

BLUE CALYPSO, INC.  
Form S-1  
May 26, 2015

As filed with the Securities and Exchange Commission on May 22, 2015

Registration No. \_\_\_\_\_

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM S-1**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**BLUE CALYPSO, INC.**

(Exact name of registrant as specified in its charter)

|   |  |  |
|---|--|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or<br>organization) | <b>8200</b><br>(Primary Standard Industrial<br>Classification Code Number) | <b>20-8610073</b><br>(I.R.S. Employer<br>Identification No.) |
|---|--|--|

**101 W. Renner Rd. Suite 280  
Richardson, TX 75082  
(800) 378-2297**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Andrew Levi, Chief Executive Officer  
Blue Calypso, Inc.  
101 W. Renner Rd. Suite 280  
Richardson, TX 75082  
(800) 378-2297**

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(Name, address, including zip code and telephone number, including area code, of agent for service)

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**Approximate date of commencement of proposed sale to the public:**

As soon as practicable after this Registration Statement becomes effective.

If any securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 | <input type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |

(Do not check if a smaller reporting company)

**CALCULATION OF REGISTRATION FEE**

| <b>Title of Each Class of Securities to Be Registered</b> | <b>Proposed Maximum Aggregate Offering Price (1)</b> | <b>Amount of Registration Fee</b>  |
|---|--|--|
| Common Stock, par value \$.0001 per share                 | \$   | \$   |
| Common Stock Purchase Warrants                            |  | Representatives<br>Common Stock Purchase Warrants                            |
| Common Stock underlying Common Stock Purchase Warrants    |  | Common Stock underlying<br>Representatives<br>Common Stock Purchase Warrants |
|   |  | Total Registration Fee   |

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act. This registration statement shall also cover, pursuant to Rule 416 under the Securities Act, any additional shares of common stock that shall become issued pursuant to prevent dilution from stock splits, stock dividends or similar transactions.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**



**The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED MAY 22, 2015**

**PRELIMINARY PROSPECTUS**

**Up to \$\_\_ Million in Shares of Common Stock and  
Warrants to Purchase Shares of Common Stock**

This is a public offering of Blue Calypso, Inc. We are offering \_\_\_\_\_ shares of our common stock, par value \$0.0001 per share and warrants to purchase an aggregate of \_\_\_\_\_ shares of our common stock at an offering price of \$\_\_\_\_\_ per share and \$\_\_\_ per warrant. Each warrant will have an exercise price per share equal to 125% of the per share public offering price, will be exercisable upon issuance and will expire \_\_\_\_\_ years from the date of issuance.

Our common stock is quoted on the OTCQB under the symbol BCYP. On May 21, 2015, the last reported sale price of our common stock as reported on the OTCQB was \$0.14 per share. We intend to apply for listing of our common stock and warrants on the NYSE MKT under the symbols \_\_\_\_ and \_\_\_\_ respectively. We make no representation that such application will be approved or that the shares or warrants will trade on such market either now or at any time in the future.

The Company has agreed to grant the underwriter an option, exercisable within 45 days after the closing of this offering, to acquire up to an additional 15% of the total number of securities offered by the Company pursuant to this offering, solely for the purpose of covering over-allotments.

The share and per share information in this prospectus does not reflect a proposed 1-for-[\_\_] reverse stock split of our outstanding shares of common stock to occur on or before the closing of this offering.

**Investing in our common stock is highly speculative and involves a high degree of risk. You should carefully consider the risks and uncertainties in the section entitled Risk Factors beginning on page 8 of this prospectus**

**before making a decision to purchase our stock.**

**We may amend or supplement this prospectus from time to time by filing amendments or supplements as required. You should read the entire prospectus and any amendments or supplements carefully before you make your investment decision.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

|   | <b>Public Offering<br/>Price</b> | <b>Underwriting<br/>Discount and<br/>Commissions (1)</b> | <b>Proceeds to Us</b> |
|---|----------------------------------|--|-----------------------|
| Per share of<br>Common Stock  |                                  |  |                       |
| Per Warrant   |                                  |  |                       |
| <b>Total</b>  |                                  |  |                       |
| (1) Before estimated expenses related to this offering of [_____].<br>Delivery of the shares and warrants will be on or about<br>[_____]. |                                  |  |                       |

***Sole Book-Running Manager***

**Maxim Group LLC**

***Co-Manager***

**Merriman Capital, Inc.**

The date of this prospectus is [\_\_\_\_\_], 2015.

TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| <u>PROSPECTUS SUMMARY</u>   | 1           |
| <u>THE OFFERING</u>   | 6           |
| <u>RISK FACTORS</u>   | 8           |
| <u>USE OF PROCEEDS</u>  | 25          |
| <u>MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS</u>                          | 25          |
| <u>DIVIDEND POLICY</u>  | 26          |
| <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION</u> | 26          |
| <u>BUSINESS</u>   | 34          |
| <u>EXECUTIVE OFFICERS AND DIRECTORS</u>   | 44          |
| <u>EXECUTIVE COMPENSATION</u>   | 47          |
| <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>                       | 51          |
| <u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>                                 | 52          |
| <u>DESCRIPTION OF SECURITIES</u>  | 52          |
| <u>UNDERWRITING</u>   | 55          |
| <u>LEGAL MATTERS</u>  | 58          |
| <u>EXPERTS</u>  | 58          |
| <u>WHERE YOU CAN FIND ADDITIONAL INFORMATION</u>  | 58          |

**ABOUT THIS PROSPECTUS**

You should rely only on the information contained in, or incorporated by reference in, this prospectus related to this offering prepared by us or on our behalf or otherwise authorized by us. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

Before you invest, you should read the registration statement (including the exhibits thereto and documents incorporated by reference therein) of which this prospectus forms a part.

Throughout this prospectus, unless otherwise designated, the terms we, us, our, the Company and our company refer to Blue Calypso, Inc., a Delaware corporation, and its wholly owned subsidiaries, Blue Calypso, LLC, Blue Calypso Holdings, Inc., a Texas corporation, and Blue Calypso Latin America, S.A., a Costa Rican corporation. All amounts in this prospectus are in U.S. dollars, unless otherwise indicated.





## **FORWARD LOOKING STATEMENTS**

This prospectus contains forward-looking statements about our expectations, beliefs or intentions regarding, among other things, our product development efforts, and business, and financial condition, results of operations, strategies or prospects. In addition, from time to time, we or our representatives have made or may make forward-looking statements, orally or in writing. Forward-looking statements can be identified by the use of forward-looking words such as believe, expect, intend, plan, may, should or anticipate or their negatives or other variations of the other comparable words or by the fact that these statements do not relate strictly to historical or current matters. These forward-looking statements may be included in, but are not limited to, various filings made by us with the U.S. Securities and Exchange Commission, or the SEC, press releases or oral statements made by or with the approval of one of our authorized executive officers. Forward-looking statements relate to anticipated or expected events, activities, trends or results as of the date they are made. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements, including, but not limited to, the factors summarized below.

This prospectus identifies important factors which could cause our actual results to differ materially from those indicated by the forward-looking statements, particularly those set forth under the heading Risk Factors.

The risk factors included in this prospectus are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf speak only as of the date of this prospectus and are expressly qualified in their entirety by the cautionary statements included in this prospectus. We undertake no obligations to update or revise forward-looking statements to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events. In evaluating forward-looking statements, you should consider these risks and uncertainties.

## **EXPLANATORY NOTE**

Market data and certain industry data and forecasts used throughout this prospectus were obtained from internal company surveys, market research, consultant surveys, publicly available information, reports of governmental agencies and industry publications and surveys. Industry surveys, publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. We have not independently verified any of the data from third party sources, nor have we ascertained the underlying economic assumptions relied upon therein.

Similarly, internal surveys, industry forecasts and market research, which we believe to be reliable, based on our management's knowledge of the industry, have not been independently verified. Forecasts are particularly likely to be inaccurate, especially over long periods of time. In addition, we do not necessarily know what assumptions regarding general economic growth were used in preparing the forecasts we cite. Statements as to our market position are based on the most currently available data. While we are not aware of any misstatements regarding the industry data presented in this prospectus, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "Risk Factors" in this prospectus.

## PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus. This summary does not contain all the information you should consider before investing in the Shares. You should read the following summary together with the more detailed information appearing in this prospectus, including our consolidated financial statements and related notes and risk factors, including the Risk Factors section, before deciding to invest.*

### BLUE CALYPSO, INC.

We develop and deliver mobile shopper marketing and analytics solutions for the business-to-consumer (B2C) marketplace leveraging mobile, social media, gamification and our intellectual property portfolio. We have developed a patented technology platform that enables brands and retailers to engage with shoppers when they are on the path-to-purchase products and services. Our technology also allows brands to leverage customer relationships and brand advocacy to increase brand loyalty and drive revenue through sharing and influencer marketing. We generate revenue from the mobile and cloud-based consumption of our technology platform, consulting/services fees, and licensing and/or enforcement of our patented technologies. Our intellectual property portfolio consists of four (4) US patents (five (5) have been granted however, one is in appeal with the Federal Circuit as a result of the PTAB ruling in December 2014) and eleven (11) pending patent applications that generally cover methods and systems for communicating advertisements and electronic offers between mobile and desktop (peer-to-peer) communication devices. All of the patents and patent applications that cover the core of our business, *i.e.*, a System and Method for Peer-to-Peer Advertising Between Mobile Communication Devices, have been developed internally by our Founder and Chief Executive Officer, Andrew Levi, and our Director of Innovation, Bradley Bauer, and assigned to our wholly owned subsidiary, Blue Calypso, LLC. In September 2013, we acquired proprietary mobile gamification technology and subsequently applied for two additional patents based upon the enhancement and integration of this technology into our platform.

Our proprietary technology platform enables retailers to harness the power and adoption that today's mobile devices bring to the consumer shopping experience. We connect brands with store visitors when they are on the path-to-purchase and enable those customers to engage with, and redeem brand content as well as leverage their brand affinity across the most popular social media channels. Our platform tracks performance, monitors engagement, manages attribution and delivers robust, real-time analytics that provide acute insight regarding the adoption, performance and return on investment of product manufacturer and retailer promotions and location-based content. Our technology is designed to help brands target their marketing messages, attract new customers, increase awareness and drive product sales. For example, campaigns facilitated through our platform can encourage consumers to learn more about products, watch promotional videos about particular products, see product reviews and comparative pricing or click to buy products. All delivered through a highly engaging mobile kiosk or digital concierge type experience.

### CORPORATE HISTORY

We were incorporated as a Nevada corporation on March 2, 2007 under the name JJ&R Ventures, Inc. On September 1, 2011, we entered into an Agreement of Merger and Plan of Reorganization with Blue Calypso Holdings, Inc., a privately held Texas corporation and Blue Calypso Acquisition Corp., 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. We refer to this merger transaction as the reverse merger. On October 17, 2011, we reincorporated in the State of Delaware.

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Our principal executive offices are located at 101 W. Renner Rd, Richardson, Texas 75082. Our telephone number is (800) 378-2297. Our website address is <http://www.bluecalypso.com>. Information on or accessed through our website is not incorporated into this prospectus and is not a part of this prospectus.

## OUR SOLUTIONS

We have developed four core products that form the basis of our technology platform: **MOBILE ADVANTAGE** , **KIOSENTRIX** , **DASHTAGG®**, and **SOCIALECHO** . Additionally, we offer outsourced consulting and customized software development services through our Blue Calypso Labs ( **BC Labs** ) services.

**MOBILE ADVANTAGE** is our app-less retail-focused mobile shopper marketing platform. Mobile ADvantage provides retailers with an easy way of engaging with store visitors when they are on the path-to-purchase and ultimately drives more store visits and increases the purchase size while creating a higher degree of customer affinity and satisfaction.

**KIOSENTRIX** is our universal shopper mobile app. When a shopper enters a participating retailer location, KIOSentrixre-skins itself to the brand like a digital chameleon . KIOSentrix includes an aggregated loyalty manager, price comparison tool, wish/shopping list manager and a high-quality QR code scanner. KIOSentrix is a consumer-facing companion to Mobile ADvantage which adds powerful features only possible with a true mobile app framework.

**DASHTAGG®** is our mobile gamification technology designed to enhance the experience that occurs when people attend physical events. DashTAGG is a unique social and mobile game of tag combined with a pseudo-scamenger hunt. The branded or sponsored challenge is designed to drive attendee behaviors while capturing pictures and videos of participating attendees as they engage in a fun challenge to tag each other by taking pictures.

**SOCIALECHO** allows brands to leverage their customers, employees and social media fans (collectively their advocates) to spread their brand content through their social networks. Our technology then tracks, monitors, and delivers real-time analytics on the full lifecycle of the syndication process including advocate attribution and content sentiment.

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

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

## MARKET OPPORTUNITY

We believe that as brands adapt to the changing media and content distribution landscape, they will place an increasing priority on the next frontier of mobile while leveraging social media networks, communities and digital properties. We believe that historical advertising media such as print, television and radio, and even Internet banner ads, are shifting at an increasing rate to mobile platforms and are generally exploring alternatives to traditional advertising techniques. Mobile platforms enable brands to put relevant content out to a more highly targeted buyer

community, while encouraging branded and personal content syndication. In addition, mobile devices have become ubiquitous extensions of many target buyers and a critical part of the lifestyle of most generations. According to Telemetrics/xAd Mobile Path to Purchase Analysis 2014, 71% of Consumers who take secondary actions are looking to make a purchase within the same day .

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 a user's actual purchase history. For instance, mobile technology can enable relevant promotional offers and coupons to be delivered to shoppers phone while they are in the store. That level of personalization will likely affect purchase behavior. Also reported in the Telemetrics/xAd report "Coupons and relevant targeting also motivate consumers to take further action.

We also believe that peer-to-peer or friend-to-friend advertising (also known as influencer marketing) is the most powerful and effective form of communicating with consumers. According to eMarketer's October 24, 2014 report titled "Millennials Social Shares Don't Stop with the Post", Two thirds of 18-34-year-olds were at least somewhat likely to make a purchase based on content shared by one of their peers on social. According to Nielsen as published in the Simply Measured report titled "Influencer Marketing: Stats and Quotes You Need to Know" by Lucy Hitz on June 18, 2014, 90% of consumers trust peer recommendations. Only 33% trust ads. We believe that this ability to share retail offers and product information in real-time with friends and family, makes mobile content delivery even more valuable. You are now able to combine great mobile-targeted content with word-of-mouth recommendations. Imagine your friend in a store sharing a promotional offer and saying look at the deal I just got.

Mobile marketing has the ability to connect brands with consumers on an intimate one-to-one basis, providing relevant information that is important to them when it interests them the most. While the sector is still in its infancy, we believe that brands, retailers, advertising executives, content publishers and technology enablers have high expectations regarding the potential of the mobile advertising market. We believe that our platform offers an effective tool for advertisers seeking to enter or expand their advertising presence in the mobile market, target specific customers with selected messages, and capitalize on the power of peer recommendations. In fact, according to an article published by eMarketer on January 5, 2015 titled "In-Store Mobile Use Redefines Customer Service", a Deloitte study found that mobile devices used before or during in-store shopping trips converted or helped to convert nearly \$600 billion in US in-store retail sales in 2013 or 19% of total brick-and-mortar sales.

### COMPETITIVE STRENGTHS

Mobile shopper engagement, digital market awareness and branding through mobile and digital media is an extremely competitive and fragmented industry. Adequate protection of intellectual property, successful product development, adequate funding and retention of experienced personnel are critical to our success. We believe that we have the following strengths:

- **Prominent Intellectual Property Position.** We believe that our patents provide us with broad and comprehensive coverage for the electronic delivery of brand content and electronic offers on any electronic communication device. Our policy is to seek to protect our proprietary position by filing patent applications related to our proprietary technology and improvements that we believe are important to the development of our business. We also pursue companies that we believe are infringing on our intellectual property in order to protect our IP assets and our competitive position.
- **Extensive Knowledge and Experience in Product Advertising, Awareness and Branding.** We believe that our management and personnel have extensive knowledge and experience in product advertising, digital marketing and awareness and branding which significantly adds to our competitive position.
- **Highly Customizable Platform.** We have the ability to rapidly customize products to meet our client's needs. Our technology platform has evolved and matured as we have refined our go-to-market strategy and target market.

## OUR STRATEGY

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

**Development and Delivery of Mobile Shopper Engagement Solutions-** We have developed a proprietary platform that enables brands to engage with shoppers when they are on the path-to-purchase in order to deliver a unique shopper experience, increase brand loyalty and drive revenue.

We believe that our strong intellectual property and our extensive experience in mobile technologies, affinity/advocacy, awareness and branding will enable us to continue to develop new products and services. We will execute on this strategy through a combination of: (i) Organic customer acquisition; (ii) Indirect customer acquisition through strategic partners such as IntegraColor, and; (iii) Through synergistic acquisitions.

Our direct to market approach includes aggressive market awareness through public relations, and digital and traditional marketing awareness such as mailings, calls, email campaigns, social media, trade show attendance, and industry association participation. Partnering with organizations that are part of the marketing supply chain who focus on our target market (multi-location brick-and-mortar retailers) gives us immediate access to and credibility with a portfolio of existing customers. Furthermore, by aligning with the right partners, our solutions become part of a larger program which drives revenue for our customers. These programs include our customer's branding, demand generation, marketing programs/campaigns, deals/offers/coupons, customer affinity programming and other initiatives already in existence with their brands. Finally, we expect to identify and pursue strategic acquisitions that help us grow our feature set, customer base, services capabilities, and our IP portfolio.

**Maximization of the Economic Benefits of Our Intellectual Property** The Company was founded based on the opportunities created when the vision and opportunity for mobile adoption caused our founders to file our first patent in 2004. Since then we have expanded our portfolio and will continue to innovate and file for additional patent protection of our inventions. This IP portfolio is a very valuable asset and we have a duty to the company and to the shareholders to protect these assets. Therefore we will continue to identify and pursue those in the marketplace that are infringing our IP.

In summary, we have developed a proprietary platform that enables brands to engage with shoppers when they are on the path-to-purchase in order to deliver a unique shopper experience, increase brand loyalty and drive revenue. We believe that our strong intellectual property and our extensive experience in mobile technologies, awareness and branding will enable us to continue to develop new products and services.

We intend to expand our intellectual property portfolio through both internal development and acquisition. Our goal is to monetize our intellectual property through licensing and strategic partnerships.



## RECENT IP DEVELOPMENTS

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

Subsequently we have received continuation-in-part (CIP) patents 8,155,679, 8,438,055, 8,452,646 and 8,457,670. With the payment of all maintenance fees, 516, 679, 055 and 646 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 four (4) additional CIP patent applications pending which build on the functionality of our issued patents, one patent application which covers a digital game of tag played on mobile devices through which participants can earn points and incentives from game sponsors, and one patent application that covers incentives.

On December 17, 2014, the Patent Trial and Appeal Board issued final decisions in Covered Business Method Review proceedings CBM2013-00035, CBM2013-00033, CBM2013-00046 and CBM2013-00044. In each case, certain claims of each patent were held to be invalid for various reasons. With respect to the 516, 679, 055 and 646 patents, many of the claims survived and the patents remain enforceable. All of the claims of the 670 patent were held invalid. The claims that were held invalid were determined by the PTAB to be too close to the prior art. The Company has appealed each of the final decisions to the United States Federal Circuit Court of Appeals. A decision on those appeals is expected sometime in early 2016. 28 total claims of the 516, 679, 055, and 646 patents were held to be valid by the PTAB. These claims are all active and important in the ongoing litigation in the Eastern District of Texas.

Below is a brief overview of our issued patents:

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

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

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

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

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

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

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

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

We own ten registered trademarks in the United States: BLUE CALYPSO®, WHEN FRIENDS TALK, FRIENDS LISTEN®, CALYP POWER TO THE PEOPLE SOCIALLY YOURS ENDORSE SHARE EARN EMGAGE®, DASHTAG® (two registrations for different classes), and SHARE ADVERTISING. In addition, we have seven pending trademark applications for the following: POPSHARE SOCIALECHO DASHTAG (two applications for different classes), MOBILEADVANTAGE KIOSENTRIX and MOBILE ADVANTAGE.

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.

## THE OFFERING

|                            |   |
|----------------------------|---|
| <b>Issuer:</b>             | Blue Calypso, Inc.  |
| <b>Securities Offered:</b> | [_____] shares of common stock, together with warrants to purchase an aggregate of _____ shares of common stock at the exercise price of \$__ per share (or 125% of the price of each share sold in this offering). The warrants will be immediately exercisable and will expire 5 years after the issuance date. |

**Common Stock Outstanding Prior To Offering (1):** [248,996,580] shares

**Common Stock Outstanding After Offering (1):** [\_\_\_\_\_] shares ([\_\_\_\_\_] shares if the warrants being offered hereby are exercised in full).

**Offering Price:** \$\_\_\_ per share and \$\_\_\_ per warrant

**Underwriter s Over-Allotment Option:** We have agreed to grant the underwriter an option, exercisable within 45 days after the closing of this offering, to acquire up to an additional 15% of the total number of securities to be offered by us pursuant to this offering, solely for the purpose of covering over-allotments, if any.

**Use of Proceeds:** We intend to use the net proceeds of this offering, which we expect to be approximately [\$\_\_\_\_\_], for business development, working capital, and general corporate purposes. For a more complete description of our anticipated use of proceeds from this offering, see Use of Proceeds.

**Dividend Policy:** We have not in the past and do not anticipate declaring or paying any cash dividends on our common stock following this offering.

**Risk Factors:** Investing in the securities involves a high degree of risk. You should carefully consider the information set forth in this prospectus and, in particular, the specific factors set forth in the Risk Factors section beginning on page 8 of this prospectus before deciding whether or not to invest in shares of our common stock.

**Trading Symbol:** The Company s common stock currently trades on the OTCQB under the symbol BCYP.

**Listing:** We intend to apply for listing of our common stock and our warrants on the NYSE MKT under the symbols \_\_\_\_ and \_\_\_\_\_, respectively. We make no representation that such application will be

approved or that our common stock will trade on such market either now or at any time in the future.

**Lock-up:**

We, our directors and executive officers have agreed with the underwriter not to offer, issue, sell, contract to sell, encumber, grant any option for the sale of or otherwise dispose of any of our securities for a period of 180 days following the closing of the offering of the Shares. See Underwriting for more information.

(1) The number of shares of common stock outstanding after the offering is based upon [248,996,580] shares outstanding as of May 21, 2015 including [13,406,667] shares issued pursuant to restricted stock awards.

The number of shares of common stock outstanding after this offering excludes:

- 28,165,236 shares of common stock issuable upon the exercise of currently outstanding options;
- 15,791,512 shares of common stock available for future issuance under the Blue Calypso, Inc. 2011 Long-Term Incentive Plan;
- 11,045,654 shares of common stock issuable upon exercise of currently outstanding warrants.

Unless otherwise specifically stated, all information in this prospectus assumes (i) no exercise of the underwriter's over-allotment option, and (ii) no exercise of outstanding stock options or warrants to purchase shares of our common stock

### SUMMARY CONSOLIDATED FINANCIAL DATA

We derived the summary consolidated statements of operations data for fiscal years ended December 31, 2014 and 2013, respectively, and the summary consolidated balance sheet data as of December 31, 2014, from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the statements of operations data for the three months ended March 31, 2015 and 2014, respectively, and for the balance sheet data as of March 31, 2015 from our unaudited financial statements included elsewhere in this prospectus. The unaudited financial data include, in the opinion of our management, all adjustments, consisting of normal recurring adjustments which are necessary for a fair statement of our financial position and results of operations for these periods. Our historical results are not necessarily indicative of the results that may be expected in the future. The following summary consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus. The following tables summarize certain of our consolidated financial data:

|   | <b>Year ended December 31,</b> |                             | <b>Three months ended March 31,</b> |                                |
|---|--------------------------------|-----------------------------|-------------------------------------|--------------------------------|
|   | <b>2014</b>                    | <b>2013</b>                 | <b>2015</b>                         | <b>2014</b>                    |
| <b>Summary Consolidated</b>                     |                                |                             |                                     |                                |
| <b>Statements of Operations Data:</b>           |                                |                             |                                     | <b>(unaudited)</b>             |
| Revenue   | \$ 759,889                     | \$ 341,972                  | \$ 115,725                          | \$ 164,215                     |
| Cost of Revenue                                 | 412,225                        | 142,755                     | 55,112                              | 73,747                         |
| Total Operating Expenses                        | 6,930,485                      | 5,872,313                   | 668,742                             | 1,319,308                      |
| Total Other Expense                             | (1,152,643)                    | (1,195,693)                 | (716)                               | (516,521)                      |
| Net Loss  | \$ (7,735,464)                 | \$ (5,628,096)              | \$ (608,845)                        | \$ (1,745,361)                 |
| Loss Per Share - Basic and Diluted              | (0.04)                         | (0.05)                      | 0.00                                | (0.01)                         |
| Weighted Avg. Shares Outstanding                |                                |                             |                                     |                                |
| Basic and Diluted                               | 214,441,285                    | 144,270,454                 | 245,883,588                         | 200,065,680                    |
|   |                                |                             |                                     |                                |
| <b>Summary Consolidated Balance Sheet Data:</b> |                                | <b>As of March 31, 2015</b> |                                     | <b>As of December 31, 2014</b> |
|   |                                | <b>(unaudited)</b>          |                                     |                                |
| Cash  | \$                             | 640,243                     | \$                                  | 1,103,201                      |
| Working Capital                                 |                                | 568,161                     |                                     | 1,058,727                      |

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|                           |    |           |    |           |
|---------------------------|----|-----------|----|-----------|
| Total Assets              | \$ | 1,583,304 | \$ | 2,121,819 |
| Total Liabilities         |    | 216,523   |    | 262,226   |
| Total Stockholders Equity |    | 1,366,781 |    | 1,859,593 |

## RISK FACTORS

*An investment in the Shares involves significant risks, including the risks described below. You should consult with your own financial and legal advisers and carefully consider, among other matters, the risks set forth below as well as the risks described in our Annual Report on Form 10-K for the year ended December 31, 2014. You should carefully consider the risks described in that report and the other information in this prospectus before you make a decision to invest in the Shares. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. Any of the following risks could materially adversely affect our business, financial condition or results of operations. In such case, you may lose all or part of your original investment.*

### **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 \$7,735,464 and \$6,823,789 for the years ended December 31, 2014 and 2013, respectively. For the three months ended March 31, 2015, we incurred a net loss of \$608,845. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise in the relatively new and volatile market for product marketing and branding through social media communities. Revenues and profits, if any, will depend upon various factors, including whether we will be able to continue expansion of our revenue model. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

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

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

In light of the costs, uncertainties, delays and difficulties frequently encountered by companies in the early stages of development with minimal operating history, there is a significant risk that we will not be able to:

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



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

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

As of March 31, 2015, our accumulated deficit was \$32,776,079. Primarily as a result of our recurring losses from operations, negative cash flows and our accumulated deficit, our independent registered public accounting firm has included in its report for the year ended December 31, 2014 an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the uncertainty regarding our ability to continue as a going concern. Our ability to continue as a going concern is contingent upon, among other factors, our ability to obtain sufficient financing to support our operations. If we are not able to obtain sufficient financing to support our operations, we may be forced to limit or cease our operations. If we cannot continue as a going concern, our stockholders may lose all or a portion of their investment in the Company.

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

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

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

Technology for retail, product advertising, marketing, awareness and branding 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 technologies. We expect that existing businesses that compete with us and have greater financial resources will be able to undertake more extensive marketing campaigns and more aggressive advertising strategies than us, thereby generating more attention to their companies. These competitive pressures could have a material adverse effect on our business, prospects, financial condition, and results of operations.

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

We derive substantially all of our revenue from a relatively small number of key technologies. As new technological advances occur, many of our patented technologies may become obsolete before they are completely monetized. If we are unable to monetize our current patent assets for any reason, including obsolescence of our technology, the

expiration of our patents or any other reason, we may be unable to acquire additional assets. If this occurs, our business and prospects would be materially harmed.

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

Our ability to successfully operate our business depends largely on the validity and enforceability of our patent rights and the relevance of our patent rights to commercially viable products or services. Third parties have challenged, and we expect will continue to challenge, the infringement, validity and enforceability of certain of our patents. In some instances, our patent claims could be substantially narrowed or declared invalid, unenforceable, not essential or not infringed. We cannot assure you that the validity and enforceability of our patents will be maintained or that our patent claims will be applicable to any particular product or service. In addition, the U.S. Patent and Trademark Office, or the USPTO, could invalidate or render unenforceable our current or future patents (if any) or materially narrow the scope of their claims during the course of a re-examination. Any significant adverse finding as to the validity, enforceability or scope of certain of our patents and/or any successful design around certain of our patents could materially and adversely affect our ability to secure future settlements or licenses on beneficial terms, if at all, and otherwise harm our business.

On December 17, 2014, the Patent Trial and Appeal Board issued final decisions in Covered Business Method Review proceedings CBM2013-00035, CBM2013-00033, CBM2013-00046 and CBM2013-00044. In each case, certain claims of each patent were held to be invalid for various reasons. With respect to the 516, 679, 055 and 646 patents, many of the claims survived and the patents remain enforceable. All of the claims of the 670 patent were held invalid. The Company has appealed each of the final decisions to the United States Federal Circuit Court of Appeals. A decision on those appeals is expected sometime in early 2016.

***The value of our patent assets may decline.***

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

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

- our applications for patents may not be granted and, if granted, may be challenged or invalidated. If we were to lose additional claims from our issued patents due to invalidity or other possible legal event our ability to protect our business against competition would be reduced and possibly eliminated. Additionally, if we are unsuccessful at our pursuit of additional patent protection for new innovations we will not be able to prevent competitors from entering our space.
- issued patents may not provide us with any competitive advantages versus potentially infringing parties. If the court finds that our patents do not cover key features employed by our competition then our patents will not be effective against our competition.
- our efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology; or
- our efforts may not prevent the development and design by others of products or technologies similar to or competitive with, or superior to those we acquire and/or prosecute. If our competition is able to engineer around our patents we will not be successful in asserting our patents against them.

Moreover, we may not be able to effectively protect our intellectual property rights in certain foreign countries where we may do business in the future or where competitors may operate. All of our issued patents today are valid only in

the United States we have no international patent protection. If we fail to maintain, defend or prosecute our patent assets properly, the value of those assets would be reduced or eliminated, and our business would be harmed.

***We commenced legal proceedings against several companies and we expect such proceedings to be time-consuming, which may adversely affect our ability to operate our business.***

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

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

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

We believe that there are companies that have, and continue to, infringe our patents, but actually obtaining and collecting a judgment against such companies may be difficult or impossible. Patent litigation is inherently risky and the outcome is uncertain. Some of the parties we believe infringe on our patents are large and well-financed companies with substantially greater resources than ours. We believe that these parties would devote a substantial amount of resources in an attempt to avoid or limit a finding that they are liable for infringing our patents or, in the event liability is found, to avoid or limit the amount of associated damages. In addition, there is a risk that these parties may file re-examinations or other proceedings with the USPTO or other government agencies in an attempt to invalidate, narrow the scope or render unenforceable the patents we own.

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

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

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

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

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





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

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

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

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

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

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

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

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

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

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

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

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

Members of our management team have significant experience as inventors. As such, part of our business may include the internal development of new inventions or intellectual property that we will seek to monetize. However, this aspect of our business would likely require significant capital and would be time consuming. Such activities could also distract our management team from its present business initiatives, which could have a material and adverse effect on our business. There is also the risk that our initiatives in this regard would not yield any viable new inventions or technology, which would lead to a loss of our investments in time and resources in such activities.

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

- patent applications we file may not result in issued patents or may take longer than we expect to result in issued patents;
- we may be subject to interference proceedings;
- we may be subject to opposition proceedings in the U.S. or foreign countries;
- any patents that are issued to us may not provide meaningful protection;
- we may not be able to develop additional proprietary technologies that are patentable;
- other companies may challenge patents issued to us;
-

other companies may have independently developed and/or patented (or may in the future independently develop and patent) similar or alternative technologies, or duplicate our technologies;

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

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

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

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

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

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

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

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

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

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

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



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

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

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

On December 5, 2013, the United States House of Representatives passed a patent reform titled the Innovation Act by a vote of 325-91. Representative Bob Goodlatte, with bipartisan support, introduced the Innovation Act on October 23, 2013. The Innovation Act, as passed by the House, has a number of major changes. Some of the changes include a heightened pleading requirement for the filing of patent infringement claims. It requires a particularized statement with detailed specificity regarding how each asserted claim term corresponds to the functionality of each accused instrumentality. The Innovation Act, as passed by the House, also includes fee-shifting provisions which provide that, unless the non-prevailing party of a patent infringement litigation positions were objectively reasonable, such non-prevailing party would have to pay the attorney's fees of the prevailing party.

The Innovation Act also calls for discovery to be limited until after claim construction. The patent infringement plaintiff must also disclose anyone with a financial interest in either the asserted patent or the patentee and must disclose the ultimate parent entity. When a manufacturer and its customers are sued at the same time, the suit against the customer would be stayed as long as the customer agrees to be bound by the results of the case.

On April 29, 2014, the U.S. Supreme Court relaxed the standard for fee shifting in patent infringement cases. Section 285 of the Patent Act provides that attorneys' fees may be awarded to a prevailing party in a patent infringement case in exceptional cases.

In *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, the Supreme Court overturned the U.S. Court of Appeals for the Federal Circuit decisions limiting the meaning of exceptional cases. The U.S. Supreme Court held that an exceptional case is simply one that stands out from others with respect to the substantive strength of a party's litigation position or the unreasonable manner in which the case was litigated. The U.S. Supreme Court also rejected the clear and convincing evidence standard for making this inquiry. The Court held that the standard should be a preponderance of the evidence.



In *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, the U.S. Supreme Court held that a district court's grant of attorneys' fees is reviewable by the U.S. Court of Appeals for the Federal Circuit only for abuse of discretion by the district court instead of the *de novo* standard that gave no deference to the district court.

This pair of decisions lowered the threshold for obtaining attorneys' fees in patent infringement cases and increased the level of deference given to a district court's fee-shifting determination.

These two cases will make it much easier for district courts to shift a prevailing party's attorneys' fees to a non-prevailing party if the district court believes that the case was weak or conducted in an abusive manner. Defendants that get sued for patent infringement by non-practicing entities may elect to fight rather than settle the case because these U.S. Supreme Court decisions make it much easier for defendants to get attorneys' fees.

On June 19, 2014, the U.S. Supreme Court decided *Alice Corp. v. CLS Bank International* in which the Court addressed the question of whether patents related to software are patent eligible subject matter. The Supreme Court did not rule that patents related to software were *per se* invalid or that software-related inventions were unpatentable. The Supreme Court outlined a test that the courts and the USPTO must apply in determining whether software-related inventions qualify as patent eligible subject matter. We must now wait and see how the federal district courts and the USPTO will apply this ruling. The test outlined by the Supreme Court could potentially affect the value of some of the patents we hold.

On December 16, 2014, the USPTO published a new set of guidelines directed at its patent examiners in response to solicited and received feedback from the public. The guidelines significantly changed what examiners can and cannot consider patent eligible material in applications based on recent Court decisions. The guidelines summarize recent court decisions with explanations of the facts, and include a discussion of claims and how to apply them to similar situations moving forward. Because the guidelines are new, it is difficult to foresee with clarity how they will be applied.

On February 5, 2015 House Judiciary Committee Chairman Bob Goodlatte (R-Va.) reintroduced a patent reform bill, now called the *Innovation Act of 2015*. The bill, as introduced, includes the following provisions:

- Heightened pleading requirements – A patent holder filing an infringement suit, at the time of filing, must include a set of infringement charts showing how *each limitation of each asserted claims in each asserted patent* is found within *each accused product or instrumentality*.
- Presumption of attorney fees – A court would be required to award attorney fees and other expenses to the prevailing party unless a judge finds the position and conduct of the nonprevailing reasonably justified in law and fact or under special circumstances.

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- IPR claim construction The USPTO would be required to construe claims in post-issuance reviews in the same manner as a district court.
- Discovery limits Discovery in litigation would be limited until after a claim construction ruling.
- Willful infringement Can lead to treble damages.
- Transparency of ownership The patent owner must disclose the ultimate parent entity of any assignee of the patent.
- Stay of customer suits In limited cases, the courts will stay customer lawsuits when the manufacturing of the accused product steps up to challenge the patent.
- Foreign Bankruptcy The bill would stop the practice of a bankruptcy executor canceling US IP licenses in foreign bankruptcies.
- Codifying double patenting The proposal would allow prior filings by overlapping inventors to count as prior art unless a terminal disclaimer is filed.

The bill is not yet law, but enjoys wide support in both houses and may soon become law.

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

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

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

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

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

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

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

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

opt-out request or are intended to deceive the recipient as to source or content, federal and state regulations covering the treatment of member data that we collect from endorsers.

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

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

The CAN-SPAM Act, establishes certain requirements for commercial email messages and specifies penalties for the transmission of commercial email messages that are intended to deceive the recipient as to source or content. The CAN-SPAM Act, among other things, obligates the sender of commercial emails, and someone who initiates commercial emails, to provide recipients with the ability to opt out of receiving future emails from the sender. In addition, some states have passed laws regulating commercial email practices that are significantly more punitive and difficult to comply with than the CAN-SPAM Act, particularly Utah and Michigan, which have enacted do-not-email registries listing minors who do not wish to receive unsolicited commercial email that markets certain covered content, such as adult content or content regarding harmful products. Some portions of these state laws may not be preempted by the CAN-SPAM Act. We, our clients and our client's consumers/brand advocates may all be subject to various provisions of the CAN-SPAM Act. If we are found to be subject to the CAN-SPAM Act, we may be required to change one or more aspects of the way we operate our business, including by eliminating the option for endorsers to send emails containing our advertisers' messages or by not allowing endorsers to receive compensation directly or indirectly as a result of distributing emails containing our advertisers' messages.

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

Although our common stock now trades on the OTCQB, an active trading market for our shares may not be sustained. It may be difficult for our stockholders to sell their shares without depressing the market price for our shares or at all. As a result of these and other factors, our stockholders may not be able to sell their shares. Further, an inactive market may also impair our ability to raise capital by selling shares of our common stock and may impair our ability to enter into strategic partnerships or acquire companies or products by using our shares of common stock as consideration. Although we intend to apply for the listing of our common stock and warrants on the NYSE MKT, an active trading market for our common stock may never develop or may not be sustained if one develops. If an active market for our common stock does not develop or is not sustained, it may be difficult for our stockholders to sell shares of our common stock.

***There is no guarantee that our common stock will be listed on NYSE MKT.***

We intend to apply to have our shares of common stock and warrants listed for trading on the NYSE MKT. Upon completion of this offering, we believe that we will satisfy the listing requirements and expect that our common stock and warrants will be listed on the NYSE MKT. Such listing, however, is not guaranteed. If the application is not approved, our common stock will continue to be quoted on the OTCQB. Even if such listing is approved, there can be no assurance any broker will be interested in trading our common stock. Therefore, it may be difficult to sell any shares you purchase in this offering if you desire or need to sell them.



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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

As of May 21, 2015, we have outstanding granted options to purchase [28,165,236] shares of common stock and have reserved [15,791,512] shares of our common stock for issuance upon the exercise of options pursuant to our 2011 Long-Term Incentive Plan. In addition, as of May 21, 2015, we have reserved [11,045,654] shares of our common stock for issuance upon exercise of outstanding warrants. As of May 21, 2015, we have also reserved [1,155,571] shares of our common stock for issuance to certain vendors for services provided.

***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 May 21, 2015, our officers and directors beneficially own approximately 15.6% 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.

***Because our chief financial officer devotes only a portion of his business time to us, conflicts of interest may arise with respect to his other activities which could materially and adversely affect our company.***

Chris Fameree, our chief financial officer, does not work for us exclusively. Mr. Fameree currently devotes approximately 20 hours per week to Company matters. Mr. Fameree also presently serves as the Managing Partner of Assure Professional, LLC, an accounting and advisory services firm to which he devotes the remainder of his time. Therefore, it is possible that a conflict of interest with regard to Mr. Fameree may arise based on Mr. Fameree's other employment.





## USE OF PROCEEDS

We estimate that we will receive net proceeds of \$\_\_\_\_\_ from our sale of common stock and corresponding warrants in this offering or approximately \$\_\_\_\_\_ if the underwriter exercises its option to purchase additional shares of common stock and warrants after deducting underwriting discounts and estimated offering expenses payable by us.

We intend to use the net proceeds of this offering for business development, working capital, and general corporate purposes.

Circumstances that may give rise to a change in the use of proceeds include:

- the existence of other opportunities or the need to take advantage of changes in timing of our existing activities;
- the need or desire on our part to accelerate, increase or eliminate existing initiatives due to, among other things, changing market conditions and competitive developments; and/or
- if strategic opportunities of which we are not currently aware present themselves (including acquisitions, joint ventures, licensing and other similar transactions).

From time to time, we evaluate these and other factors and we anticipate continuing to make such evaluations to determine if the existing allocation of resources, including the proceeds of this offering, is being optimized. Pending such uses, we intend to invest the net proceeds of this offering in direct and guaranteed obligations of the United States, interest-bearing, investment-grade instruments or certificates of deposit.

## MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock was originally approved for quotation on the OTC Bulletin Board on July 13, 2010 and is currently quoted on the OTCQB under the trading symbol BCYP. The following table sets forth the high and low bid prices for our common stock for the periods indicated, as reported by the OTCQB. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

| <b><u>Fiscal Year 2013</u></b>          |    | <b><u>High</u></b> | <b><u>Low</u></b> |
|---|----|--------------------|-------------------|
| First Quarter                           | \$ | 0.45\$             | 0.13              |
| Second Quarter                          | \$ | 0.36\$             | 0.12              |
| Third Quarter                           | \$ | 0.19\$             | 0.12              |
| Fourth Quarter                          | \$ | 0.22\$             | 0.14              |
| <b><u>Fiscal Year 2014</u></b>          |    | <b><u>High</u></b> | <b><u>Low</u></b> |
| First Quarter                           | \$ | 0.16\$             | 0.12              |
| Second Quarter                          | \$ | 0.14\$             | 0.09              |
| Third Quarter                           | \$ | 0.16\$             | 0.09              |
| Third Quarter (through August 13, 2013) | \$ | 0.20\$             | 0.07              |
| <b><u>Fiscal Year 2015</u></b>          |    | <b><u>High</u></b> | <b><u>Low</u></b> |
| First Quarter                           | \$ | 0.14\$             | 0.14              |

The last reported sales price of our common stock on the OTCQB on May 21, 2015, was \$0.14 per share. As of May 21, 2015, there were approximately 57 holders of record of our common stock.

## DIVIDEND POLICY

In the past, we have not declared or paid cash dividends on our common stock, and we do not intend to pay any cash dividends on our common stock. Rather, we intend to retain future earnings, if any, to fund the operation and expansion of our business and for general corporate purposes.

### Securities Authorized for Issuance Under Equity Compensation Plans

On August 31, 2011, 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, 2014, securities issued and securities available for future issuance under the Blue Calypso 2011 Long-Term Incentive Plan were as follows:

|  | <b>Number of securities issued or to be issued upon exercise of outstanding options, warrants and rights</b> | <b>Weighted-average exercise price of outstanding and issued options, warrants and rights</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column)</b> |
|--|--|---|--|
| Equity compensation plans approved by security holders     | 12,775,988   | \$0.1720  | 21,904,012   |
| Equity compensation plans not approved by security holders | 9,276,748  | \$0.1570  |  |
| Total  | 22,052,736   | \$0.1660  | 21,904,012   |

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

*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 prospectus. 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, including those discussed under Risk Factors. See also Special Note Regarding Forward-Looking Statements.*

**Recent Developments**

## Recent Events

### *General*

On August 14, 2014, we entered into a securities purchase agreement with certain accredited investors pursuant to which the Company sold an aggregate of 14,250,000 shares of its common stock for net proceeds, after commissions and other costs, of \$1,330,000.

During November and December 2014, the Company modified certain terms of the outstanding debentures in order to induce the holder to convert the debentures to common stock. The holders elected to convert the convertible debentures of \$550,000 for an aggregate of 7,177,509 shares of the Company's common stock. The Company repaid \$50,000 in outstanding principal and related accrued interest.

### *Litigation*

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

Between July 19, 2013 and October 3, 2013, Groupon filed petitions with the Patent Trial & Appeals Board (PTAB) requesting institution of Covered Business Method Review of all asserted claims. On December 19, 2013 and January 17, 2014, the PTAB issued decisions instituting review on all but four of the asserted claims. On January 14, 2014, the Company and all defendants filed a joint motion to stay the district court litigation. The Court granted the motion and stayed the case on January 16, 2014 pending a decision by the PTAB. Trial on the Covered Business Method Reviews at the PTAB occurred during September 2014. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer. On April 23, 2014, the petition was denied by the Federal Circuit.

On December 17, 2014, the Patent Trial and Appeal Board issued final decisions in Covered Business Method Review proceedings CBM2013-00035, CBM2013-00033, CBM2013-00046 and CBM2013-00044. In each case, certain

claims of each patent were held to be invalid for various reasons. With respect to the 516, 679, 055 and 646 patents, many of the claims survived and the patents remain enforceable. All of the claims of the 670 patent were held invalid. The Company has appealed each of the final decisions to the United States Federal Circuit Court of Appeals. A decision on those appeals is expected sometime in early 2016.

On April 2, 2015, the District Court lifted the stay and required the Parties to file a joint docket control order. On April 5, 2015, the Court set a Markman Hearing for June 29, 2015, and jury selection for December 14, 2015. On April 15, 2015, the Parties filed their joint docket control order. The Court entered its docket control order on April 23, 2015.

As part of the Company's settlement with Living Social, the Company's attorney is entitled to additional compensation for the value of certain non-monetary arrangements. As of March 31, 2015, the payment of such compensation is not probable or measurable.

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

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

## **Business Overview**

We offer a patented mobile shopper engagement platform through which advertisers connect with in-store shoppers when they are on the path-to-purchase. The brand journey starts with an addressable market, attracting shoppers that become buyers and then advocates. If the brand experience is embraced, advocates become influencers within their digital social circles perpetuating the lifecycle by attracting new customers to the brand.

## **Critical Accounting Policies**

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

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

### *Use of Estimates*

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

### *Revenue Recognition*

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

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

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

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

### *Cost of Revenue*

Cost of revenue includes personnel costs directly associated with initiating and supporting a brand-centric mobile shopper engagement program, personnel service costs directly associated with providing solution consulting and legal fees directly related to the settlement of intellectual property claims that result in licensing and royalty revenue.





### *Intangible Assets*

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

### *Impairment of Long-Lived Assets*

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value. No impairment was deemed to exist as of December 31, 2014 and 2013. The Company re-evaluates the carrying amounts of its amortizable intangibles at least quarterly to identify any triggering events. As described above, if triggering events require us to undertake an impairment review, it is not possible at this time to determine whether it would be necessary to record a charge or if such charge would be material.

### *Fair Value Measurements*

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

### *Stock-Based Compensation*

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

***Comparison of Twelve Months Ended December 31, 2014 and 2013***

***Results of Operations***

***Net Loss.*** For the year ended December 31, 2014, we had a net loss of \$7,735,464 an increase of 911,675 or 13.4% compared to a net loss of \$6,823,789 for the year ended December 31, 2013. The increase in loss was primarily due to an increase in general and administrative expense from \$4,843,804 during 2013 to \$6,103,628 in 2014. General and administrative expense increased primarily as a result of expenses incurred in connection with the departure of our previous Chief Executive Officer. Pursuant to the agreement, the Company incurred \$150,000 in expense associated with future agreed upon cash compensation and \$1,441,534 of costs in accelerated stock compensation expense related to previous restricted stock and option grants. This negative impact was offset by a reduction in sales and marketing expense. Sales and marketing decreased by \$199,871 as the Company reduced its sales force to align with performance. Depreciation and amortization increased by \$43,219 in comparison to 2013. Finally other expense decreased by \$43,050. In the prior year, we incurred significant losses on debt settlements and additional interest expense from previously issued warrants. During 2014, the Company incurred a reduced loss on debt settlement upon conversion of the remaining outstanding debt.

***Revenue.*** Revenue for the year ended December 31, 2014 increased to \$759,889. An increase of \$417,917 or 122.2% as compared to \$341,972 for the same period in 2013. Sales increased as the Company broadened its revenue streams to include solution consulting and software development services through our BC Labs group. 2013 revenue included \$245,981 in settlement fees and associated licensing revenue.

***Cost of Revenue.*** Cost of revenue for the year ended December 31, 2014 was \$412,225 an increase of \$269,470 or 188.8%. Cost of revenue substantially consisted of costs related to internal technology professional staff members assigned to the BC Labs group. The prior year amount included charges directly related at generating social media, licensing fee and consulting fee revenue.

***Sales and Marketing.*** For the year ended December 31, 2014, sales and marketing expenses decreased by \$199,871 or 29.3% to \$482,729 from \$682,600 during the same period in 2013. The decrease was due primarily to reduced staffing expense.

***General and Administrative.*** For the year ended December 31, 2014, general and administrative expenses increased by \$1,259,824 or 26.0% to \$6,103,628, as compared to \$4,843,804, for the year ended December 31, 2013. General and administrative expense increased primarily as a result of expenses incurred in connection with the departure of our previous Chief Executive Officer. Pursuant to the agreement, the Company incurred \$150,000 in expense associated with agreed upon future cash compensation and \$1,441,534 of costs in accelerated stock compensation expense related to previous restricted stock and option grants.

*Depreciation and Amortization.* Depreciation and amortization expenses, increased \$43,219 or 14.4% from \$300,909 for the year ended December 31, 2013 to \$344,128 for the year ended December 31, 2014 as the Company invested \$149,131 in capitalized software and realized a full year of amortization expense on capitalized software from the second half of 2013 which included a common stock grant valued at \$150,000 to acquire software during third quarter of 2013.

*Interest Expense.* Interest expense was \$2,015,145 for the year ended December 31, 2013 as compared to \$740,756 for 2014, a decrease of \$1,274,389 or 63.2%. Interest expense was incurred related to the Company's long-term debt obligations at various interest rates ranging from 8% to 10% and the amortization of debt discount. An additional \$460,949 was incurred as a result of a warrant modification. During 2013, the Company incurred significant non-cash interest expense related to the warrant modification for reset provision of \$1,027,381.

## Cash Flows

Cash used in operating activities during the year ended December 31, 2014 was \$2,367,655, as compared to \$2,756,901 for the year ended December 31, 2013. While 2014 resulted in an increased net loss as compared to 2013, the Company incurred significant non-cash charges associated with a debt inducement and warrant modification and increased stock-based compensation. Overall, the Company reduced cash utilized by operations through increased revenue and associated cash receipts and issuing common stock for certain services rendered.

Cash used in investing activities during the year ended December 31, 2014 was \$150,312, as compared to \$205,515 for the year ended December 31, 2013. 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 and enhance our software offerings.

During the year ended December 31, 2014, cash provided by financing was \$2,326,286 as compared to \$4,038,500 for the same period in 2013. In the current year, the Company secured \$1,330,000 from the sale of common stock. In addition, \$1,024,558 and \$21,728 in proceeds were generated from the exercise of warrants and options, respectively. These monies were secured to address the cash requirements of the business as the Company continues to enhance its service offerings. These proceeds were offset by a \$50,000 debt repayment.

## *Comparison of Three Months Ended March 31, 2015 and 2014*

### *Results of Operations*

*Net Loss.* For the three months ended March 31, 2015, we had a net loss of \$608,845, a decrease of \$1,136,516 or 65.1% as compared to a net loss of \$1,745,361 for the three months ended March 31, 2014. The decrease in net loss resulted primarily from a reduction in our sales and marketing of \$114,943, general and administrative costs of \$536,829 and interest expense of \$517,348.

*Revenue.* Revenue for the three months ended March 31, 2015 was \$115,725, a decrease of \$48,490 or 29.5% as compared to \$164,215 in revenues for the same period in 2014. The majority of the revenue in the current and prior year was derived from our Blue Calypso Labs services. The decrease in revenue is primarily due to timing in development projects.

*Cost of Revenue.* Our cost of revenue was \$55,112 for the three months ended March 31, 2015, a decrease of \$18,635 or 25.3% as compared to \$73,747 for the same period in 2014. Cost of revenue for the three months ended March 31, 2015 was primarily comprised of costs related to internal IT professional staff members assigned to the Blue Calypso

Labs group.

*Sales and Marketing.* For the three months ended March 31, 2015, sales and marketing expenses decreased by \$114,943 or 70.3% to \$48,574 as compared to the same period in 2014. Sales and marketing expenses decreased as the Company reduced sales personnel.

*General and Administrative.* For the three months ended March 31, 2015, general and administrative expenses were \$535,547 a decrease of 536,829 or 50.1% as compared to \$1,072,376 for the three months ended March 31, 2014. This was primarily due to a reduction of \$436,195 in stock based compensation associated with certain restricted stock incentives during the three months ended March 31, 2015. As a result of the former Chief Executive Officer's resignation, the Company incurred the \$436,195 in expense during 2014 with no corresponding 2015 expense.

*Depreciation and Amortization.* Depreciation and amortization expenses relate primarily to the amortization of capitalized software development. Depreciation and amortization expenses were \$84,621 for the three months ended March 31, 2015 as compared to \$83,415 for the three months ended March 31, 2014, representing an increase of \$1,206 or 1.4% which was due primarily to an increase due to additional capitalized software during the period. For the three months ended March 31, 2015, we incurred \$77,231 of capitalized software development costs associated with improvements to our commercial platform. This compares to \$8,985 of capitalized software development costs for the quarter ended March 31, 2014. The Company continues to invest in the ongoing improvements to its core social media platform.

*Change in fair value of derivative liabilities.* We issued warrants and convertible debt that contain certain reset provisions in connection with financing and debt settlements. As such, we are required to record these reset provisions as a liability and mark them to market each reporting period. In 2014, these provisions had expired versus a gain for the three months ended March 31, 2014 of \$1,543. As of March 31, 2015 there no longer is a liability associated with derivative liabilities as the underlying securities have been converted to common stock and are no longer outstanding.

*Interest Expense.* Interest expense was \$716 for the three months ended March 31, 2015 as compared to \$518,064 for the three months ended March 31, 2014. Interest expense for the current period represents credit card and vendor financing. In comparison, interest for 2014 related to \$15,000 interest expense on an outstanding \$600,000 notes payable, amortization of beneficial conversion features on notes payable of \$55,948 and interest expense related to the modification of warrants to induce conversion of \$446,925.

## **Cash Flows**

Net cash used in operating activities during the three months ended March 31, 2015 was \$380,583 as compared to \$630,540 for the three months ended March 31, 2014. Cash used in operations for the three months ended March 31, 2015 was comprised of a net loss of \$608,845 offset primarily by certain non-cash items: 1) bad debt expense of \$18,476; 2) stock based compensation expenses of \$116,033; 3) depreciation and amortization of \$84,621 and 4) net change in operating assets and liabilities of \$9,132.

Net cash used in investing activities during the three months ended March 31, 2015 was \$82,375, as compared to \$8,985 for the three months ended March 31, 2014. This increase was attributable to additional expenditures on the development of our software.

During the three months ended March 31, 2015, we did not have any cash provided by financing activities as compared to \$1,024,558 for the same period in 2014. During the three months ended March 31, 2014, the Company received \$1,024,558 from the exercise of warrants.

## ***Going Concern***

Our independent registered public accounting firm, in their report accompanying our consolidated financial statements for the years ended December 31, 2014 and 2013, expressed substantial doubt about our ability to continue as a going concern due to our recurring losses from operations, negative cash flows from operating activities and our accumulated deficit. Our ability to continue as a going concern is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies, reduce expenditures, dispose of selective assets, and ultimately, generate additional revenue. The going concern opinion may also limit our ability to access certain types of financing, prevent us from obtaining financing on acceptable terms, and limit our ability to obtain new business due to potential customers' concern about our ability to deliver products or services. Proceeds from this anticipated capital raise are anticipated to satisfy our short term capital needs.

As of March 31, 2015, the Company had cash of \$640,243 and working capital of \$568,161. During the three months ended March 31, 2015, the Company used net cash in operating activities of \$380,583. As of December 31, 2014, the Company had cash of \$1,103,201 and working capital of \$1,058,727. During the year ended December 31, 2014, the Company used net cash in operating activities of \$2,367,655. The Company has not yet generated any significant revenues, and has incurred net losses since inception. These conditions raise substantial doubt about the Company's ability to continue as a going concern.



During the year ended December 31, 2014, the Company raised \$1,330,000 in cash proceeds from the sale of common stock and \$1,046,286 through the exercise of common stock options and warrants. The Company believes that its current cash on hand will be sufficient to fund its projected operating requirements through June 2015.

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

### *Liquidity and Capital Resources*

We are an early stage company and have incurred cumulative losses of \$32,776,079 since beginning operations on September 11, 2009. At March 31, 2015, we had a cash balance of \$640,243 and working capital of \$568,161.

On April 29, 2013, we entered into a series of agreements with the holder of our 8% Senior Secured Convertible Debentures (the 8% Debentures). The Debentures were due on November 30, 2012. As of April 29, 2013, the aggregate amount outstanding under the Debentures, including all accrued and unpaid interest and fees, was \$600,000. Pursuant to Amendment No. 1 to the 8% Debentures, the conversion price of the Debentures was amended such that the aggregate amount outstanding under the Debentures was convertible into an aggregate of 20,000,000 shares of our common stock. The issuance of the shares of common stock underlying our 8% Debentures did not result in any dilution to our existing stockholders as our Founder and Chief Technology Officer, Andrew Levi, agreed to cancel and return to treasury 20,000,000 shares of common stock currently held by him in connection with this transaction. The holder of our 8% Debentures also agreed to immediately terminate the Security Agreement dated April 19, 2012 by and between us, our subsidiaries and the holder, the Intellectual Property Security Agreement dated April 19, 2012 by and between us, our subsidiaries and the holder, and the Subsidiary Guarantee executed by us, our subsidiary, Blue Calypso, LLC, and all of the security interests created thereby. The maturity dates of the 8% Debentures were extended to June 30, 2013. As of the date of this prospectus, the holder of the 8% Debentures has converted the full principal amount of the 8% Debentures into an aggregate of 20,000,000 shares of our common stock.

In connection with the Amendment to 8% Debentures, we also agreed to amend the terms of certain warrants currently held by the holder of the 8% Debentures. We also agreed to extend the maturity date of the warrants originally issued to the holder of the 8% Debentures in September 2011 to April 30, 2018 and to extend the anti-dilution protection of such warrants for the life of the warrants. We also agreed to extend the maturity date of the warrants originally issued to the holder of the 8% Debentures in April 2012 to April 30, 2018 and to extend the anti-dilution protection of such warrants for the life of the warrants.

On May 6, 2013, we entered into a Securities Purchase Agreement with an accredited investor pursuant to which we issued and sold a 10% Convertible Debenture in the principal amount of \$2,400,000 (the 10% Debenture) and 1,200,000 shares of common stock in consideration of gross proceeds to the Company of \$2,400,000. The 10% Debenture bears interest at a rate of 10% per annum, is due two years from the issuance date and is convertible into shares of our common stock at a conversion price of \$0.25 per share.

During the year ended December 31, 2014, the Company received \$1,330,000 from the sale of our common stock, \$1,024,558 in cash proceeds from the exercise of warrants and \$21,728 from the exercise of stock options. The Company believes that its current cash on hand will be sufficient to fund its projected operating requirements through June of 2015.

During November and December 2014, the Company modified certain terms of the outstanding debentures in order to induce the holder to convert the debentures to common stock. The holders elected to convert the convertible debentures of \$550,000 for an aggregate of 7,177,509 shares of the Company's common stock. The Company repaid \$50,000 in outstanding principal and related accrued interest. All remaining debentures were converted during 2014 with no amounts outstanding as of December 31, 2014.

As an early 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.

## BUSINESS

We develop and deliver mobile shopper marketing and analytics solutions for the business-to-consumer (B2C) marketplace leveraging mobile, social media, gamification and our intellectual property portfolio. We have developed a patented technology platform that enables brands and retailers to engage with shoppers when they are on the path-to-purchase products and services. Our technology also allows brands to leverage customer relationships to increase brand loyalty and drive revenue through sharing and influencer marketing. We generate revenue from the mobile and cloud-based consumption of our technology platform, consulting/services fees, and licensing and/or enforcement of our patented technologies. Our intellectual property portfolio consists of four US patents (one is in appeal with the Federal Circuit as a result of the PTAB ruling in December 2014) and nine pending patent applications that generally cover methods and systems for communicating advertisements and electronic offers between mobile and desktop communication devices. All of the patents and patent applications that cover the core of our business, *i.e.*, a System and Method for Peer-to-Peer Advertising Between Mobile Communication Devices, have been developed internally by our Founder and Chief Executive Officer, Andrew Levi, and our Director of Innovation, Bradley Bauer, and assigned to our wholly owned subsidiary, Blue Calypso, LLC. In September 2013, we acquired proprietary mobile gamification technology and subsequently applied for two additional patents based upon the enhancement and integration of this technology into our platform.

Our proprietary technology platform enables retailers to harness the power and adoption that today's mobile devices bring to the consumer shopping experience. We connect brands with store visitors when they are on the path-to-purchase and enable those customers to engage with, and redeem brand content as well as leverage their brand affinity across the most popular social media channels. Our platform tracks performance, monitors engagement, manages attribution and delivers robust, real-time analytics that provide acute insight regarding the adoption, performance and return on investment of our client's promotions and location-based content. Our technology is designed to help clients target their marketing messages, attract new customers, increase awareness and drive product sales. For example, campaigns facilitated through our platform can encourage consumers to learn more about products, watch promotional videos about particular products, see product reviews and comparative pricing or click to buy products. All delivered through a highly engaging mobile kiosk or digital concierge type experience.

Over the last five years, the world has seen mobile, social media, and digital advertising evolve dramatically and actually converge. Through this technological evolution, a sociological shift has occurred in how influential digital media can be when deployed strategically with hyper-targeted content.

Today retailers are aggressively exploring mobile shopper engagement as the next frontier of the shopping experience. In an article issued by Reuters on December 2, 2014 titled *Majority of Mobile Shoppers Turn To Their Devices Over Store Employees And In-Store Info, According to CEA Survey*, More than half (58 percent) of shoppers who use mobile devices, such as smartphones and tablets, indicate they prefer to look up information on their devices while shopping, rather than talk to store employees especially among men and shoppers aged 25-44. However we believe that retailers have yet to find a comfortable way of co-existing in this ecosystem of traditional consumer engagement.

Through mobile and social media, consumers and brands have their own unique and significant digital audience. According Statista the average Facebook user has 350 Friends; As published by The Telegraph in their article titled Average Twitter user is an American woman with an iPhone and 208 followers . The claims are based on data culled from a sample of 36 million Twitter profiles by Beevolve, a social media marketing firm.; and we believe that on average an individual has 25 unique frequent contacts they communicate with weekly via text messages or mobile calls. Active participation in LinkedIn, Google+, Tumblr and/or a personal blog can further extend one s direct social reach significantly. With our platform, brand content is not bound by any single app, social media community, website, carrier or device. As a result, brand influencers have the capability to immediately reach hundreds or even thousands of people through their direct personal and digital social relationships.

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

## OUR SOLUTIONS

We have developed four core products that form the basis of our technology platform: **MOBILE ADVANTAGE** , **KIOSENTRIX** , **DASHTAGG®**, and **SOCIALECHO** . Additionally, we offer outsourced consulting and customized software development services through our Blue Calypso Labs ( **BC Labs** ) services.

**MOBILE ADVANTAGE** is our app-less retail-focused mobile shopper marketing platform. Mobile ADvantage provides retailers with an easy way of engaging with store visitors when they are on the path-to-purchase. There are several methods of activation with store visitors including but not limited to short-code messaging, iBeacons, Near Field Communications (NFC), Quick Response (QR) codes and Geo-fencing. Once invited through store messaging and activated, a store visitor is guided by a store-centric mobile kiosk/concierge through their shopping experience which is unique for each retailer. All interactions with the store shopper are tracked in order to deliver targeted content which is both circumstantially and geographically relevant and ultimately drives more store visits and increases the purchase size while creating a higher degree of customer affinity and satisfaction.

**KIOSENTRIX** is our universal shopper mobile app. When a shopper enters a participating retailer location, KIOSentrix re-skins itself to the brand - like a digital chameleon . KIOSentrix includes an aggregated loyalty manager, price comparison tool, wish/shopping list manager and a high-quality QR code scanner. The app will alert store visitors when products they have added to their shopping list are available as they enter a participating retailer location. KIOSentrix is a consumer-facing companion to Mobile ADvantage which adds powerful features only possible with a true mobile app framework.

**DASHTAGG®** is our mobile gamification technology designed to enhance the experience that occurs when people attend physical events. DashTAGG is a unique social and mobile game of tag combined with a pseudo-scavenger hunt. The branded or sponsored challenge is designed to drive attendee behaviors while capturing pictures and videos of participating attendees as they engage in a fun challenge to tag each other by taking pictures. Our technology can drive attendees to trade show booths, keynote presentations, performances, retail sub-sponsors or merchandise vendors as a part of the game. We believe that gamification has become an increasingly important element in brand development. **DASHTAGG** combines both physical and digital participation ensuring the maximum engagement with brands and sponsors as well as other attendees. The most active **DASHTAGG** players earn points and win prizes and awards. Games are sponsored by retailers, vendors or events that provide physical locations to activate TAGGs by scanning specific QR codes or passing near proximity-based beacons or NFC chips. The byproduct for the event sponsor is a rich mosaic of pictures, social interaction and content distribution throughout the event which can become a collage of brand ambassadors use in real-time or future marketing events.

**SOCIALECHO** allows brands to leverage their customers, employees and social media fans (collectively their advocates) to spread their brand content through their social networks. **SOCIALECHO** allows brands to white label our technology and make branded content, such as promotions and offers available to their advocates. Should these advocates choose to, they can syndicate these promotions and offers through social media channels such as Facebook, Twitter, LinkedIn and others, with a personal message, a picture or video customizing the brand promotion. Our technology then tracks, monitors, and delivers real-time analytics on the full lifecycle of the syndication process including advocate attribution and content sentiment.

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

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

## MARKET OPPORTUNITY

We believe that the market opportunities for our existing products and technology are significant and continuing to expand. According to the figure below, Forrester Research estimates that in 2015, approximately \$67 billion will be spent in the United States on interactive marketing. Forrester estimates this amount will increase to approximately \$103 billion by 2019. We believe social media marketing is experiencing rapid growth because consumers are much more receptive to recommendations from their friends and family. The below chart demonstrates these trends.

Source: Forrester Research, Inc.

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 radios, 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 a user's actual purchase history. For instance, mobile technology can enable relevant promotional offers and coupons to be delivered to shoppers phone while they are in the store. That level of personalization will likely affect purchase behavior. Also reported in the Telemetrics/xAd report *Coupons and relevant targeting also motivate consumers to take further action.*

Mobile marketing has the ability to connect brands with consumers on an intimate one-to-one basis, providing relevant information that is important to them when it interests them the most. While the sector is still in its infancy, we believe that brands, retailers, advertising executives, content publishers and technology enablers have high expectations regarding the potential of the mobile advertising market. We believe that our platform offers an effective tool for advertisers seeking to enter or expand their advertising presence in the mobile market, target specific customers with selected messages, and capitalize on the power of peer recommendations. In fact, according to an article published by eMarketer on January 5, 2015 titled *In-Store Mobile Use Redefines Customer Service*, a Deloitte study found that mobile devices used before or during in-store shopping trips converted or helped to convert nearly \$600 billion in US in-store retail sales in 2013 or 19% of total brick-and-mortar sales.



We also believe that peer-to-peer or friend-to-friend advertising (also known as influencer marketing) is the most powerful and effective form of communicating with consumers. According to eMarketer's October 24, 2014 report titled "Millennials: Social Shares Don't Stop with the Post", Two thirds of 18-34-year-olds were at least somewhat likely to make a purchase based on content shared by one of their peers on social. According to Nielsen as published in the Simply Measured report titled "Influencer Marketing: Stats and Quotes You Need to Know" by Lucy Hitz on June 18, 2014, 90% of consumers trust peer recommendations. Only 33% trust ads. We believe that this ability to share retail offers and product information in real-time with friends and family, makes mobile content delivery even more valuable. You are now able to combine great mobile-targeted content with word-of-mouth recommendations. Imagine your friend in a store sharing a promotional offer and saying look at the deal I just got.

## COMPETITIVE STRENGTHS

Mobile shopper engagement, digital market awareness and branding through mobile and digital media is an extremely competitive and fragmented industry. Adequate protection of intellectual property, successful product development, adequate funding and retention of experienced personnel are critical to our success. We believe that we have the following strengths:

- **Prominent Intellectual Property Position.** We believe that our patents provide us with broad and comprehensive coverage for the electronic delivery of brand content and electronic offers on any electronic communication device. Our policy is to seek to protect our proprietary position by filing patent applications related to our proprietary technology and improvements that we believe are important to the development of our business. We also pursue companies that we believe are infringing on our intellectual property in order to protect our IP assets and our competitive position.
- **Extensive Knowledge and Experience in Product Advertising, Awareness and Branding.** We believe that our management and personnel have extensive knowledge and experience in product advertising, digital marketing and awareness and branding which significantly adds to our competitive position.
- **Highly Customizable Platform.** We have the ability to rapidly customize products to meet our client's needs. Our technology platform has evolved and matured as we have refined our go-to-market strategy and target market.

## OUR STRATEGY

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

**Development and Delivery of Mobile Shopper Engagement Solutions-** We have developed a proprietary platform that enables brands to engage with shoppers when they are on the path-to-purchase in order to deliver a unique shopper experience, increase brand loyalty and drive revenue.

We believe that our strong intellectual property and our extensive experience in mobile technologies, affinity/advocacy, awareness and branding will enable us to continue to develop new products and services. We will execute on this strategy through a combination of: a.) Organic customer acquisition; b.) Indirect customer acquisition through strategic partners such as IntegraColor, and; c.) Through synergistic acquisitions.

Our direct to market approach includes aggressive market awareness through public relations, and digital and traditional marketing awareness such as mailings, calls, email campaigns, social media, trade show attendance, and industry association participation. Partnering with organizations that are part of the marketing supply chain who focus on our target market (multi-location brick-and-mortar retailers) gives us immediate access to and credibility with a portfolio of existing customers. Furthermore, by aligning with the right partners, our solutions become part of a larger program which drives revenue for our customers. These programs include our customer's branding, demand generation, marketing programs/campaigns, deals/offers/coupons, customer affinity programming and other initiatives already in existence with their brands. Finally, we expect to identify and pursue strategic acquisitions that help us grow our feature set, customer base, services capabilities, and our IP portfolio.

**Maximization of the Economic Benefits of Our Intellectual Property** The Company was founded based on the opportunities created when the vision and opportunity for mobile adoption caused our founders to file our first patent in 2004. Since then we have expanded our portfolio and will continue to innovate and file for additional patent protection of our inventions. This IP portfolio is a very valuable asset and we have a duty to the company and to the shareholders to protect these assets. Therefore we will continue to identify and pursue those in the marketplace that are infringing our IP.

In summary, we have developed a proprietary platform that enables brands to engage with shoppers when they are on the path-to-purchase in order to deliver a unique shopper experience, increase brand loyalty and drive revenue. We believe that our strong intellectual property and our extensive experience in mobile technologies, awareness and branding will enable us to continue to develop new products and services.

We intend to expand our intellectual property portfolio through both internal development and acquisition. Our goal is to monetize our intellectual property through licensing and strategic partnerships.

## RECENT DEVELOPMENTS

### Recent Events

#### *General*

On August 14, 2014, we entered into a securities purchase agreement with certain accredited investors pursuant to which the Company sold an aggregate of 14,250,000 shares of its common stock for net proceeds, after commissions and other costs, of \$1,330,000.

During November and December 2014, the Company modified certain terms of the outstanding debentures in order to induce the holder to convert the debentures to common stock. The holders elected to convert the convertible debentures of \$550,000 for an aggregate of 7,177,509 shares of the Company's common stock. The Company repaid \$50,000 in outstanding principal and related accrued interest.

#### *Litigation*

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

Between July 19, 2013 and October 3, 2013, Groupon filed petitions with the Patent Trial & Appeals Board ( PTAB ) requesting institution of Covered Business Method Review of all asserted claims. On December 19, 2013 and January 17, 2014, the PTAB issued decisions instituting review on all but four of the asserted claims. On January 14, 2014, the Company and all defendants filed a joint motion to stay the district court litigation. The Court granted the motion and stayed the case on January 16, 2014 pending a decision by the PTAB. Trial on the Covered Business Method Reviews

at the PTAB occurred during September 2014. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer. On April 23, 2014, the petition was denied by the Federal Circuit.

On December 17, 2014, the Patent Trial and Appeal Board issued final decisions in Covered Business Method Review proceedings CBM2013-00035, CBM2013-00033, CBM2013-00046 and CBM2013-00044. In each case, certain claims of each patent were held to be invalid for various reasons. With respect to the 516, 679, 055 and 646 patents, many of the claims survived and the patents remain enforceable. All of the claims of the 670 patent were held invalid. The Company has appealed each of the final decisions to the United States Federal Circuit Court of Appeals. A decision on those appeals is expected sometime in early 2016.

On April 2, 2015, the District Court lifted the stay and required the Parties to file a joint docket control order. On April 5, 2015, the Court set a Markman Hearing for June 29, 2015, and jury selection for December 14, 2015. On April 15, 2015, the Parties filed their joint docket control order. The Court entered its docket control order on April 23, 2015.

As part of the Company's settlement with Living Social, the Company's attorney is entitled to additional compensation for the value of certain non-monetary arrangements. As of March 31, 2015, the payment of such compensation is not probable or measurable.

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

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

## **Corporate History**

We were incorporated as a Nevada corporation on March 2, 2007 under the name JJ&R Ventures, Inc. On September 1, 2011, we entered into an Agreement of Merger and Plan of Reorganization with Blue Calypso Holdings, Inc., a privately held Texas corporation and Blue Calypso Acquisition Corp., 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. We refer to this merger transaction as the reverse merger. On October 17, 2011, we reincorporated in the State of Delaware.

Our principal executive offices are located at 101 W. Renner Rd, Richardson, Texas 75082. Our telephone number is (800) 378-2297. Our website address is <http://www.bluecalypso.com>. Information on or accessed through our website is not incorporated into this prospectus and is not a part of this prospectus.

## **Marketing**

We target multi-location brick-and-mortar retailers through partnerships and indirect sales channels as well as brand-direct. We have a multi-touch marketing and branding strategy as well as exhibit at trade shows and market directly utilizing current digital techniques such as social media and pay-per-click advertising.

## **Customers**

We enter into written agreements with each of our customers, which vary in term. Customers' fees are based on the complexity of the solution we deliver for them and generally includes a setup fee, monthly service fee and a performance fee. Further, our test programs tend to be much smaller as we seek to prove the concept with a particular customer before rolling out a full national campaign. We have also entered into license agreements pursuant to which we derive revenue for the use of our intellectual property on a perpetual license basis. Through BC Labs we provide consulting and software development services.

## **Technology to Capture Data**

Our platform allows the collection of business intelligence and analytics resulting from data accumulated as content is deployed, adopted, consumed and shared. Our technology allows the brand/advertiser to monitor the full cycle of a campaign, from the first engagement to the final redemption or intent to purchase. With this data, we show each client the return on investment (ROI) of each dollar spent using our unique platform(s). This allows us to prove the

effectiveness of the engagement in near real time and enables clients to quickly improve their campaign effectiveness.

## Intellectual Property

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

Subsequently we have received continuation-in-part (CIP) patents 8,155,679, 8,438,055, 8,452,646 and 8,457,670. With the payment of all maintenance fees, 516, 679, 055 and 646 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 four (4) additional CIP patent applications pending which build on the functionality of our issued patents, one patent application which covers a digital game of tag played on mobile devices through which participants can earn points and incentives from game sponsors, and one patent application that covers cumulative incentives.

On December 17, 2014, the Patent Trial and Appeal Board issued final decisions in Covered Business Method Review proceedings CBM2013-00035, CBM2013-00033, CBM2013-00046 and CBM2013-00044. In each case, certain claims of each patent were held to be invalid for various reasons. With respect to the 516, 679, 055 and 646 patents, many of the claims survived and the patents remain enforceable. All of the claims of the 670 patent were held invalid. The Company has appealed each of the final decisions to the United States Federal Circuit Court of Appeals. A decision on those appeals is expected sometime in early 2016.

Below is a brief overview of our issued patents:

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

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



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

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

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

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

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

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

We own ten registered trademarks in the United States: BLUE CALYPSO®, WHEN FRIENDS TALK, FRIENDS LISTEN®, CALYP POWER TO THE PEOPLE, SOCIALLY YOURS, ENDORSE SHARE EARN, EMGAGE®, DASHTAG® (two registrations for different classes), and SHARE ADVERTISING. In addition, we have seven pending trademark applications for the following: POPSHARE, SOCIALECHO, DASHTAG (two applications for different classes), MOBILEADVANTAGE, KIOSENTRIX and MOBILE ADVANTAGE.

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.

## **Employees**

As of May 21, 2015, we had a total of 13 employees. We have no labor union contracts and believe relations with our employees are satisfactory.

## **Competition**

We face formidable competition in every aspect of our business, particularly from other companies that seek to deliver a mobile targeted brand-driven experience for consumers. First and foremost, we consider ourselves a next generation mobile shopping experience including customer engagement, customer presentation, social sharing, brand loyalty and rewards so we believe our primary competitors are companies that embrace true brand loyalty, not just providers of discounted transactions. We believe that our space is large and has no first movers or any company with a notable share of the market. We believe that our approach to the market, value proposition to large retail brands, combined with our strong intellectual property are clear differentiators in a nascent yet quickly evolving industry for mobile shopper 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. Our biggest competitor is each of the retail brands for which we are in pursuit as many of them have or are building their own mobile apps. The problem we predict most of them will face at some point is the fact that consumers do not want a mobile app on their phone for every retailer they shop at. Therefore, with few exceptions, the adoption has been and will continue to be poor. Thus, we expect that retailers will abandon this expensive route for mobile engagement once they realize that there is a much more effective route to success by partnering with Blue Calypso.

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

## Government Regulation

Aspects of the digital marketing and advertising industry and how our business operates are highly regulated. We are subject to a number of domestic and, to the extent our operations are conducted outside the U.S., foreign laws and regulations that affect companies conducting business on the Internet and through other electronic means, many of which are still evolving and could be interpreted in ways that could harm our business. In particular, we are subject to rules of the Federal Trade Commission ( FTC ), the Federal Communications Commission ( FCC ) and potentially other federal agencies and state laws related to our advertising content and methods, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or CAN-SPAM Act, which became effective on January 1, 2004, establishes certain requirements for commercial electronic mail messages and specifies penalties for the transmission of commercial electronic mail messages that follow a recipient's opt-out request or are intended to deceive the recipient as to source or content, federal and state regulations covering the treatment of member data that we collect from endorsers.

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

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

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

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

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

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

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

The CAN-SPAM Act's main provisions include:

- § prohibiting false or misleading email header information;
- § prohibiting the use of deceptive subject lines;
- § ensuring that recipients may, for at least 30 days after an email is sent, opt out of receiving future commercial email messages from the sender, with the opt-out effective within 10 days of the request;
- § requiring that commercial email be identified as a solicitation or advertisement unless the recipient affirmatively assented to receiving the message; and
- § requiring that the sender include a valid postal address in the email message.

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

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

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

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

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

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.



## Properties

We owned no properties and had two property leases at December 31, 2014. The property leases relate to our subsidiary Blue Calypso of Latin America, S.A subsidiary for office space in the same building located in San Jose, Costa Rica. We also currently have one lease for office space at our current headquarters in Dallas, TX. This lease commenced during April 2015.

## Legal Proceedings

On July 31, 2012, we filed suit against Groupon, Inc. We filed additional suits against Izea, Inc. on October 17, 2012; Yelp, Inc. on October 17, 2012; and Foursquare Labs, Inc. on October 31, 2012. Each of these cases alleges that the defendants infringe certain of our patents.

Between July 19, 2013 and October 3, 2013, Groupon filed petitions with the Patent Trial & Appeals Board ( PTAB ) requesting institution of Covered Business Method Review of all asserted claims. On December 19, 2013 and January 17, 2014, the PTAB issued decisions instituting review on all but four of the asserted claims. The case was subsequently stayed pending a decision by the PTAB. Trial on the Covered Business Method Reviews

On December 17, 2014, the PTAB issued final decisions. In each case, certain claims of each patent were held to be invalid for various reasons. We have appealed each of the final decisions to the United States Federal Circuit Court of Appeals. A decision on those appeals is expected sometime in early 2016.

On April 2, 2015, the District Court lifted the stay and required the parties to file a joint docket control order. On April 5, 2015, the Court set a Markman Hearing for June 29, 2015, and jury selection for December 14, 2015. On April 15, 2015, the Parties filed their joint docket control order. The Court entered its docket control order on April 23, 2015.

The parties are required to file letter briefs to the Court to request summary judgment before the mandatory hearing. Defendants have filed two separate letter briefs. The Company is in the process of responding. The Court requires the parties to mediate the case by July 17, 2015. The parties have chosen a mediator and have tentatively set mediation for the first part of June 2015.

For a more detailed discussion regarding our ongoing litigation, please refer to the Section entitled Legal Proceedings beginning on page [ ] of this prospectus.



**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> |
|-------------------|------------|--------------------------------------|-------------------------------|
| Andrew Levi       | 48         | Chief Executive Officer,<br>Chairman | 2011                          |
| Jon<br>Merriman   | 54         | Director                             | 2014                          |
| Charles<br>Thomas | 48         | Director                             | 2012                          |
| Andrew<br>Malloy  | 57         | Director                             | 2013                          |
| Dennis<br>Schmal  | 68         | Director                             | 2015                          |
| Chris<br>Fameree  | 34         | Chief Financial Officer              | 2014                          |

**Biographical Information**

*Andrew Levi, Chief Executive Officer, Chairman*

Mr. Levi founded Blue Calypso Holdings, Inc. in September 2009. In October 2014, Andrew was named Co-Chief Executive Officer and appointed as sole Chief Executive Officer during December 2014. He previously served as our Chief Technology Officer from June 2012 to October 2014 and was the Company's Chairman and Chief Executive Officer prior to that. 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 Smart Partner 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.

*Chris Fameree, Chief Financial Officer*

Mr Fameree was appointed our Chief Financial Officer during August 2014. Chris Fameree is a founding member of Assure Professional (Assure) with 10+ years of combined public accounting and industry experience. In his time in public accounting, Chris has lead and participated in numerous engagements including due diligence engagements, financial statement audits, SSAE 16 (formerly known as SAS 70) engagements and other advisory projects. In addition, Chris has actively lead and participated in numerous outsourced accounting and fractional CFO and Controller engagements which involve preparing accounting and financial reporting while providing insight into Companies operational and financial results. Prior to founding Assure, Chris was a Senior Manager in Cherry Bekaert s ( CB") Transaction Advisory Services Group and Audit Group. During this time, Chris participated in numerous business combinations and due diligence assignments. These transactions ranged from \$10 million to over \$100 million in value. Prior to joining CB, Chris worked at PricewaterhouseCoopers, where he served lead roles on audit engagements from international Fortune 500 companies to closely held private companies.

*Jon Merriman, Director*

Mr. Merriman was appointed to our board in December 2014. As co-chairman and CEO of Merriman Holdings, Inc., Jon Merriman is responsible for the overall strategic direction of the firm as well as working closely with the firm's clients. He actively advises fast-growing public and private companies on complex capital market and financing issues and works directly with growth-oriented investors. With more than 25 years of experience in the investment banking and brokerage business, he brings deep experience in relationship management, corporate turnarounds and building growth companies. His extensive institutional and personal network and his trading experience give him a unique perspective when working with investment banking clients, as well as institutional investors. Prior to forming Merriman Capital, Merriman was Managing Director and the head of the Wells Fargo Securities equity group, formerly First Security Van Kasper, and served on FSVK's Board of Directors. Merriman was subsequently appointed Chairman and CEO of publicly traded telecom company Ratexchange, which he restructured into Merriman Curhan Ford, now known as Merriman Capital. He has served on several private and public company boards over the course of his career and has been a frequent guest on Bloomberg TV, as well as CNBC's show "Fast Money," and has been a regular contributor to financial publications such as The Wall Street Journal, Barron's and The Daily Deal.

*Charles Thomas, Director*

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

*Andrew Malloy, Director*

Mr. Malloy is a Managing Director of Monument Capital Group LLC, a Washington DC based private investment firm, where he serves as the head of their Denver, Colorado office. He has 30 years of experience in alternative investments, family office and wealth management industries. Prior to joining Monument Capital Group, Mr. Malloy served as a Managing Director of Massey Quick & Co., a multi-family investment office, from March 2011 through December 2011. Prior to joining Massey Quick, he served as a Managing Principal of Shepherd Kaplan LLC, an investment advisory firm based in Boston, Massachusetts from February 2009 through July 2010. Previous to Shepherd Kaplan, Mr. Malloy was an initial investor in, and the Director of Business Strategy and Development for Wisdom Tree Asset Management, Inc. from June 2006 through October 2008. Mr. Malloy also previously served as a

Senior Managing Director and the Chief Investment Officer of TAG Associates, Ltd., as a Senior Vice President at Oppenheimer & Co. He also served in the corporate and executive services group of Bear, Stearns & Co. Mr. Malloy is also an Associate General Partner of his family's real estate holding company. He attended Villanova University and the Harvard Business School Executive MBA program. His achievements, experience and knowledge led the board to believe that he is qualified to serve on the board of directors.

*Dennis Schmal, Director*

Mr. Schmal is a senior business advisor who spent nearly three decades with a global accounting firm consulting with hundreds of corporate clients. During his public accounting career, Mr. Schmal specialized in working with companies in the financial services sector, including the commercial banking, securities/investment banking and asset management industries. His consulting projects covered many facets of business, including operations, systems, capital planning, strategic planning, mergers & acquisitions executive recruitment and initial and secondary public offerings. Over the last sixteen years, he has served as a board director for fourteen corporate entities, both large and small, most of whom were public entities, and who were concentrated primarily in the technology and financial services industry sectors. Dennis's corporate board experience is extensive. He has served as the Audit Committee Chairperson and Audit Committee Finance Expert for seven public companies and has similar experience serving on compensation, technology, merger & acquisition, nominating and corporate governance board committees. Mr. Schmal is a member of the National Association of Corporate Directors and has attended many educational local chapter presentations as well as the annual corporate governance conventions. Dennis has earned the NACD certificate of director education. He has also attended several times the Directors College at Stanford Law School. Dennis is an associate member of the Committee on Mergers & Acquisitions of the Business Law Section of the American Bar Association. Dennis has been inducted in the Manchester's Who's Who Executive and Professional registry.

### **Independent Directors**

Our board of directors has determined that each of Messrs. Charles Thomas, Andrew Malloy and Dennis Schmal are independent within the meaning of applicable listing rules of the NYSE MKT 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., Schmal 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. Schmal qualifies as an audit committee 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 on October 25, 2011. The compensation committee consists of Messrs., 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).

**Code of Ethics**

We intend to adopt a code of ethics that applies to our officers, directors and employees, including our principal executive officer and principal accounting officer, but have not done so to date due to our relatively small size. We intend to adopt a written code of ethics in the near future.

**EXECUTIVE COMPENSATION****2014 and 2013 Summary Compensation Table**

The following table sets forth the compensation earned by the Company's principal executive officer, and each of the Company's 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, 2014 and 2013.

| Name and Principal Position                                 | Year | Nonequity |        | Nonqualified |              | Option | Incentive Plan | Nonqualified Deferred Compensation | All Other Compensation | Total     |
|---|------|-----------|--------|--------------|--------------|--------|----------------|------------------------------------|------------------------|-----------|
|   |      | Salary    | Bonus  | Awards       | Compensation |        |                |                                    |                        |           |
|   |      | (\$)      | (\$)   | (\$)         | (\$)         | (\$)   | (\$)           | (\$)                               | (\$)                   | (\$)      |
| William Ogle<br>former Chairman Chief Executive Officer (1) | 2014 | 350,000   | 85,000 | 1,046,039    |              |        |                | 2,621,770                          |                        | 4,102,809 |
| David Polster<br>Former Chief Financial Officer (2)         | 2013 | 383,333   |        | 399,841      |              |        |                | 1,744,779                          |                        | 2,527,953 |
| Andrew Levi<br>Chief Executive Officer, Chairman            | 2014 | 59,770    |        | 18,539       |              |        |                |                                    |                        | 78,309    |
| Chris Fameree, Chief Financial Officer                      | 2013 | 101,125   |        | 10,610       |              |        |                |                                    |                        | 111,735   |
|   | 2014 | 240,625   |        |              |              |        |                |                                    |                        | 240,625   |
|   | 2013 | 193,703   |        |              |              |        |                |                                    |                        | 193,703   |
|   | 2014 | 38,500    |        |              |              |        |                |                                    |                        | 38,500    |





(1) Mr. Ogle was appointed as our Chairman and Chief Executive Officer effective June 11, 2012 and resigned as Co-Executive Officer effective December 31, 2014 and resigned as Chairman on March 18, 2015. Other compensation includes accelerated expense from options and restricted share units associated with Mr. Ogle's resignation.

(2) Mr. Polster was appointed as our Chief Financial Officer in March 2012 and resigned during August 2014. Mr. Fameree replaced Mr. Polster during 2014.

(3) Mr. Levi served as our Chairman and Chief Executive Officer from September 1, 2011 through June 10, 2012 and was appointed to Co-Chief Executive Officer during October 2014 and sole Chief Executive Officer during December 2014. He served as our Chief Technology Officer from June 2012 until this appointment.

### *Employment Agreements*

On June 1, 2012, we entered into an employment letter agreement with our former Chief Executive Officer, William Ogle, which was effective on June 11, 2012. The agreement did not have a specified term and Mr. Ogle's employment was on an at-will basis. The agreement provided that Mr. Ogle was entitled to an annual base salary of \$400,000. He was also entitled to annual incentive-based compensation with a target value of 100% of his base salary with an upper limit of 200%, to be determined and administered by our board of directors. Such incentive-based compensation may be paid in the form of shares of our common stock or cash. Mr. Ogle was awarded a restricted stock award equal to 7% of our total issued and outstanding shares calculated as of June 11, 2012. The restricted stock award will vest: (i) one-third on the one year anniversary of the grant date, and (ii) the remaining two-thirds will vest pro rata in eight equal quarterly installments. Mr. Ogle was also eligible to receive additional annual equity awards of up to 200% of his base salary subject to mutually agreeable and reasonable targets beginning in 2013. 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 are exercisable at an exercise price equal to \$0.10 per share for a term of 10 years. Mr. Ogle also was 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.

Effective December 31, 2014, Mr. Ogle resigned from his position as Co-Chief Executive Officer for good reason as defined in his employment letter agreement. Pursuant to the agreement, Mr. Ogle shall be entitled to receive continued payment of his current base salary through September 30, 2014. In addition, Mr. Ogle's restricted stock grant and outstanding stock options shall continue to vest through April 30, 2016. He shall also be permitted to exercise such options through December 31, 2017.

**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 21, 2014, 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<br/>to<br/>Option</b> | <b>Exercise<br/>Price</b> | <b>Vesting<br/>Provisions</b>               | <b>Expiration<br/>Date</b> |
|----------------|---|---------------------------|---|----------------------------|
| Andrew Malloy  | 500,000                                     | \$ 0.10                   | Pro-rata vesting quarterly over three       | May 21, 2024               |
| Charles Thomas | 375,000                                     | \$ 0.10                   | Pro-rata vesting quarterly over three years | May 21, 2024               |
| Ian Wolfman    | 375,000                                     | \$ 0.10                   | Pro-rata vesting quarterly over three years | May 21, 2024               |

As of May 21, 2015, we have granted the following options to directors during 2015

| <b>Name</b>    | <b>Shares<br/>Subject<br/>to Option</b> | <b>Exercise<br/>Price</b> | <b>Vesting<br/>Provisions</b>               | <b>Expiration<br/>Date</b> |
|----------------|---|---------------------------|---|----------------------------|
| Andrew Malloy  | 1,000,000                               | \$ 0.14                   | Pro-rata vesting quarterly over three years | April 10, 2025             |
| Charles Thomas | 1,000,000                               | \$ 0.14                   | Pro-rata vesting quarterly over three years | April 10, 2025             |
| Jon Merriman   | 1,000,000                               | \$ 0.14                   | Pro-rata vesting quarterly over three years | April 10, 2025             |
| Andrew Levi    | 1,000,000                               | \$ 0.14                   | Pro-rata vesting quarterly over three years | April 10, 2025             |
| Jon Merriman   | 375,000                                 | \$ 0.10                   | Pro-rata vesting quarterly over             | December 18, 2024          |

|        |           |    |      |                  |         |
|--------|-----------|----|------|------------------|---------|
|        |           |    |      | three years      |         |
|        |           |    |      | Pro-rata vesting |         |
| Dennis |           |    |      | quarterly over   | May 19, |
| Schmal | 1,000,000 | \$ | 0.14 | three years      | 2025    |

**Compensation Committee Interlocks and Insider Participation**

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

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

## Termination of Employment and Change of Control Arrangement

Mr. Ogle's employment letter agreement provides that in the event that he is terminated Without Cause (as such term is defined in the letter agreement) or if Mr. Ogle terminates his employment with the Company for Good Reason (as such term is defined in the letter agreement), the Company will pay him his base salary for a period of twelve months from the date of his separation and that he will be eligible to receive an incentive compensation subject to the applicable targets being achieved. 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.

Effective December 31, 2014, Mr. Ogle terminated his employment as Co-Chief Executive Officer for good reason as defined in his employment letter. He resigned from his position as Chairman of the Board and as a member of the Board of Directors on March 18, 2015. Mr. Ogle shall be entitled to receive continued payment of his current base salary through September 30, 2015. He will not be eligible to receive any additional incentive compensation. In addition, Mr. Ogle's restricted stock grant and outstanding stock options shall continue to vest through April 30, 2016. He shall also be permitted to exercise such options through December 31, 2017.

## 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, 2014.

| Name | Option Awards   |   |   |                            |                            | Stock Awards  |  |  | Equity Incentive Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$) |
|------|---|---|---|----------------------------|----------------------------|---|--|--|---|
|      | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Awards: Number of Securities Underlying Unearned Options (#) | Option Exercise Price (\$) | Option Expiration Date (2) | 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 Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#) |   |
|      |   |   |   |                            |                            |   |  |  |   |

|              |              |           |           |      |            |           |         |   |   |
|--------------|--------------|-----------|-----------|------|------------|-----------|---------|---|---|
| William Ogle | 5,508,218(1) | -         | 5,508,218 | 0.10 | 12/31/2017 | 2,180,974 | 370,766 | - | - |
|              | 1,256,177    | 2,512,353 | 3,768,530 | 0.24 | 12/31/2017 | -         | -       | - | - |
|              | -            | 6,155,163 | 6,155,163 | 0.14 | 12/31/2017 | -         | -       | - | - |

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

(2) Mr. Ogle's options were assigned an expiration date of December 31, 2017 upon his resignation from the Company.

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

## **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

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 May 21, 2015, by (i) each of our directors and named executive officers; (ii) all persons who are known by us to be beneficial owners of 5% or more of our outstanding common stock; and (iii) all of our officers and directors as a group. The percentages of common stock beneficially owned are reported on the basis of regulations of the Securities and Exchange Commission governing the determination of beneficial ownership of securities. Under the rules of the Securities and Exchange Commission, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of the security, or investment power, which includes the power to dispose of or to direct the disposition of the security. Unless otherwise noted, to our knowledge and subject to community property laws where applicable, each of the persons listed below has sole voting and investment power with respect to the shares indicated as beneficially owned by such person. Unless otherwise noted, each person's address is c/o Blue Calypso, Inc. 101 W. Renner Rd., Suite 280, Richardson, Texas 75240.

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| <b>Name and Address of Beneficial Owner</b>                 | <b>Amount and Nature of Beneficial Ownership(1)</b> | <b>Percentage of Class (1)(2)</b> |
|---|---|-----------------------------------|
| Andrew Levi   | 33,585,475 (3)                                      | 13.5%                             |
| Chris Fameree   | 208,333 (4)   | *                                 |
| Dennis Schmal   | -   | *                                 |
| Charles Thomas  | 716,890 (5)   | *                                 |
| Andrew Malloy   | 836,667 (6)   | *                                 |
| D. Jonathan Merriman  | 3,650,208 (7)                                       | 1.4%                              |
| William Ogle  | 25,502,887 (8)                                      | 9.8%                              |
| Ronald L. Chez  | 18,112,361 (9)                                      | 7.3%                              |
| c/o Barry L. Fischer  |   |                                   |
| Thompson Coburn LLP   |   |                                   |
| 55 East Monroe Street                                       |   |                                   |
| Suite 3700  |   |                                   |
| Chicago, IL 60603   |   |                                   |
| Scarsdale Equities LLC                                      | 17,450,000(10)                                      | 7.0%                              |
| 10 Rockefeller Plaza, Suite 720                             |   |                                   |
| New York, NY 10020  |   |                                   |
| All directors and executive officers as a group (5 persons) | 38,997,573  | 15.6%                             |





- (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 [ ], 2015, 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 248,996,580 shares of common stock outstanding as of May 21, 2015.
- (3) Includes 83,333 shares issuable upon exercise of vested stock options and 33,502,142 shares of common stock.
- (4) Includes 208,333 shares issuable upon exercise of vested stock options.
- (5) Includes 614,583 shares issuable upon exercise of vested stock options and 102,307 shares of common stock.
- (6) Includes 741,667 shares issuable upon exercise of vested stock options and 95,000 shares of common stock.
- (7) Includes 130,208 shares issuable upon exercise of vested stock options and 3,520,000 shares of common stock held by Merriman Capital, Inc. Mr. Merriman is Chief Executive Officer and Co-Chairman of Merriman Holdings, Inc., the parent company of Merriman Capital, Inc. and may be deemed to have beneficial ownership of such shares.
- (8) Includes (i) 10,848,153 shares issuable upon exercise of vested stock options, (ii) 13,085,842 shares issued pursuant to a restricted stock grant, and (iii) 661,891 shares of common stock.
- (9) Based upon a Schedule 13D filed by Ronald L. Chez on September 29, 2014.
- (10) Based upon a Schedule 13G/A filed by Scarsdale Equities LLC on January 7, 2015.

## **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

Aztec was an affiliate of the Company that provided administrative and technical support services to the Company. The majority owner of Aztec was also the majority stockholder of the Company until the sale of Aztec on June 15, 2012. During the year ended December 31, 2013, Aztec converted convertible debentures aggregating \$522,891 and accrued interest aggregating approximately \$30,000 into 3,686,634 shares of common stock. Concurrently with this issuance a shareholder cancelled 3,686,634 shares of his common stock and returned them to the Company. During the year ended December 31, 2013, the Company recorded amortization of the debt discount relating to this note aggregating approximately \$254,162. Aztec no longer provides administrative or technical support to the Company.

The Company appointed a new Chief Financial Officer during August 2014. Blue Calypso utilizes Assure Professional, LLC (Assure) to provide certain outsourced accounting services. The Company's current Chief Financial Officer is a partial owner of Assure. The Company incurred expense of \$29,940 in exchange for these services during the year ended December 31, 2014. Included in accounts payable at December 31, 2014 was \$2,250 due to Assure.

Mr. D. Jonathan Merriman, joined the Company's Board of Directors during December 2014. Mr. Merriman is the CEO of Merriman Capital, Inc. ( Merriman ). Merriman provides capital market advisory services to the Company for which we incurred expense of \$120,000 during the year ended December 31, 2014. In addition, Merriman Capital advised the Company in connection with its August 2014 private placement and received an advisory fee of \$95,000. The Company primarily issues common stock in exchange for monthly services and no amount was due to Merriman at December 31, 2014.

## **DESCRIPTION OF SECURITIES**

We have authorized 685,000,000 shares of capital stock, par value \$0.0001 per share, of which 680,000,000 are shares of common stock and 5,000,000 are shares of blank check preferred stock. Of such shares of preferred stock, 1,700,000 have been designated as shares of Series A Convertible Preferred Stock. On May 21, 2015, there were 248,996,580 shares of common stock and no shares of Series A Convertible Preferred Stock issued and outstanding.

### **Common Stock**

The holders of common stock are entitled to one vote per share on all matters to be voted upon by stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, holders of our common stock are entitled to receive ratably dividends as may be declared by the board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution, or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding preferred stock. The common stock has no preemptive or conversion rights, other subscription rights, or redemption or sinking

fund provisions.

## Preferred Stock

Our Board of Directors is authorized, subject to any limitations prescribed by law, without further vote or action by the stockholders, to issue from time to time shares of preferred stock in one or more series. Each such series of preferred stock shall have such number of shares, designations, preferences, voting powers, qualifications, and special or relative rights or privileges as shall be determined by the board of directors, which may include, among others, dividend rights, voting rights, liquidation preferences, conversion rights and preemptive rights.

The shares of Series A Convertible Preferred Stock are convertible into shares of common stock at a conversion price of \$0.0679 per share (subject to adjustment for stock dividends, stock splits and similar transactions), except that a holder of the Series A Convertible Preferred Stock cannot convert the Series A Convertible Preferred Stock to the extent (but only to the extent) that such holder or any of its affiliates would beneficially own a number of shares of our common stock which would exceed 4.99%; provided, however, that the holder may waive the 4.99% conversion limitation upon 61 days prior written notice to increase such percentage to up to 9.99%. There are no other differences between the rights of the Series A Convertible Preferred Stock and the common stock. As of March 31, 2015, all outstanding Series A Convertible Preferred Stock were converted to common stock.

## Warrants

In connection with our September 2011 private placement, we issued investors five-year warrants to purchase up to an aggregate of 25,036,820 shares of common stock at an exercise price of \$0.10 per share. We are prohibited from effecting the exercise of any such warrant to the extent that as a result of such exercise the holder of the exercised warrant beneficially owns more than 4.99% in the aggregate of the issued and outstanding shares of our common stock calculated immediately after giving effect to the issuance of shares of our common stock upon the exercise of the warrant. 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 \$0.10 per share (subject to certain exceptions) and other similar events. In addition, if (i) the volume-weighted average price of our common stock for 30 consecutive trading days is at least 250% of the exercise price of the warrants; (ii) the 30-day average daily trading volume of our common stock has been at least 1,000,000 shares; and (iii) the holder is not in possession of any information that constitutes, or might constitute, material non-public information which was provided by us, then we may require each investor to exercise all or a portion of its warrant pursuant to the terms described above within 10 business days following the delivery of a notice of acceleration. Any warrant that is not exercised as aforesaid shall expire automatically at the end of such 10-day period. On April 19, 2012, we amended these warrants to provide for cashless exercises and to extend the period during which the anti-dilution protection applies until April 19, 2013.

As of December 31, 2014, all warrants with embedded reset provisions had expired. The following table summarizes information with respect to outstanding warrants to purchase common stock of the Company, all of which were exercisable, at December 31, 2014 and March 31, 2015:

|    | Exercise | Number      |                 |
|----|----------|-------------|-----------------|
|    | Price    | Outstanding | Expiration Date |
| \$ | 0.10     | 11,045,654  | August 2016     |

### Delaware Anti-Takeover Law and Provisions of our Certificate of Incorporation and Bylaws

Section 203 of the Delaware General Corporation Law (the "DGCL"), in general, prohibits a business combination between a corporation and an interested stockholder within three years of the time such stockholder became an interested stockholder, unless:

- prior to such time the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, exclusive of shares owned by directors who are also officers and by certain employee stock plans; or
- at or subsequent to such time, the business combination is approved by the board of directors and authorized by the affirmative vote at a stockholders' meeting of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

The term "business combination" is defined to include, among other transactions between an interested stockholder and a corporation or any direct or indirect majority owned subsidiary thereof: a merger or consolidation; a sale, lease, exchange, mortgage, pledge, transfer or other disposition (including as part of a dissolution) of assets having an aggregate market value equal to 10% or more of either the aggregate market value of all assets of the corporation on a consolidated basis or the aggregate market value of all the outstanding stock of the corporation; certain transactions that would result in the issuance or transfer by the corporation of any of its stock to the interested stockholder; certain transactions that would increase the interested stockholder's proportionate share ownership of the stock of any class or series of the corporation or such subsidiary; and any receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation or any such subsidiary. In general, and subject to certain exceptions, an "interested stockholder" is any person who is the owner of 15% or more of the outstanding voting stock of the corporation, an affiliate or associate of the corporation who was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the relevant date or the affiliates and associates of such person. The term "owner" is broadly defined to include any person that individually or with or through such person's affiliates or associates, among other things, beneficially owns such stock, or has the right to acquire such stock (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement or understanding or upon the exercise of warrants or options or otherwise or has the right to vote such stock pursuant to any agreement or understanding, or has an agreement or understanding with the beneficial owner of such stock for the purpose of acquiring, holding, voting or disposing of such stock.

The restrictions described above do not apply to corporations that have elected, in the manner provided therein, not to be subject to Section 203 of the DGCL or, with certain exceptions, which do not have a class of voting stock that is listed on a national securities exchange or held of record by more than 2,000 stockholders. We have not opted out of Section 203, but we are not currently subject to it because we are not listed on a national securities exchange and our securities are held of record by fewer than 2,000 stockholders. However, we could become subject to it if we become so listed or so held.

If Section 203 becomes applicable to us, it could delay or prohibit mergers or other takeover or change in control attempts with respect to us and, accordingly, could discourage attempts to acquire us even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

Provisions of our certificate of incorporation and bylaws may delay or discourage transactions involving an actual or potential change in our control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. Therefore, these provisions could adversely affect the price of our common stock. Among other things, our certificate of incorporation and bylaws:

- permit our board of directors to issue up to 5,000,000 shares of preferred stock, without further action by the stockholders, with any rights, preferences and privileges as they may designate, including the right to approve an acquisition or other change in control;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose);
- provide that special meetings of our stockholders may be called only by our chairman, president or board of directors; and
- provide that directors may be removed from office only by the affirmative vote at a special meeting of stockholders of the holders of a majority of the voting power of our issued and outstanding capital stock entitled to vote in the election of directors, either for or without cause.

## Indemnification of Directors and Officers

Pursuant to Section 145 of the DGCL, a corporation has the power to indemnify its directors and officers against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with a third-party action, other than a derivative action, and against expenses actually and reasonably incurred in the defense or settlement of a derivative action, provided that there is a determination that the individual acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe the individual's conduct was unlawful. Such determination shall be made, in the case of an individual who is a director or officer at the time of such determination:

- by a majority of the disinterested directors, even though less than a quorum;
- by a committee of such directors designated by a majority vote of such directors, even though less than quorum;
- if there are no disinterested directors, or if such directors so direct, by independent legal counsel; or
- by a majority vote of the stockholders, at a meeting at which a quorum is present.

Without court approval, however, no indemnification may be made in respect of any derivative action in which such individual is adjudged liable to the corporation.

The DGCL requires indemnification of directors and officers for expenses relating to a successful defense on the merits or otherwise of a derivative or third-party action.

The DGCL permits a corporation to advance expenses relating to the defense of any proceeding to directors and officers contingent upon such individuals' commitment to repay any advances unless it is determined ultimately that such individuals are entitled to be indemnified.

Under the DGCL, the rights to indemnification and advancement of expenses provided in the law are non-exclusive, in that, subject to public policy issues, indemnification and advancement of expenses beyond that provided by statute may be provided by bylaw, agreement, vote of stockholders, disinterested directors or otherwise.

Our certificate of incorporation and bylaws provide that our officers, directors, employees and agents shall be indemnified to the fullest extent permitted by applicable law, and that we shall pay the expenses incurred in defending any proceeding in advance of its final disposition. Payment of expenses incurred by an officer or director in advance of the final disposition of the proceeding shall be made only upon the receipt of an undertaking by the officer or director to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled

to be indemnified. Expenses incurred by other of our agents (or by the directors or officers not acting in their capacity as such, including service with respect to employee benefit plans) may be advanced upon such terms and conditions as our board deems appropriate. Any repeal or modification of these provisions approved by our stockholders will be prospective only and will not adversely affect any limitation on the liability of any of our directors or officers existing as of the time of such repeal or modification.

We are also permitted to apply for insurance on behalf of any director, officer, employee or other agent for liability arising out of his actions, whether or not the General Corporation Law of the State of Delaware would permit indemnification.

We intend to enter into indemnification agreements with certain of our directors and officers which may, in certain cases, be broader than the specific indemnification provisions contained in our certificate of incorporation and bylaws. The indemnification agreements may require us, among other things, to indemnify such officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers and to advance the expenses incurred by such parties as a result of any threatened claims or proceedings brought against them as to which they could be indemnified.



### **Limitation of Personal Liability of Directors**

The DGCL provides that a corporation's certificate of incorporation may include a provision limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. However, no such provision can eliminate or limit the liability of a director for:

- any breach of the director's duty of loyalty to the corporation or its stockholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of the law;
- violation of certain provisions of the DGCL;
- any transaction from which the director derived an improper personal benefit; or
- any act or omission prior to the adoption of such a provision in the certificate of incorporation.

Our certificate of incorporation provides that our directors shall not be personally liable to us or any of our stockholders for monetary damages for breach of fiduciary duty as a director except to the extent provided by applicable law for the actions described above.

### **Disclosure of Commission Position on Indemnification for Securities Act Liabilities**

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to our directors, officers and persons controlling us, we have been advised that it is the Securities and Exchange Commission's opinion that such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable.

### **UNDERWRITING**

We have entered into an underwriting agreement, dated [\_\_\_\_\_, 2015], by and between us and Maxim Group LLC, who is acting as the sole book-running manager and sole representative of the underwriters named below. Subject to the terms and conditions of the underwriting agreement, the underwriters have agreed to purchase from us on a firm commitment basis, and we have agreed to sell to them, [\_\_\_\_\_] shares of common stock and warrants to purchase [\_\_\_\_\_] shares of common stock, at the public offering price, less the underwriting discount set forth on the cover page of this prospectus and as indicated below:

**Underwriter**  
Maxim Group LLC  
Merriman Capital, Inc.

**Number  
of  
Shares**

Total

55

---

## Commissions and Discounts

We have agreed to pay the underwriters a cash fee equal to nine percent of the aggregate gross proceeds raised in this offering. The following table summarizes the public offering price, underwriting commissions and proceeds before expenses to us assuming both no exercise and full exercise of the underwriters' option to purchase additional shares and warrants. The underwriting commissions are equal to the public offering price per share less the amount per share the underwriters pay us for the shares and warrants.

|                                  | <b>Per<br/>Share<br/>(1)</b> | <b>Total<br/>Without<br/>Over-Allotment</b> | <b>With<br/>Over-Allotment</b>             |
|----------------------------------|------------------------------|---|--|
| <b>Public offering<br/>price</b> |                              |   |  |
| <b>Underwriting<br/>discount</b> |                              |   | <b>Proceeds, before<br/>expenses to us</b> |

(1) The fees shown do not include the warrant to purchase shares of common stock issuable to the underwriters at closing.

The underwriters have agreed to purchase all shares of common stock and warrants to purchase shares of common stock offered by this prospectus (other than those covered by the over-allotment option described below), if any are purchased. The underwriting agreement provides that the obligation of the underwriters to pay for and accept delivery of the shares and warrants is subject to the passing upon certain legal matters by counsel and certain conditions such as confirmation of the accuracy of representations and warranties by us about our financial condition and operations and other matters.

The representative has advised us that the underwriter proposes to offer the shares and warrants directly to the public at the public offering price that appears on the cover page of this prospectus. In addition, the representative may offer some of the shares and warrants to other securities dealers at such price less a concession of [\$\_\_] per share. The underwriter may also allow, and such dealers may reallow, a concession not in excess of [\$\_\_] per share to other dealers. After the shares and warrants are released for sale to the public, the representative may change the offering price and other selling terms at various times.

## Over-allotment Option

We have granted the underwriters an over-allotment option exercisable for up to 45 days after the date of this prospectus to purchase a maximum of [\_\_\_\_\_] additional shares and [\_\_\_\_\_] warrants from us to cover over-allotments, if any. If the underwriters exercise all or part of this option, they will purchase shares and warrants covered by the option at the public offering price that appears on the cover page of this prospectus, less the underwriting discount.

## Representative s Warrant

We have also agreed to issue to Maxim Group LLC, a warrant to purchase [\_\_\_\_\_] shares and warrants (equal to an aggregate of five (5%)) percent of the shares and warrants sold in the offering). The warrants will have an exercise price equal to 110% of the offering price of the shares sold in this offering, or [\$\_\_\_]. The warrants are exercisable commencing six (6) months after the effective date of the registration statement related to this offering, and will be exercisable for five (5) years after the effective date of the registration statement. The warrants are not redeemable by us. The warrants also provide for one demand registration payable by us, one demand registration payable by Maxim Group LLC and unlimited piggyback registration rights at our expense with respect to the underlying shares and warrants during the five (5) year period commencing on the effective date of the registration statement relating to this offering. Provided however, that we shall not be required to file any registration statement at any time when the underlying securities may be sold pursuant to Rule 144 or any successor rule. Pursuant to the rules of the Financial Industry Regulatory, Inc., or FINRA, and in particular Rule 5110, the warrants (and underlying shares) issued to Maxim Group LLC may not be sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put or call transaction that would result in the effective disposition of the securities by any person for a period of 180 days immediately following the date of delivery and payment for the shares offered; provided, however, that the warrants (and underlying shares) may be transferred to officers or partners of Maxim Group LLC and members of the underwriting syndicate and their officers or partners as long as the warrants (and underlying shares) remain subject to the lockup.

## Lock-Up Agreements

We and each of our directors and executive officers have entered into lock-up agreements with the underwriter in connection with this offering. Under these agreements, subject to certain exceptions, those subject to lock-up agreements may not, directly or indirectly, offer, sell, contract to sell, pledge, grant any option for the sale of, or otherwise dispose of any shares of common stock, securities convertible into or exchangeable for shares of common stock, options or rights to acquire shares of common stock or publicly announce the intention to do any of the foregoing, without the prior written consent of Maxim Group LLC, for a period of 180 days from the date of this prospectus, or the initial lock-up period. In addition, if (1) during the last 17 days of the initial lock-up period, we release earnings results or publicly announce material news or a material event relating to us or (2) prior to the expiration of the initial lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the initial lock-up period, then in each case the initial lock-up period will be extended until the expiration of the 18-day period beginning on the date of release of the earnings results or the occurrence of the material news or material event, as applicable, unless the representative, on behalf of the underwriters, waives, in writing, such extension. The initial lock-up period, as so extended, is referred to as the lock-up period. Maxim Group LLC may agree at its discretion and at any time or from time to time, without notice, to release all or any portion of the shares subject to the lock-up agreements described above.



## Other Terms

We have advanced \$25,000 to Maxim Group LLC, which represents an advance against the underwriting discount. An additional \$25,000 will be paid to Maxim concurrently with the filing of the registration statement related to this offering and shall be applied towards such underwriting discount. However, in the event this offering is terminated, Maxim shall return any portion of the advance not used to pay its accountable out-of-pocket expenses actually incurred. Maxim is also allowed to receive up to \$135,000 of reimbursable expenses in the event of a completed deal.

We also have agreed that, upon successful completion of this offering, for a period of twelve (12) months from the closing of this offering, we will grant Maxim Group LLC the right of refusal to act as lead managing underwriter and book runner or minimally as a co-lead manager and co-book runner and/or co-lead placement agent with the right to participate with respect to at least 65.0% of the aggregate amount of securities to be offered; or, in the case of an offering that is co-managed by three underwriters, the right to participate with respect to at least 40.0% of the aggregate amount of securities offered, for any and all future equity offerings as well as any convertible debt offerings undertaken during this period by us or any of our subsidiaries.

The underwriting agreement provides for indemnification by and among us and the underwriter against specified liabilities, including liabilities under the Securities Act, and for contribution by us and the underwriter to payments that may be required to be made with respect to those liabilities. We have been advised that, in the opinion of the Securities and Exchange Commission, indemnification of liabilities under the Securities Act is against public policy as expressed in the Securities Act, and is therefore, unenforceable.

## Stabilization

Until the distribution of the securities offered by this prospectus is completed, rules of the SEC may limit the ability of the underwriter to bid for and to purchase our shares of common stock. As an exception to these rules, the underwriter may engage in transactions effected in accordance with Regulation M under the Securities Exchange Act of 1934 that are intended to stabilize, maintain or otherwise affect the price of our shares of common stock. The underwriter may engage in over-allotment sales, syndicate covering transactions, stabilizing transactions and penalty bids in accordance with Regulation M.

- Stabilizing transactions permit bids or purchases for the purpose of pegging, fixing or maintaining the price of our shares of common stock, so long as stabilizing bids do not exceed a specified maximum.
- Over-allotment involves sales by the underwriter of securities in excess of the number of securities the underwriter is obligated to purchase, which creates a short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of ordinary shares over-allotted by the underwriter is not greater than the number of shares of

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common stock that they may purchase in the over-allotment option. In a naked short position, the number of ordinary shares involved is greater than the number of shares in the over-allotment option. The underwriter may close out any covered short position by either exercising their over-allotment option or purchasing shares of common stock in the open market.

- Covering transactions involve the purchase of securities in the open market after the distribution has been completed in order to cover short positions. In determining the source of securities to close out the short position, the underwriter will consider, among other things, the price of securities available for purchase in the open market as compared to the price at which they may purchase securities through the over-allotment option. If the underwriter sells more shares of common stock than could be covered by the over-allotment option, creating a naked short position, the position can only be closed out by buying securities in the open market. A naked short position is more likely to be created if the underwriter is concerned that there could be downward pressure on the price of the shares of common stock in the open market after pricing that could adversely affect investors who purchase in this offering.
- Penalty bids permit the underwriter to reclaim a selling concession from a selected dealer when the securities originally sold by the selected dealer are purchased in a stabilizing or syndicate covering transaction.

These stabilizing transactions, covering transactions and penalty bids may have the effect of raising or maintaining the market price of our ordinary shares or preventing or retarding a decline in the market price of our shares of common stock. As a result, the price of our shares of common stock may be higher than the price that might otherwise exist in the open market.

Neither we nor the underwriter make any representation or prediction as to the effect that the transactions described above may have on the prices of our securities. These transactions may occur on the OTCQB or on any other trading market. If any of these transactions are commenced, they may be discontinued without notice at any time.

### LEGAL MATTERS

Fox Rothschild LLP, Lawrenceville, New Jersey, will pass upon the validity of the shares of our common stock offered by the selling stockholders under this prospectus. McDermott Will & Emery LLP has acted as counsel to the underwriters in connection with this offering.

### EXPERTS

The consolidated financial statements of the Company as of and for the years ended December 31, 2014 and 2013 appearing in this prospectus have been audited by Marcum LLP, independent registered public accounting firm, as set forth in their report thereon (which contains an explanatory paragraph relating to substantial doubt about the Company's ability to continue as a going concern, as discussed in Note 2 to the consolidated financial statements), appearing elsewhere in this prospectus, and are included in reliance on such report given on the authority of such firm as experts in auditing and accounting.

### WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, together with any amendments and related exhibits, under the Securities Act of 1933, as amended, with respect to our shares of common stock offered by this prospectus. The registration statement contains additional information about us and our shares of common stock that the selling stockholders are offering in this prospectus.



We file annual, quarterly and current reports and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Our Securities and Exchange Commission filings are available to the public over the Internet at the Securities and Exchange Commission's website at <http://www.sec.gov>. You may also read and copy any document we file at the Securities and Exchange Commission's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. In addition, through our website, <http://www.bluecalypso.com>, you can access electronic copies of documents we file with the Securities and Exchange Commission, including our Quarterly Report on Form 10-Q, and Current Reports on Form 8-K and any amendments to those reports. Information on our website is not incorporated by reference in this prospectus. Access to those electronic filings is available as soon as practicable after filing with the Securities and Exchange Commission. You may also request a copy of those filings, excluding exhibits, from us at no cost. Any such request should be addressed to us at: **101 W Renner Rd, Suite 280 Richardson, Texas 75082** Attention: Andrew Levi

**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

|   | <b>Page</b> |
|---|-------------|
| <u>Report of Independent Registered Public Accounting Firm</u>  | F-2         |
| <u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>   | F-3         |
| <u>Consolidated Statements of Operations for the Years Ended December 31, 2014 and 2013</u>                           | F-4         |
| <u>Consolidated Statement of Stockholders' Equity for the Two Years Ended December 31, 2014</u>                       | F-5         |
| <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2014 and 2013</u>                           | F-6         |
| <u>Notes to Consolidated Financial Statements</u>   | F-7 ~ F-28  |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2015 (unaudited) and December 31, 2014</u>                   | F-29        |
| <u>Condensed Consolidated Statement of Operations for the Three Months Ended March 31, 2015 and 2014 (Unaudited)</u>  | F-30        |
| <u>Condensed Consolidated Statement of Stockholders Equity for the Three Months Ended March 31, 2015 (Unaudited)</u>  | F-31        |
| <u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014 (Unaudited)</u> | F-32        |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>   | F-33 ~ F-40 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Blue Calypso, Inc. and Subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. *The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.* An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Calypso, Inc. and Subsidiaries, as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

/s/ Marcum llp

Marcum llp

New York, NY

March 17, 2015

F-2

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2014 AND 2013**

2014

2013

**ASSETS**

Current assets:

Cash

\$

1,103,201

\$

1,294,882

Accounts receivable,  
net

167,396

64,300

Prepaid expenses and  
other current assets

50,356

57,371

Total current assets

1,320,953

1,416,553

Property and  
equipment, net

6,315

10,009

Other assets:

Capitalized software  
development costs,  
net of accumulated  
amortization of  
\$986,502 and  
\$647,247 as of  
December 31, 2014  
and 2013,  
respectively

794,551

984,674

Total assets

\$

2,121,819

\$

2,411,236



**LIABILITIES AND  
STOCKHOLDERS'  
EQUITY**

Current liabilities:

Accounts payable

\$

24,600

\$

161,225

Accrued expenses

236,526

4,878  
Deferred revenue

1,100

-

Convertible notes  
payable, net of  
discount of \$207,589  
as of December 31,  
2013

-

242,411

Warrant liability

-

2,030

Total current  
liabilities

262,226

410,544

Long term debt:

Convertible notes  
payable, net of  
discount of \$15,830  
as of December 31,  
2013

-

134,170

Total liabilities

262,226

544,714

Commitments and  
contingencies

-

-

Stockholders' equity:

Preferred stock,  
\$0.0001 par value;  
5,000,000 shares  
authorized: Series A  
convertible preferred  
stock, \$0.0001 par  
value; 1,700,000  
shares designated;  
161,827 and 750,068  
shares issued and  
outstanding as of  
December 31, 2014  
and 2013,  
respectively

16

75

Common stock,  
\$0.0001 par value;  
680,000,000 shares  
authorized,  
245,130,308 and  
188,237,262 shares  
issued and  
outstanding as of  
December 31, 2014  
and 2013,  
respectively

24,514

18,824

Additional paid in  
capital

34,002,297

26,279,393

Accumulated deficit

(32,167,234)

(24,431,770)

Total stockholders'  
equity

1,859,593

1,866,522

Total liabilities and  
stockholders' equity

\$

2,121,819

\$

2,411,236

See the accompanying  
notes to these  
consolidated financial  
statements

F-3

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

Year ended  
December 31,

2014

2013

REVENUE

\$

759,889

\$

341,972

Cost of  
revenue

412,225

142,755

Gross profit

347,664



199,217

OPERATING  
EXPENSES:

Sales and  
marketing

482,729

682,600

General and  
administrative

6,103,628

4,843,804

Depreciation  
and  
amortization

344,128

300,909

Total operating  
expenses

6,930,485

5,827,313

Loss from  
operations

(6,582,821)

(5,628,096)

Other expense:

Change in fair  
value of  
derivative  
liabilities

2,030

7,630,434

Loss on  
settlement  
or conversion  
inducement of  
debt

(413,917)

(6,810,982)

Interest  
expense

(740,756)

(2,015,145)

Total other  
expense

(1,152,643)

(1,195,693)

NET LOSS

\$

(7,735,464)

\$

(6,823,789)

Net loss per  
common share,  
basic and  
diluted

\$

(0.04)

\$

(0.05)

Weighted  
average  
common  
shares

outstanding,  
basic and  
diluted

214,441,285

144,270,454

See the  
accompanying  
notes to these  
consolidated  
financial  
statements

**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**TWO YEARS ENDED DECEMBER 31, 2014**

Additional  
Paid in  
Capital

Total  
Stockholders'  
Equity

Preferred Stock

Common Stock



Accumulated

Deficit

Shares

Amount

Shares

Amount

Balance-January  
1, 2013

1,700,000

\$

170

125,135,096

\$

12,514

\$

6,552,878

\$

(17,607,981)

\$

(11,042,419)

Conversion of  
note  
payable-former  
Affiliate to  
equity

-

-

3,686,634

369

552,994

-

553,363

Conversion of  
preferred shares  
to common  
shares

(949,932)

(95)

13,991,162

1,399

(1,304)

-

-

Return of shares  
from Founder

-

-

(16,572,980)

(1,658)

1,658

-

-

Conversion of  
notes payable  
and accrued  
interest into  
common stock

-

-  
20,000,000  
2,000  
542,106  
-  
544,106  
Shares issued to  
third party as  
debt discount in  
connection with  
notes payable  
-  
-  
1,200,000

120

229,571

-

229,691

Shares issued as  
deferred  
financing costs  
in connection  
with notes  
payable

-

-

1,000,000

100

171,900

-  
  
172,000  
Subtotal  
750,068  
  
\$  
75  
  
148,439,912  
  
\$  
14,844  
  
\$  
8,049,803  
  
\$  
(17,607,981)  
  
\$  
(9,543,259)  
Balance forward

750,068

\$

75

148,439,912

\$

14,844

\$

8,049,803

—

%

Gain on sales of  
interest in non  
operating real  
estate

—

—

N/A

43

—

N/A

Net loss

\$

(34,666



)  
 \$  
 (24,050  
 )  
 44  
 %  
 (48,605  
 )  
 (32,406  
 )  
 50  
 %

The amounts in the preceding table reflect our consolidated properties and our unconsolidated properties. Our unconsolidated properties are presented under the equity method of accounting in the line item “Equity in income of partnerships.”

Real Estate Revenue

Real estate revenue decreased by \$5.3 million, or 5%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, primarily due to:

- a net decrease of \$5.2 million in real estate revenue related to properties sold in 2014, the July 2014 sale of a 50% partnership interest in The Gallery and the acquisition of Springfield Town Center in March 2015;

- a \$0.4 million decrease due to the business failure of an office tenant at Voorhees Town Center; partially offset by an increase of \$0.3 million in same store base rent due to increases of \$1.4 million from new store openings and lease renewals with higher base rental amounts, with notable increases at Francis Scott Key Mall, Moorestown Mall and Viewmont Mall, partially offset by troubled tenant closings affecting 61 stores across our portfolio, including Deb Shops, Wet Seal, Body Central, Cache and Radio Shack, with an aggregate impact of \$1.1 million; and

- an increase of \$0.3 million in same store real estate tax reimbursements, offset by a corresponding increase in real estate tax expense.

Table of Contents

Real estate revenue decreased by \$15.1 million, or 7%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014, primarily due to:

a net decrease of \$16.4 million in real estate revenue related to properties sold in 2014, the July 2014 sale of a 50% partnership interest in The Gallery, and the March 2015 acquisition of Springfield Town Center; partially offset by

an increase of \$0.7 million in same store real estate tax reimbursements, offset by a corresponding increase in real estate tax expense; and

an increase of \$0.5 million in same store base rent due to increases of \$2.2 million from new store openings and lease renewals with higher base rental amounts, with notable increases at Francis Scott Key Mall, Moorestown Mall and Viewmont Mall, partially offset by troubled tenant closings affecting 61 stores across our portfolio, including Deb Shops, Wet Seal, Body Central, Cache and Radio Shack, with an aggregate impact of \$1.7 million.

Property Operating Expenses

Property operating expenses decreased by \$2.4 million, or 5%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, primarily due to:

a net decrease of \$2.9 million in property operating expenses related to properties sold in 2014, the July 2014 sale of a 50% partnership interest in The Gallery, and the March 2015 acquisition of Springfield Town Center; and

a decrease of \$0.6 million in same store non-common area utility expense due to lower electric rates, particularly at our properties located in Pennsylvania; partially offset by

an increase of \$0.9 million in same store bad debt expense. During the three months ended June 30, 2014, we decreased our estimated reserve related to straight line rent receivables, due to improved historical results in recent periods; and

an increase of \$0.3 million in same store real estate tax expense, including a \$0.1 million increase at one of our New Jersey properties, due to a combination of increases in the real estate tax assessment value and the real estate tax rate.

Property operating expenses decreased by \$10.9 million, or 11%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014, primarily due to:

a net decrease of \$9.7 million in property operating expenses related to properties sold in 2014, the July 2014 sale of a 50% partnership interest in The Gallery and the March 2015 acquisition of Springfield Town Center;

a decrease of \$2.4 million in same store non-common area utility expense. The three months ended March 31, 2014 saw a significant increase in electric rates at many of our properties. The extreme cold weather last winter, and the resulting natural gas supply constraints, led to an historic spike in wholesale electricity rates that particularly affected our properties located in Pennsylvania, New Jersey and Maryland; and

a decrease of \$1.3 million in same store common area maintenance expense, including decreases of \$0.7 million in common area utilities and \$0.6 million in snow removal expense. Snow removal expense at our properties located in

the Mid-Atlantic States, particularly Pennsylvania and New Jersey, was affected by a severe winter with numerous snowfalls during the three months ended March 31, 2014; partially offset by

an increase of \$1.5 million in same store bad debt expense. The six months ended June 30, 2015 was affected by five tenant bankruptcies involving 45 stores and with associated bad debt expense of \$0.4 million. Also, during the three months ended June 30, 2014, we decreased our estimated reserve related to straight line rent receivables due to improved historical results in recent periods, resulting in a \$1.1 million reduction in bad debt expense; and

an increase of \$0.7 million in real estate tax expense due to a combination of increases in the real estate tax assessment

Table of Contents

value and the real estate tax rate.

## Net Operating Income (“NOI”)

NOI (a non-GAAP measure) is derived from real estate revenue (determined in accordance with generally accepted accounting principles, or GAAP, including lease termination revenue) minus property operating expenses (determined in accordance with GAAP), plus our share of revenue and property operating expense of our partnership investments. It does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity. It is not indicative of funds available for our cash needs, including our ability to make cash distributions. We believe that NOI is helpful to management and investors as a measure of operating performance because it is an indicator of the return on property investment and provides a method of comparing property performance over time. We believe that net income is the most directly comparable GAAP measurement to NOI.

NOI excludes other income, general and administrative expense, provision for employee separation expenses, interest expense, depreciation and amortization, gain on sale of interest in non operating real estate, gain on sale of interest in real estate, impairment losses and acquisition costs and other expenses.

The following tables present NOI for the three and six months ended June 30, 2015 and 2014. The results are presented using the “proportionate-consolidation method” (a non-GAAP measure), which includes our share of the results of our partnership investments. Under GAAP, we account for our partnership investments under the equity method of accounting. Operating results for retail properties that we owned for the full periods presented (“Same Store”) exclude properties acquired or disposed of or reclassified as held for sale during the periods presented. A reconciliation of NOI to net income (loss) determined in accordance with GAAP appears under the heading “Reconciliation of GAAP Net Income (Loss) to Non-GAAP Measures.”

|                                   | Same Store                     |           |             | Non Same Store                 |          |             | Total                          |           |             |
|-----------------------------------|--------------------------------|-----------|-------------|--------------------------------|----------|-------------|--------------------------------|-----------|-------------|
|                                   | Three Months Ended<br>June 30, |           |             | Three Months Ended<br>June 30, |          |             | Three Months Ended<br>June 30, |           |             |
| (in<br>thousands<br>of dollars)   | 2015                           | 2014      | %<br>Change | 2015                           | 2014     | %<br>Change | 2015                           | 2014      | %<br>Change |
| Real estate<br>revenue            | \$103,665                      | \$103,159 | 0.5         | \$9,310                        | \$13,073 | (28.8)      | \$112,975                      | \$116,232 | (2.8)       |
| Property<br>operating<br>expenses | (40,824)                       | (40,254)  | 1.4         | (5,660)                        | (6,971)  | (18.8)      | (46,484)                       | (47,225)  | (1.6)       |
| Net<br>Operating<br>Income        | \$62,841                       | \$62,905  | (0.1)       | \$3,650                        | \$6,102  | (40.2)      | \$66,491                       | \$69,007  | (3.6)       |

Total NOI decreased by \$2.5 million, or 3.6%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to a decrease of \$2.5 million in NOI from Non Same Store properties. This decrease in NOI from Non Same Store properties was primarily due to properties sold in 2014 and the July 2014 sale of a 50% partnership interest in The Gallery. Non Same Store NOI was further affected by de-tenanting of The Gallery in preparation for the redevelopment of the property, losses incurred from the business failure of an office tenant at Voorhees Town Center, partially offset by the inclusion of Springfield Town Center, which was acquired

effective March 31, 2015. See “—Real Estate Revenue” and “—Property Operating Expenses” above for further information about the factors affecting NOI from our consolidated properties. Same Store NOI includes lease termination revenue of \$0.1 million and \$0.2 million for the three months ended June 30, 2015 and 2014, respectively.

Table of Contents

| (in thousands of dollars)   | Same Store<br>Six Months Ended<br>June 30, |           |             | Non Same Store<br>Six Months Ended<br>June 30, |          |             | Total<br>Six Months Ended<br>June 30, |           |             |
|-----------------------------|--|-----------|-------------|--|----------|-------------|---------------------------------------|-----------|-------------|
|                             | 2015                                       | 2014      | %<br>Change | 2015   | 2014     | %<br>Change | 2015                                  | 2014      | %<br>Change |
| Real estate revenue         | \$210,540                                  | \$208,952 | 0.8 %       | \$14,382                                       | \$26,398 | (45.5)%     | \$224,922                             | \$235,350 | (4.4)%      |
| Property operating expenses | (85,974)                                   | (87,827)  | (2.1)%      | (8,863)  | (14,650) | (39.5)%     | (94,837)                              | (102,477) | (7.5)%      |
| Net Operating Income        | \$124,566                                  | \$121,125 | 2.8 %       | \$5,519  | \$11,748 | (53.0)%     | \$130,085                             | \$132,873 | (2.1)%      |

Total NOI decreased by \$2.8 million, or 2.1%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to a decrease of \$6.2 million in NOI from Non Same Store properties, partially offset by a \$3.4 million increase in NOI from Same Store properties. The decrease in NOI from Non Same Store properties was primarily due to properties sold in 2014 and the July 2014 sale of a 50% partnership interest in The Gallery. Non Same Store NOI was further affected by de-tenanting of The Gallery in advance of the pending redevelopment of the property, losses incurred from the business failure of an office tenant at Voorhees Town Center, partially offset by the inclusion of Springfield Town Center, which was acquired effective March 31, 2015. See “—Real Estate Revenue” and “—Property Operating Expenses” above for further information about the factors affecting NOI from our consolidated properties. Same Store NOI includes lease termination revenue of \$0.4 million and \$0.3 million for the six months ended June 30, 2015 and 2014, respectively.

#### Depreciation and Amortization

Depreciation and amortization expense decreased by \$0.5 million, or 1%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, primarily due to:

- a net decrease of \$1.0 million related to properties sold in 2014, the July 2014 sale of a 50% partnership interest in The Gallery, and the March 2015 acquisition of Springfield Town Center; partially offset by

- an increase of \$0.5 million primarily due to a higher asset base resulting from capital improvements related to new tenants at our same store properties.

Depreciation and amortization expense decreased by \$3.5 million, or 5%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014, primarily due to:

- a net decrease of \$5.6 million related to properties sold in 2014, the July 2014 sale of a 50% partnership interest in The Gallery, and the March 2015 acquisition of Springfield Town Center; partially offset by

- an increase of \$2.1 million primarily due to a higher asset base resulting from capital improvements related to new tenants at our same store properties.



## Table of Contents

### Impairment of Assets

In June 2015, we recorded an aggregate loss on impairment of assets of Gadsden Mall in Gadsden, Alabama, New River Valley Mall in Christiansburg, Virginia and Wiregrass Commons Mall in Dothan, Alabama of \$27.3 million after signing a purchase and sale agreement with a prospective buyer of the properties. The negotiations with this prospective buyer of the properties are ongoing and could result in additional changes to our underlying assumptions. As a result of these negotiations, we determined that the holding period for the properties was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at these properties. Based upon the purchase and sale agreement with the prospective buyer of the properties, we determined that the estimated aggregate undiscounted cash flows, net of estimated capital expenditures, for Gadsden Mall, New River Valley Mall and Wiregrass Mall were less than the aggregate carrying value of the properties, and recorded a loss on impairment of assets.

In March 2015, we recorded a loss on impairment of assets at Uniontown Mall in Uniontown, Pennsylvania of \$6.2 million, and in June 2015, in connection with further negotiations with the prospective buyer, we recorded an additional \$1.3 million loss on impairment of assets. In connection with these negotiations, we had determined that the holding period for the property was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon the original purchase and sale agreement with the prospective buyer of the property and subsequent further negotiations, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Uniontown Mall were less than the carrying value of the property, and recorded an initial loss on impairment of assets and a subsequent additional loss on impairment of assets.

### Acquisition Costs and Other Expenses

Acquisition costs and other expenses decreased by \$0.1 million during the three months ended June 30, 2015 compared to the three months ended June 30, 2014, primarily due to higher acquisition costs incurred in the three months ended June 30, 2014 related to our acquisition of Springfield Town Center that closed in March 2015, partially offset by higher other professional fee expenses in the three months ended June 30, 2015.

Acquisition costs and other expenses increased by \$2.7 million during the six months ended June 30, 2015 compared to the six months ended June 30, 2014, primarily due to acquisition costs related to our acquisition of Springfield Town Center in March 2015 and higher other professional fees incurred in 2015.

### Interest Expense

Interest expense decreased by \$0.4 million, or 2%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Our weighted average effective borrowing rate was 4.69% for the three months ended June 30, 2015 compared to 4.99% for the three months ended June 30, 2014. Our weighted average debt balance was \$1,868.0 million for the three months ended June 30, 2015 compared to \$1,643.0 million for the three months ended June 30, 2014, largely due to amounts borrowed to fund the cash portion of the purchase consideration for Springfield Town Center. Interest expense for the three months ended June 30, 2015 includes a prepayment penalty of \$0.8 million in connection with the early repayment of the mortgage secured by Patrick Henry Mall and \$0.2 million due to accelerated amortization of financing costs resulting from the June 2015 amendment to the 2013 Revolving Facility.

Interest expense decreased by \$0.4 million, or 1%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Our weighted average effective borrowing rate was 4.82% for the six months ended June 30, 2015 compared to 4.96% for the six months ended June 30, 2014. Our weighted average debt balance was



\$1,725.8 million for the six months ended June 30, 2015 compared to \$1,643.7 million for the six months ended June 30, 2014. We also recorded a loss on hedge ineffectiveness of \$0.5 million, a \$0.8 million prepayment penalty and \$0.2 million of accelerated amortization of financing costs in the six months ended June 30, 2015. Interest expense for the six months ended June 30, 2014 included a loss on an amount related to hedge ineffectiveness of \$1.2 million resulting from the July 2014 repayment of the mortgage loan secured by Logan Valley Mall and insufficient other variable rate debt.

#### Equity in Income of Partnerships

Equity in income of partnerships decreased by \$0.8 million, or 27%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. This decrease was primarily due to a net loss from The Gallery, which became a 50% equity method investment as a result of the transaction with The Macerich Company in July 2014, due to the de-tenanting of the mall in anticipation of the construction phase of the redevelopment.

## Table of Contents

Equity in income of partnerships decreased by \$1.1 million, or 21%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. This decrease was primarily due to a net loss from The Gallery, which became a 50% equity method investment as a result of the transaction with The Macerich Company in July 2014, due to the de-tenanting of the mall in anticipation of the construction phase of the redevelopment.

### Funds From Operations

The National Association of Real Estate Investment Trusts (“NAREIT”) defines Funds From Operations (“FFO”), which is a non-GAAP measure commonly used by REITs, as net income (computed in accordance with GAAP) excluding gains and losses on sales of operating properties, extraordinary items (computed in accordance with GAAP) and significant non-recurring events that materially distort the comparative measurement of company performance over time; plus real estate depreciation and amortization; and after adjustments for unconsolidated partnerships and joint ventures to reflect funds from operations on the same basis. We compute FFO in accordance with standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition, or that interpret the current NAREIT definition differently than we do. NAREIT’s established guidance provides that excluding impairment write downs of depreciable real estate is consistent with the NAREIT definition.

FFO is a commonly used measure of operating performance and profitability among REITs. We use FFO and FFO per diluted share and unit of limited partnership interest in our operating partnership (“OP Unit”) in measuring our performance against our peers and as one of the performance measures for determining incentive compensation amounts earned under certain of our performance-based executive compensation programs.

FFO does not include gains and losses on sales of operating real estate assets or impairment write downs of depreciable real estate, which are included in the determination of net income in accordance with GAAP. Accordingly, FFO is not a comprehensive measure of our operating cash flows. In addition, since FFO does not include depreciation on real estate assets, FFO may not be a useful performance measure when comparing our operating performance to that of other non-real estate commercial enterprises. We compensate for these limitations by using FFO in conjunction with other GAAP financial performance measures, such as net income and net cash provided by operating activities, and other non-GAAP financial performance measures, such as NOI. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available for our cash needs, including our ability to make cash distributions. We believe that net income is the most directly comparable GAAP measurement to FFO.

We also present Funds From Operations, as adjusted, and Funds From Operations per diluted share and OP Unit, as adjusted, which are non-GAAP measures, for the three and six months ended June 30, 2015 and 2014 to show the effect of mortgage prepayment penalty, accelerated amortization of financing costs, acquisition costs, loss on hedge ineffectiveness and provision for employee separation expense, which had a significant effect on our results of operations, but are not, in our opinion, indicative of our operating performance.

We believe that FFO is helpful to management and investors as a measure of operating performance because it excludes various items included in net income that do not relate to or are not indicative of operating performance, such as gains on sales of operating real estate and depreciation and amortization of real estate, among others. We believe that Funds From Operations, as adjusted, is helpful to management and investors as a measure of operating performance because it adjusts FFO to exclude items that management does not believe are indicative of our operating performance, including but not limited to acquisition costs and loss on hedge ineffectiveness.



Table of Contents

The following table presents FFO and FFO per diluted share and OP Unit, and FFO, as adjusted, and FFO per diluted share and OP Unit, as adjusted, for the three months ended June 30, 2015 and 2014:

| (in thousands, except per share amounts)                                    | Three Months<br>Ended<br>June 30, 2015 | % Change<br>2014 to 2015 | Three Months<br>Ended<br>June 30, 2014 |
|---|--|--------------------------|--|
| Funds from operations   | \$29,311                               | 10.7%                    | \$26,477                               |
| Mortgage prepayment penalty and accelerated amortization of financing costs | 1,030                                  |                          | —                                      |
| Acquisition costs   | 138                                    |                          | 554                                    |
| Provision for employee separation expense                                   | —                                      |                          | 4,877                                  |
| Loss on hedge ineffectiveness   | —                                      |                          | 1,238                                  |
| Funds from operations, as adjusted  | \$30,479                               | (8.0)%                   | \$33,146                               |
| Funds from operations per diluted share and OP Unit                         | \$0.38                                 | 2.7%                     | \$0.37                                 |
| Funds from operations per diluted share and OP Unit, as adjusted            | \$0.39                                 | (17.0)%                  | \$0.47                                 |
| Weighted average number of shares outstanding                               | 68,753                                 |                          | 68,236                                 |
| Weighted average effect of full conversion of OP Units                      | 8,357                                  |                          | 2,129                                  |
| Effect of common share equivalents  | 425                                    |                          | 309                                    |
| Total weighted average shares outstanding, including OP Units               | 77,535                                 |                          | 70,674                                 |

FFO was \$29.3 million for the three months ended June 30, 2015, an increase of \$2.8 million, or 10.7%, compared to \$26.5 million for the three months ended June 30, 2014. This increase is primarily due to the \$4.9 million of employee separation expenses in 2014 that did not recur in 2015, partially offset by a decrease of \$2.8 million in NOI resulting from properties and investments in partnerships sold in 2014.

FFO per diluted share and OP Unit increased by \$0.01 to \$0.38 per share for the three months ended June 30, 2015, compared to \$0.37 for the three months ended June 30, 2014.

The following table presents FFO and FFO per diluted share and OP Unit, and FFO, as adjusted, and FFO per diluted share and OP Unit, as adjusted, for the six months ended June 30, 2015 and 2014:

| (in thousands, except per share amounts)                                    | Six Months<br>Ended<br>June 30, 2015 | % Change<br>2014 to 2015 | Six Months<br>Ended<br>June 30, 2014 |
|---|--------------------------------------|--------------------------|--------------------------------------|
| Funds from operations   | \$53,673                             | 1.1%                     | \$53,092                             |
| Mortgage prepayment penalty and accelerated amortization of financing costs | 1,030                                |                          | —                                    |
| Acquisition costs   | 3,468                                |                          | 1,941                                |
| Provision for employee separation expense                                   | —                                    |                          | 4,877                                |
| Loss on hedge ineffectiveness   | 512                                  |                          | 1,238                                |
| Funds from operations, as adjusted  | \$58,683                             | (4.0)%                   | \$61,148                             |
| Funds from operations per diluted share and OP Unit                         | \$0.72                               | (4.0)%                   | \$0.75                               |
| Funds from operations per diluted share and OP Unit, as adjusted            | \$0.79                               | (9.2)%                   | \$0.87                               |
| Weighted average number of shares outstanding                               | 68,660                               |                          | 68,091                               |
| Weighted average effect of full conversion of OP Units                      | 5,291                                |                          | 2,129                                |
| Effect of common share equivalents  | 493                                  |                          | 326                                  |
| Total weighted average shares outstanding, including OP Units               | 74,444                               |                          | 70,546                               |

FFO was \$53.7 million for the six months ended June 30, 2015, an increase of \$0.6 million, or 1.1%, compared to \$53.1 million for the six months ended June 30, 2014. This increase is primarily due to the employee separation expenses in 2014 that

Table of Contents

did not recur in 2015, partially offset by a decrease in NOI resulting from properties and investments in partnerships sold in 2014.

FFO per diluted share and OP Unit decreased by \$0.03 per share to \$0.72 per share for the six months ended June 30, 2015, compared to \$0.75 for the six months ended June 30, 2014. This decrease was primarily due to the weighted average effect of the 6,250,000 OP Units issued in connection with our acquisition of Springfield Town Center in March 2015.

## Reconciliation of GAAP Net Income (Loss) to Non-GAAP Measures

The preceding discussion compares our unaudited Consolidated Statements of Operations results for different periods based on GAAP. Also, the non-GAAP measures of NOI and FFO have been discussed. We believe that NOI is helpful to management and investors as a measure of operating performance because it is an indicator of the return on property investment, and provides a method of comparing property performance over time. We believe that FFO is helpful to management and investors as a measure of operating performance because it excludes various items included in net income that do not relate to or are not indicative of operating performance, such as gains on sales of operating real estate and depreciation and amortization of real estate, among others. FFO is a commonly used measure of operating performance and profitability among REITs, and we use FFO and FFO per diluted share and OP Unit as supplemental non-GAAP measures to compare our performance for different periods to that of our industry peers.

The following information is provided to reconcile NOI and FFO, which are non-GAAP measures, to net loss, a GAAP measure:

| (in thousands of dollars)              | Three Months Ended June 30, 2015 |  |            |
|--|----------------------------------|--|------------|
|  | Consolidated                     | Share of<br>Unconsolidated<br>Partnerships | Total      |
| Real estate revenue                    | \$ 100,882                       | \$ 12,093                                  | \$ 112,975 |
| Property operating expenses            | (42,014                          | ) (4,470                                   | ) (46,484  |
| Net operating income (NOI)             | 58,868                           | 7,623                                      | 66,491     |
| General and administrative expenses    | (9,126                           | ) —  | (9,126     |
| Other income                           | 811                              | —  | 811        |
| Acquisition costs and other expenses   | (817                             | ) (14                                      | ) (831     |
| Interest expense, net                  | (21,126                          | ) (2,566                                   | ) (23,692  |
| Depreciation of non real estate assets | (380                             | ) —  | (380       |
| Preferred share dividends              | (3,962                           | ) —  | (3,962     |
| Funds from operations (FFO)            | 24,268                           | 5,043                                      | 29,311     |
| Depreciation of real estate assets     | (36,261                          | ) (3,011                                   | ) (39,272  |
| Equity in income of partnerships       | 2,032                            | (2,032                                     | ) —        |
| Impairment of assets                   | (28,667                          | ) —  | (28,667    |
| Preferred share dividends              | 3,962                            | —  | 3,962      |
| Net loss                               | \$(34,666                        | ) \$—                                      | \$(34,666  |

Table of Contents

| (in thousands of dollars)                 | Three Months Ended June 30, 2014 |  |            |
|---|----------------------------------|--|------------|
|   | Consolidated                     | Share of<br>Unconsolidated<br>Partnerships | Total      |
| Real estate revenue                       | \$106,145                        | \$10,087                                   | \$116,232  |
| Property operating expenses               | (44,364)                         | ) (2,861                                   | ) (47,225  |
| Net operating income (NOI)                | 61,781                           | 7,226                                      | 69,007     |
| General and administrative expenses       | (8,774)                          | ) —  | (8,774     |
| Provision for employee separation expense | (4,877)                          | ) —  | (4,877     |
| Other income                              | 680                              | —  | 680        |
| Acquisition costs and other expenses      | (960)                            | ) —  | (960       |
| Interest expense, net                     | (21,550)                         | ) (2,718                                   | ) (24,268  |
| Depreciation of non real estate assets    | (369)                            | ) —  | (369       |
| Preferred share dividends                 | (3,962)                          | ) —  | (3,962     |
| Funds from operations (FFO)               | 21,969                           | 4,508                                      | 26,477     |
| Depreciation of real estate assets        | (36,766)                         | ) (1,724                                   | ) (38,490  |
| Equity in income of partnerships          | 2,784                            | (2,784                                     | ) —        |
| Impairment of assets                      | (16,098)                         | ) —  | (16,098    |
| Gain on sale of interest in real estate   | 99                               | —  | 99         |
| Preferred share dividends                 | 3,962                            | —  | 3,962      |
| Net loss                                  | \$(24,050)                       | ) \$—                                      | \$(24,050) |

| (in thousands of dollars)                             | Six Months Ended June 30, 2015 |  |            |
|---|--------------------------------|--|------------|
|   | Consolidated                   | Share of<br>Unconsolidated<br>Partnerships | Total      |
| Real estate revenue                                   | \$199,666                      | \$25,256                                   | \$224,922  |
| Property operating expenses                           | (85,165)                       | ) (9,672                                   | ) (94,837  |
| Net operating income (NOI)                            | 114,501                        | 15,584                                     | 130,085    |
| General and administrative expenses                   | (18,070)                       | ) —  | (18,070    |
| Other income  | 2,084                          | —  | 2,084      |
| Acquisition costs and other expenses                  | (5,269)                        | ) (41                                      | ) (5,310   |
| Interest expense, net                                 | (41,271)                       | ) (5,206                                   | ) (46,477  |
| Depreciation of non real estate assets                | (758)                          | ) —  | (758       |
| Gain on sale of interest in non operating real estate | 43                             | —  | 43         |
| Preferred share dividends                             | (7,924)                        | ) —  | (7,924     |
| Funds from operations (FFO)                           | 43,336                         | 10,337                                     | 53,673     |
| Depreciation of real estate assets                    | (69,072)                       | ) (6,223                                   | ) (75,295  |
| Equity in income of partnerships                      | 4,114                          | (4,114                                     | ) —        |
| Impairment of assets                                  | (34,907)                       | ) —  | (34,907    |
| Preferred share dividends                             | 7,924                          | —  | 7,924      |
| Net loss  | \$(48,605)                     | ) \$—                                      | \$(48,605) |

Table of Contents

| (in thousands of dollars)                 | Six Months Ended June 30, 2014 |  |            |
|---|--------------------------------|--|------------|
|   | Consolidated                   | Share of<br>Unconsolidated<br>Partnerships | Total      |
| Real estate revenue                       | \$214,754                      | \$20,596                                   | \$235,350  |
| Property operating expenses               | (96,081)                       | ) (6,396                                   | ) (102,477 |
| Net operating income (NOI)                | 118,673                        | 14,200                                     | 132,873    |
| General and administrative expenses       | (17,851)                       | ) —  | (17,851    |
| Provision for employee separation expense | (4,877)                        | ) —  | (4,877     |
| Other income                              | 1,458                          | —  | 1,458      |
| Acquisition costs and other expenses      | (2,606)                        | ) —  | (2,606     |
| Interest expense, net                     | (41,720)                       | ) (5,448                                   | ) (47,168  |
| Depreciation of non real estate assets    | (813)                          | ) —  | (813       |
| Preferred share dividends                 | (7,924)                        | ) —  | (7,924     |
| Funds from operations (FFO)               | 44,340                         | 8,752                                      | 53,092     |
| Depreciation of real estate assets        | (72,557)                       | ) (3,566                                   | ) (76,123  |
| Equity in income of partnerships          | 5,186                          | (5,186                                     | ) —        |
| Impairment of assets                      | (17,398)                       | ) —  | (17,398    |
| Gain on sale of interest in real estate   | 99                             | —  | 99         |
| Preferred share dividends                 | 7,924                          | —  | 7,924      |
| Net loss                                  | \$(32,406                      | ) \$—                                      | \$(32,406  |



## Table of Contents

### LIQUIDITY AND CAPITAL RESOURCES

This “Liquidity and Capital Resources” section contains certain “forward-looking statements” that relate to expectations and projections that are not historical facts. These forward-looking statements reflect our current views about our future liquidity and capital resources, and are subject to risks and uncertainties that might cause our actual liquidity and capital resources to differ materially from the forward-looking statements. Additional factors that might affect our liquidity and capital resources include those discussed herein and in the section entitled “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission. We do not intend to update or revise any forward-looking statements about our liquidity and capital resources to reflect new information, future events or otherwise.

#### Capital Resources

We expect to meet our short-term liquidity requirements, including distributions to common and preferred shareholders, recurring capital expenditures, tenant improvements and leasing commissions, but excluding acquisitions and development and redevelopment projects, generally through our available working capital and net cash provided by operations, subject to the terms and conditions of our 2013 Revolving Facility and our 2014 Term Loans and 2015 Term Loan (collectively, the “Credit Agreements”). We believe that our net cash provided by operations will be sufficient to allow us to make any distributions necessary to enable us to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended. The aggregate distributions made to preferred shareholders, common shareholders and OP Unit holders for the six months ended June 30, 2015 were \$39.2 million, based on distributions of \$1.0312 per Series A Preferred Share, \$0.9218 per Series B Preferred Share and \$0.42 per common share and OP Unit. The following are some of the factors that could affect our cash flows and require the funding of future cash distributions, recurring capital expenditures, tenant improvements or leasing commissions with sources other than operating cash flows:

- adverse changes or prolonged downturns in general, local or retail industry economic, financial, credit or capital market or competitive conditions, leading to a reduction in real estate revenue or cash flows or an increase in expenses;
- deterioration in our tenants’ business operations and financial stability, including anchor or non anchor tenant bankruptcies, leasing delays or terminations, or lower sales, causing deferrals or declines in rent, percentage rent and cash flows;
- inability to achieve targets for, or decreases in, property occupancy and rental rates, resulting in lower or delayed real estate revenue and operating income;
- increases in operating costs, including increases that cannot be passed on to tenants, resulting in reduced operating income and cash flows; and
- increases in interest rates resulting in higher borrowing costs.

We expect to meet certain of our longer-term requirements, such as obligations to fund redevelopment and development projects and certain capital requirements (including scheduled debt maturities), future property and portfolio acquisitions, renovations, expansions and other non-recurring capital improvements, through a variety of capital sources, subject to the terms and conditions of our Credit Agreements.

In December 2014, our universal shelf registration statement was filed with the SEC and became effective. We may use the availability under our shelf registration statement to offer and sell common shares of beneficial interest, preferred shares and various types of debt securities, among other types of securities, to the public.

#### Credit Agreements

We have entered into four credit agreements (collectively, the “Credit Agreements”), as further discussed and defined below: (1) the 2013 Revolving Facility, (2) the 2014 7-Year Term Loan , (3) the 2014 5-Year Term Loan, and (4) the 2015 5-Year Term Loan.

See note 4 in the notes to our unaudited consolidated financial statements for a description of the identical covenants and common provisions contained in the Credit Agreements.

Table of Contents

## 2013 Revolving Facility, as amended

In April 2013, PREIT, PREIT Associates, and PRI (collectively, the “Borrower” or “we”) entered into a credit agreement (as amended, the “2013 Revolving Facility”) with Wells Fargo Bank, National Association, and the other financial institutions signatory thereto, for a \$400.0 million senior unsecured revolving credit facility. In December 2013, we amended the 2013 Revolving Facility to make certain terms of the 2013 Revolving Facility consistent with the terms of the 2014 Term Loans (discussed below). In June 2015, we also amended the 2013 Revolving Facility to lower the interest rates in the applicable pricing grid, to modify one covenant and to extend the Termination Date to June 26, 2018. All capitalized terms used and not otherwise defined herein have the meanings ascribed to such terms in the 2013 Revolving Facility.

As of June 30, 2015, \$120.0 million was outstanding under our 2013 Revolving Facility, \$7.9 million was pledged as collateral for letters of credit and the unused portion that was available to us was \$272.1 million. Currently, \$100.0 million is outstanding under our 2013 Revolving Facility, \$7.9 million is pledged for a letter of credit and the unused portion that is available to us is \$292.1 million.

Pursuant to the June 2015 amendment, the initial maturity of the 2013 Revolving Facility is now June 26, 2018, and the Borrower has two options for one-year extensions of the initial maturity date, subject to certain conditions and to the payment of extension fees of 0.15% and 0.20% of the Facility Amount for the first and second options, respectively.

Subject to the terms of the Credit Agreements, the Borrower has the option to increase the maximum amount available under the 2013 Revolving Facility, through an accordion option, from \$400.0 million to as much as \$600.0 million, in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank’s ability to obtain increases in Revolving Commitments from the current lenders or Revolving Commitments from new lenders. No option to increase the maximum amount available under the 2013 Revolving Facility has been exercised by the Borrower.

After the June 2015 amendment, amounts borrowed under the 2013 Revolving Facility bear interest at a rate between 1.20% and 1.55% per annum, depending on PREIT’s leverage at the end of each quarter, in excess of LIBOR, as set forth in the table below. The rate that will be in effect following the reporting of our June 30, 2015 covenant compliance information will be 1.30% per annum in excess of LIBOR. In determining PREIT’s leverage (the ratio of Total Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is (a) 6.50% for each Property having an average sales per square foot of more than \$500 for the most recent period of 12 consecutive months, and (b) 7.50% for any other Property.

| Level | Ratio of Total Liabilities to Gross Asset Value                    | Applicable Margin |   |
|-------|--|-------------------|---|
| 1     | Less than 0.450 to 1.00  | 1.20              | % |
| 2     | Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00 | 1.25              | % |
| 3     | Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00 | 1.30              | % |
| 4     | Equal to or greater than 0.550 to 1.00                             | 1.55              | % |

The 2013 Revolving Facility is subject to a facility fee which is currently 0.25%, depending on leverage, and is recorded in interest expense in the consolidated statements of operations. In the event that we seek and obtain an investment grade credit rating, alternative interest rates and facility fees would apply.

The Borrower may prepay the 2013 Revolving Facility at any time without premium or penalty, subject to reimbursement obligations for the lenders’ breakage costs for LIBOR borrowings. The Borrower must repay the entire

principal amount outstanding under the 2013 Revolving Facility at the end of its term, as the term may be extended.

#### Term Loans

##### 2015 5-Year Term Loan

In June 2015, the Borrower entered into a five-year term loan agreement (the “2015 5-Year Term Loan”) with Wells Fargo Bank, National Association, PNC Bank, National Association and the other financial institutions signatory thereto, for a \$150.0 million senior unsecured five year term loan facility. The maturity date of the 2015 5-Year Term Loan is June 26, 2020. At closing, the Borrower borrowed the entire \$150.0 million under the 2015 5-Year Term Loan and used the proceeds to repay \$150.0 million of the then outstanding balance under the Borrower’s 2013 Revolving Facility.

Table of Contents

Amounts borrowed under the 2015 5-Year Term Loan bear interest at the rate specified below per annum, depending on PREIT's leverage, in excess of LIBOR, unless and until the Borrower receives an investment grade credit rating and provides notice to the Administrative Agent (the "Rating Date"), after which alternative rates would apply. In determining PREIT's leverage (the ratio of Total Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is 6.50% for each Property having an average sales per square foot of more than \$500 for the most recent period of 12 consecutive months and (b) 7.50% for any other Property.

| Level | Ratio of Total Liabilities to Gross Asset Value                    | Applicable Margin |
|-------|--|-------------------|
| 1     | Less than 0.450 to 1.00  | 1.35 %            |
| 2     | Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00 | 1.45 %            |
| 3     | Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00 | 1.60 %            |
| 4     | Equal to or greater than 0.550 to 1.00                             | 1.90 %            |

The rate that will be in effect following the reporting of our June 30, 2015 covenant compliance information will be 1.60% per annum in excess of LIBOR.

The 2015 5-Year Term Loan also contains an additional covenant that prior to the Rating Date, if any, PREIT may not permit the amount of the Gross Asset Value attributable to assets directly owned by PREIT, PREIT Associates, PRI and the guarantors to be less than 95% of Gross Asset Value excluding assets owned by Excluded Subsidiaries or Unconsolidated Affiliates.

The Borrower may prepay the 2015 5-Year Term Loan at any time without premium or penalty, subject to reimbursement obligations for the lenders' breakage costs for LIBOR borrowings.

## 2014 Term Loans

In January 2014, the Borrower entered into two unsecured term loans in the aggregate amount of \$250.0 million, comprised of:

(1) a 5 Year Term Loan Agreement (the "2014 5-Year Term Loan") with Wells Fargo Bank, National Association, U.S. Bank National Association and the other financial institutions signatory thereto, for a \$150.0 million senior unsecured five year term loan facility; and

(2) a 7 Year Term Loan Agreement (the "2014 7-Year Term Loan" and, together with the 2014 5-Year Term Loan, the "2014 Term Loans") with Wells Fargo Bank, National Association, Capital One, National Association and the other financial institutions signatory thereto, for a \$100.0 million senior unsecured seven-year term loan facility.

In June 2015, the Borrower entered into an amendment to each of the 2014 Term Loans. Under the amendment to each of the 2014 Term Loans, PREIT is required to maintain, on a consolidated basis, minimum Unencumbered Debt Yield of 11.0%, versus 12.0% previously, consistent with the amendment to the covenant in the 2013 Revolving Facility, and the provision of the 2015 5-Year Term Loan. The cross-default provisions in the 2014 Term Loans were also amended to add the new 2015 5-Year Term Loan.

Amounts borrowed under the 2014 Term Loans bear interest at the rate per annum specified in the chart below, depending on PREIT's leverage at the end of each quarter, in excess of LIBOR. In determining PREIT's leverage (the ratio of Total Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is (a) 6.50% for each Property having an average sales per square foot of more than \$500 for the most recent period of 12 consecutive months, and (b) 7.50% for any other Property.

| Level | 2014 7-Year Term Loan | 2014 5-Year Term Loan |
|-------|-----------------------|-----------------------|
|-------|-----------------------|-----------------------|

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|   | Ratio of Total Liabilities<br>to Gross Asset Value                 | Applicable Margin | Applicable Margin |
|---|--|-------------------|-------------------|
| 1 | Less than 0.450 to 1.00  | 1.80%             | 1.35%             |
| 2 | Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00 | 1.95%             | 1.45%             |
| 3 | Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00 | 2.15%             | 1.60%             |
| 4 | Equal to or greater than 0.550 to 1.00                             | 2.35%             | 1.90%             |

The rate that will be in effect following the reporting of our June 30, 2015 covenant compliance information will be 2.15% and 1.60% for the 7-Year Term Loan and 5-Year Term Loan, respectively, per annum in excess of LIBOR.

Table of Contents

If PREIT seeks and obtains an investment grade credit rating and so notifies the lenders under the respective 2014 Term Loans, alternative interest rates would apply.

Subject to the terms of the Credit Agreements, the Borrower has the option to increase the maximum amount available under the 2014 5-Year Term Loan, through an accordion option (subject to certain conditions), from \$150.0 million to as much as \$300.0 million, in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank's ability to obtain increases in commitments from the current lenders or from new lenders.

Subject to the terms of the Credit Agreements, the Borrower has the option to increase the maximum amount available under the 2014 7-Year Term Loan, through an accordion option (subject to certain conditions), from \$100.0 million to as much as \$200.0 million, in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank's ability to obtain increases in commitments from the current lenders or from new lenders.

The table set forth below presents the amounts outstanding, interest rate (inclusive of the LIBOR spread and excluding the impact of interest rate swap agreements on LIBOR-based debt) in effect and the maturity dates of the 2014 Term Loans and the 2015 Term Loan as of June 30, 2015:

| (in millions of dollars) | 2014 7-Year Term Loan | 2014 5-Year Term Loan | 2014 5-Year Term Loan |   |
|--------------------------|-----------------------|-----------------------|-----------------------|---|
| Total facility           | \$100.0               | \$150.0               | \$150.0               |   |
| Amount outstanding       | \$100.0               | \$150.0               | \$150.0               |   |
| Interest rate            | 2.13                  | % 1.63                | % 1.64                | % |
| Maturity date            | January 2021          | January 2019          | June 2020             |   |

## Interest Rate Derivative Agreements

As of June 30, 2015, we had entered into 16 interest rate swap agreements with a weighted average interest rate of 1.55% on a notional amount of \$422.1 million maturing on various dates through January 2019.

We entered into these interest rate swap agreements in order to hedge the interest payments associated with our issuances of variable interest rate long term debt. We have assessed the effectiveness of these interest rate swap agreements as hedges at inception and on a quarterly basis. As of June 30, 2015, we considered these interest rate swap agreements to be highly effective as cash flow hedges. The interest rate swap agreements are net settled monthly.

Accumulated other comprehensive loss as of June 30, 2015 includes a net loss of \$2.3 million relating to forward starting swaps that we cash settled in prior years that are being amortized over 10 year periods commencing on the closing dates of the debt instruments that are associated with these settled swaps.

In the six months ended June 30, 2015, we recorded net loss on hedge ineffectiveness of \$0.5 million. Following our July 2014 repayment of the \$25.8 million mortgage loan secured by 801 Market Street, Philadelphia, Pennsylvania, we anticipated that we would not have sufficient 1-month LIBOR based interest payments to meet the entire swap notional amount related to two of our swaps, and we estimated that this condition would exist until approximately March 2015, when we planned to incur variable rate debt as part of the consideration for the acquisition of Springfield Town Center. These swaps, with an aggregate notional amount of \$40.0 million, did not qualify for ongoing hedge accounting after July 2014 as a result of the unrealized forecasted transactions. We recognized mark-to-market interest expense on these two swaps of \$0.5 million for the period from January 2015 to March 31, 2015, the date the Springfield Town Center acquisition closed and variable rate debt was issued. These swaps are scheduled to expire by

their terms in January 2019.

As of June 30, 2015, the fair value of derivatives in a net liability position, which excludes accrued interest but includes any adjustment for nonperformance risk related to these agreements, was \$3.2 million. If we had breached any of the default provisions in these agreements as of June 30, 2015, we might have been required to settle our obligations under the agreements at their termination value (including accrued interest) of \$3.7 million. We had not breached any of these provisions as of June 30, 2015.



Table of Contents

## Mortgage Loan Activity

In June 2015, we entered into a \$96.2 million mortgage loan secured by Patrick Henry Mall in Newport News, Virginia. The mortgage loan has a fixed interest rate of 4.35% and a 10 year term. Payments are of principal and interest based on a 30 year amortization schedule with a balloon payment due in July 2025. In connection with the repayment, we repaid the existing \$83.8 million mortgage loan plus accrued interest and incurred a \$0.8 million prepayment penalty. The balance of the proceeds were used for general corporate purposes.

In April 2015, we repaid a \$55.6 million mortgage loan plus accrued interest secured by Magnolia Mall in Florence, South Carolina using \$40.0 million from our 2013 Revolving Facility and \$15.6 million from available working capital.

## Mortgage Loans

As of June 30, 2015, our mortgage loans, which are secured by 15 of our consolidated properties, are due in installments over various terms extending to July 2025. Eleven of these mortgage loans bear interest at fixed interest rates that range from 3.90% to 5.95% and had a weighted average interest rate of 4.88% at June 30, 2015. Four of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 2.88% at June 30, 2015. The weighted average interest rate of all consolidated mortgage loans was 4.62% at June 30, 2015. Mortgage loans for properties owned by unconsolidated partnerships are accounted for in “Investments in partnerships, at equity” and “Distributions in excess of partnership investments” on the consolidated balance sheets and are not included in the table below.

The following table outlines the timing of principal payments related to our consolidated mortgage loans as of June 30, 2015:

| (in thousands of dollars) | Total       | Remainder<br>of 2015 | 2016-2017 | 2018-2019 | Thereafter |
|---------------------------|-------------|----------------------|-----------|-----------|------------|
| Principal payments        | \$114,474   | \$10,507             | \$28,410  | \$28,020  | \$47,537   |
| Balloon payments          | 1,246,321   | 132,624              | 369,480   | 175,426   | 568,791    |
| Total                     | \$1,360,795 | \$143,131            | \$397,890 | \$203,446 | \$616,328  |

## Contractual Obligations

The following table presents our aggregate contractual obligations as of June 30, 2015 for the periods presented:

| (in thousands of dollars)                                | Total       | Remainder<br>of<br>2015 | 2016-2017 | 2018-2019 | Thereafter |
|--|-------------|-------------------------|-----------|-----------|------------|
| Mortgage loans   | \$1,360,795 | \$143,131               | \$397,890 | \$203,446 | \$616,328  |
| Term Loans   | 400,000     | —                       | —         | 150,000   | 250,000    |
| 2013 Revolving Facility                                  | 120,000     | —                       | —         | 120,000   | —          |
| Interest on indebtedness <sup>(1)</sup>                  | 308,721     | 37,511                  | 108,121   | 74,973    | 88,116     |
| Operating leases   | 7,959       | 1,108                   | 3,893     | 2,954     | 4          |
| Ground leases  | 2,984       | 363                     | 894       | 229       | 1,498      |
| Development and redevelopment commitments <sup>(2)</sup> | 14,323      | 14,323                  | —         | —         | —          |
| Total  | \$2,214,782 | \$196,436               | \$510,798 | \$551,602 | \$955,946  |

<sup>(1)</sup>Includes payments expected to be made in connection with interest rate swaps and forward starting interest rate swap agreements.

<sup>(2)</sup>The timing of the payments of these amounts is uncertain. We expect that the majority of such payments will be made prior to December 31, 2015, but cannot provide any assurance that changed circumstances at these projects will not delay the settlement of these obligations.

#### Preferred Share Dividends

Annual dividends on our 4,600,000 8.25% Series A Preferred Shares (\$25.00 liquidation preference) and our 3,450,000 7.375%

40

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## Table of Contents

Series B Preferred Shares (\$25.00 liquidation preference) are expected to be \$9.5 million and \$6.4 million, respectively.

## CASH FLOWS

Net cash provided by operating activities totaled \$62.9 million for the six months ended June 30, 2015 compared to \$83.8 million for the six months ended June 30, 2014. This decrease in cash from operating activities is primarily due to properties sold since January 1, 2014 and other working capital changes.

Cash flows used in investing activities were \$367.9 million for the six months ended June 30, 2015 compared to cash flows used in investing activities of \$39.3 million for the six months ended June 30, 2014. Cash flows used in investing activities for the six months ended June 30, 2015 included \$320.0 million used in acquiring Springfield Town Center in Springfield, Virginia, investment in construction in progress of \$14.0 million and real estate improvements of \$16.9 million, primarily related to ongoing improvements at our properties. Investing activities for the first six months of 2014 included \$20.0 million used in acquiring street retail properties in Philadelphia, Pennsylvania, investment in construction in progress of \$17.5 million and real estate improvements of \$19.5 million, primarily related to ongoing improvements at our properties.

Cash flows provided by financing activities were \$295.9 million for the six months ended June 30, 2015 compared to cash flows used in financing activities of \$47.9 million for the six months ended June 30, 2014. Cash flows provided by financing activities for the first six months of 2015 included \$270.0 million of 2013 Revolving Facility borrowings, \$120.0 million of Term Loan borrowings, a \$96.2 million mortgage loan secured by Patrick Henry Mall and \$5.8 million of additional borrowing from the mortgage loan secured by Francis Scott Key Mall, offset by cash flows used by financing activities of \$83.8 million used to repay the prior mortgage loan secured by Patrick Henry Mall, \$55.3 million used to repay the mortgage loan secured by Magnolia Mall, dividends and distributions of \$39.2 million and principal installments on mortgage loans of \$10.1 million. Financing activities also included a non-cash transaction consisting of a \$150.0 million borrowing on our 2015 5-Year Term Loan, which was used to pay down amounts then outstanding on our 2013 Revolving Facility. Cash flows used in financing activities for the six months ended June 30, 2014 included \$130.0 million of net repayments of the 2013 Revolving Facility, dividends and distributions of \$36.2 million, and principal installment payments of \$7.8 million, offset by \$130.0 million in net borrowings from the Term Loans.

## ENVIRONMENTAL

We are aware of certain environmental matters at some of our properties. We have, in the past, performed remediation of such environmental matters, and we are not aware of any significant remaining potential liability relating to these environmental matters or of any obligation to satisfy requirements for further remediation. We may be required in the future to perform testing relating to these matters. We have insurance coverage for certain environmental claims up to \$25.0 million per occurrence and up to \$25.0 million in the aggregate. See our Annual Report on Form 10-K for the year ended December 31, 2014, in the section entitled “Item 1A. Risk Factors —We might incur costs to comply with environmental laws, which could have an adverse effect on our results of operations.”

## COMPETITION AND TENANT CREDIT RISK

Competition in the retail real estate market is intense. We compete with other public and private retail real estate companies, including companies that own or manage malls, power centers, strip centers, lifestyle centers, factory outlet centers, theme/festival centers and community centers, as well as other commercial real estate developers and real estate owners, particularly those with properties near our properties, on the basis of several factors, including

location and rent charged. We compete with these companies to attract customers to our properties, as well as to attract anchor and in-line stores and other tenants. We also compete to acquire land for new site development or to acquire parcels or properties to add to our existing properties. Our malls and our other retail properties face competition from similar retail centers, including more recently developed or renovated centers that are near our retail properties. We also face competition from a variety of different retail formats, including internet retailers, discount or value retailers, home shopping networks, mail order operators, catalogs, and telemarketers. Our tenants face competition from companies at the same and other properties and from other retail channels or formats as well, including internet retailers. This competition could have a material adverse effect on our ability to lease space and on the amount of rent and expense reimbursements that we receive.

## Table of Contents

The existence or development of competing retail properties and the related increased competition for tenants might, subject to the terms and conditions of our Credit Agreements, lead us to make capital improvements to properties that we would have deferred or would not have otherwise planned to make and might affect occupancy and net operating income of such properties.

Any such capital improvements, undertaken individually or collectively, would involve costs and expenses that could adversely affect our results of operations.

We compete with many other entities engaged in real estate investment activities for acquisitions of malls, other retail properties and prime development sites or sites adjacent to our properties, including institutional pension funds, other REITs and other owner-operators of retail properties. When we seek to make acquisitions, competitors might drive up the price we must pay for properties, parcels, other assets or other companies or might themselves succeed in acquiring those properties, parcels, assets or companies. In addition, our potential acquisition targets might find our competitors to be more attractive suitors if they have greater resources, are willing to pay more, or have a more compatible operating philosophy. In particular, larger REITs might enjoy significant competitive advantages that result from, among other things, a lower cost of capital, a better ability to raise capital, a better ability to finance an acquisition, better cash flow and enhanced operating efficiencies. We might not succeed in acquiring retail properties or development sites that we seek, or, if we pay a higher price for a property or site, or generate lower cash flow from an acquired property or site than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

We receive a substantial portion of our operating income as rent under leases with tenants. At any time, any tenant having space in one or more of our properties could experience a downturn in its business that might weaken its financial condition. There are also a number of tenants that are based outside the U.S., and these tenants are affected by economic conditions in the country where their headquarters are located and internationally. Any of such tenants might enter into or renew leases with relatively shorter terms. Such tenants might also defer or fail to make rental payments when due, delay or defer lease commencement, voluntarily vacate the premises or declare bankruptcy, which could result in the termination of the tenant's lease, or preclude the collection of rent in connection with the space for a period of time, and could result in material losses to us and harm to our results of operations. Also, it might take time to terminate leases of underperforming or nonperforming tenants, and we might incur costs to remove such tenants. Some of our tenants occupy stores at multiple locations in our portfolio, and so the effect of any bankruptcy or store closing of those tenants might be more significant to us than the bankruptcy or store closings of other tenants. In addition, under many of our leases, our tenants pay rent based, in whole or in part, on a percentage of their sales. Accordingly, declines in these tenants' sales directly affect our results of operations. Also, if tenants are unable to comply with the terms of our leases, or otherwise seek changes to the terms, including changes to the amount of rent, we might modify lease terms in ways that are less favorable to us.

## SEASONALITY

There is seasonality in the retail real estate industry. Retail property leases often provide for the payment of all or a portion of rent based on a percentage of a tenant's sales revenue, or sales revenue over certain levels. Income from such rent is recorded only after the minimum sales levels have been met. The sales levels are often met in the fourth quarter, during the December holiday season. Also, many new and temporary leases are entered into later in the year in anticipation of the holiday season and a higher number of tenants vacate their space early in the year. As a result, our occupancy and cash flows are generally higher in the fourth quarter and lower in the first and second quarters. Our concentration in the retail sector increases our exposure to seasonality and has resulted, and is expected to continue to result, in a greater percentage of our cash flows being received in the fourth quarter.

## INFLATION

Inflation can have many effects on financial performance. Retail property leases often provide for the payment of rent based on a percentage of sales, which might increase with inflation. Leases may also provide for tenants to bear all or a portion of operating expenses, which might reduce the impact of such increases on us. However, rent increases might not keep up with inflation, or if we recover a smaller proportion of property operating expenses, we might bear more costs if such expenses increase because of inflation.

Table of Contents

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, together with other statements and information publicly disseminated by us, contain certain “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, future plans, strategies, anticipated events, trends and other matters that are not historical facts. These forward-looking statements reflect our current views about future events, achievements or results and are subject to risks, uncertainties and changes in circumstances that might cause future events, achievements or results to differ materially from those expressed or implied by the forward-looking statements. In particular, our business might be materially and adversely affected by uncertainties affecting real estate businesses generally as well as the following, among other factors:

- our substantial debt and stated value of preferred shares and our high leverage ratio;
- constraining leverage, unencumbered debt yield, interest and tangible net worth covenants under our Credit Agreements;
- potential losses on impairment of certain long-lived assets, such as real estate, or of intangible assets, such as goodwill, including such losses that we might be required to record in connection with any dispositions of assets;
- changes in the retail industry, including consolidation and store closings, particularly among anchor tenants;
- our ability to sell properties that we seek to dispose of or our ability to obtain estimated sale prices;
- the effects of online shopping and other uses of technology on our retail tenants;
- risks relating to development and redevelopment activities;
- current economic conditions and the state of employment growth and consumer confidence and spending, and the corresponding effects on tenant business performance, prospects, solvency and leasing decisions and on our cash flows, and the value and potential impairment of our properties;
- our ability to refinance our existing indebtedness when it matures, on favorable terms or at all;
- our ability to raise capital, including through the issuance of equity or equity-related securities if market conditions are favorable, through joint ventures or other partnerships, through sales of properties or interests in properties, or through other actions;
- our ability to identify and execute on suitable acquisition opportunities and to integrate acquired properties into our portfolio;
- our partnerships and joint ventures with third parties to acquire or develop properties;
- our short and long-term liquidity position;
- general economic, financial and political conditions, including credit and capital market conditions, changes in interest rates or unemployment;
- our ability to maintain and increase property occupancy, sales and rental rates, in light of the relatively high number of leases that have expired or are expiring in the next two years;
- acts of violence at malls, including our properties, or at other similar spaces, and the potential effect on traffic and sales;
- changes to our corporate management team and any resulting modifications to our business strategies;
- increases in operating costs that cannot be passed on to tenants;
- concentration of our properties in the Mid-Atlantic region;
- changes in local market conditions, such as the supply of or demand for retail space, or other competitive factors; and
- potential dilution from any capital raising transactions or other equity issuances.

Additional factors that might cause future events, achievements or results to differ materially from those expressed or implied by our forward-looking statements include those discussed herein and in our Annual Report on Form 10-K for the year ended December 31, 2014 in the section entitled “Item 1A. Risk Factors.” We do not intend to update or revise any forward-looking statements to reflect new information, future events or otherwise.





Table of Contents

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates. As of June 30, 2015, our consolidated debt portfolio consisted primarily of \$1,360.8 million of fixed and variable rate mortgage loans, \$120.0 million borrowed under our 2013 Revolving Facility which bore interest at a rate of 1.43%, \$150.0 million borrowed under our 2014 5-Year Term Loan which bore interest at a rate of 1.63%, \$150.0 million borrowed under our 2015 5-Year Term Loan which bore interest at a rate of 1.64% and \$100.0 million borrowed under our 2014 7-Year Term Loan which bore interest at a rate of 2.13%.

Our mortgage loans, which are secured by 15 of our consolidated properties, are due in installments over various terms extending to July 2025. Eleven of these mortgage loans bear interest at fixed interest rates that range from 3.90% to 5.95% and had a weighted average interest rate of 4.88% at June 30, 2015. Four of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 2.88% at June 30, 2015. The weighted average interest rate of all consolidated mortgage loans was 4.62% at June 30, 2015. Mortgage loans for properties owned by unconsolidated partnerships are accounted for in “Investments in partnerships, at equity” and “Distributions in excess of partnership investments” on the consolidated balance sheets and are not included in the table below.

Our interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts of the expected annual maturities due in the respective years and the weighted average interest rates for the principal payments in the specified periods:

| (in thousands of dollars)<br>For the Year Ending December 31, | Fixed Rate Debt    |   | Variable Rate Debt |   |   |
|---|--------------------|---|--------------------|---|---|
|   | Principal Payments | Weighted Average Interest Rate <sup>(1)</sup> | Principal Payments | Weighted Average Interest Rate <sup>(1)</sup> |   |
| 2015  | \$142,665          | 5.59  | % \$466            | 2.93  | % |
| 2016  | 232,888            | 5.36  | % 960              | 2.93  | % |
| 2017  | 163,040            | 5.34  | % 1,002            | 2.93  | % |
| 2018  | 13,622             | 4.34  | % 267,543          | <sup>(2)</sup> 2.17                           | % |
| 2019 and thereafter   | 630,559            | 4.35  | % 428,050          | <sup>(3)</sup> 1.88                           | % |

<sup>(1)</sup> Based on the weighted average interest rates in effect as of June 30, 2015.

<sup>(2)</sup> Includes 2013 Revolving Facility borrowings of \$120.0 million with an interest rate of 1.43% as of June 30, 2015.

<sup>(3)</sup> Includes Term Loan borrowings of \$400.0 million with a weighted average interest rate of 1.76% as of June 30, 2015.

As of June 30, 2015, we had \$698.0 million of variable rate debt. Also, as of June 30, 2015, we had entered into 16 interest rate swap agreements with an aggregate weighted average interest rate of 1.55% on a notional amount of \$422.1 million maturing on various dates through January 2019. We entered into these interest rate swap agreements in order to hedge the interest payments associated with our issuances of variable interest rate long-term debt.

Changes in market interest rates have different effects on the fixed and variable rate portions of our debt portfolio. A change in market interest rates applicable to the fixed portion of the debt portfolio affects the fair value, but it has no effect on interest incurred or cash flows. A change in market interest rates applicable to the variable portion of the debt portfolio affects the interest incurred and cash flows, but does not affect the fair value. The following sensitivity analysis related to our debt portfolio, which includes the effects of our interest rate swap agreements, assumes an immediate 100 basis point change in interest rates from their actual June 30, 2015 levels, with all other variables held constant.

A 100 basis point increase in market interest rates would have resulted in a decrease in our net financial instrument position of \$55.7 million at June 30, 2015. A 100 basis point decrease in market interest rates would have resulted in an increase in our net financial instrument position of \$58.1 million at June 30, 2015. Based on the variable rate debt included in our debt portfolio at March 31, 2015, a 100 basis point increase in interest rates would have resulted in an additional \$2.8 million million in interest expense annually. A 100 basis point decrease would have reduced interest incurred by \$2.8 million annually.

To manage interest rate risk and limit overall interest cost, we may employ interest rate swaps, options, forwards, caps and floors, or a combination thereof, depending on the underlying exposure. Interest rate differentials that arise under swap contracts are recognized in interest expense over the life of the contracts. If interest rates rise, the resulting cost of funds is expected to be lower than that which would have been available if debt with matching characteristics was issued

Table of Contents

directly. Conversely, if interest rates fall, the resulting costs would be expected to be, and in some cases have been, higher. We may also employ forwards or purchased options to hedge qualifying anticipated transactions. Gains and losses are deferred and recognized in net income in the same period that the underlying transaction occurs, expires or is otherwise terminated. See note 7 of the notes to our unaudited consolidated financial statements.

Because the information presented above includes only those exposures that existed as of June 30, 2015, it does not consider changes, exposures or positions which have arisen or could arise after that date. The information presented herein has limited predictive value. As a result, the ultimate realized gain or loss or expense with respect to interest rate fluctuations will depend on the exposures that arise during the period, our hedging strategies at the time and interest rates.

ITEM 4. CONTROLS AND PROCEDURES.

We are committed to providing accurate and timely disclosure in satisfaction of our SEC reporting obligations. In 2002, we established a Disclosure Committee to formalize our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2015, and have concluded as follows:

Our disclosure controls and procedures are designed to ensure that the information that we are required to disclose in our reports under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Our disclosure controls and procedures are effective to ensure that information that we are required to disclose in our Exchange Act reports is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

There was no change in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

## PART II—OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS.

In the normal course of business, we have become and might in the future become involved in legal actions relating to the ownership and operation of our properties and the properties that we manage for third parties. In management's opinion, the resolution of any such pending legal actions is not expected to have a material adverse effect on our consolidated financial position or results of operations.

## ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this report, you should carefully consider the risks that could materially affect our business, financial condition or results of operations, which are discussed under the caption "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

## Issuer Purchases of Equity Securities

The following table shows the total number of shares that we acquired in the three months ended June 30, 2015 and the average price paid per share.

| Period                 | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------------|----------------------------------|------------------------------|--|--|
| April 1—April 30, 2015 | —                                | \$—                          | —  | \$—  |
| May 1—May 31, 2015     | —                                | —                            | —  | —  |
| June 1—June 31, 2015   | 16,193                           | 22.37                        | —  | —  |
| Total                  | 16,193                           | \$22.37                      | —  | \$—  |

Table of Contents

ITEM 6. EXHIBITS.

- 2.1\* Purchase and Sale Agreement dated as of April 29, 2015 by and between PREIT Associates, L.P. and PR Springfield Associates, L.P. and Rubin Retail Acquisition, L.P.
- 10.1 Second Amendment to Credit Agreement dated as of June 26, 2015 by and among PREIT Associates, L.P., PREIT-RUBIN, Inc., PREIT and the financial institutions party thereto.
- 10.2 Third Amendment to Five-Year Term Loan Agreement dated as of June 26, 2015 by and among PREIT Associates, L.P., PREIT-RUBIN, Inc., PREIT and the financial institutions party thereto.
- 10.3 Third Amendment to Seven-Year Term Loan Agreement dated as of June 26, 2015 by and among PREIT Associates, L.P., PREIT-RUBIN, Inc., PREIT and the financial institutions party thereto.
- 10.4 Five Year Term Loan Agreement dated as of June 26, 2015 by and among PREIT Associates, L.P., PREIT-RUBIN, Inc., PREIT and the financial institutions party thereto.
- 10.5 Five Year Term Loan Guaranty dated as of June 26, 2015 in favor of Wells Fargo Bank, National Association, executed by certain direct and indirect subsidiaries of PREIT Associates, L.P.
- 31.1 Certification pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2015 is formatted in XBRL interactive data files: (i) Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014; (ii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2015 and 2014; (iii) Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014; (iv) Consolidated Statements of Equity for the six months ended June 30, 2015; (v) Consolidated Statements of Cash Flows for the three months ended June 30, 2015 and 2014; and (vi) Notes to Unaudited Consolidated Financial Statements.

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\* The Company agrees to furnish supplementally a copy of any omitted schedule and exhibit to the Securities and Exchange Commission upon request.



Table of Contents

SIGNATURE OF REGISTRANT

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 3, 2015

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

By: /s/ Joseph F. Coradino  
Joseph F. Coradino  
Chief Executive Officer

By: /s/ Robert F. McCadden  
Robert F. McCadden  
Executive Vice President and Chief Financial Officer

By: /s/ Jonathen Bell  
Jonathen Bell  
Senior Vice President and Chief Accounting Officer  
(Principal Accounting Officer)

Table of Contents

Exhibit Index

|        |  |
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\* filed herewith

\*\* furnished herewith

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