit accumulated during the development stage   | (7,362,536)               | (10,245,444) | (a) | (17,607,980) |
| Total stockholders' deficiency                     | (78,413)                  | (10,964,006) |     | (11,042,419) |
|  |                           |              |     | -            |
| Total liabilities and stockholders' deficiency     | \$ 1,205,795              | \$ -         |     | \$ 1,205,795 |

(a) Reclassify cumulative effect of reclassifying warrants and conversion options with reset provisions as a liability and adjustment for accretion of stock based compensation.

The effects of the above described adjustments resulted in a change in the net gain or loss for the year ended December 31, 2011 and December 31, 2012 and the period for the inception to date through December 31, 2012.

|  | Year<br>Ended<br>Dec 31, 2011 | Year<br>Ended<br>Dec 31, 2012 | Inception<br>to Date<br>Dec 31, 2012 |
|--|-------------------------------|-------------------------------|--------------------------------------|
| Net Loss (as originally presented)                             | \$ (1,834,900)                | \$ (5,114,948)                | \$ (7,362,536)                       |
| Change in operating expenses                                   | -                             | (1,017,786)                   | (1,017,786)                          |
| Change in fair value of derivative liabilities                 | (10,284,733)                  | 1,668,082                     | (8,616,651)                          |
| Increase in interest expense related to derivative liabilities | -                             | (611,007)                     | (611,007)                            |

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|   |                 |                |                 |
|---|-----------------|----------------|-----------------|
| Net gain or loss (as restated)                          | \$ (12,119,633) | \$ (5,075,659) | \$ (17,607,980) |
| Net loss per share - basic and diluted (as restated)    | \$ (0.09)       | \$ (0.04)      |                 |
| Weighted average shares outstanding - basic and diluted | 138,431,367     | 133,060,503    |                 |

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**3. Summary of Significant Accounting Policies**

*Development Stage Company*

The Company is a development stage company as defined by ASC 915 Development Stage Entities and is still devoting substantial efforts on establishing the business. Its principal operations have commenced but there has been no significant revenue thus far. All losses accumulated since inception, have been considered as part of the Company's development stage activities.

*Basis of Presentation*

The financial statements are stated in U.S. dollars and include the accounts of Blue Calypso, Inc. and BCHI which were merged effective December 16, 2011. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

*Segments*

The Company operates in a single segment.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 realization of capitalized software and the realization of deferred tax assets. Actual results may differ from these estimates.

### *Revenue Recognition*

The Company recognizes revenue in accordance with Accounting Standards Codification ( ASC ) 605 Revenue Recognition , when persuasive evidence of an arrangement exists, the fee is fixed or determinable, delivery of the product has occurred or services have been rendered and collectability is reasonably assured. Revenue includes fees received from customers for advertising and marketing services provided by the Company and is recognized as earned when brand loyalists personally endorse and share the advertising campaigns with others in their digital social stream.

### *Cash and Cash Equivalents*

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

### *Property and Equipment and Long-Lived Assets*

Property and equipment consists of office equipment and is recorded at cost, less accumulated depreciation and amortization. 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*

Software development costs are accounted for in accordance with FASB ASC 350-40, Intangibles Goodwill and Other: Internal Use Software. According to ASC 350-40 capitalization of costs shall begin when both of the following occur: a) preliminary project stage is completed, b) management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. The costs capitalized include fees paid to third parties for services provided to develop the software during the application development stage, payroll and payroll-related costs such as costs of employee benefits for employees who are directly associated with and who devote time to the internal-use computer software project on activities that include coding and testing during the application development stage and interest costs incurred while developing internal-use computer software (in accordance with ASC 835-20). Once the software is ready for its intended use, the costs are amortized using straight-line method over the estimated useful life of up to five years. The unamortized capitalized cost of the software is compared annually to the net realizable value. The amount by which the unamortized capitalized costs of the internal use software exceed the net realizable value of that asset is written off.





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**3. Summary of Significant Accounting Policies, continued**

*Impairment of Long-lived Tangible Assets and Definite-Lived Intangible Assets*

Long-lived tangible assets and definite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Recoverability of assets held and used is generally measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by that asset. If it is determined that the carrying amount of an asset may not be recoverable, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

*Income Taxes*

Income taxes are accounted for using the asset and liability method pursuant to the authoritative guidance on Accounting for Income Taxes. Deferred taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement and carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes future tax benefits to the extent that realization of such benefits is more likely than not.

The Company follows the authoritative guidance prescribing comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. This guidance requires that a company recognize in its financial statements the impact of tax positions that meet a more likely than not threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

*Loss per Share*

We have presented basic loss per share, computed on the basis of the weighted average number of common shares outstanding during the year, and diluted loss per share, computed on the basis of the weighted average number of common shares and all potentially dilutive common shares outstanding during the year. Potential common shares result from stock options, vesting of restricted stock grants and convertible notes. However, for the years presented, all outstanding stock options, restricted stock grants and convertible notes are anti-dilutive due to the losses incurred. Anti-dilutive common stock equivalents of 66,993,116 and 48,473,561 shares were excluded from the loss per share computation for 2012 and 2011, respectively.

#### *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 June 30, 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.

#### *Common Stock 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 consist of warrants to purchase common stock that were issued in connection with its private placement transactions (see Note 8) and embedded conversion options with convertible notes. The Company evaluated these derivatives to assess their proper classification in the condensed consolidated balance sheets as of December 31, 2012 and December 31, 2011 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 derivative 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 granted stock options and restricted stock as compensation to employees and directors. Compensation expense is measured in accordance with FASB ASC 718 (formerly SFAS No. 123R), Compensation - Stock Compensation. Compensation expense is recognized over the requisite service period for awards of equity instruments to employees based on the grant date fair value of those awards expected to ultimately vest. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates.

#### *Concentrations of Credit Risk*

Significant concentrations of credit risk may arise from the Company's cash maintained in the bank. The Company maintains cash in quality financial institution, however, at times, cash balance may exceed the federal deposit insurance limits (FDIC limits). As of December 31, 2012 the cash balance with the bank did not exceed the \$250,000 FDIC limit.

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**3. Summary of Significant Accounting Policies, continued**

*Advertising and Marketing*

The Company's advertising and marketing costs, which consist primarily of marketing and trade show costs, business development and printed promotional and sales presentation materials, are charged to expense when incurred. The advertising and marketing expense was \$128,007 and \$237,249 for the years ended December 31, 2012 and 2011, respectively.

*Recent Accounting Pronouncements*

In July 2011, the Financial Accounting Standards Board (FASB) issued ASU 2012-06-Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force). This ASU is effective for periods ending after December 31, 2013. We do not expect this ASU 2012-06 to apply to the Company or to have a material effect on the financial position, results of operations or cash flows.

In December 2011, the Financial Accounting Standards Board (FASB) issued ASU 2012-10-Property, Plant, and Equipment (Topic 360): De-recognition of in Substance Real Estate a Scope Clarification (a consensus of the FASB Emerging Issues Task Force). This ASU is effective for periods after June 15, 2012. We do not expect this ASU 2012-10 to apply to the Company or to have a material effect on the financial position, results of operations or cash flows.

**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)

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Financial liabilities as of December 31, 2012 and December 31, 2011 measured at fair value on a recurring basis are summarized below:

|   | December 31,<br>2012 | Quoted<br>Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|----------------------|--|---|--|
| Derivative liabilities (as restated - see note 2) | \$ 10,964,006        | \$ --  | \$ --   | \$ 10,964,006                                      |

|   | December 31,<br>2011 | Quoted<br>Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|----------------------|--|---|--|
| Derivative liabilities (as restated - see note 2) | \$ 10,997,560        | \$ --  | \$ --   | \$ 10,997,560                                      |

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 the 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.

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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 year ended December 31, 2012:

|                         |                 |
|-------------------------|-----------------|
| Dividend Yield          | 0.00%           |
| Volatility              | 85.99% - 95.63% |
| Risk-free Interest Rate | .25% - .72%     |
| Term                    | 1.6 - 4.3 years |

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 warrant. 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 warrant 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.



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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 warrant 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 warrant. Changes in the values of the derivative liabilities are recorded as a component of other income (expense) on the Company's condensed 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 six months ended June 30, 2013:

|  |               |
|--|---------------|
| Balance - Beginning of period (as restated - see note 2) | \$ 10,997,561 |
| Aggregate fair value of derivative instruments issued    | 1,634,527     |
| Change in fair value of derivative liabilities           | (1,668,082)   |
| Balance - End of period                                  | \$ 10,964,006 |

**5. Property and Equipment**

Property and equipment consist of the following at December 31, 2012 and 2011:

|                                | <b>12/31/2012</b> | <b>12/31/2011</b> |
|--------------------------------|-------------------|-------------------|
| Office Equipment               | \$ 23,781         | \$ 23,781         |
| Less: Accumulated depreciation | (7,153)           | (2,397)           |

Net property and equipment \$ 16,628 \$ 21,384  
 Depreciation expense was \$4,756 and \$2,256 for the years ended December 31, 2012 and 2011, respectively.

## 6. Intangibles

Intangible assets consist of the following at December 31, 2012 and 2011:

|  | <b>12/31/2012</b> |    | <b>12/31/2011</b> |
|--|-------------------|----|-------------------|
| Capitalized Software Development Costs | \$ 1,276,406      | \$ | 948,153           |
| Less: Accumulated amortization         | (352,957)         |    | (133,279)         |
| Net capitalized development costs      | \$ 923,449        | \$ | 814,874           |

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**6. Intangibles, continued**

The capitalized software development costs include \$-0- and \$8,890 interest capitalized for the years ended December 31, 2012 and 2011, respectively. The amortization expense relating to the capitalized development costs was \$226,503 and \$121,342 for the years ended December 31, 2012 and 2011, respectively. Amortization expense for the next five years is estimated to be as follows:

|              |    |         |
|--------------|----|---------|
| <b>2013</b>  | \$ | 256,230 |
| <b>2014</b>  |    | 256,230 |
| <b>2015</b>  |    | 233,230 |
| <b>2016</b>  |    | 141,394 |
| <b>2017</b>  |    | 36,555  |
| <b>Total</b> | \$ | 923,639 |

**7. Income Tax Provision**

The company's income taxes are recorded in accordance with ASC 740 Income Taxes. The tax effects of the Company's temporary differences that give rise to significant portions of the deferred tax assets. Deferred tax assets for the years ended December 31, 2012 and 2011 were fully reserved and were attributed to net operating losses from inception to December 31, 2012 and 2011, of \$17,607,980 and \$12,119,635, respectively. Deferred tax assets and liabilities are computed by applying the effective U.S. federal and state income tax rate to the gross amounts of temporary differences and other tax attributes.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. At December 31, 2012 and 2011, the Company believed it was more likely than not that future tax benefits from net operating loss carry-forwards and other deferred tax assets would not be realizable through generation of future taxable income and accordingly deferred tax assets are fully reserved.

**8. Long Term Debt - Notes Payable**

On November 9, 2012, the Company entered into the exchange agreement with Aztec, pursuant to which the Company and Aztec agreed to exchange the Note and the Company's existing accounts payable to Aztec for an 8% Convertible Note in the original principal amount of \$545,958. The 8% Convertible Note is 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 note was determined to have an embedded beneficial conversion feature ( BCF ) under the provisions of FAS ASC 470-20, Debt with Conversion and Other Options based on the issue date market value of \$0.40 per share and the exercise price of \$0.15 per share. In accordance with ASC 470-20, an embedded beneficial conversion feature shall be recognized separately at issuance by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid capital. A discount of \$341,224 was recorded at issuance and amortization expense of \$96,519 was recognized for the year ended December 31, 2012. The note balance was \$301,253 net of discount of \$244,705 at December 31, 2012.

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On April 19, 2012, the Company entered into a securities purchase agreement with an existing stockholder (the Buyer), pursuant to which the Company issued (i) a senior secured 8% convertible debenture convertible into shares of the Company at \$0.10 per share in the original aggregate principal amount of \$35,000 and (ii) a warrant to purchase 6,500,000 shares of common stock at \$0.10 per share, and the Buyer covenanted to purchase up to an additional \$465,000 of senior secured convertible debentures in a series of four closings at such times as may be designated by the Company in its sole discretion through November 30, 2012. The convertible debentures matured on November 30, 2012 and bear interest at a rate of 8%. A discount of \$416,528 was recorded for the warrant fair market value and amortization expense was fully recognized in the amounts of \$416,528 and \$0 for the years ended December 31, 2012, and 2011, respectively. The unamortized discount balance was \$0 as of December 31, 2012 and December 31, 2011, respectively. The outstanding principal of the convertible debentures was \$465,000 as of December 31, 2012. The debentures were determined to have an embedded beneficial conversion feature (BCF) under the provisions of FAS ASC 470-20, Debt with Conversion and Other Options based on the issue date market value of \$0.71 per share and the exercise price of \$0.10 per share. In accordance with ASC 470-20, an embedded beneficial conversion feature shall be recognized separately at issuance by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid capital. A discount of \$48,472 was recorded at issuance and amortization expense of \$48,472 was recognized for the year ended December 31, 2012. The note balance was \$465,000 net of discount of \$0 at December 31, 2012.

On November 15, 2012, the Company commenced a private offering of up to \$3,000,000 of 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 consists of a 10% Convertible Debenture in the principal amount of \$50,000 (the Debenture) and 12,500 shares of the Company's common stock. 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 the Company's common stock at a conversion price of \$0.20 per share. As of December 31, 2012, we have issued and sold an aggregate of 9 units totaling \$450,000. The debentures were determined to have an embedded beneficial conversion feature (BCF) under the provisions of FAS ASC 470-20, Debt with Conversion and Other Options based on the issue date market value of \$0.40 per share and the exercise price of \$0.20 per share. In accordance with ASC 470-20, an embedded beneficial conversion feature shall be recognized separately at issuance by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid capital. A discount of \$225,000 was recorded at issuance and amortization expense of \$11,500 was recognized for the year ended December 31, 2012. The note balance was \$236,500 net of discount of \$213,500 at December 31, 2012.

**9. 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 contain 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.

The Company recorded a gain (loss) on change in fair value of derivative liabilities of \$1,668,082 and (\$10,284,733) for the year ended December 31, 2012 and 2011, respectively.

#### **10. Stockholders Equity (Deficit)**

On June 13, 2012, the Company commenced a private placement of up to \$10,000,000 of Units, at a purchase price of \$1.00 per Unit. Each Unit consists of: (i) two shares of Common Stock and (ii) a warrant to purchase one share of the Company's Common Stock (the Warrant). The Warrant is exercisable for a term of two years at an exercise price of \$0.75 per share. As of October 14, 2012, the termination date of the offering, we issued and sold an aggregate of 445,000 Units in consideration of gross proceeds of \$445,000.

As of December 31, 2012, the Company has issued and sold an aggregate of 445,000 Units in the private placement in consideration of gross cash proceeds of \$445,000. As a result, the Company has issued an aggregate of 890,000 shares of common stock and warrants to purchase an aggregate of 890,000 shares of Common Stock. WFG Investments, Inc. (WFG) acted as placement agent in connection with the Private Placement and was entitled to receive a commission equal to 10% of any subscriptions received and warrants to purchase 3% of the number of shares of common stock included in the Units sold in the Private Placement. As December 31, 2012, WFG has received a cash fee of \$44,500 and warrants to purchase 26,700 shares of common stock.

In April 2012, the Company entered into a stockholder's agreement with Andrew Levi, our Chief Technology Officer, whereby Mr. Levi agreed to place 25,000,000 shares of Common Stock held by him in escrow for a period of one year. In the event that the Company issues shares of Common Stock in a financing transaction, or in connection with the hiring or retention of senior management or directors during such period of time, the corresponding number of escrowed shares will be cancelled and returned to the Company's treasury.

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**DECEMBER 31, 2012 AND 2011 (RESTATED)**

On September 1, 2011 and as part of the reverse merger, the Company issued convertible promissory notes (the Promissory Notes ) to two accredited investors in a private placement transaction (the Private Placement ) pursuant to a Securities Purchase Agreement (the Securities Purchase Agreement ) in the aggregate principal amount of One Million Five Hundred Thousand Dollars (\$1,500,000) and five-year warrants (the Warrants ) to purchase up to 22,091,311 shares of the Company s common stock at an exercise price of \$0.10 per share. The notes are due December 1, 2012 and accrue no interest. The Promissory Notes are automatically convertible at \$1 into One Million Five Hundred Thousand (1,500,000) shares of the Company s Series A Convertible Preferred Stock ( Series A Preferred ) immediately upon the creation of the Series A Preferred by the Company. The Series A Preferred stock was approved October 17, 2011 and the notes were immediately converted into 1,500,000 preferred shares. The Series A Preferred shares are convertible into shares of the Company s common stock at a conversion rate of \$0.0679 per share or 22,091,311 common shares. The conversion of preferred into common stock is limited to the extent that the beneficial owners own greater than 4.99% of the Company s common stock.

During the three months ended March 31, 2012, the investor completed the purchase of the additional 200,000 shares of Series A Preferred and warrants to purchase an additional 2,945,509 shares of common stock. The conversion of Series A Preferred into common stock and exercise of warrants is limited to the extent that the beneficial owners own greater than 4.99% of the Company s common stock.

Blue Calypso, Inc. is authorized to issue 685,000,000 shares of capital stock: 680,000,000 shares of common stock with voting rights at a par value of \$.0001 and 5,000,000 shares of Series A Convertible Preferred Stock, also at \$.0001 par value per share. There were 126,845,641 shares of common stock issued and outstanding as of December 31, 2011. There were 1,700,000 shares of preferred stock were issued and outstanding as of December 31, 2012. The Company did not make or declare any distributions to shareholders during the year ended December 31, 2012 or December 31, 2011.

*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.

*Stock Options*

During 2012 the Company granted options to purchase 9,873,543 shares of the Company's common stock to employees, non-employee board members and other consultants under the Plan. The options vest under a number of different vesting schedules. The fair value for the Company's options were estimated at the date of grant using the Black-Scholes option pricing model with the weighted average assumptions as noted in the following table. The Black-Scholes option valuation model incorporate ranges of assumptions for inputs, and those ranges are disclosed below. Expected volatilities are based on similar industry-sector indices.



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**(A DEVELOPMENT STAGE COMPANY)**

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**DECEMBER 31, 2012 AND 2011 (RESTATED)**

*Stock Options* (continued)

The expected life of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate assumption is based on market yield on U.S. Treasury securities at 2-year constant maturity, quoted on investment basis determined at the date of grant.

Assumptions used for employee stock options:

|                         |           |
|-------------------------|-----------|
| Risk-free interest rate | 0.25%     |
| Stock price volatility  | 20% - 37% |
| Expected life           | 2 years   |

**10. Stockholders Equity (Deficit), continued**

Using the valuation assumptions noted above, the Company estimated the value of stock options granted during the year to be \$3,916,606 and \$33,910 for the years ended December 31, 2012 and December 31, 2011, respectively. The 9,873,543 options were granted at various dates in 2012 when the stock price was at various prices per share. The value of these options is being amortized to stock-based compensation expense quarterly over their two year vesting period. The stock-based compensation expense recorded was \$2,205,727 and \$4,240 during year ended December 31, 2012 and December 31, 2011, respectively.

The following table summarizes the stock option activity as of December 31, 2012:

|             |          |
|-------------|----------|
| Outstanding | Weighted |
| Shares      | Average  |
|             | Exercise |

|                            |             | Price  |
|----------------------------|-------------|--------|
| Balance, December 31, 2011 | 2,420,000   | 0.0679 |
| Granted                    | 9,873,543   | 0.247  |
| Exercised                  | -           | 0      |
| Cancelled                  | (2,833,000) | 0.085  |
| Balance, December 31, 2012 | 9,460,543   | \$0.25 |
| Exercisable at 12/31/12    | 7,212,909   | \$0.19 |
| Non-Vested at 12/31/12     | 2,247,634   | \$0.44 |

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**DECEMBER 31, 2012 AND 2011 (RESTATED)**

**10. Stockholders Equity (Deficit), continued**

*Restricted Stock*

The restricted stock granted prior to the reverse merger transaction, have been retroactively restated as capital stock shares reflecting the exchange ratio in the Merger.

The following table summarizes the restricted stock activity for the period ended December 31, 2012:

Restricted Shares Activity:

|   |             |
|---|-------------|
| Restricted shares issued as of December 31, 2011    | 1,870,940   |
| Granted during 2012                                 | 13,285,842  |
| Forfeited during 2012                               | (1,700,115) |
| Total Restricted Shares Issued at December 31, 2012 | 13,456,667  |
| Vested at December 31, 2012                         | (160,412)   |
| Unvested restricted shares as of December 31, 2012  | 13,296,255  |

A total of 13,285,842 shares were granted in 2012 and will vest 1/3 in the first year following the grant and the balance over the following 8 calendar quarters. The share based compensation expense was \$1,023,232 and \$5,446 for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012, the unamortized stock based compensation related to restricted stock is \$4,376,233 and will be amortized over the remaining period of approximately 2 ½ years.

**11. Related Party Transactions**

Aztec Systems, Inc. ( Aztec ) is an affiliate of the Company that provides administrative and technical support services to the Company. The majority owner of Aztec was also the majority stockholder of the Company until the date of sale of Aztec on June 15, 2012.

On November 9, 2012, the Company entered into the exchange agreement with Aztec, pursuant to which the Company and Aztec agreed to exchange the Note and the Company's existing accounts payable to Aztec for an 8% Convertible Note in the original principal amount of \$545,958. The 8% Convertible Note is 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.

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**12. Liquidity-Going Concern**

These financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the Company will need additional financing to continue to operate and fully implement its business plan.

Management believes that the current cash and revenue should fund the Company's expected burn rate through the first quarter of 2013. The Company will require additional funds to continue operations. Management is currently attempting to secure additional equity investment funds. There are no assurances that additional financing will be available on favorable terms or at all. If additional financing is not available, the Company will need to reduce, defer or cancel development programs, planned initiatives and overhead expenditures. The failure to adequately fund its capital requirement could have a material adverse effect on the Company's business, financial condition and results of operations. Moreover, the sale of additional equity securities to raise financing will result in additional dilution to the Company's stockholders, and additional indebtedness could involve imposition of covenants that restrict the Company's operations. The Company has accumulated losses from September 11, 2009 (inception) through December 31, 2012 of \$17,607,980. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**13. Commitments and Contingencies**

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 \$30,534 and \$13,120 for the years ended December 31, 2012 and 2011, respectively.

From time to time, the Company is involved in various legal matters in the ordinary course of business. In the opinion of management the ultimate liability, if any resulting from such legal matters will not have material effect on the Company's financial position or results of operations.

#### 14. Subsequent Events

The Company evaluated events or transactions occurring after December 31, 2012, the balance sheet date, through March 28, 2013 and October 9, 2013 as to Note 2, the date the financial statements were available to be issued, and determined any events or transactions which could impact the financial statements as of and for the year ended December 31, 2012.

Effective February 21, 2013, the Compensation Committee awarded stock option grants to six current employees. The aggregate number of shares awarded was 4,578,530. The average exercise price of the awarded options was \$0.24, which represented the closing price of the stock on the date of the award.

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.

Subsequent to December 31, 2012, the Company issued an aggregate of 4,777,526 shares of common stock to an investor for the conversion of 324,394 shares of Series A Convertible Preferred Stock.