

BLUE CALYPSO, INC.
Form 10-K
April 16, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2011

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

For the transition period from to

Commission File No. 333-143570

BLUE CALYPSO, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

19111 North Dallas Parkway, Suite 200
Dallas, TX
(Address of Principal Executive Offices)

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

75287
(Zip Code)

(972) 695-4776

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(Registrant's Telephone Number, Including Area Code)

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value \$0.001 per share | OTC Bulletin Board |

Securities Registered pursuant to Section 12(g) of the Exchange Act: **None.**

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

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

Note checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

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

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

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

| | |
|--|--|
| Large accelerated filer <input type="radio"/> | Accelerated filer <input type="radio"/> |
| Non-accelerated filer <input type="radio"/> (Do not check if a smaller reporting company) | Smaller reporting company <input checked="" type="radio"/> |

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

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State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Our common stock is traded on the over-the-counter bulletin board market (OTCBB) under the trading symbol BCYP. Trading of our common stock is very limited. Subject to the small trading activity, our common stock was valued at \$1.01 per share as of March 30, 2012. The market valuation based on \$1.01 per share was \$128.1 million. Since our common stock has such insignificant trading activity, we believe that the traditional valuation method (price per share times shares outstanding) is not an accurate methodology for determining the aggregate value of BCYP.

Note. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDING DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No x

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

| Class | Outstanding as of December 31, 2011 |
|--------------|-------------------------------------|
| Common Stock | 126,845,640 |

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

PART I

ITEM 1. BUSINESS.

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

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

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

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

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

Blue Calypso Holdings, Inc. was incorporated as a Texas corporation in February 2010 as a holding company to hold a 100% single member ownership interest in Blue Calypso, LLC, a Texas limited liability company, which was formed on September 11, 2009. Blue Calypso Holdings, Inc. developed a patented social mobile endorsement and brand loyalty platform through which brand loyalists (social media fans and followers and existing customers) are able and incentivized to become active digital brand evangelists, personally endorsing and sharing messages from advertisers. Blue Calypso Holdings (Texas Corporation) merged into Blue Calypso, Inc. (Delaware Corporation) on December 17, 2011.

The description of our business presented below is that of our current business and all discussion of periods prior to the reverse merger transaction describe the business of Blue Calypso Holdings, Inc.

The Company

Through our platform, participating consumers can use the mobile and social technologies they regularly use for digital communications to endorse our participating advertisers' brands, offerings or causes. These consumer endorsers deliver advertiser-created content to their friends and followers and are rewarded for promoting participating advertisers' brands with cash and reward perks. The content that is delivered through our platform can be targeted to different recipients based on specific conditions, such as geo-location, day-of-week, time-of-day, and even weather conditions. Endorsers also have the ability of adding their own personal comments, pictures and videos which act to reinforce and personalize their endorsement of the brand offer or promotion.

Over the last five years, the world has seen social media, mobile technologies and digital advertising evolve dramatically and actually converge. Through this technological evolution, a sociological shift has occurred in how influential digital media can be when promoted within one's social circles, friend-to-friend. We believe that people will actively endorse products with which they have a strong emotional connection or brand loyalty. When they do, these endorsements reach groups of like-minded individuals, as we believe that people generally associate with others of like mind. Applications such as Facebook, Twitter, Google+, FourSquare, Groupon, Living Social, Yelp and various blogs incorporate and build on this common idea. Our platform goes a step further, leveraging mobile and social technologies and rewarding the endorsers for their loyalty and performance. We believe that we have

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created a platform that solves advertisers' desire for targeted and personal messaging as well as mobile subscribers' desire for content relevance in advertising.

Through mobile and social media, everyone has their own unique and significant audience. According to Facebook, the average user has 130 friends; Twitter states the average user has 300 followers; and 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, advertiser content is not bound by any single app, social media community, website, carrier or device. Once the message is shared by an endorser, it can be accessed via texts, Twitter tweets or LinkedIn or Facebook posts. As a result, our individual endorsers have the capability to immediately reach hundreds or even thousands of people through their direct personal and digital social relationships.

Through our platform, advertisers can target subscribers based on their demographics and/or interest attributes. This ensures that the brands and offers that are presented to the subscriber are meaningful and interesting to them. The endorsers are able to choose to endorse those brands or offers directly from their mobile application, Calyp (pronounced "klip"), and subsequently share their endorsement within their social circles. Endorsers can choose to post their endorsement on their personal social media sites, such as Facebook, LinkedIn and Twitter, or send an SMS/text message directly to someone in their mobile contact list. In essence, each endorser becomes a micro-publisher for their content a syndication approach that is dramatically different from the broadcast or interrupt-marketing nature of traditional advertising models. Each advertiser establishes a campaign budget, and as endorsers share the advertiser content, the advertiser account is reduced based on a rate schedule. Endorsers in turn earn cash, which is loaded on a personal reloadable branded Visa Debit card semi-monthly. In addition to cash incentive rewards, advertisers introduce exclusive VIP Perks, which can be graduated based on the endorser's status level (Preferred, Gold, Platinum or Elite). Our business model is based on the spread between the performance-based fees paid by the advertiser and the incentives paid to the endorser. We may also earn redemption incentives from advertisers when a purchase is made via an endorsement. An example of this would be a record label advertising an artist's new CD with a "Buy Now" link to Apple's iTunes or Amazon.com.

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

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

The Blue Calypso platform is comprised of two primary components. The Blue Calypso Network, or back-end, includes the data warehouse of ad and related content, the ad rendering engine, endorser portal, brand portal, agency portal, administrative portal, and web services and communications clusters responsible for receipt and transmission of data and content. The second component is the mobile platform, installed on endorser smartphone devices or accessed via an endorser web portal, www.calyp.com, and called Calyp (pronounced "klip"). The Calyp mobile application and website are the portals for endorsers to enter the community, initiate endorsements and interact with other endorsers. Endorsers can modify their interest categories to filter advertisements and track any rewards programs and other contests. Together, the Blue Calypso Network and Calyp mobile and web portal applications form our system and create smooth interaction and data flow between the endorser community, brand advertisers, and us. Our system is in its third generation (launched mid-March 2012), and we plan to release updated versions of all components of the system in the future as we integrate to more social media communities and add additional advertiser and endorser features.

Market Opportunity

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

According to Cellular Telecommunications Industry Association (CTIA), in June 2011, there were 322.9 million mobile subscribers in the United States, representing 102.4% of the United States population. The Cellular Telecommunications Industry Association reports that in June 2011 there were 278.3 million data-capable devices, including 95.8 million smart phones or wireless-enabled personal digital assistants and 15.21 million wireless-enabled laptops, notebooks, tablets or wireless broadband modems in the hands of consumers in the U.S. We believe that we are just at the beginning of a new wireless era where smart phones will become the standard device consumers use to connect to friends, the Internet and the world at large.

A recent MarketingSherpa Social Marketing Benchmark survey, published in the February 2012 edition of CFO Magazine indicates that social media advertising will increase for 65% of the survey respondents, while decreasing for only 2% of the respondents. Forrester Research, Inc. forecasts mobile marketing to grow at a compound annual growth rate of 38%, reaching \$8.2 billion in 2016. Mobile marketing is forecast to be the fastest growing interactive marketing segment.

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

Wireless operators are only now beginning to explore ways to introduce mobile advertising to their customers. We believe this is in part because they have a trusted relationship with their customers that they do not want to be seen as violating. We therefore believe that wireless operators will prefer to deliver marketing messages that are relevant to individual recipients, so that such marketing messages will not be perceived as spam. Carriers and brands are trying a variety of approaches to figure out what works best in the space, and innovation has been a key driver of growth. Recent telecommunications and application development efforts have focused on improving network data speeds and capacity, creating more usable interfaces for mobile devices, significantly expanding the range of usable content types and exploiting the unique attributes of mobile (e.g. location-based services). Interesting developments on the horizon for advertisers include interactive video advertising (introduced last year by AdMob) and making greater use of smart phone features such as the accelerometer and camera, for augmented reality ads, providing additional media formats for use within our platform.

We believe that one of the most attractive characteristics of mobile consumers for advertisers is the opportunity for more accurate content targeting. Typical parameters include carrier, device type and mobile channel, with the possibility to add geo-location, behavioral, demographic and interest-based information (the latter two generally require user opt in) infused with user purchase history. We believe that peer-to-peer or friend-to-friend advertising (also known as word-of-mouth advertising) is the most powerful and effective form of advertising.

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

Marketing

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

We are executing and plan to continue to pursue marketing efforts with national and global brand advertisers as well as endorsers across North America, through which we support existing advertisers and seek to attract new advertisers and endorsers. We believe that this multi-tiered approach creates additional brand loyalty through community involvement. We seek new advertisers through traditional direct ad sales techniques via a sales and business development force. We currently have sales representation in Dallas and New York. Assuming the model is successful, we anticipate that additional sales personnel will be deployed in major metropolitan markets in the U.S. in the future as financial resources permit. In addition, we are conducting marketing initiatives

designed to create brand awareness and generate demand, both in addition to, and in order to lend support to, our sales force. These initiatives are happening in local and national markets and include advertising in advertising industry trade publications, participation in trade shows and direct mail and telemarketing efforts. We have proposals with a number of advertising agencies to both resell our services to their clients and provide lead generation for our direct sales efforts. In addition, our model is to utilize the Blue Calypso platform as an advertiser would to create awareness, branding and demand through the social circles of our endorser community. We also participate in affiliate programs offered by Amazon, LinkShare and Commission Junction. While not revenue generating at this time, these programs make available advertising content for a large number of advertisers, which we in turn make available to our endorsers. While it is not our goal to participate in these programs in the long-term, we believe they are a good way to attract endorsers, gain visibility and demonstrate the potential of our services to new advertisers

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

Advertisers

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

In order to maintain advertising activity on the Blue Calypso platform, we pick up advertising campaigns for various advertisers who are not customers through our participation in affiliate programs through Amazon, LinkShare and Commission Junction. We have agreements directly with these three companies, not with the advertisers they represent. Neither we nor our advertisers are obligated to pick up any advertisements through these affiliate programs.

Endorsers

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

When they sign up with us, endorsers agree to a set of written terms and conditions. These terms and conditions cover the general terms of our rewards programs and include a code of conduct aimed at curtailing potentially offensive, deceptive or otherwise harmful communications in connection with endorsements. We have the right to terminate an endorser's account due to inappropriate content, if an account is inactive for six months, or for a violation of our terms and conditions, which closure would result in the endorser's loss of any earned but unused rewards or

perks. There are no other penalties or fees endorsers may face for discontinuing their participation with our platform. Endorsers receive rewards and other benefits only to the extent that they provide endorsements for our advertisers.

Technology to Capture Data

Our platform allows the collection of business intelligence and analytics resulting from data accumulated as content is shared and consumed. Endorsers provide demographic data such as interests, age, income bracket, geographic region, historical usage patterns and hobbies, which is available to advertisers in targeting their campaigns. We do not share data, including any personally identifying information, at an individual endorser level. Our technology then allows the advertiser to monitor the full cycle of an advertising campaign from the first subscriber to the final redemption or intent to purchase. Given this data, we show each advertiser the return on investment (ROI) of each dollar spent on an advertising campaign, which allows us to prove the effectiveness of the

platform in near real time, allows advertisers to test-market different campaigns and offers based on attributes such as income level, geography, store location, age group or other compelling criteria taken in combination, and helps advertisers quickly improve their campaign effectiveness.

Intellectual Property

We believe we have advantages over competitors in the mobile advertising industry due to the intellectual property we possess and have on file with the United States Patent and Trademark Office. In February 2010, we received United States Patent number 7,664,516. With the payment of all maintenance fees, this patent will not expire until December 14, 2026. We believe that the patent covers the core of our business, *i.e.*, a basic method and system for peer-to-peer advertising between mobile communication devices. On April 10, 2012 we received our second United States Patent, number 8,155,679 which expires contemporaneously with our first patent on December 14, 2026 subject to payment of maintenance fees. This second issued patent builds on and extends the invention of our first patent as a Continuation-In-Part (CIP). We also have two more continuation-in-part (CIP) patent applications pending which build on the functionality of our issued patents.

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 subscribers 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. Endorser smartphone support is available for Apple iPhone and Google Android devices, with eventual development plans to support Microsoft Windows Mobile and a touch mobile/HTML5 web application that will be capable of operating on most popular smartphones with browser capabilities.

We own four registered trademarks in the United States and one pending trademark application that have been allowed by the United States Patent and Trademark Office to be registered. We also have a recently filed trademark that is pending processing by the United States Patent and Trademark Office. 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. We believe that our common law trademark rights will continue as long as the marks are used in commerce.

Back Office Support

Aztec Systems, Inc. provides administrative and technical support services to us. The majority owner of Aztec Systems, Inc. is Andrew Levi, our chairman and chief executive officer. Aztec Systems, Inc., along with its experienced software developers and infrastructure engineers, has and will continue to support us. Aztec Systems, Inc. owns and manages an SAS70-II certified data center that has delivered high-availability secure managed services and hosting to its customers for over ten years.

Outsourced Processes

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

Research and Development Activities

During the fiscal years 2010 and 2011, we spent \$452,516 and \$495,637 on research and development activities, respectively.

Financing

We are in the process of raising additional capital to meet our minimum projected expenditures over the next 12 months. We intend to keep our operating costs to a minimum until adequate cash is available from operating activities and/or additional financing(s). We can provide no assurances that adequate financing can be obtained or, if obtained, on terms favorable to us. If we are unable to generate profits or unable to obtain additional funds to meet our working capital needs, we may need to cease or curtail our business operations. Further, there is no assurance that the net proceeds from any successful financing arrangement will be

sufficient to cover our cash requirements during the initial stages of our business development. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

Employees

As of March 30, 2012, we employed 10 full time staff members. We have no labor union contracts and believe relations with our staff members are satisfactory.

Competition

We face formidable competition in every aspect of our business, particularly from other companies that seek to connect social communities via mobile technologies and provide them with relevant advertising and brand content. First and foremost, we consider ourselves a next generation brand loyalty and rewards platform, so we believe our primary competitors are companies that embrace true brand loyalty, not just providers of discounted transactions. Currently, we consider our primary competitors to be MyLikes, Zuberance, WeReward (IZEA), and BzzAgent (recently acquired by Dunnhumby). Each of these companies is different in terms of size, market share and other unique attributes of their offering, but all but BzzAgent are early stage and, all but IZEA are privately held, so very little detailed information is available about them. We also indirectly compete for retail advertising dollars with the deal-of-the-day platforms such as Groupon and Living Social. We believe that our approach to the market, value proposition to both the advertiser and endorser communities, use of cash incentives, and our strong intellectual property are clear differentiators in a nascent yet quickly evolving industry for social mobile word-of-mouth advertising and marketing.

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

We compete to attract and retain relationships with endorsers and advertisers. The bases on which we compete differ among the groups.

- *Endorsers.* We compete to attract and retain endorsers of our advertisers' products and services. We provide our endorsers with cash and other brand loyalty-based incentives but we compete with other social networking environments for the attention and mind share of the endorsers. We believe that our unique value proposition to endorsers is the opportunity to earn meaningful cash incentives and exclusive VIP perks, as well as the quality of our platform.

- *Advertisers.* We compete to attract and retain advertisers. We compete in this area principally on the basis of the return on investment realized by advertisers using our mobile advertising platform. We also compete based on the quality of customer service, features and ease of use of our platform. We believe that our unique value proposition to advertisers is the speed and method of our ad delivery system; the quality of our analytics and business intelligence available in near real-time, and the ability to target recipients and content so specifically.

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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 and rapidly change space.

Government Regulation

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

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

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

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

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

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

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

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to incur substantial costs or require us to change our business practices in a manner adverse to our business.

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

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

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

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

Various federal laws, such as the Bank Secrecy Act and the USA PATRIOT Act, impose certain anti-money laundering requirements on companies that are financial institutions. These laws are designed to prevent the U.S. financial system from being used to launder money generated from illegal conduct, such as illegal drug smuggling, as well as terrorist financing. For these purposes, financial institutions is broadly defined and includes providers of prepaid access and sellers of prepaid access such as prepaid cards like our Visa debit cards. Examples of anti-money laundering requirements imposed on financial institutions include customer identification and verification programs, record retention policies and procedures, transaction monitoring and reporting, and reporting suspicious activities to law enforcement. The Financial Crimes Enforcement Network (FinCEN), a division of the U.S. Treasury Department tasked with implementing the requirements of the Bank Secrecy Act and the USA PATRIOT Act, published a final rule on July 29, 2011 setting forth the scope and requirements for certain parties involved in prepaid cards, but also extended the date for compliance with most aspects of the final rule until March 31, 2012. We have commenced discussions with the entities that assist us in issuing our reloadable branded Visa debit cards to our endorser and believe we will be able to amend our agreements with these parties prior to the March 31, 2012 effective date to, among other things, establish that these third parties (rather than us) are the providers of prepaid access under the FinCEN final rule, which will subject them (rather than us) to the Bank Secrecy Act program compliance requirements discussed above and require them (rather than us) to register with FinCEN as a money services business. Our agreements with our vendors also include other terms that we believe protect us from being deemed a seller of prepaid access, for example, they are limited to \$5,000 in transactions per person and per day and the program requires that complete cardholder information be provided for each card issued at the time of issuance, including name, address, home phone number (if available), date of birth and social security number.

Accordingly, the Company is not a provider or seller of prepaid access subject to these Bank Secrecy Act and USA Patriot Act laws and regulations based on our agreement with our vendor and our role with respect to the distribution of the cards to customers.

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

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

The CAN-SPAM Act's main provisions include:

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

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

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

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

We, our endorsers and our advertisers may all be subject to various provisions of the CAN-SPAM Act. If we are found to be subject to the CAN-SPAM Act, we may be required to change one or more aspects of the way we operate our business.

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

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

ITEM 1A. RISK FACTORS.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We owned no properties and had no property leases at December 31, 2011. We currently have one sub-lease for office space at our current location.

ITEM 3. LEGAL PROCEEDINGS.

We are not the subject of any pending legal proceedings; and to the knowledge of management, no proceedings are presently contemplated against us by any federal, state or local governmental agency.

There may be entities that are infringing Blue Calypso's patents. As such, we have retained the legal services of Fish & Richardson and Dickstein Shapiro. There are no formal actions that have occurred as of the date of this report.

Further, to the knowledge of management, no director or executive officer is party to any action in which any has an interest adverse to us.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

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

Our common stock was originally approved for quotation on the OTC Bulletin Board on July 13, 2010 and since August 8, 2011, our common stock has been quoted under the trading symbol BCYP.OB. Our common stock does not trade regularly. The following table sets forth the high and low bid prices for our common stock for the periods indicated, as reported by the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

| | High | Low |
|---|-------------|------------|
| Fiscal Year 2011 | | |
| Third Quarter (commencing September 14, 2011) | \$ 3.00 | \$ 3.00 |
| Fourth Quarter | \$ 1.10 | \$ 1.01 |
| Fiscal Year 2012 | | |
| First Quarter (through March 30, 2012) | \$ 1.05 | \$ 1.00 |

The last reported sales price of our common stock on the OTC Bulletin Board on March 30, 2012, was \$1.01 per share. As of March 30, 2012, there were approximately 22 holders of record of our common stock.

As of December 31, 2011, there were 2,420,000 options to purchase shares of common stock outstanding, of which 302,500 were vested. Each of the outstanding options to purchase shares of common stock has an exercise price of \$0.0679 per share. As of December 31, 2011, there were also 1,790,734 shares of unvested restricted common stock outstanding, 22,091,310 shares of common stock issuable upon the exercise of currently outstanding shares of Series A Convertible Preferred Stock, and 22,091,311 shares of common stock issuable upon the exercise of currently outstanding warrants with an exercise price of \$0.10 per share.

As of March 30, 2012, there were 24,974,700 shares of freely tradable common stock unless such shares are purchased by our affiliates, as defined in Rule 144 under the Securities Act of 1933, as amended. The remaining 101,870,941 shares outstanding are restricted, which means they were originally sold in offerings, or issued as merger consideration, that were not subject to a registration statement filed with the Securities and Exchange Commission. These restricted shares may be resold only through registration under the Securities Act of 1933, as amended, or under an available exemption from registration, such as provided through Rule 144.

Dividends

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

Securities Authorized for Issuance Under Equity Compensation Plans

The stockholders approved the Blue Calypso, Inc. 2011 Long-Term Incentive Plan (the Plan) on September 9, 2011. The Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards which may be granted singly, in combination, or in tandem, and which may be paid in cash or shares of common stock. Subject to certain adjustments, the maximum number of shares of common stock that may be delivered pursuant to awards under the Plan is 35,000,000 shares. See Item 11. Executive Compensation 2011 Long-Term Incentive Plan for further detail regarding the Plan.

Stock Options

During 2011, we granted options to purchase 2,420,000 shares of our common stock to non-employee board members and other consultants under the Plan. Generally, the options vest pro rata quarterly over two years.