

BLUE CALYPSO, INC.  
Form 10-Q  
November 16, 2015

---

---

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

\_\_\_\_\_  
FORM 10-Q  
\_\_\_\_\_

(Mark One)

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

For the Quarterly Period Ended September 30, 2015

or

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-53981

BLUE CALYPSO, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

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

101 W Renner Rd, Suite 280  
Richardson, Texas 75082  
(Address of principal executive offices) (Zip Code)

(800) 378-2297  
(Registrant's telephone number, including area code)

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

Edgar Filing: BLUE CALYPSO, INC. - Form 10-Q

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 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 checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

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

As of November 16, 2015, there were 5,504,999 shares of registrant’s common stock outstanding.

---

Table of Contents

BLUE CALYPSO, INC.

TABLE OF CONTENTS

PART FINANCIAL INFORMATION

I.

ITEM 1.	<u>Financial Statements</u>	
	<u>Condensed consolidated balance sheets as of September 30, 2015 (unaudited) and December 31, 2014</u>	3
	<u>Condensed consolidated statements of operations for the three and nine months ended September 30, 2015 and 2014 (unaudited)</u>	4
	<u>Condensed consolidated statement of stockholders' equity for the nine months ended September 30, 2015 (unaudited)</u>	5
	<u>Condensed consolidated statements of cash flows for the nine months ended September 30, 2015 and 2014 (unaudited)</u>	6
	<u>Notes to condensed consolidated financial statements (unaudited)</u>	7-16
ITEM 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17-23
ITEM 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	24
ITEM 4.	<u>Controls and Procedures</u>	24

PART OTHER INFORMATION

II.

ITEM 1.	<u>Legal Proceedings</u>	25-26
ITEM 1A.	<u>Risk Factors</u>	26
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
ITEM 3.	<u>Defaults Upon Senior Securities</u>	26
ITEM 4.	<u>Mine Safety Disclosures</u>	26
ITEM 5.	<u>Other Information</u>	26
ITEM 6.	<u>Exhibits</u>	26-29
	<u>SIGNATURES</u>	30



Table of Contents

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

BLUE CALYPSO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,682,010	\$ 1,103,201
Accounts receivable	181,534	167,396
Prepaid expenses and other	49,349	50,356
Total current assets	1,912,893	1,320,953
Property and equipment, net	8,600	6,315
Other assets:		
Accounts receivable, non-current portion	95,253	-
Capitalized software development costs, net of accumulated amortization of \$1,248,807 and \$986,502 as of September 30, 2015 and December 31, 2014, respectively	789,145	794,551
Total assets	\$ 2,805,891	\$ 2,121,819
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 318,049	\$ 24,600
Accrued expenses	50,713	236,526
Settlement payable, short term portion	95,253	-
Deferred revenue	100,000	1,100
Convertible note payable, net of debt discount of \$341,112 and \$-0-, respectively	208,888	-
Deferred rent, short term portion	1,861	-
Derivative liability	114,194	-
Total current liabilities	888,958	262,226
Long term debt:		
Settlement payable, long term	95,253	-
Deferred rent, long term portion	1,817	-
Total liabilities	986,028	262,226
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; -0- and 161,827 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	-	16
	544	490

Edgar Filing: BLUE CALYPSO, INC. - Form 10-Q

Common stock, \$0.0001 par value; 680,000,000 shares authorized, 5,439,999 and 4,902,639 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively

Additional paid in capital	36,084,186	34,026,321
Accumulated deficit	(34,264,867)	(32,167,234)
Total stockholders' equity	1,819,863	1,859,593
Total liabilities and stockholders' equity	\$ 2,805,891	\$ 2,121,819

See the accompanying notes to these unaudited condensed consolidated financial statements

Table of Contents

## BLUE CALYPSO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three months ended		Nine months ended September	
	September 30,		30,	
	2015	2014	2015	2014
REVENUE	\$ 508,391	\$ 310,360	\$ 733,605	\$ 596,607
Cost of revenue	442,268	186,953	542,045	331,746
Gross profit	66,123	123,407	191,560	264,861
<b>OPERATING EXPENSES:</b>				
Sales and marketing	108,966	111,313	263,221	419,779
General and administrative	463,969	1,131,804	1,565,594	3,383,054
Depreciation and amortization	93,751	86,904	266,526	255,095
Total operating expenses	666,686	1,330,021	2,095,341	4,057,928
Loss from operations	(600,563 )	(1,206,614 )	(1,903,781 )	(3,793,067 )
<b>Other income (expense):</b>				
Change in fair value of derivative liabilities	188,093	-	188,093	2,030
Terminated offering costs	(283,387 )	-	(283,387 )	-
Interest expense	(97,085 )	(77,802 )	(98,558 )	(691,992 )
Total other expense	(192,379 )	(77,802 )	(193,852 )	(689,962 )
NET LOSS	\$(792,942 )	\$(1,284,416 )	\$(2,097,633 )	\$(4,483,029 )
Net loss per common share, basic and diluted	\$(0.16 )	\$(0.30 )	\$(0.42 )	\$(1.07 )
Weighted average common shares outstanding, basic and diluted	5,039,236	4,342,430	4,981,171	4,186,452

See the accompanying notes to these unaudited condensed consolidated financial statements

Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
 NINE MONTHS ENDED SEPTEMBER 30, 2015  
 (unaudited)

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid in Capital	Deficit	Stockholders' Equity
Balance, January 1, 2015	161,827	\$ 16	4,902,639	\$ 490	\$ 34,026,321	\$ (32,167,234)	\$ 1,859,593
Conversion of preferred shares to common shares	(161,827)	(16 )	47,646	5	11	-	-
Sale of common stock and warrants at \$4.25 per share, net of issuance costs of \$156,637	-	-	417,500	42	1,617,696	-	1,617,738
Shares issued for services rendered	-	-	28,594	3	177,339	-	177,342
Stock based compensation	-	-	43,620	4	262,819	-	262,823
Net loss	-	-	-	-	-	(2,097,633 )	(2,097,633)
Balance, September 30, 2015	-	\$ -	5,439,999	\$ 544	\$ 36,084,186	\$ (34,264,867)	\$ 1,819,863

See the accompanying notes to these unaudited condensed consolidated financial statements



Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

	Nine months ended September	
	30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(2,097,633 )	\$(4,483,029 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	266,526	255,095
Bad debt expense	19,141	-
Amortization of debt discounts	96,053	188,352
Interest from warrant modification	-	460,949
Change in fair value of derivative liabilities	(188,093 )	(2,030 )
Stock based compensation	262,823	1,729,008
Common stock issued for services rendered	177,342	150,000
Changes in operating assets and liabilities:		
Accounts receivable	(128,532 )	(200,172 )
Prepaid expenses and other current assets	1,007	(17,391 )
Accounts payable	293,449	(114,942 )
Accrued expenses	(185,813 )	60,807
Settlement payable	190,506	-
Deferred revenue	98,900	1,100
Deferred rent	3,678	-
Net cash used in operating activities	(1,190,646 )	(1,972,253 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(6,507 )	(1,180 )
Software development costs	(256,899 )	(93,953 )
Net cash used in investing activities	(263,406 )	(95,133 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from sale of common stock and warrants	1,617,738	1,330,000
Proceeds from issuance of convertible note, net of issuance costs	415,123	-
Proceeds from exercise of options	-	21,728
Proceeds from exercise of warrants	-	1,024,558
Net cash provided by financing activities	2,032,861	2,376,286
Net increase in cash	578,809	308,900
Cash at beginning of period	1,103,201	1,294,882
Cash at end of period	\$1,682,010	\$1,603,782
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$2,505	\$27,500
Cash paid for income taxes	\$-	\$-
Non-cash investing and financing activities:		

Edgar Filing: BLUE CALYPSO, INC. - Form 10-Q

Debt discount for fair value of conversion feature issued in connection with debt	\$302,287	\$-
---	-----------	-----

See the accompanying notes to these unaudited condensed consolidated financial statements

Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015  
(unaudited)

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Blue Calypso, Inc., a Delaware corporation (the "Company"), is engaged in the development, sales, delivery, licensing and enforcement of technology and intellectual property focused on mobile shopper engagement and digital word-of-mouth marketing and advertising. In January 2014, the Company transitioned from a development stage enterprise to an operating company.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for annual financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the condensed consolidated financial statements of the Company as of September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the operating results for the full year ending December 31, 2015, or any other period. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related disclosures of the Company as of December 31, 2014 and for the year then ended, which were filed with the Securities and Exchange Commission on Form 10-K on March 17, 2015.

NOTE 2 –GOING CONCERN AND MANAGEMENT’S LIQUIDITY PLANS

As of September 30, 2015, the Company had cash of \$1,682,010 and working capital of \$1,023,935. During the nine months ended September 30, 2015, the Company used net cash in operating activities of \$1,190,646. The Company has incurred net losses since inception. These conditions raise substantial doubt about the Company’s ability to continue as a going concern.

On July 20, 2015, the Company issued a senior convertible note with a principal amount of \$550,000 (See Note 5) for a purchase price of \$500,000, with net proceeds of \$415,123. In September 2015, the Company raised approximately \$1,600,000 from the sale of its common stock and warrants. During October 2015, the Company sold additional shares of common stock and warrants for net proceeds, after commissions and other costs, of \$254,150. It is anticipated that the proceeds from this note and the sale of its common stock and warrants will provide the Company with cash sufficient to fund operations through April 2016.

The Company's primary source of operating funds since inception has been cash proceeds from private placements of common stock, preferred stock, convertible debentures and the exercise of warrants. The Company intends to raise additional capital through private issuances of debt and equity instruments, 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 execute on its business plan or sustain operations. If the Company is unable to raise sufficient additional funds, it will have to develop and implement a plan to further extend payables, reduce overhead, or scale back its current business plan until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.

Accordingly, the accompanying condensed consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplates continuation of the Company as a going concern and the realization of assets and

satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The condensed consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

#### NOTE 3 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Principles of Consolidation

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

##### Use of Estimates

The preparation of financial statements in conformity with U.S. 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, debt discounts, derivative liabilities, and the valuation allowance related to deferred tax assets. Actual results may differ from these estimates.

Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2015  
 (unaudited)

**Concentrations of Credit Risk**

As of September 30, 2015, two customers represented 52% and 22% of the Company's accounts receivable. As of December 31, 2014, two customers represented 62% and 20% of the Company's accounts receivable.

During the three months ended September 30, 2015, two customers represented 77% and 13% of total revenue.

During the nine months ended September 30, 2015, two customers represented 53% and 28% of total revenue.

During the three months ended September 30, 2014, two customers represented 65% and 16% of total revenue.

During the nine months ended September 30, 2014, three customers represented 55%, 20% and 11% of total revenue.

**Net Loss per Share**

The Company computes basic net loss per share by dividing net loss per share available to common stockholders by the weighted average number of common shares outstanding for the period, adjusted to give effect to the 50-for-1 reverse stock split, which was effective in the market on July 2, 2015 (see Note 6), and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable. The computation of basic and diluted loss per share for the three and nine months ended September 30, 2015 and 2014 excludes potentially dilutive securities when their inclusion would be anti-dilutive, or if their exercise prices were greater than the average market price of the common stock during the period.

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

	September 30, 2015	September 30, 2014
Convertible notes payable	71,864	60,000
Series A convertible preferred stock	-	220,913
Options to purchase common stock	575,564	517,406
Warrants to purchase common stock	638,413	230,658
Restricted stock units	-	65,429
Totals	1,285,841	1,094,406

**Convertible Instruments**

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

instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. An exception to this rule is when the host instrument is deemed to be conventional, as that term is described under applicable ASC 480-10.

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

Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015  
(unaudited)

Derivative Financial Instruments

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

The Company's free standing derivatives consist of embedded conversion options with a convertible note. The Company evaluated these derivatives to assess their proper classification in the condensed consolidated balance sheets as of September 30, 2015 using the applicable classification criteria enumerated under ASC 815-Derivatives and Hedging. The Company determined that certain embedded conversion features do not contain fixed settlement provisions. The convertible note contains a conversion feature such that the Company could not ensure it would have adequate authorized shares to meet all possible conversion demands.

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

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, "Interest -Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 amends the existing guidance to require that debt issuance costs be presented in the balance sheet as a deduction from the carrying amount of the related debt liability instead of as a deferred charge. ASU 2015-03 is effective on a retrospective basis for annual and interim reporting periods beginning after December 15, 2015, but early adoption is permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its condensed consolidated financial statements.

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

Subsequent Events

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

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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



Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015  
(unaudited)

Financial liabilities as of September 30, 2015 measured at fair value on a recurring basis are summarized below:

	September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative liability	\$ 114,194	\$ --	\$ --	\$ 114,194

The Company determined that certain conversion option related to a convertible note did not have fixed settlement provisions and are deemed to be derivative financial instruments, since the exercise price was subject to adjustment based on certain changes in market price of the Company's common stock. Accordingly, the Company was required to record such conversion option as a liability and mark such derivative to fair value each reporting period. Such instrument was classified within Level 3 of the valuation hierarchy.

The fair value of the conversion option was calculated using a binomial lattice formula with the following weighted average assumptions during the three and nine months ended September 30, 2015:

	July 20, 2015	September 30, 2015
Common Stock Closing Price	\$ 8.50	\$ 5.14
Conversion Price per Share	\$ 7.6534	\$ 7.6534
Conversion Shares	71,864	71,864
Call Option Value	4.21	1.59
Dividend Yield	0.00 %	0.00 %
Volatility	124.15 %	123.08 %
Risk-free Interest Rate	0.31 %	0.33 %
Term	1.0 years	0.81 years

The risk-free interest rate is the United States Treasury rate on the measurement date having a term equal to the remaining contractual life of the instrument. The volatility is a measure of the amount by which the Company's share price has fluctuated or is expected to fluctuate. The dividend yield is 0% as the Company has not made any dividend payment and has no plans to pay dividends in the foreseeable future.

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

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

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

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

Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015  
(unaudited)

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis using significant unobservable input for the nine months ended September 30, 2015:

Balance – January 1, 2015	\$-0-
Aggregate amount of derivative instruments issued	302,287
Change in fair value of derivative liabilities	(188,093 )
Balance – September 30, 2015	\$114,194

## NOTE 5 – CONVERTIBLE NOTE PAYABLE

On July 20, 2015, the Company issued a senior secured convertible note (the "July 2015 Note"), in the principal amount of \$550,000 due one year from the date of issuance. The total net proceeds the Company received from this note was \$415,123, net of fees and original interest discount ("OID") of \$50,000. At any time commencing one hundred and eighty one days from issuance, the note is convertible into shares of the Company's common stock at the option of the holder at a conversion price of \$7.65335 with certain reset provisions should certain default conditions occur. These certain default conditions were deemed to be outside the Company's control.

If the \$550,000 principal amount of the July 2015 Note and all accrued but unpaid interest thereof is not paid in full on or before January 16, 2016, the July 2015 Note shall amortize in four equal payments payable on January 20, 2016, February 20, 2016, March 20, 2016 and April 20, 2016. These payments shall be paid (i) in cash at a 120% premium, and/or (ii) in shares of the Company's common stock at a 20% discount to the average of the three daily volume weighted average prices of the Company's common stock for the prior three trading days, provided the Company is in compliance with certain equity conditions as defined in the July 2015 Note.

The Company identified an embedded derivative related to a conversion option in the July 2015 Note. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivative as of the inception date of the Secured Convertible Debentures and to fair value the derivative as of each subsequent reporting date.

At the inception of the July 2015 Note, the Company determined the aggregate fair value of the embedded derivatives to be \$302,287.

The Company has issued debt for which total proceeds were allocated to individual instruments based on the fair value of the each instrument at the time of issuance. Such value of the debt was recorded as discount on debt and is being amortized over the term of the respective debt. For the nine months ended September 30, 2015 and 2014 amortization of debt discount was \$96,053 and \$-0-, respectively.

## NOTE 6 – STOCKHOLDERS' EQUITY

On June 26, 2015, the Company filed an amendment to its Articles of Incorporation and effected a 50-for-1 reverse stock split of its issued and outstanding shares of common stock, whereby 250,666,631 outstanding shares of the Company's common stock were converted into 5,013,366 shares of the Company's common stock. The reverse stock

split was effective in the market commencing on July 2, 2015. All per share amounts and number of shares in the condensed consolidated financial statements, related notes and other items throughout this Form 10-Q have been retroactively restated to reflect the reverse stock split.

On March 3, 2015, 161,827 shares of the Company's Series A Convertible Preferred Stock were converted into an aggregate of 47,646 shares of common stock at the stated conversion price of \$3.395 per share.

During the nine months ended September 30, 2015, the Company issued 13,636 shares of its common stock as consideration for investor relations services valued at \$90,000.

During the nine months ended September 30, 2015, the Company issued 14,958 shares of its common stock as consideration for legal services valued at \$87,342.

Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2015  
 (unaudited)

In September 2015, pursuant to a securities purchase agreement, the Company sold an aggregate of 417,500 shares of its common stock together with warrants to purchase an aggregate of 417,500 shares of its common stock for net proceeds, after commissions and other costs, of \$1,617,738. The warrants are exercisable at an exercise price of \$4.75 for a term of five years. The Company was required to file a registration statement covering the shares and the shares issuable upon exercise of the warrants no later than thirty days following the closing. The registration statement was filed during November 2015. In addition, the purchase agreement prohibits the Company from effecting any public offering of common stock within ninety days of the closing unless the closing price of the Company's common stock is above \$15.00 per share for ten consecutive trading days.

The Company paid the placement agent cash commissions equal to 8% of the gross proceeds of the offering of \$141,950 and also reimbursed the placement agent for its out of pocket expenses of \$14,687.

Options

Option valuation models require the input of highly subjective assumptions. The fair value of stock-based payment awards was estimated using the Black-Scholes option model with a volatility figure derived from using the Company's historical stock prices for 2015. Prior to 2015, the Company derived the volatility figure from an index of historical stock prices for comparable entities. Management determined this assumption to be a more accurate indicator of value. The Company accounts for the expected life of options based on the contractual life of options for non-employees. For employees, the Company accounts for the expected life of options in accordance with the "simplified" method, which is used for "plain-vanilla" options, as defined in the accounting standards codification.

The risk-free interest rate was determined from the implied yields of U.S. Treasury zero-coupon bonds with a remaining life consistent with the expected term of the options.

In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the number of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

The Company estimated forfeitures related to option grants at a weighted average annual rate of 0% per year, as the Company does not yet have adequate historical data, for options granted during the three and nine months ended September 30, 2015 and 2014.

The following assumptions were used in determining the fair value of employee and vesting non-employee options during the three and nine months ended September 30, 2015 and 2014:

	September 30, 2015		September 30, 2014	
Risk-free interest rate	1.68% - 2.07	%	2.13% - 2.73	%
Dividend yield	0	%	0	%

Edgar Filing: BLUE CALYPSO, INC. - Form 10-Q

		76.31% -
Stock price volatility	123.08%-145.24%	79.2 %
Expected life	6 - 10 years	6-10 years
Weighted average grant date fair value	\$ 5.90	\$ 5.50

In January 2015, the Company granted options to purchase 7,500 shares of common stock to a new board member. These options vest over a 3 year period, have a term of 10 years, and contain an exercise price of \$5.00 per share. The options had an aggregate grant date fair value of \$34,945.

In April 2015, the Company granted options to purchase an aggregate of 80,000 shares of common stock to board members. These options vest beginning June 30, 2015 through March 31, 2018 on a quarterly basis, have a term of 10 years and contain an exercise price of \$7.00 per share. The options had an aggregate grant date fair value of \$493,774.

In May 2015, the Company granted an option to purchase 10,000 shares of common stock to a consultant. These options vest beginning June 30, 2015 through March 31, 2017 on a quarterly basis, have a term of 10 years and contain an exercise price of \$7.00 per share. The options had an aggregate grant date fair value of \$52,049.

Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015  
(unaudited)

In May 2015, the Company granted an option to purchase 1,000 shares of common stock to an employee. These options vest over three years on the grant date anniversary, have a term of 10 years and contain an exercise price of \$6.50 per share. The options had an aggregate grant date fair value of \$5,570.

In May 2015, the Company granted an option to purchase 20,000 shares of common stock to a new board member. These options vest beginning June 30, 2015 through March 31, 2018 on a quarterly basis, have a term of 10 years and contain an exercise price of \$7.00 per share. The options had an aggregate grant date fair value of \$128,115.

In June 2015, the Company granted options to purchase an aggregate of 8,000 shares of common stock to four consultants. These options vest beginning June 30, 2015 through March 31, 2018 on a quarterly basis, have a term of 10 years and contain an exercise price of \$7.00 per share. The options had an aggregate grant date fair value of \$41,688.

In September 2015, the Company granted an option to purchase 10,000 shares of common stock to an employee. These options vest over three years on the grant date anniversary, have a term of 10 years and contain an exercise price of \$5.14 per share. The options had an aggregate grant date fair value of \$44,978.

The following table summarizes the stock option activity for the nine months ended September 30, 2015:

	Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2015	441,064	\$ 8.44	4.2	
Granted	136,500	\$ 6.74	10.0	
Canceled/expired	(2,000 )	\$ 5.69		
Outstanding at September 30, 2015	575,564	\$ 8.04	4.8	\$59,057
Exercisable at September 30, 2015	363,708	\$ 8.43	3.8	\$57,176

The following table presents information related to stock options at September 30, 2015:

Options Outstanding	Options Exercisable	Options Exercisable	Options Exercisable
Exercise Price	Number of Options	Weighted Average Remaining Life In Years	Number of Options
\$0.00-5.00	165,081	3.8	151,643
5.01-12.50	385,074	5.2	186,656
12.51-25.00	15,008	4.5	15,008
25.01-45.00	10,401	4.5	10,401
	575,564	4.8	363,708

As of September 30, 2015, stock-based compensation of \$694,036 remains unamortized and is expected to be amortized over the weighted average remaining period of 3 years.

The stock-based compensation expense related to option grants was \$93,925 and \$262,823 during the three and nine months ended September 30, 2015, respectively, and \$180,525 and \$414,070 during the three and nine months ended September 30, 2014, respectively.

#### Restricted Stock

As of September 30, 2015, the Company did not have any unissued restricted shares. Stock based compensation expense related to restricted stock grants was \$-0- for the three and nine months ended September 30, 2015, and \$438,918 and \$1,314,938 for the three and nine months ended September 30, 2014, respectively.



Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2015  
 (unaudited)

## Warrants

The following table summarizes the warrant activity for the nine months ended September 30, 2015:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2015	220,913	\$ 5.00	1.7	
Grants	417,500	\$ 4.75	5.0	
Exercised	-			
Forfeitures or expirations	-			
Outstanding at September 30, 2015	638,413	\$ 4.84	3.6	\$ 193,753
Exercisable at September 30, 2015	638,413	\$ 4.84	3.6	\$ 193,753

In connection with the sale of common stock, the Company issued an aggregate of 417,500 warrants to purchase the Company's common stock at \$4.75 per share expiring five years from the date of issuance.

## NOTE 7 – RELATED PARTY TRANSACTIONS

The Company appointed a new Chief Financial Officer during August 2014. The Company 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 \$11,750 and \$25,250 in exchange for these services during the three and nine months ended September 30, 2015, respectively. Included in accounts payable at September 30, 2015 was \$9,500 due to Assure.

Mr. D. Jonathan Merriman was appointed to 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 \$30,000 and \$90,000 during the three and nine months ended September 30, 2015, respectively. The Company primarily issues common stock in exchange for monthly services and no amount was due to Merriman at September 30, 2015. In addition, Merriman acted as the Company's placement agent during its most recent offering. During September 2015, the Company paid Merriman cash commissions equal to 8% of the gross proceeds of the offering of \$141,950 (see note 6) and also reimbursed the placement agent for its out of pocket expenses of \$14,687. During October 2015, the Company paid Merriman cash commissions equal to 8% of the gross proceeds of \$276,250 or \$22,100.

## NOTE 8 – COMMITMENTS AND CONTINGENCIES

## 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 Illinois, which the Court denied on September 27, 2013. 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.

Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015  
(unaudited)

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 (“CBMR”) 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 CBMR at the PTAB occurred during September 2014.

On December 17, 2014, the PTAB issued final decisions in CBMR proceedings CBM2013-00035, CBM2013-00033, CBM2013-00034, 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 6, 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. Due to an apparent scheduling conflict, the Court rescheduled the Markman Hearing to July 8, 2015.

On April 22, 2015, the Company filed its third amended complaint against all defendants. The defendants timely answered on May 11, 2015. Each of the defendants answers included a counterclaim for invalidity of the patents. The Company responded to these invalidity contentions on June 1, 2015.

On May 13, 2015, the Company filed a motion for entry of an order focusing patent claims and prior art. That motion requested that the Court narrow the number of claims at issue and the number of prior art references that defendants could use in an attempt to invalidate the Company’s patents. On May 27, 2015, the Court held a hearing on the motion and ordered defendants to reduce the number of references in support of any invalidity contention against the patents.

On June 25, 2015, the Company attended mediation with Yelp in an effort to settle the case. That mediation was recessed to explore settlement options.

On July 8, 2015 the Company attended the Markman Hearing in order to construe the claims of the patents. On July 14, 2015, the Court entered its Memorandum Opinion and Order regarding claim construction. In that Order, the Court analyzed eleven claim terms. The Court agreed with Blue Calypso’s proffered construction as to seven terms, chose its own construction as to three terms and agreed with defendants proffered construction as to only one term. The Court also expressly rejected defendants argument that the term “testimonial tag” was indefinite.

On July 13, 2015 the Court entered an order severing the non-active claims out of the case and consolidating claims regarding those patents into a separate set of cases. These new cases address the claims which were held invalid by the PTAB and which are now on appeal to the Federal Circuit Court of Appeals.

On July 14, 2015, the Company attended court-ordered mediation with Groupon. The result of that mediation was an impasse.

On July 16, 2015, the Company attended court-ordered mediation with IZEA. The parties reached a settlement.

On July 20, 2015, the Company attended court-ordered mediation with Foursquare. The result of that mediation was an impasse.

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.

On August 17, 2015, the Company entered into a settlement agreement with IZEA, pursuant to which it settled all outstanding litigation with IZEA. Under the Agreement, IZEA has agreed to pay the Company a royalty fee of 4.125% of revenue from IZEA's discontinued legacy platforms SocialSpark, Sponsored Tweets and WeReward. The remaining terms of the settlement are confidential. Legal costs due to our attorneys associated with the IZEA settlement are classified as a settlement payable on our condensed consolidated balance sheet.

On September 21, 2015, the Company entered into a settlement agreement with Yelp, pursuant to which all outstanding litigation with Yelp was settled. Under the agreement, Yelp has agreed to purchase 4,000 KIOSentrix beacons.

Table of Contents

BLUE CALYPSO, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015  
(unaudited)

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

NOTE 9 – SUBSEQUENT EVENTS

Effective October 1, 2015, the Compensation Committee awarded the Company's Chief Executive Officer options to purchase 32,864 shares of the Company's common stock (the "Options"). The Options are exercisable at an exercise price of \$5.00 per share for a term of 10 years. The Options were fully vested at the time of issuance.

On October 2, 2015, pursuant to a securities purchase agreement, the Company sold an aggregate of 65,000 shares of its common stock together with warrants to purchase an aggregate of 65,000 shares of its common stock for net proceeds, after commissions and other costs, of \$254,150. The warrants are exercisable at an exercise price of \$4.75 for a term of five years. The Company is required to file a registration statement covering the shares and the shares issuable upon exercise of the warrants no later than thirty days following the closing. In addition, the purchase agreement prohibits the Company from effecting any public offering of common stock within ninety days of the closing unless the closing price of the Company's common stock is above \$15.00 per share for ten consecutive trading days. The Company paid the placement agent cash commissions equal to 8% of the gross proceeds of \$276,250 or \$22,100.

On October 12, 2015, the Company awarded two employees options to purchase an aggregate of 5,000 shares of the Company's common stock. The options are exercisable at \$3.90 per share for a term of 10 years. Shares vest annually over a three year period.

On October 23, 2015, the Company awarded a consultant options to purchase a total of 2,000 shares of the Company's common stock. The options are exercisable at \$2.86 per share for a term of 10 years. Shares vest annually over a three year period.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts included or incorporated by reference in this quarterly report on Form 10-Q, including without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objective of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expects," "intends," "plans," "projects," "estimates," "anticipates," or "believes" or the negative thereof or any variation thereon or similar terminology or expressions.

We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to:

- our ability to raise additional capital;
- minimal operating history or revenue;
- our ability to attract and retain qualified personnel;
- market acceptance of our platform;
- our limited experience in a relatively new industry;
- regulatory and competitive developments;
- intense competition with larger companies;
- general economic conditions
- failure to adequately protect our intellectual property;
- technological obsolescence of our products and services;
- technical problems with our products and services;
- loss or retirement of key executives, and
- other factors set forth under the caption "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the foregoing. Except as required by law, we assume no duty to update or revise our forward-looking statements.

Business Overview

Blue Calypso develops and delivers mobile shopper marketing, influence 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 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.

## Table of Contents

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 syndicate 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. According to the Consumer Electronics Association, more than half of all consumers use their mobile devices at some point during a shopping experience, however 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 to Facebook, the average user has 130 friends; Twitter states the average user has 300 followers; and on average an individual has 25 unique frequent contacts they communicate with weekly via text messages or mobile calls. Active participation in LinkedIn, Google+, Tumblr and/or a personal blog can further extend one's direct social reach significantly. With our platform, 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.

### Recent Developments

### Recent Accounting Pronouncements

There are various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's financial position, results of operations or cash flows. See Note 3 to the condensed consolidated financial statements included elsewhere in this document.

### 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 Illinois, which the Court denied on September 27, 2013. 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.

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 ("CBMR") 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 CBMR at the PTAB occurred during September 2014.

Table of Contents

On December 17, 2014, the PTAB issued final decisions in CBMR proceedings CBM2013-00035, CBM2013-00033, CBM2013-00034, 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 6, 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. Due to an apparent scheduling conflict, the Court rescheduled the Markman Hearing to July 8, 2015.

On April 22, 2015, the Company filed its third amended complaint against all defendants. The defendants timely answered on May 11, 2015. Each of the defendants answers included a counterclaim for invalidity of the patents. The Company responded to these invalidity contentions on June 1, 2015.

On May 13, 2015, the Company filed a motion for entry of an order focusing patent claims and prior art. That motion requested that the Court narrow the number of claims at issue and the number of prior art references that defendants could use in an attempt to invalidate the Company's patents. On May 27, 2015, the Court held a hearing on the motion and ordered defendants to reduce the number of references in support of any invalidity contention against the patents.

On June 25, 2015, the Company attended mediation with Yelp in an effort to settle the case. That mediation was recessed to explore settlement options.

On July 8, 2015 the Company attended the Markman Hearing in order to construe the claims of the patents. On July 14, 2015, the Court entered its Memorandum Opinion and Order regarding claim construction. In that Order, the Court analyzed eleven claim terms. The Court agreed with Blue Calypso's proffered construction as to seven terms, chose its own construction as to three terms and agreed with the defendants' proffered construction as to only one term. The Court also expressly rejected the defendants' argument that the term "testimonial tag" was indefinite.

On July 13, 2015 the Court entered an order severing the non-active claims out of the case and consolidating claims regarding those patents into a separate set of cases. These new cases address the claims which were held invalid by the PTAB and which are now on appeal to the Federal Circuit Court of Appeals.

On July 14, 2015, the Company attended court-ordered mediation with Groupon. The result of that mediation was an impasse.

On July 16, 2015, the Company attended court-ordered mediation with IZEA. The parties reached a settlement.

On July 20, 2015, the Company attended court-ordered mediation with Foursquare. The result of that mediation was an impasse.

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.

On August 17, 2015, the Company entered into a settlement agreement with IZEA, pursuant to which it settled all outstanding litigation with IZEA. Under the Agreement, IZEA has agreed to pay the Company a royalty fee of 4.125% of revenue from IZEA's discontinued legacy platforms SocialSpark, Sponsored Tweets and WeReward. The

remaining terms of the settlement are confidential.

On September 21, 2015, the Company entered into a settlement agreement with Yelp, pursuant to which all outstanding litigation with Yelp was settled. Under the agreement, Yelp has agreed to purchase 4,000 KIOSentrix beacons.

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.

## Table of Contents

### Critical Accounting Policies

#### Use of Estimates

The preparation of financial statements in conformity with U.S. 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, debt discounts, derivative liabilities 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 condensed consolidated statement of operations. Elements that are not related to license agreements and royalty revenue in nature will be reflected as a separate line item within the other income section of the consolidated statements of operations. Elements provided in either settlement agreements or judgments include: the value of a license, legal release, and interest. When settlements or judgments are achieved at discounts to the fair value of a license, the Company allocates the full settlement or judgment, excluding specifically named elements as mentioned above, to the value of the license agreement or royalty revenue under the residual method. Legal release as part of a settlement agreement is recognized as a separate line item in the consolidated statements of operations when value can be allocated to the legal release.

When the Company reaches a settlement with a defendant, no value is allocated to the legal release since the existence of a settlement removes legal standing to bring a claim of infringement and without a legal claim, the legal release has no economic value. The element that is applicable to interest income will be recorded as a separate line item in other income. The Company does not assume future performance obligations in its license arrangements.

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

#### Cost of Revenue

Cost of revenue includes technical service costs directly associated with initiating and supporting a customer social media program, technical service costs directly associated with providing IT consulting and legal fees directly related

to the settlement of intellectual property claims that result in licensing and royalty revenue.

#### 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.

## Table of Contents

### 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 exceeds its fair market value. No impairment was deemed to exist as of September 30, 2015 and December 31, 2014. 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.

### 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.

### Results of Operations

#### Comparison of Three Months Ended September 30, 2015 and 2014

#### Results of Operations

**Net Loss.** For the three months ended September 30, 2015, we had a net loss of \$792,942, as compared to a net loss of \$1,284,416 for the three months ended September 30, 2014. The decrease in net loss resulted primarily from a reduction in our general and administrative costs of \$667,835 and a gain on change in derivative liabilities of \$188,093, net with a decrease in gross profits of \$57,284, terminated offering costs of \$283,387 incurred in the current period and an increase in interest expense of \$19,283.

**Revenue.** Revenue for the three months ended September 30, 2015 was \$508,391, as compared to \$310,360 in revenues for the same period in 2014. The increase in revenue in the current year is a result of royalties generated from the IZEA settlement. The increase in revenue is offset by a decrease in project based revenue primarily due to timing of development projects.

**Cost of Revenue.** Our cost of revenue was \$442,268 for the three months ended September 30, 2015, as compared to \$186,953 for the same period in 2014. The increase in cost of revenue is primarily attributable to costs associated with royalty revenue. As a result of these legal fees, there was no related margin associated with the royalty revenue.

**Sales and Marketing.** For the three months ended September 30, 2015, sales and marketing expenses decreased by \$2,347 to \$108,966 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 September 30, 2015, general and administrative expenses were \$463,969 as compared to \$1,131,804 for the three months ended September 30, 2014. This was primarily due to a reduction of \$525,518 in stock based compensation primarily associated with certain restricted stock incentives during the three months ended September 30, 2014. As a result of the former Chief Executive Officer's resignation, the Company incurred \$436,195 in restricted stock expense during 2014 with no corresponding 2015 expense. Additional decrease relates to reductions in headcount and executive compensation.

Depreciation and Amortization. Depreciation and amortization expenses relate primarily to the amortization of capitalized software development. Depreciation and amortization expenses were \$93,751 for the three months ended September 30, 2015 as compared to \$86,904 for the three months ended September 30, 2014, representing an increase of \$6,847 which was primarily due to an increase in additional capitalized software during the period. For the three months ended September 30, 2015, we incurred \$106,284 of capitalized software development costs associated with improvements to our commercial platform. This compares to \$30,519 of capitalized software development costs for the quarter ended September 30, 2014. The Company continues to invest in the ongoing improvements to its core platform.

## Table of Contents

Change in fair value of derivative liabilities. We issued convertible debt that contains certain reset provisions in connection with financing. As such, we are required to record these reset provisions as a liability and mark them to market each reporting period. For the three months ended September 30, 2015, we recorded a gain of \$188,093 in change in the fair value of these reset provisions versus \$-0- for the three months ended September 30, 2014.

Terminated offering costs. During the three months ended September 30, 2015, we terminated a public offering of shares of our common stock. As such, we incurred \$283,387 in professional and other fees before termination.

Interest Expense. Interest expense was \$97,085 for the three months ended September 30, 2015 as compared to \$77,802 for the three months ended September 30, 2014. Interest expense for the current period represents primarily amortization of beneficial conversion features on our convertible note of \$96,053 with the remainder credit card and vendor financing. In comparison, interest for 2014 related to \$62,802 in amortization of beneficial conversion features and interest expense of \$15,000 on notes payable of \$564,933 with the remaining amount primarily representing cash interest on notes payable.

### Comparison of Nine Months Ended September 30, 2015 and 2014

#### Results of Operations

Net Loss. For the nine months ended September 30, 2015, we had a net loss of \$2,097,633, as compared to a net loss of \$4,483,029 for the nine months ended September 30, 2014. The decrease in net loss resulted primarily from a reduction in our sales and marketing expense of \$156,558, general and administrative costs of \$1,817,460, interest expense of \$593,434 and increase gain on change in fair value of derivatives of \$186,063, net with terminated offering costs of \$283,387 incurred in 2015.

Revenue. Revenue for the nine months ended September 30, 2015 was \$733,605, as compared to \$596,607 in revenues for the same period in 2014. The increase in revenue in the current year is a result of royalties generated from the IZEA settlement. The increase in revenue is offset by a decrease in project based revenue primarily due to timing of development projects.

Cost of Revenue. Our cost of revenue was \$542,045 for the nine months ended September 30, 2015, as compared to \$331,746 for the same period in 2014. The increase in cost of revenue is primarily attributable to legal costs associated with royalty revenue. As a result of these legal fees, there was no related margin associated with the royalty revenue.

Sales and Marketing. For the nine months ended September 30, 2015, sales and marketing expenses decreased by \$156,558 to \$263,221 as compared to the same period in 2014. Sales and marketing expenses decreased as the Company reduced sales personnel.

General and Administrative. For the nine months ended September 30, 2015, general and administrative expenses were \$1,565,594 as compared to \$3,383,054 for the nine months ended September 30, 2014. This was primarily due to a reduction of \$1,466,185 in stock based compensation primarily associated with certain restricted stock incentives during the nine months ended September 30, 2014. As a result of the former Chief Executive Officer's resignation, the Company incurred \$1,308,584 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 \$266,526 for the nine months ended September 30, 2015 as compared to \$255,095 for the nine months ended September 30, 2014, representing an increase of \$11,431 which was primarily due to an increase in additional capitalized software during the period. For the nine months ended September 30, 2015, we incurred \$256,899 of capitalized software development costs associated with



improvements to our commercial platform. This compares to \$93,953 of capitalized software development costs for the nine months ended September 30, 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. As such, we are required to record these reset provisions as a liability and mark them to market each reporting period. For the nine months ended September 30, 2015, we recorded a gain of \$188,093 in change in the fair value of these reset provisions versus \$2,030 for the nine months ended September 30, 2014.

Terminated offering costs. During the nine months ended September 30, 2015, we terminated a public offering of shares of our common stock. As such, we incurred \$283,387 in professional and other fees before termination.

Interest Expense. Interest expense was \$98,558 for the nine months ended September 30, 2015 as compared to \$691,992 for the nine months ended September 30, 2014. Interest expense for the current period represents primarily amortization of beneficial conversion features on our convertible note of \$96,053 with the remainder credit card and vendor financing. In comparison, interest for 2014 related to \$27,500 of interest expense on an outstanding \$600,000 notes payable, amortization of beneficial conversion features on notes payable of \$188,352 and interest expense related to the modification of warrants to induce conversion of \$460,949.

## Table of Contents

### Cash Flows

Net cash used in operating activities during the nine months ended September 30, 2015 was \$1,190,646 as compared to \$1,972,253 for the nine months ended September 30, 2014. Cash used in operations for the nine months ended September 30, 2015 was comprised of a net loss of \$2,097,633 offset primarily by certain non-cash items: (i) bad debt expense of \$19,141; (ii) stock based compensation expenses (including common stock issued in exchange for services) of \$440,165; (iii) depreciation and amortization of \$362,579 and (iv) net change in operating assets and liabilities of \$273,195; net with gain in change in fair value of derivative liabilities of \$188,093.

Net cash used in investing activities during the nine months ended September 30, 2015 was \$263,406, as compared to \$95,133 for the nine months ended September 30, 2014. This increase was primarily attributable to additional expenditures on the development of our software.

During the nine months ended September 30, 2015, net cash provided in financing activities was \$2,032,861 as compared to \$2,376,286 for the same period in 2014. For the nine months ended September 30, 2015, we received \$1,617,738 from the sale of its common stock and \$415,123 from the issuance of a convertible note. During the nine months ended September 30, 2014, the Company received \$1,024,558 in proceeds from the exercise of warrants, \$21,728 from the exercise of options and \$1,330,000 from the sale of common stock.

### Off Balance Sheet Arrangements

None

### Liquidity and Capital Resources

As of September 30, 2015, the Company had cash of \$1,682,010 and working capital of \$1,023,935. During the nine months ended September 30, 2015, the Company used net cash in operating activities of \$1,190,646. The Company has incurred net losses since inception. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

On July 20, 2015, the Company issued a senior convertible note in the principal amount of \$550,000 for a purchase price of \$500,000 and proceeds of \$415,123. In addition, in September and October 2015, the Company raised approximately \$1.9 million from the sale of its common stock and warrants. It is anticipated that the proceeds from this note and the sale of its common stock and warrants will provide the Company with cash sufficient to fund operations through April 2016.

The Company's primary source of operating funds since inception has been cash proceeds from private placements of common stock, preferred stock, convertible debentures and the exercise of warrants.

There can be no assurance that the follow-on offering will be completed, that our application to the national securities exchange will be accepted or that funds associated with this potential offering will be available on terms acceptable to the Company, or that the funds from such offering will be sufficient to enable the Company to fully execute its business plan 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.



Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of disclosure controls and procedures.

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

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2015, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 31, 2012, the Company filed suit against Groupon, Inc. in the Eastern District of Texas in Civil Action No. 6:12-cv-00486.

The Company filed additional suits against IZEA, Inc. on October 17, 2012, Yelp, Inc. on October 17, 2012, and Foursquare Labs, Inc. on October 31, 2012 in Civil Action Nos. 6:12-cv-786, 6:12-cv-788, 6:12-cv-837, respectively. Each of these cases alleges that the defendants infringe U.S. Patent Nos. 7,664,516 entitled "Method and System for Peer-to-Peer Advertising Between Mobile Communication Devices" and 8,155,679 entitled "System and Method for Peer-to-Peer Advertising Between Mobile Communication Devices." The Company subsequently added U.S. Patent Nos. 8,438,055, 8,452,646, and 8,457,670 to the cases, alleging each defendant infringed the newly added patents. Each of the defendants have answered, denying infringement and claiming that the asserted patents are invalid. Groupon, Yelp, and Foursquare filed counterclaims for declaratory judgment that the asserted patents are invalid and not infringed. Yelp filed an additional counterclaim for declaratory judgment that the asserted patents are unenforceable. The Court subsequently consolidated the actions for at least pre-trial purposes. Groupon filed a motion to transfer the case against it to the U.S. District Court for the Northern District of California, which the Court denied on September 27, 2013. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer, which remains pending as of the date of this report. On April 23, 2014, the petition was denied by the Federal Circuit.

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 ("CBMR") 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 CBMR at the PTAB occurred during September 2014.

On December 17, 2014, the PTAB issued final decisions in CBMR proceedings CBM2013-00035, CBM2013-00033, CBM2013-00034, 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 which has yet to be entered by the Court. Due to an apparent scheduling conflict, the Court rescheduled the Markman Hearing to July 8, 2015.

On April 22, 2015, the Company filed its third amended complaint against all defendants. The defendants timely answered on May 11, 2015. Each of the defendant's answers included a counterclaim for invalidity of the patents. The Company responded to these invalidity contentions on June 1, 2015.

On May 13, 2015, the Company filed a motion for entry of an order focusing patent claims and prior art. That motion requested that the Court narrow the number of claims at issue and the number of prior art references that defendants could use in an attempt to invalidate the Company's patents. On May 27, 2015 the Court held a hearing on the motion and ordered defendants to reduce the number of references in support of any invalidity contention against the patents.

On June 25, 2015, the Company attended mediation with Yelp in an effort to settle the case. That mediation was recessed to explore settlement options.

On July 8, 2015 the Company attended the Markman Hearing in order to construe the claims of the patents. On July 14, 2015, the Court entered its Memorandum Opinion and Order regarding claim construction. In that Order, the Court analyzed eleven claim terms. The Court agreed with the Company's proffered construction as to seven terms, chose its own construction as to three terms and agreed with defendants' proffered construction as to only one term. The Court also expressly rejected the defendants' argument that the term "testimonial tag" was indefinite.

On July 13, 2015 the Court entered an order severing the non-active claims out of the case and consolidating claims regarding those patents into a separate set of cases. These new cases address the claims which were held invalid by the PTAB and which are now on appeal to the Federal Circuit Court of Appeals.

On July 14, 2015, the Company attended court-ordered mediation with Groupon. The result of that mediation was an impasse.

Table of Contents

On July 16, 2015, the Company attended court-ordered mediation with IZEA. On August 17, 2015, the Company entered into a settlement agreement with IZEA, pursuant to which it settled all outstanding litigation with IZEA. Under the agreement, IZEA has agreed to pay the Company 4.125% of revenue from IZEA's discontinued legacy platforms SocialSpark, Sponsored Tweets and WeReward. The remaining terms of the settlement are confidential.

On July 20, 2015, the Company attended court-ordered mediation with Foursquare. The result of that mediation was an impasse.

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.

On September 21, 2015, the Company entered into a settlement agreement with Yelp, pursuant to which all outstanding litigation with Yelp was settled. Under the agreement, Yelp has agreed to purchase 4,000 KIOSentrix beacons.

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

ITEM 1A. RISK FACTORS

Not required

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-K.

Exhibit

Number	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of September 1, 2011, by and among Blue Calypso, Inc., Blue Calypso Acquisition Corp., and Blue Calypso Holdings, Inc. (incorporated by

Edgar Filing: BLUE CALYPSO, INC. - Form 10-Q

reference to Exhibit 2.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011).

- 2.2 Agreement and Plan of Merger, dated September 9, 2011, by and between Blue Calypso, Inc., a Nevada corporation, and Blue Calypso, Inc., a Delaware corporation (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 15, 2011).
- 3.1 Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011).
- 3.2 Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011).
- 3.3 Bylaws of Blue Calypso, Inc., a Delaware corporation, adopted September 9, 2011 (incorporated by reference to Exhibit 3.3 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011).



Table of Contents

- 3.4 Certificate of Amendment (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2015).
- 10.1 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011).
- 10.2 Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011).
- 10.3 Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011).
- 10.4 Form Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011).
- 10.5 Agreement of Conveyance, Transfer and Assignment of Assets and Assumption of Obligations, dated as of September 1, 2011 (incorporated by reference to Exhibit 10.5 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011).
- 10.6 Stock Purchase Agreement, by and between Blue Calypso, Inc. and Deborah Flores, dated as of September 1, 2011 (incorporated by reference to Exhibit 10.6 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011).
- 10.7 Securities Purchase Agreement, dated as of September 1, 2011, by and among Blue Calypso, Inc. and certain purchasers set forth therein (incorporated by reference to Exhibit 10.7 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011).
- 10.8 Registration Rights Agreement, dated as of September 1, 2011, by and among Blue Calypso, Inc. and certain purchasers set forth therein (incorporated by reference to Exhibit 10.9 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011).
- 10.9 Form of Warrant (incorporated by reference to Exhibit 10.10 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011).
- 10.10 Letter Agreement, dated January 16, 2012, by and between Blue Calypso, Inc. and Aztec Systems, Inc. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 20, 2012).
- 10.11 Promissory Note, dated January 17, 2012, issued by Blue Calypso, Inc. to Aztec Systems, Inc. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 20, 2012).
- 10.12 Securities Purchase Agreement, dated April 19, 2012, by and between Blue Calypso, Inc. and the Buyer thereto (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012).
- 10.13 Senior Secured Convertible Note issued April 19, 2012 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012).

Edgar Filing: BLUE CALYPSO, INC. - Form 10-Q

- 10.14 Common Stock Purchase Warrant issued April 19, 2012 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012).
- 10.15 Security Agreement, dated April 19, 2012, by and between the Company, Blue Calypso, LLC and the Buyer (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012).
- 10.16 Intellectual Property Security Agreement, dated April 19, 2012, by and between the Company, Blue Calypso, LLC, and the Buyer (incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012).
- 10.17 Subsidiary Guarantee, dated April 19, 2012, by Blue Calypso, LLC, in favor of the Buyer (incorporated by reference to Exhibit 10.6 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012).

Table of Contents

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

Edgar Filing: BLUE CALYPSO, INC. - Form 10-Q

- 10.31 Amendment No. 1 to 10% Convertible Debenture between Blue Calypso, Inc. and the Holder dated September 13, 2013 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 16, 2013).
- 10.32 Amendment No. 3 to Common Stock Purchase Warrants between the Company and the Holder dated September 13, 2013 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 16, 2013).
- 10.33 Amendment No. 2 to Common Stock Purchase Warrant between the Company and the Holder dated September 13, 2013 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 16, 2013).
- 10.34 Securities Purchase Agreement dated October 7, 2013 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 11, 2013).

Table of Contents

10.35	Amendment No. 4 to Common Stock Purchase Warrants between the Company and the Holder dated January 9, 2014 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2014).
10.36	Amendment No. 3 to Common Stock Purchase Warrant between the Company and the Holder dated January 9, 2014 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2014).
10.37	Settlement and Standstill Agreement dated September 26, 2014 by and between Blue Calypso, Inc., Ronald L. Chez, and Individual Retirement Accounts for the benefit of Ronald L. Chez (incorporated by reference to Exhibit 10.1 on Form 8-K filed with the Securities and Exchange Commission on October 2, 2014).
10.38	Form of note purchase agreement dated as of July 20, 2015 by and between the lender, Blue Calypso, Inc., Blue Calypso Holdings, Inc., Blue Calypso LLC and Blue Calypso Latin America, S.A. (incorporated by reference to Exhibit 10.1 to Current Report as form 8-k filed with the Securities and Exchange Commission on July 24, 2015).
10.39	Form of Senior Convertible Note issued on July 20, 2015 (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2015).
10.40	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2015).
10.41	Form of Warrant (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2015).
21.1	List of subsidiaries (incorporated by reference to Exhibit 21.1 to our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on April 16, 2012).
31.1	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document



Table of Contents

SIGNATURES

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.

BLUE CALYPSO, INC.

Date:	November 16, 2015	By:	/s/ Andrew Levi
		Name:	Andrew Levi
		Title:	Chief Executive Officer (Principal Executive Officer)

