

**Transcript of
Blue Calypso
Fourth Quarter 2014 Earnings Conference Call
March 17, 2015**

Participants

Chris Fameree – CFO, Blue Calypso
Andrew Levi – CEO, Calypso Blue

Analysts

Andrew D'Silva – Merriman Capital

Presentation

Operator

Greetings, and welcome to the Blue Calypso Full Year 2014 Conference call. At this time all participants are in a listen-only mode. (Operator Instructions) As a reminder, this conference is being recorded.

On this call, Andrew Levi, CEO and Chris Fameree, CFO of Blue Calypso will provide updates on the company's progress and results for the year with a question and answer session to follow. At this time, I would like to introduce Chris Fameree, CFO of Blue Calypso. Please go ahead.

Chris Fameree – CFO, Blue Calypso

Thank you. We are pleased to report our results for 2014. We have made good progress this year in terms of building our revenue, gross margin and have made significant product enhancements that we believe will make our products even stronger going forward.

Revenue for 2014 was \$759,889. That revenue was \$417,917 or 122% higher than 2013. The 2013 revenue included \$245,981 in settlement fees and associated licensing revenue. Excluding this impact, our operating revenue actually increased 692% as compared to 2013.

In conjunction with our increased sales, we have also experienced record gross margins. Our gross margin for 2014 were \$347,664, which is a 75% increase over the prior year. Again, that number was \$347,664. Operating expense increased \$1,103,172.00 or approximately 19% as compared to 2013. However, when excluding the impact of approximately \$1.6 million in additional one-time expense associated with the resignation of our former CEO, we actually decreased operating expense by approximately \$488,000 or 8% as compared to 2013.

Pursuant to his employment agreement, the company had incurred \$150,000 in future expense associated with the agreed upon cash compensation for our former CEO; and \$1.4 million of costs in accelerated stock compensation expense related to previous restricted stock and stock option grants.

In Q4, we've made great progress in further improving our balance sheet. In December, all of the outstanding convertible debentures were converted to common stock, eliminating all of the company's debt. In addition, as of today, all preferred shares have been converted to common shares and there's only one shareholder with warrant outstanding, which convert at \$0.10 per warrant. If unexercised, these warrants will expire at the end of August 2016.

As of December 31st, the company had approximately \$1.1 million cash on hand with approximately the same amount of working capital, \$1,058,727.00. We continue to believe we will be cash flow breakeven by the end of 2015.

Andrew Levi, our CEO, will now provide an update on the general business, technology, and the status of patent-related matters. Andrew.

Andrew Levi – CEO, Calypso Blue

Thanks, Chris. Since my taking the helm on January 1st of this year, the entire company has been very hard at work on several initiatives. First, we refined our target market to focus on brick and mortar retailers. Secondly, we've expanded our technology platform by enhancing Mobile ADvantage to include iBeacon, NFC, geo-fencing activation methods, and we're very close to launching our new universal shopper mobile app for Apple IOS and Android platforms. Third, we refined our message and value proposition to focus on the mobile shopper engagement lifecycle, which is very rich with opportunity. Fourth, in conjunction with our partner IntegraColor we recently launched an aggressive marketing program, which is starting to produce meetings and presentations of our technology with retailers and product manufacturers.

In support of these initiatives, we completely reworked all of our publicly facing messaging, including prospect pursuit materials in the website. We believe that brick and mortar retailers are on the cusp of a revolutionary transition. According to recent studies conducted by Consumer Electronics Association, more than half of retail shoppers rely on mobile technologies to guide their purchase decisions. Mobile shopper engagement is early in this adoption, is incredibly opportunistic for Blue Calypso with our proven and patented technology platform. Mobile shopper engagement requires equal participation from product manufacturers, retailers and shoppers alike. Most shoppers today walk into the front door of a store armed with their smartphone. Many shoppers are immersed in text conversation or even web browsing. These location-aware devices have the ability to become a mobile concierge or kiosk for shoppers by delivering geographically, circumstantially and personally relevant content at the perfect moment in time when a shopper is actively on the path to purchase.

Our technology can welcome store visitors, help them locate products, suggest companion products; provide product reviews; offer coupons, discounts and incentives; perform product price comparisons; encourage social media sharing and integrate with retailer loyalty programs. Our technology delivers a self-service shopping experience for any brick and mortar retailer as they welcome store visitors.

Today, many retailers are exploring mobile shopping engagement solutions, which fall into one of three categories: an [indiscernible] experience, generally activated when the shopper is invited to text a short code to a number which drives the shopper to the retailer's web-based microsite. This is what our Mobile ADvantage system delivers today.

A universal shopper app, this is the second category, which is what our new KIOSentrix app delivers. Universal shopping apps are like digital chameleons, which [indiscernible] the personality of a retailer once a shopper enters the store. Therefore, the shopper doesn't have to download an app for every retailer they shop at, which our research is proving that they really do not want to do. KIOSentrix includes compelling shopper features such as loyalty program aggregation, price comparison, wish and shopping list management, and QR code scanning. Although we're not fans of QR code, but there's still quite a bit of it out there in the market, so we want to support it, in addition to our support for new emerging technologies such as NFC and iBeacon enablement.

The third method of shopper enablement is the path that many retailers are on right now, which is to build and deploy and support their own mobile app. This is an expensive endeavor, which has proven for most retailers to fall short of their expectations in terms of adoption and use. As stated before, consumers do not want a mobile

app for every retailer. However, if a prospect is convinced that this is the right path for them, our Blue Calypso Labs team is extremely experienced in building world-class mobile experiences.

Our Blue Calypso Labs team, speaking of, has done a really fantastic job of delivering custom software solutions to our clients with the goal of aligning our core business with our target market through innovation. We expect our growth and success at Blue Calypso Labs to continue through 2015 as the foundation for engaging with our clients and delivering unique mobile shopper engagement solutions.

Let's now move on to an overview of our patents and infringement litigation. Today, we have been issued five US patents by the US Patent & Trademark Office with 11 patent applications pending. Due to the Covered Business Method Patent Review, also known as the CBMR process instituted by the Patent Trials & Appeals Board, also known as the PTAB, we only lost one of those patents. This was a huge win for us.

In December of 2014, the PTAB ruled on the 5 instituted CBMR cases by Groupon and 28 of our claims across four patents were affirmed as valid, which under the circumstances we believe to be a great outcome for us. In spite of the PTAB outcome, we filed appeals with the federal circuit on our PTAB proceeding earlier this month where we will work vigorously to get those lost claims back.

When we entered the CBMR process in December of 2013, we agreed to join Groupon, Foursquare, YELP and IZEA in a stay of our litigation proceedings in the Eastern District of Texas. The stay was subject to the mutual agreement that if any of our patent claims survived the PTAB process, that we would all resume litigation process under an accelerated timeline back in the Eastern District.

As previously stated, we emerged from the CBMR proceedings with 28 claimed and petitioned the Eastern District of Texas to lift the stay after the defendants refused to follow through with their commitments to do so. We're currently awaiting the judge's rulings on this matter. Incidentally, it was announced in January that our previously assigned judge, Judge Snyder, would retire, and our case, with a hundred others, was transferred to Judge Gilstrap. We hope to get Judge Gilstrap's ruling on lifting of the stay soon, but there's no mandate for timeline.

Our financial models for our core business and BC Labs show us reaching breakeven from an adjusted EBITDA perspective by the end of this year. This is obviously dependent upon our ability to hunt and close business in a very large potential market. Our pipeline is growing rapidly and our marketing program has really just started to hit stride. We feel that 2015 is going to be a breakout year for the company and I want to take this opportunity to thank you for your support, confidence and trust in Blue Calypso, the shareholder.

I'd like to turn it back over to the operator to begin the Q&A session.

Operator

Thank you. Our first question comes from the line of Andrew D'Silva with Merriman Capital.

<Q>

Hey, Andrew. Thanks for taking my call. Just a few operational questions. I think I'm pretty up to speed on what's going on in the courts right now. Can you explain, first off, what revenues were comprised of for the fourth quarter? Then is there anything that would make Q3 seasonally a really strong period for you or is it just you're still growing and it's very lumpy?

Andrew Levi – CEO, Calypso Blue

Well, I appreciate the question. Thanks for calling in.

We're still really, in essence, a startup company. This is a nascent space. We've added some additional technology features, and so I would say that really what we've done here over the last couple of months, and I know you've asked about last year's revenue constituency, and I'll get to that, but what we've really done here over the last call it 90 days is narrow our go-to-market focus to focus very succinctly on brick and mortar, multi-location retailers while we added some additional technology capabilities in our mobile shopper engagement. Now, the core of what we do is something that we've been developing, improving and building on for a couple years, but we're still in the process of gaining attraction and customer adoption.

So, to your question, though, about Q3 and Q4 revenues, there are some core business licensing revenues in those numbers, but it remains predominantly Blue Calypso Labs. The Labs team and the Labs' mission is really about delivering unique solutions tailored to our target market being retailers and bringing some of our unique intellectual property along to create a solution that is tailored for each individual company.

So, we've got two lines of business and the consulting strategy work-for-hire that we do in Blue Calypso Labs, because it's not really a recurring revenue model, is going to be lumpy. I think that's what you're seeing and what you're asking about. So, long answer to a short question, I apologize for that, but hopefully I got there.

<Q>

No, that's fine. Is it fair to assume that the utilization of a lot of your employees in Blue Calypso Labs was just really pushed towards developing the KIOSentrix product during the quarter as well? I mean, you only have X amount of staff and I know Blue Calypso Labs is the high utilization aspect of the business where they spend a lot of time in the brick and mortar aspect of things, but did they spend a lot of time developing the new mobile applications that you're trying to push in 2015?

Andrew Levi – CEO, Calypso Blue

Yes. So we put our head down about early- to mid-Q4 to facilitate the expansion of our technical capabilities to attack this mobile shopper engagement market, particularly adding some features and functionality to Mobile ADvantage and then, as you mentioned, building KIOSentrix. So, yes, that is definitely where a lot of the smart guys' brain cycles have been spent in the last quarter.

<Q>

I think that's a valuable addition, especially with targeting the brick and mortar retailers.

With that brick and mortar, staying on that theme, we've discussed pipeline before. Can you give us a sense of the magnitude of that? What kind of stores are in there – retailers with maybe 500 storefronts nationwide or 1000 storefronts nationwide? I mean, would you qualify these all as national large retailers? I know IntegraColor has been really funneling you guys some good opportunities. If you could give us a little color on that.

Andrew Levi – CEO, Calypso Blue

Yes, you bet. Our relationship with IntegraColor is just exceeding expectations. Those guys are the perfect partner, because they really don't have, while they deliver some digital innovation and technology solutions, they're really a printing company when it gets right down to it, focused on retailers, predominantly brick and mortar. So, perfect partner, lots of synergies, and they're definitely getting us a lot of at-bats that absent a relationship like that, it would really take a tremendous amount of effort and money, just the mushier marketing spend that we're able to forgo because that relationship is huge. So, they've got about 3,000 customers. They're coast to coast, and some of them are very large brick and mortar retailers, which we've been in front of and we're in hot pursuit of, which constitutes several thousand stores across the country. We have a couple of those, several thousand store pursuits that are hot and active, and some of them are small, quick-serve restaurants.

So if you think about retail, retail spans a wide swath of different types of vertical industry. You have quick serve and fast serve restaurants, fast casual. You have boutique retailers, you have big box retailers in home improvement and everything in between. So the commonality about every single one of those vertical retailers is that there's really three entities at work. You have the retailer itself, but on both ends you have a product manufacturer for a restaurant; they manufacturer their own product or resell other products like beer and wine and beverages and so on, but then you've got the consumer. And all three of those different entities have to kind of live harmoniously together to create the right opportunity for a mobile shopper engagement experience to have the effect in this paradigm shift that we see happening right before our eyes, although it's very early.

But to bring it back to the question of pipeline, our pipeline is growing daily as a result of the marketing efforts that we're co-marketing under the IntegraColor brand to all of their clients through their team, as well as we have direct-to-brand initiatives as well as some other partners that are bringing us into opportunities.

<Q>

Could you maybe give us a little sense of what a 500 store or a 1000 store retailer, if they adopt Mobile ADvantage or KIOSentrix, what kind of impact that could have to the P&L over a one year period, so we get a little color on that?

Andrew Levi – CEO, Calypso Blue

The way that the economics work on our platform is the business for Mobile ADvantage and KIOSentrix is price per location, and there's tiered pricing. The more locations you have, there's some financial incentives for larger quantities of locations versus smaller, but suffice it to say that per location you could be talking about \$100-\$150 a month in recurring revenue per location. You can plug in the number of locations and do the math on it yourself.

The economics, in other words, the margins on this business are very interesting, very healthy; they're north of 50%.

<Q>

Oh, good. Last question and then I'll turn it over to others. When you made the adjusted EBITDA comment, I'm assuming Mobile ADvantage and KIOSentrix are going to comprise a large portion of that assumption in the second half of this year. Or are you still just expecting it to be BC Labs for this year?

Andrew Levi – CEO, Calypso Blue

No, our models, I'm going to say in general terms by the end of the year we expect approximately a 50/50 split in revenue between Mobile ADvantage and KIOSentrix delivery versus BC Labs. And the BC Labs pipeline, right now we're in pursuit of high probability prospects for BC Labs that would already dwarf the BC Labs revenue we did last year.

Now, we have to get through the process of hunting it, proposing it and closing it, but that pipeline is very rich with opportunities even before the end of Q1. So, we have three more quarters to stir up more BC Labs work and there's no doubt in my mind that that's going to happen. So, we're working hard to grow the core business in parallel and use the BC Labs work that we're doing, both through IntegraColor and other partners, to put us in play to get the at-bats that we want for the other—

<Q>

Got it. Good. Thanks a lot. A lot of good color there. Good luck this year as well, Andrew.

Andrew Levi – CEO, Calypso Blue

Thanks, Andy, I appreciate it.

Operator

Ladies and gentlemen, we have no further questions at this time. I would like to turn the floor back over to management for closing remarks.

Andrew Levi – CEO, Calypso Blue

Well, I just want to take this opportunity again to thank each and every one of your guys for believing in the Blue Calypso mission. We think we really have something special here. I'm super excited about the new messaging, the deal flow is really cranking up, and I think that we really, in the last 90 days, have done amazing work to put ourselves in a position of differentiation. We really needed to get ourselves back out in front of the masses and I really believe that we've done that. Now we have a road to hoe here just to go get after it and find opportunities and present our unique technology out to the brick and mortar retailers of the world and close business and grow revenue and chase breakeven status and build a great company together.

So, again, thank you very much for your support. Rest assured, the team's really busting their butt behind the scenes to do great things here. Chris, do you have anything else?

Chris Fameree – CFO, Blue Calypso

No, I think that's a great summary, Andrew.

Andrew Levi – CEO, Calypso Blue

Great. Alright, thank you very much, everybody.

Operator

Thank you, ladies and gentlemen, this does conclude our teleconference for today. You may now disconnect your lines at this time. Thank you for your participation and have a wonderful day.