

BLUE CALYPSO, INC.  
Form 10-Q  
August 13, 2014

**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 June 30, 2014**

**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.)

**19111 North Dallas Parkway, Suite 200**

**Dallas, Texas 75287**

(Address of principal executive offices) (zip code)

**(972) 695-4776**

(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

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 August 8, 2014, there were 211,958,269 shares of registrant's common stock outstanding.



**BLUE CALYPSO, INC.**

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**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**BLUE CALYPSO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

June 30,

2014

December 31,

2013

(unaudited)

**ASSETS**

Current assets:

Cash

\$

1,027,757

\$

1,294,882

Accounts receivable

129,587

64,300

Prepaid expenses

	21,941
	57,371
Total current assets	
	1,179,285
	1,416,553
Property and equipment, net	
	7,631
	10,009



Other assets:

Capitalized software development costs, net of accumulated amortization of \$813,060 and \$647,247 as of June 30, 2014 and December 31, 2013, respectively

	882,295
	984,674
Total assets	
\$	
	2,069,211
\$	
	2,411,236

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:

Accounts payable

\$

105,028

\$

161,225

Accrued expenses

49,274

4,878

10

Deferred revenue

48,069

-

Convertible notes payable, net of discount of \$97,869 and \$207,589 as of June 30, 2014 and December 31, 2013, respectively

502,131

242,411

Warrant liabilities

-

2,030

Total current liabilities

704,502

410,544

Long term debt:

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

	-
	134,170
Total liabilities	704,502
	544,714

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; 750,068 shares issued and outstanding

75

75

Common stock, \$0.0001 par value; 680,000,000 shares authorized, 210,636,895 and 188,237,262 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively

21,064

18,824

Additional paid in capital

28,973,953

	26,279,393
Accumulated Deficit	
	(27,630,383)
	(24,431,770)
Total stockholders' equity	
	1,364,709
	1,866,522
Total liabilities and stockholders' equity	
\$	
	2,069,211
\$	
	2,411,236

See the accompanying notes to these unaudited condensed consolidated financial statements

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**

Three months ended June 30,

Six months ended June 30,

2014

2013



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2014

2013

REVENUE

\$

122,032

\$

5,000

\$

286,247

\$

15,000

Cost of revenue

71,046

2,503

144,793

Gross profit	6,826
--------------	-------

50,986

2,497

141,454

8,174

OPERATING EXPENSES:

Sales and marketing

144,949

204,816

308,466

330,772

General and administrative

1,178,874

	915,554
	2,251,250
	1,838,708
Depreciation and amortization	
	84,776
	98,059
	168,191
	136,656
Total operating expenses	
	1,408,599

1,218,429

2,727,907

2,306,136

Loss from operations

(1,357,613)

(1,215,932)

(2,586,453)

(2,297,962)

Other income (expense):

Change in fair value of derivative liabilities

487

(656,589)

2,030

7,559,629

Loss on settlement of debt

-

(5,459,582)

	(5,459,582)
Interest expense	
	(96,126)
	(1,089,725)
	(614,190)
	(1,426,020)
Total other income (expense)	
	(95,639)
	(7,205,896)
	(612,160)
	674,027



Net loss before income taxes

(1,453,252)

(8,421,828)

(3,198,613)

(1,623,935)

Income taxes (benefit)

-

-

-

-

NET LOSS

\$

(1,453,252)

\$

(8,421,828)

\$

(3,198,613)

\$

(1,623,935)

Net loss per common share, basic and diluted

\$ (0.01)

\$ (0.06)

\$ (0.02)

\$ (0.01)

Weighted average common shares outstanding, basic and diluted

210,904,801

134,874,964

205,515,183

130,031,944

See the accompanying notes to these unaudited condensed consolidated financial statements

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**(a development stage company)**  
**CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY**  
**SIX MONTHS ENDED JUNE 30, 2014**

**(unaudited)**

Additional  
Paid in  
Capital

Total  
Stockholders'  
Equity

Preferred Stock

Common Stock



Shares

Amount

Shares

Amount

Deficit

Balance, January 1, 2014

750,068

\$

75

188,237,262

\$

18,824

\$

	26,279,393
\$	
	(24,431,770)
	\$
	1,866,522
Shares issued in connection with exercise of warrants	
	-
	-
	20,491,164
	2,049
	1,022,509
	-
	1,024,558

Issuance of restricted stock units

-

-

1,090,487

109

-

109

Shares issued for service rendered

-

-

200,364

35

	20
	29,980
	-
	30,000
Shares issued for service rendered	-
	-
	297,618
	30
	49,970
	36

	50,000
Shares issued in connection with exercise of options	-
	-
	320,000
	32
	21,696
	-
	21,728
Loss on warrant modification	-
	37

	-
	-
	-
	460,949
	-
	460,949
Stock based compensation	-
	-
	-

	-
	1,109,456
	-
	1,109,456
Net loss	-
	-
	-
	-
	-
	-
	(3,198,613)

	(3,198,613)
Balance, June 30, 2014	
	750,068
	\$
	75
	210,636,895
\$	
	21,064
\$	
	28,973,953
\$	
	(27,630,383)
	\$
	1,364,709



See the accompanying notes to these unaudited condensed consolidated financial statements

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

Six months ended June 30,

2014

2013

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net loss

\$

(3,198,613)

\$  
(1,623,935)

Adjustments to reconcile net loss to net cash used in operating activities:

Depreciation and amortization

168,191

136,656

Amortization of debt discounts

125,550

308,722

Amortization of deferred financing costs

-

	17,347
Non cash interest from warrant modification	
	460,949
	1,027,381
Non -cash loss on settlement of notes payable	
	-
	5,459,582
Change in fair value of derivative liabilities	
	(2,030)
	(7,559,629)
Stock based compensation	
	1,109,565
	1,003,116
Common stock issued for services rendered	

80,000

-

Changes in operating assets and liabilities:

Accounts receivable

(65,287)

38,868

Prepaid expenses

35,430

(45,948)

Accounts payable

(56,197)

	61,704
Accrued liabilities	
	44,396
	(52,844)
Deferred income	
	48,069
	(10,000)
Net cash used in operating activities	
	(1,249,977)
	(1,238,980)

CASH FLOWS FROM INVESTING ACTIVITIES

Software development costs

(63,434)

(92,695)

Net cash used in investing activities

(63,434)

(92,695)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from notes payable

-

2,600,000

Fees paid to third party in connection with notes payable issuance

-

(62,500)

Proceeds from exercise of options

21,728

-

Proceeds from exercise of warrants

1,024,558



	-
Net cash provided by financing activities	
	1,046,286
	2,537,500
Net increase (decrease) in cash and cash equivalents	
	(267,125)
	1,205,825

Cash and cash equivalents at beginning of period

1,294,882

218,798

Cash and cash equivalents at end of period

\$

1,027,757

\$

1,424,623

SUPPLEMENTAL INFORMATION

Cash paid for interest

\$

-

\$

63,510

Cash paid for income taxes

\$

-

\$

-

Non-cash investing and financing activities:

Conversion of notes payable and accounts payable-former affiliate to common stock

\$

-

	\$
	532,892
Conversion of notes payable to common and preferred stock	
\$	-
	\$
	515,000
Conversion of accrued interest on notes payable to common stock	
\$	-
	\$
	59,579
Reclassification of derivative liability to equity	
\$	-
	\$
	4,027,945
Reclassification of warrants as derivative liability	
\$	-
	\$
	52

See the accompanying notes to these unaudited condensed consolidated financial statements

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(unaudited)**

**NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

Blue Calypso, Inc., a Delaware corporation (the "Company"), is engaged in the development, licensing and enforcement of technology and intellectual property focused on digital word-of-mouth marketing and advertising. In January 2014, the Company transitioned from a development stage enterprise to an operating company. Prior to 2014, the Company's primary activities were the design and development of its products, negotiating strategic alliances and other agreements, and raising capital.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information. Accordingly, they do not include all of the information and disclosures required by 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 June 30, 2014 and for the three and six months ended June 30, 2014 and 2013. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the operating results for the full year ending December 31, 2014, or any other period. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related disclosures of the Company as of December 31, 2013 and for the year then ended, which were filed with the Securities and Exchange Commission on Form 10-K on March 31, 2014.

**NOTE 2 GOING CONCERN AND MANAGEMENT'S LIQUIDITY PLANS**

As of June 30, 2014, the Company had cash and cash equivalents of \$1,027,757 and working capital of \$474,783. During the six months ended June 30, 2014, the Company used net cash in operating activities of \$1,249,977. The Company has incurred net losses since inception. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

During the six months ended June 30, 2014, the Company received \$1,024,558 and \$21,728 in cash proceeds from the exercise of warrants and options, respectively. The Company believes that its current cash on hand will be sufficient to fund its projected operating requirements through the fourth quarter of 2014.

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 accounting principles generally accepted in the United States of America, which contemplate 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.

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(unaudited)**

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

*Concentrations of Credit Risk*

The Company's financial instruments that are exposed to a concentration of credit risk are cash, accounts receivable and revenue.

As of June 30, 2014, three customers represented 43%, 31% and 15% of the Company's accounts receivable. As of December 31, 2013, two customers represented 49% and 24% of the Company's accounts receivable.



During the three months ended June 30, 2014, three customers represented 57%, 15% and 12% of total revenue.

During the six months ended June 30, 2014, three customers represented 46%, 24% and 14% of total revenue.

The Company had minimal revenue for the three and six months ended June 30, 2014.

*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 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 as of June 30, 2014 and 2013 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:

	June 30,	June 30,
	2014	2013
Convertible notes payable	3,000,000	12,600,000
Series A convertible preferred stock	11,045,655	15,823,184
Options to purchase common stock	25,870,318	14,679,073
Warrants to purchase common stock	12,004,589	32,495,753
Restricted stock units	4,442,153	13,456,667
Totals	56,362,715	89,054,677

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(unaudited)**

*Recent Accounting Pronouncements*

The FASB has issued ASU No. 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company has not yet determined the effect of the adoption of this standard and it is expected to have a material impact on the Company's condensed consolidated financial position and results of operations.

The FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This ASU supercedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company has not yet determined the effect of the adoption of this standard and it is expected to have a material impact on the Company's condensed consolidated financial position and results of operations.

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.

**NOTE 4 STOCKHOLDERS EQUITY**

On January 9, 2014, the Company entered into agreements with the holder of certain of its outstanding warrants originally issued in private placement transactions in September 2011 and April 2012. Pursuant to such agreements, which are more fully described below, the Company agreed to extend the period during which the warrants were exercisable at a reduced exercise price.

On January 9, 2014, the Company entered into Amendment No. 4 to the warrants that were originally issued in September 2011. Pursuant to Amendment No. 4, the exercise price of the warrants was reduced to \$0.05 per share until March 10, 2014.

On January 9, 2014, the Company entered into Amendment No. 3 to the warrant that was originally issued in April 19, 2012. Pursuant to Amendment No. 3, the exercise price of the warrants was reduced to \$0.05 per share until March 10, 2014.

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(unaudited)**

On January 10, 2014, holders of such warrants exercised an aggregate of 11,200,000 warrants to purchase common stock at the reduced exercise price per share of \$0.05 resulting in \$560,000 in cash proceeds. In connection with the warrant exercise, the Company incurred a non-cash interest expense due to warrant modification of \$241,176 when the inducement offer was accepted during the six months ended June 30, 2014.

On March 10, 2014, the holder of such warrants exercised an aggregate of 9,291,175 warrants to purchase common stock at the reduced exercise price per share of \$0.05 resulting in \$464,558 in cash proceeds. The Company issued such shares to the holder in April 2014. In connection with the warrant exercise, the Company incurred a non-cash interest expense due to warrant modification of \$219,773 when the inducement offer was accepted during the six months ended June 30, 2014.

On April 1, 2014, the Company issued 200,364 shares of its common stock for investor relations services valued at \$30,000.

On April 3, 2014, the Company issued 297,618 shares of its common stock for legal services valued at \$50,000.

*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 an index of historical stock prices of comparable entities until sufficient data exists to estimate the volatility using the Company's own historical stock prices. 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. The fair value of stock-based payment awards during the six months ended June 30, 2014 was estimated using the Black-Scholes pricing model.

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 six months ended June 30, 2014 and 2013.

The following assumptions were used in determining the fair value of employee and vesting non-employee options during the three and six months ended June 30, 2014 and 2013:

	June 30, 2014	June 30, 2013
Risk-free interest rate	2.13%-2.73%	0.25%-0.86%
Dividend yield	0%	0%
Stock price volatility	77.6%-79.2%	35.3%-117.8%
Expected life	8-10 years	2 -5.75 years
Weighted average grant date fair value	\$0.11	\$0.21

Table of Contents**BLUE CALYPSO, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2014****(unaudited)**

On March 14, 2014, the Compensation Committee of the Board of Directors approved an equity bonus for the Company's Chief Executive Officer consisting of stock options with a fair value of \$800,000. The total bonus awarded was \$1,140,000 of which \$85,000 was paid in cash and \$1,055,000 was granted in stock options valued using the Black Scholes model (see Note 6). Accordingly, the Company granted options to purchase 9,232,745 shares of common stock to the Chief Executive Officer effective March 14, 2014 exercisable at \$0.14 per share for ten years, vesting over a term of three years.

In April 2014, the Company awarded an aggregate of 1,730,000 of stock options to certain employees and one contractor. The stock options have exercise prices from \$0.12 to \$0.13 per share, will vest over a three year period, and have an approximate fair value of \$170,000 using the Black Scholes model.

In May 2014, the Company awarded an aggregate of 1,250,000 of stock options to the Company's Board of Directors. The stock options have exercise price of \$0.10 per share, will vest over a three year period, and have an approximate fair value of \$101,000 using the Black Scholes model.

In June 2014, the Company awarded an aggregate of 100,000 of stock options to certain employees. The stock options have exercise price of \$0.11 per share, will vest over a three-year period, and have an approximate fair value of \$9,000 using the Black Scholes model.

The following table summarizes the stock option activity for the six months ended June 30, 2014:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2014	13,877,573	\$ 0.19	8.4	-
Grants	12,312,745	\$ 0.13	10.0	-
Exercised	(320,000)	\$ 0.07		
Outstanding at June 30, 2014	25,870,318	\$ 0.17	8.9	\$ 38,372
Vested and expected to vest at June 30, 2014	25,870,318	\$ 0.17	8.9	\$ 38,372
Exercisable at June 30, 2014	10,052,723	\$ 0.16	8.1	\$ 38,028

The following table presents information related to employee stock options at June 30, 2014:

Options Outstanding	Options Exercisable Weighted
---------------------	---------------------------------

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Exercise Price	Number of Options	Average Remaining Life In Years	Exercisable Number of Options
\$ 0.00-0.10	7,979,043	8.2	6,833,210
0.11-0.25	16,621,275	9.4	2,196,179
0.26-0.50	750,000	7.9	750,000
0.51 0.90	520,000	8.1	273,334

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(unaudited)**

As of June 30, 2014, stock-based compensation of \$1,522,916 remains unamortized and is expected to be amortized over the weighted average remaining period of 2 to 3 years.

On April 9, 2014, 320,000 options were exercised at \$0.0679 per share for cash proceeds of \$21,728.

The stock-based compensation expense related to option grants was \$157,828 and \$233,545 during the three and six months ended June 30, 2014, respectively, and \$41,506 and \$78,228 during the three and six months ended June 30, 2013, respectively.

*Restricted Stock*

The following table summarizes the restricted stock activity for the six months ended June 30, 2014:

Restricted shares issued as of January 1, 2014	13,456,667
Granted	-
Forfeited	-
Total Restricted Shares Issued at June 30, 2014	13,456,667
Vested at June 30, 2014	(9,014,514)
Unvested restricted shares as of June 30, 2014	4,442,153

Stock based compensation expense related to restricted stock grants was \$438,010 and \$876,020 for the three and six months ended June 30, 2014, respectively; and \$436,194 and \$929,888 during the three and six months ended June 30, 2013, respectively. As of June 30, 2014, the stock-based compensation relating to restricted stock of \$1,599,381 remains unamortized and is expected to be amortized over the remaining period of approximately 1 year.



*Warrants*

The following table summarizes information with respect to outstanding warrants to purchase common stock of the Company, all of which were exercisable, at June 30, 2014:

Exercise		Number	
Price		Outstanding	<u>Expiration Date</u>
\$	0.05	11,045,654	March 2017 to Aril 2018
\$	0.50	487,235	November 2014 to December 2014
\$	0.75	471,700	July 2014
		12,004,589	

Table of Contents**BLUE CALYPSO, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2014****(unaudited)**

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2014	32,495,753	\$ 0.08	3.4	-
Issued	-			-
Exercised	(20,491,164)	\$ 0.05		
Forfeitures or expirations	-			
Outstanding at June 30, 2014	12,004,589	\$ 0.10	2.5	\$ 555,596
Outstanding at June 30, 2014	12,004,589	\$ 0.10	2.5	\$ 555,596
Exercisable at June 30, 2014	12,004,589	\$ 0.10	2.5	\$ 555,596

**NOTE 5 COMMITMENTS AND CONTINGENCIES***Litigation*

On July 31, 2012, the Company filed suit against Groupon, Inc. ( Groupon ) in the Eastern District of Texas in Civil Action, alleging infringement on certain Patents. Between July 19, 2013 and October 3, 2013, Groupon filed petitions with the Patent Trial & Appeals Board ( PTAB ) requesting institution of Covered Business Method Review of all asserted claims. On December 19, 2013 and January 17, 2014, the PTAB issued decisions instituting review on all but four of the asserted claims. On January 14, 2014, the Company and all defendants filed a joint motion to stay the district court litigation. The Court granted the motion and stayed the case on January 16, 2014 pending a decision by the PTAB. Trial on the Covered Business Method Reviews at the PTAB is set for September 5, 2014. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer. On April 23, 2014, the Federal Circuit denied Groupon, Inc.'s bid to transfer our suit from Texas to Illinois, finding that the lower court judge correctly denied Groupon, Inc.'s earlier transfer request.

As part of the Company's settlement with Living Social, the Company's attorney is entitled to additional compensation for the value of certain non-monetary arrangements. As of June 30, 2014, the payment of such compensation is not probable or measurable.

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 6 SUBSEQUENT EVENTS**

In July 2014, the Company issued 1,090,487 shares of common stock to the Company's Chief Executive Officer, the vested portion of previously issued restricted stock units. See Note 4 above.

In July 2014, the Company issued at aggregate of 230,887 shares of common stock to consultants for services rendered at a value of \$30,000.

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**BLUE CALYPSO, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(unaudited)**

**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;
- the absence of any 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, 2013 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

We develop and deliver advocacy marketing and analytics solutions and services 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 to leverage customer and employee relationships to increase brand loyalty, syndicate brand content, improve the path-to-purchase and drive revenue. We generate revenue from service and consulting fees, platform usage and licensing and/or enforcement of such patented technologies. Our intellectual property portfolio consists of five issued patents and eight pending patent applications that 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 Technology 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.

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Our proprietary technology platform enables businesses to leverage word-of-mouth marketing and path-to-purchase engagement through the delivery of advertising campaigns, content and promotions across multiple social media and digital communication channels using multiple device types. Our technology facilitates the connection of brands to consumers and enables them to customize and share brand content across the most popular social media channels. Our platform then tracks performance and attribution, monitors engagement and includes robust, real-time analytics that provide acute insight regarding the adoption, interaction, performance and return on investment of our client's promotions. Our technology is designed to help clients spread their marketing messages, acquire new customers, increase awareness and drive product sales. For example, campaigns facilitated through our platform can encourage consumers to learn more about our client's products, watch promotional videos about particular products or click to buy products. Our platform can also assist in increasing Likes on Facebook, Followers on Twitter and encourage consumers to join our client's email list, newsletter or blogs. All of this is accomplished by encouraging advocates of a company to interact, personalize and share messages with their friends via social media channels such as Facebook, Twitter, and LinkedIn as well as common peer-to-peer communication methods such as email and SMS/text messaging. Our clients are able to thank advocates for sharing, including offering incentives, coupons and other perks to consumer advocates who share the message. Our technology platform creates multiple opportunities for companies to interact with their most vocal brand advocates (influencers) and reward them for their loyalty.

Over the last five years, the world has seen social media, mobile technologies and digital advertising evolve dramatically and actually converge. Through this technological evolution, a sociological shift has occurred in how influential digital media can be when promoted within one's social circles, friend-to-friend. We believe that people will actively endorse products with which they have a strong emotional connection or brand loyalty. When they do, these endorsements reach groups of like-minded individuals, as people generally associate with others of like mind. Social communities such as Facebook, Twitter, LinkedIn, Google+ and various blogs incorporate and build on this common idea. Our platform goes a step further, leveraging mobile and social technologies and rewarding the advocates for their loyalty and performance. We believe that we have created a platform that allows large companies to leverage their own social media networks, disseminating content to their millions of advocates through email addresses, Facebook fans, Twitter followers, etc. These social media channels and mobile delivery capabilities have created a significant opportunity for companies to leverage their marketing assets by having their fans tell their friends about a company or product thus increasing adoption/conversion, reducing their media expenses and increasing their return on investment.

Through mobile and social media, everyone has their own unique and meaningful 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 email, text messages or mobile calls. Active participation in LinkedIn, Google+, Tumblr and/or a personal blog can significantly extend one's direct social reach significantly. With our platform, advertiser content is not bound by any single app, social media community, website, carrier or device. Once the message is shared by an advocate, it can be accessed via texts, Twitter tweets, LinkedIn or Facebook posts. As a result, our individual advocates 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 advertisers 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 advertisers to assess the conversational response to their messages which enables them to adjust their campaigns based on performance.

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**Recent Developments**

*General*

None.

*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.

Between July 19, 2013 and October 3, 2013, Groupon filed petitions with the Patent Trial & Appeals Board ( PTAB ) requesting institution of Covered Business Method Review of all asserted claims. On December 19, 2013 and January 17, 2014, the PTAB issued decisions instituting review on all but four of the asserted claims. On January 14, 2014, the Company and all defendants filed a joint motion to stay the district court litigation. The Court granted the motion and stayed the case on January 16, 2014 pending a decision by the PTAB. Trial on the Covered Business Method Reviews at the PTAB is set for September 5, 2014. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer. The Federal Circuit on April 23, 2014 denied Groupon Inc.'s bid to transfer our suit from Texas to Illinois, finding that the lower court judge correctly denied Groupon, Inc.'s earlier transfer request.



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**Critical Accounting Policies**

*Principles of Consolidation and Basis of Presentation*

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

*Use of Estimates*

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

*Revenue Recognition*

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

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

The amount of consideration received upon any settlement or judgment is allocated to each element of the settlement based on the fair value of each element. Elements related to licensing agreements, royalty revenues, net of contingent

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

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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. In cases where performance of customer contracts occurs over multiple reporting periods, the Company recognizes revenue and cost of revenue on a percentage of completion basis.

### *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.

### *Impairment of Long-Lived Assets*

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value. No impairment was deemed to exist as of June 30, 2014. The Company re-evaluates its amortizable intangibles at least quarterly to identify any triggering events. As

described above, if triggering events require us to undertake an impairment review in the future, it is not possible at this time to determine whether it would be necessary to record a charge or if such charge would be material.

#### *Fair Value Measurements*

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

#### *Stock-Based Compensation*

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

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**Results of Operations**

*Comparison of Three Months Ended June 30, 2014 and 2013*

*Results of Operations*

*Net Loss.* For the three months ended June 30, 2014, we had a net loss of \$1,453,252, as compared to a net loss of \$8,421,828 for the three months ended June 30, 2013. The decrease in net loss resulted primarily from a number of one-time charges in the comparable period in the prior year, specifically; 1) loss on settlement of debt expense of \$5,459,582; 2) a one-time interest cost on warrant term modification of \$1,027,381; and 3) loss relative to the change in the fair value of derivative liabilities of \$656,589.

*Revenue.* Revenue for the three months ended June 30, 2014 was \$122,032, as compared to \$5,000 in revenues for the same period in 2013. The majority of the revenue in current year was derived from our Blue Calypso Labs group.

*Cost of Revenue.* Our cost of revenue was \$71,046 for the three months ended June 30, 2014, as compared to \$2,503 for the same period in 2013. Cost of revenue for the three months ended June 30, 2014 was primarily comprised of costs related to internal IT professional staff members assigned to the Blue Calypso Labs group.

*Sales and Marketing.* For the three months ended June 30, 2014, sales and marketing expenses decreased by \$59,867 to \$144,949 as compared to the same period in 2013. Sales and marketing expenses decreased as the Company reduced senior sales executives from two in the prior year to one in the current year.

*General and Administrative.* For the three months ended June 30, 2014, general and administrative expenses were \$1,178,874 as compared to \$915,554 for the three months ended June 30, 2013. This was primarily due to stock compensation associated with certain vested stock incentives and increased legal services during the three months ended June 30, 2014.

*Depreciation and Amortization.* Depreciation and amortization expenses relate primarily to the amortization of capitalized software development. Depreciation and amortization expenses were \$168,191 for the six months ended

June 30, 2014 as compared to \$136,656 for the six months ended June 30, 2013, representing an increase of \$31,535 which was due primarily to an increase due to additional capitalized software during the period. For the three months ended June 30, 2014, we incurred \$54,449 of capitalized software development costs associated with improvements to our commercial platform. This compares to \$34,546 of capitalized software development costs for the quarter ended June 30, 2013. The Company continues to invest in the ongoing improvements to its core social media platform.

*Change in fair value of derivative liabilities.* We issued warrants and convertible debt that contain certain reset provisions in connection with financing and debt settlements. As such, we are required to record these reset provisions as a liability and mark them to market each reporting period. For the three months ended June 30, 2014, we recorded a gain of \$487 in change in the fair value of these reset provisions versus a loss for the three months ended June 30, 2013 of \$656,589. As of June 30, 2014 there no longer is a liability associated with derivative liabilities as the underlying securities have been converted to common stock and are no longer outstanding.

*Interest Expense.* Interest expense was \$96,126 for the three months ended June 30, 2014 as compared to \$1,089,725 for the three months ended June 30, 2013. The primary decrease in interest cost was from a one-time interest cost on warrant term modification of \$1,027,381 charged to prior period interest.

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*Loss on settlement of debt* During the three months ended June 30, 2013, we modified the terms of a convertible debenture in the aggregate principal amount of \$515,000 and accrued interest aggregating \$30,948. In connection with the settlement, the Company incurred a loss on settlement of debt of \$5,459,582 during the three months ended June 30, 2013.

## *Comparison of Six Months Ended June 30, 2014 and 2013*

### *Results of Operations*

*Net Loss.* For the six months ended June 30, 2014, we had net loss of \$3,198,613 as compared to a net loss of \$1,623,935 in the six months ended June 30, 2013. The largest contributors to the increase in the net loss was a reduction in a net gain on the change of derivative liabilities of \$7,559,629 that was offset by a reduction in the loss on settlement of debt of \$5,459,582. In addition, there was a reduction in interest expense of \$811,830 as the prior year period included a one-time interest cost on the warrant term modification of \$1,027,381.

*Revenue.* Revenue for the six months ended June 30, 2014 was \$286,247, as compared to \$15,000 in revenues for the same period in 2013. The majority of the revenue in current year was derived from our Blue Calypso Labs group.

*Cost of Revenue.* Our cost of revenue was \$144,793 for the six months ended June 30, 2014, as compared to \$6,826 for the same period in 2013. Cost of revenue for the six months ended June 30, 2013 was primarily comprised of internal IT professional staff members assigned to the Blue Calypso Labs group.

*Sales and Marketing.* For the six months ended June 30, 2014, sales and marketing expenses decreased by \$22,306 to \$308,466 as compared to the same period in 2013. Sales and marketing expenses were lower in 2014 as the Company reduced senior sales executives from two in the prior year to one in the current year.

*General and Administrative.* For the six months ended June 30, 2014, general and administrative expenses increased by \$412,542 to \$2,251,250 as compared to the six months ended June 30, 2013. This was primarily associated with stock compensation associated with certain vested stock incentives during the six months ended June 30, 2014.

*Depreciation and Amortization.* Depreciation and amortization expenses relate primarily to the amortization of capitalized software development. Depreciation and amortization expenses were \$168,191 for the six months ended June 30, 2014 as compared to \$136,656 for the six months ended June 30, 2013, representing an increase of \$31,535 which was due primarily to an increase in capitalized software development costs during the period.

*Change in fair value of derivative liabilities.* In prior periods, we issued warrants and convertible notes that contain certain reset provisions in connection with financing and debt settlements. As such, we are required to record these reset provisions as a liability and mark them to market each reporting period. For the six months ended June 30, 2014, we recorded a gain of \$2,030 in change in the fair value of these reset provisions versus a gain for the six months ended June 30, 2013 of \$7,559,629. As of June 30, 2014 there is no longer a liability associated with derivative liabilities as the underlying securities have been converted to common stock and are no longer outstanding.

*Interest Expense.* Interest expense was \$614,190 for the six months ended June 30, 2014 as compared to \$1,426,020 for the six months ended June 30, 2013. The primary decrease in interest cost was from a one-time interest cost on warrant term modification of \$1,027,381 charged in the prior period interest.

*Loss on settlement of debt* During the six months ended June 30, 2014, we modified the terms of 8% Senior Secured Convertible Debentures aggregating \$515,000 and accrued interest aggregating \$30,948. In connection with the modification, the Company incurred a loss on settlement of debt of \$5,459,582 during the six months ended June 30, 2014.



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Cash Flows

Net cash used in operating activities during the six months ended June 30, 2014 was \$1,249,977 as compared to \$1,238,980 for the six months ended June 30, 2013. Cash used in operations for the six months ended June 30, 2014 was comprised of a net loss of \$3,198,613 offset primarily by certain non-cash items: 1) interest cost on warrant term modification of \$460,949; 2) stock based compensation expenses of \$1,109,565; and, 3) depreciation and amortization of \$168,191.

Net cash used in investing activities during the six months ended June 30, 2014 was \$63,434, as compared to \$92,695 for the six months ended June 30, 2013. This decrease was attributable to reduced expenditures on the development of our software.

During the six months ended June 30, 2014, net cash provided by financing was \$1,046,286, as compared to \$2,537,500 for the same period in 2013. During the six months ended June 30, 2014, the Company received \$1,024,558 in cash proceeds from the exercise of warrants and \$21,728 from the exercise of stock options. During the six months ended June 30, 2013, net cash of \$2,537,500 was provided from issuance of convertible debentures.

*Off Balance Sheet Arrangements*

None

*Liquidity and Capital Resources*

As of June 30, 2014, the Company had cash and cash equivalents of \$1,027,757 and working capital of \$474,783. During the six months ended June 30, 2014, the Company used net cash in operating activities of \$1,249,977. The Company has incurred net losses since inception. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

During the six months ended June 30, 2014, the Company received \$1,024,558 in cash proceeds from the exercise of warrants and \$21,728 from the exercise of stock options. The Company believes that its current cash on hand will be sufficient to fund its projected operating requirements into the fourth quarter of 2014.

The Company's primary source of operating funds since inception has been cash proceeds from the sale of equity and debt securities and the exercise of warrants. The Company intends to raise additional capital through private placement of equity and/or debt securities, but there can be no assurance that these funds will be available on terms acceptable to the Company, or will be sufficient to enable the Company to 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.

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

Not applicable.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### *Evaluation of Disclosure Controls and Procedures.*

As previously disclosed in Item 9A of our Form 10-K for the year ended December 31, 2013, management concluded that there were material weaknesses in internal control over financial reporting related to insufficient experience to account for and disclose complex transactions under US GAAP and a limited segregation of duties within our accounting and financial reporting functions due to the small number of employees assigned to positions that involve the processing of financial information.

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During the six months ended June 30, 2014, additional remedial actions have been implemented to address this weakness. We have devoted significant effort and resources to remediation and improvement of our internal control over financial reporting. While we had processes in place to identify and apply developments in accounting standards, we enhanced these processes to better evaluate our research of the nuances of complex accounting standards and engaged a third party financial reporting consultant to assist the Company in its financial reporting compliance in the latter part of 2013. Our third party consultant is a technical accounting professional, who assists us in the interpretation and application of new and complex accounting guidance. Management will continue to review and make necessary changes to the overall design of our internal control environment.

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer (the principal executive and principal financial officer, respectively) evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under 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. Management believes that the controls implemented during the period are sufficient and have concluded that such controls have been in place for a sufficient period of time in order to conclude that the identified material weakness described above have been fully remediated. Therefore, based on this evaluation, the Chief Executive Officer and Chief Financial Officer (the principal executive and principal financial officer, respectively) have concluded that as of June 30, 2014, our disclosure controls were effective.

**Changes in Internal Control over Financial Reporting**

Except as described above, there were no changes in our internal control over financial reporting during the three months ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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

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On January 14, 2014, the Company and all defendants filed a joint motion to stay the district court litigation. The Court granted the motion and stayed the case on January 16, 2014 pending a decision by the PTAB. Trial on the Covered Business Method Reviews at the PTAB is set for September 5, 2014. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer. The Federal Circuit on April 23, 2014 denied Groupon Inc.'s bid to transfer our suit from Texas to Illinois, finding that the lower court judge correctly denied Groupon, Inc.'s earlier transfer request.

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

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

## **ITEM 1A. RISK FACTORS**

Not required

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

In April 2014, the Company awarded an aggregate of 1,730,000 of stock options to certain employees and one contractor. The stock options have exercise prices from \$0.12 to \$0.13 per share, vest over a three year period, and have an approximate fair value of \$170,000 using the Black Scholes model.

In May 2014, the Company awarded an aggregate of 1,250,000 of stock options to the Company's Board of Directors. The stock options have exercise price of \$0.10 per share, vest over a three year period, and have an approximate fair value of \$101,000 using the Black Scholes model.

In June 2014, the Company awarded an aggregate of 100,000 of stock options to certain employees. The stock options have exercise price of \$0.11 per share, vest over a three year period, and have an approximate fair value of \$9,000 using the Black Scholes model.

The foregoing securities were issued to a limited number of accredited investors, without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon an exemption from registration provided by Section 4(a)(2) under the Securities Act. The securities may not be transferred or sold absent registration under the Securities Act or the availability of an applicable exemption therefrom.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None

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**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 reference to Exhibit 2.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
2.2	Agreement and Plan of Merger, dated September 9, 2011, by and between Blue Calypso, Inc., a Nevada corporation, and Blue Calypso, Inc., a Delaware corporation (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 15, 2011)
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011)
3.2	Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011)
3.3	Bylaws of Blue Calypso, Inc., a Delaware corporation, adopted September 9, 2011 (incorporated by reference to Exhibit 3.3 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011)
10.1	2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
10.2	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
10.3	

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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)



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- 10.14 Common Stock Purchase Warrant issued April 19, 2012 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.15 Security Agreement, dated April 19, 2012, by and between the Company, Blue Calypso, LLC and the Buyer (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.16 Intellectual Property Security Agreement, dated April 19, 2012, by and between the Company, Blue Calypso, LLC, and the Buyer (incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.17 Subsidiary Guarantee, dated April 19, 2012, by Blue Calypso, LLC, in favor of the Buyer (incorporated by reference to Exhibit 10.6 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.18 Form of Lock-Up Agreement (incorporated by reference to Exhibit 10.7 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.19 Amendment No. 1 to Common Stock Purchase Warrant (incorporated by reference to Exhibit 10.8 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.20 Stockholder s Agreement, dated April 19, 2012, by and between Andrew Levi and the Company (incorporated by reference to Exhibit 10.9 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.21 Letter Agreement dated June 1, 2012, between Blue Calypso, Inc. and Bill Ogle effective as of June 1, 2012 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 4, 2012)
- 10.22 Form of Subscription Agreement - June 2012 Private Placement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2012)
- 10.23 Form of Warrant - June 2012 Private Placement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2012)
- 10.24 Exchange Agreement dated November 9, 2012 between Blue Calypso, Inc. and Aztec Systems, Inc. (incorporated by reference to Exhibit 10.24 to our Quarterly Report on Form 10-Q for the period

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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).
- 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).

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- 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).
- 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).
- 21.1 List of subsidiaries (incorporated by reference to Exhibit 21.1 to our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on April 16, 2012)
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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**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: August 13, 2014

By: /s/ David S. Polster  
Name: David S. Polster  
Title: Chief Financial Officer