BLUE CALYPSO, INC.
Form 10-Q
November 14, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from to

Commission File Number: 333-143570

BLUE CALYPSO, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-8610073**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

19111 North Dallas Parkway, Suite 200

Dallas, TX	**75287**
(Address of Principal Executive Offices)	(Zip Code)

(972) 695-4776

(Registrant s Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if changed since last report)

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. x Yes o 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). x Yes o 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 o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x
(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). o Yes x No

As of November 8, 2011, there were 124,975,750 shares of the issuer s common stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BLUE CALYPSO, INC., AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

	9/30/2011 (Unaudited)	12/31/2010 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,058,316	$ 113,511
Accounts Receivable	35,200	
Prepaid expenses	116,459	10,819
Total current assets	1,209,975	124,330
Property and equipment, net of accumulated depreciation of $1,274	11,264	4,224
Capitalized software development costs, net of accumulated amortization of $95,097	661,632	440,579
Total assets	**$ 1,882,871**	**$ 569,133**
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 39,381	$ 15,663
Accounts payable-affiliate	147,302	105,415
Accrued liabilities	6,508	55,780
Unearned revenue	45,713	6,963
Total current liabilities	238,904	183,821
Notes Payable, non-current	1,500,000	675,000
Notes payable-affiliate, non-current		100,000
Total liabilities	1,738,904	958,821
Stockholders equity (deficit)		
Preferred stock, par value $.0001 per share (Authorized 5,000,000 shares; issued and outstanding 0 shares)		
Common stock, par value $.0001 per share (Authorized 680,000,000 shares; issued and outstanding 125,295,526 shares as of 9/30/11 and 72,185,591 shares at 12/31/10 respectively)	12,530	7,219
Additional paid in capital	1,597,379	15,864
Deferred compensation	(21,784)	(83)
Deficit accumulated during development stage	(1,444,158)	(412,688)
Total stockholders equity (deficit)	143,967	(389,688)
Total liabilities and stockholders equity (deficit)	**$ 1,882,871**	**$ 569,133**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 AND THE PERIOD

FROM SEPTEMBER 11, 2009 (DATE OF INCEPTION) TO SEPTEMBER 30, 2011

(UNAUDITED)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010	From Inception September 11, 2009 to September 30, 2011
REVENUE	1,665		$ 7,701		$ 7,738
COST OF REVENUE	58,958		71,094		71,094
GROSS LOSS	(57,293)		(63,393)		(63,356)
OPERATING EXPENSES					
Sales and marketing	198,164	32,127	$ 380,950	32,127	517,364
General and administrative	296,354	73,495	412,181	159,291	628,840
Other Operating Expenses	16,115	10,250	30,488	12,418	61,223
Depreciation and Amortization	32,599	23	84,319	23	96,420
	543,232	115,895	907,938	203,859	1,303,847
LOSS FROM OPERATIONS	(600,525)	(115,895)	(971,331)	(203,859)	(1,367,203)
OTHER INCOME (EXPENSE)					
Interest income		15		15	15
Interest expense	(20,746)		(60,139)		(76,970)
	(20,746)	15	(60,139)	15	(76,955)
LOSS BEFORE INCOME TAX PROVISION	(621,271)	(115,880)	(1,031,470)	(203,844)	(1,444,158)
INCOME TAX PROVISION			$		
NET LOSS	$ (621,271)	$ (115,880)	$ (1,031,470)	$ (203,844)	$ (1,444,158)
Loss per share:					
Basic and Diluted	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.00)	
Weighted Average Shares Outstanding					
Basic and Diluted	89,467,286	70,755,828	79,104,729	49,886,501	

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)

PERIOD FROM SEPTEMBER 11, 2009 (DATE OF INCEPTION) TO SEPTEMBER 30, 2011

(UNAUDITED)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit During Development Stage	Total Stockholders Equity (Deficit)
Beginning Balance, September 11, 2009		$	$	$	$	$
Net Loss					(23,653)	(23,653)
Ending Balance, December 31, 2009					(23,653)	(23,653)
Shares issued at $.0001 per share-3/10/2010	65,448,269	6,545	(5,525)			1,020
Affiliate payable converted to equity- 3/31/10			21,958			21,958
Net loss					(5,296)	(5,296)
Ending Balance, March 31, 2010	65,448,269	6,545	16,433		(28,949)	(5,971)
Restricted shares issued- 6/10/2010	5,133,198	513	(433)	(80)		
Net loss					(82,668)	(82,668)
Ending Balance, June 30, 2010	70,581,467	7,058	16,000	(80)	(111,617)	(88,639)
Restricted shares issued- 9/20/2010	1,604,124	160	(135)	(25)		
Net loss					(115,879)	(115,879)
Ending Balance, September 30, 2010	72,185,591	7,219	15,864	(105)	(227,496)	(204,518)
Restricted shares vested as of 12/31/10				22		22
Net loss					(185,191)	(185,191)
Ending Balance, December 31, 2010	72,185,591	7,219	15,864	(83)	(412,688)	(389,688)
Restricted shares issued- 1/10/11	1,283,299	128	(108)	(20)		
Additional Paid-In Capital			10			10
				12		12

Restricted shares vested as of 03/31/11						
Net loss					(174,767)	(174,767)
Ending Balance, March 31, 2011	73,468,891	7,347	15,766	(91)	(587,455)	(564,433)
Restricted shares issued- 4/29/11	1,283,299	128	(108)	(20)		
Restricted shares vested as of 06/30/11				15		15
Net loss					(235,432)	(235,432)
Ending Balance, June 30, 2011	74,752,190	7,475	15,658	(96)	(822,887)	(799,850)
Restricted shares cancelled 7/25/11	(2,887,423)	(288)	192	96		
Restricted shares vested as of 09/30/11						
Conversion of Debt 9/1/11	28,135,234	2,814	1,562,274			1,565,088
Reverse merger shares issued 9/1/11	24,974,700	2,497	(2,497)			
Restricted shares issued- 9/8/11	320,825	32	21,752	(21,784)		(0)
Net loss					(621,271)	(621,271)
Ending Balance, September 30, 2011	125,295,526	12,530	1,597,379	(21,784)	(1,444,158)	143,967

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010	From Inception September 11, 2009 to September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES					
Net loss	$ (621,271)	$ (115,880)	$ (1,031,470)	$ (203,844)	$ (1,444,158)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization expense	32,599		84,292	23	96,371
Amortization of vested restricted stock			27		49
(Increase) decrease in assets:					
Accounts receivable	(35,200)		(35,200)		(35,200)
Prepaid expenses and other current assets	(35,138)	387	(105,640)	(7,752)	(116,459)
Increase (decrease) in liabilities:					
Accounts payable	22,817	91,619	23,718	169,330	39,381
Accounts payable-affiliate	48,185	(323,100)	41,887	(22,860)	169,260
Accrued expenses	(96,921)	1,201	(49,272)	1,201	6,508
Deferred revenue	33,535		38,750		45,713
Cash provided by/(used in) operating activities	(651,394)	(345,774)	(1,032,908)	(63,903)	(1,238,535)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash paid for software development	(129,037)	(161,646)	(204,213)	(278,676)	(556,730)
Cash paid for purchases of fixed assets	(4,862)	(1,351)	(8,172)	(1,374)	(12,537)
Cash used in investing activities	(133,899)	(162,997)	(212,385)	(280,050)	(569,267)
CASH FLOWS FROM FINANCING ACTIVITIES					
Contributed capital received	90,088	21,979	690,098	22,979	691,118
Proceeds received from notes payable	1,500,000	475,000	1,500,000	475,000	2,175,000
Cash provided by financing activities	1,590,088	496,979	2,190,098	497,979	2,866,118
Net increase in cash	804,795	(11,792)	944,805	154,026	1,058,316
Cash at beginning of the period	253,521	165,818	113,511		
Cash at the end of the period	$ 1,058,316	$ 154,026	$ 1,058,316	$ 154,026	$ 1,058,316
SUPPLEMENTAL INFORMATION:					
Cash paid for interest	$	$	$	$	$
Cash paid for taxes	$	$	$	$	$
Non-cash investing and financing activities:					
Affiliate payable converted to equity	$	$	$ 100,000		$ 221,958
Affiliate payable converted to note payable	$	$	$	$	$

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

1. Presentation

The accompanying condensed consolidated financial statements of Blue Calypso, Inc. (the Company) have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2010 included in the Company s Form 8-K filed September 8, 2011.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to fairly present the Company s financial position and results of operations for the interim periods reflected. Except as noted, all adjustments contained herein are of a normal recurring nature. Results of operations for the fiscal periods presented herein are not necessarily indicative of fiscal year-end results.

2. Organization and Nature of Business

Blue Calypso Holdings, Inc. (a development stage company) a Texas corporation (BCHI), was formed in February 2010 as an investment entity to hold a 100% single-member ownership interest in Blue Calypso, LLC, a Texas Limited Liability Company formed on September 11, 2009. The companies are under common control and in February 2010 were merged for strategic operating purposes.

On September 1, 2011, BCHI executed a share exchange agreement and merged with a public shell company Blue Calypso Acquisition, Corp., a wholly-owned subsidiary of Blue Calypso, Inc. (formerly known as JJ&R Ventures, Inc.). The Merger was accounted for as a reverse-merger and recapitalization in accordance with the generally accepted accounting principles in the United States. BCHI is the acquirer for financial reporting purposes and Blue Calypso, Inc. is the acquired company. Consequently, the assets and liabilities and the operations that will be reflected in the historical financial statements prior to the Merger will be those of BCHI and will be recorded at its historical cost basis. The operations after completion of the Merger will include those of BCHI and Blue Calypso Inc. Common stock and corresponding capital amounts of BCHI pre-merger have been retroactively restated as capital stock shares reflecting the exchange ratio in the Merger.

The Company is a mobile and social media marketing company that activates and measures branded word of mouth campaigns through consumers personal texts, posts and tweets between friends. The Company activates a friend to friend distribution of branded marketing campaigns by motivating brand loyalists to personally endorse and share these campaigns with their digital social streams. The Company compensates them for their reach with cash, prizes and VIP perks. Marketers enjoy the power of measured personal endorsements that generate buzz, ignite conversation, drive purchase intent, increase loyalty and attract new customers by leveraging the power of social influence.

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BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

3. Summary of Significant Accounting Policies

Development Stage Company

The Company is a development stage company as defined by Accounting Standards Codification (ASC) 915 *Development Stage Entities* and is still devoting substantial efforts on establishing the business. Its principal operations have commenced but there has been no significant revenue thus far. All losses accumulated since inception, have been considered as part of the Company s development stage activities.

Principles of Consolidation and Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 realization of capitalized software and the realization of deferred tax assets. Actual results may differ from these estimates.

Revenue Recognition

The Company recognizes revenue in accordance with ASC605 Revenue Recognition , when persuasive evidence of an arrangement exists, the fee is fixed or determinable, delivery of the product has occurred or services have been rendered and collectability is reasonably assured. Revenue includes fees received from customers for advertising and marketing services provided by the Company and is recognized as earned when brand loyalists personally endorse and share the advertising campaigns with others in their digital social stream.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in bank demand deposits. The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

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BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

3. Summary of Significant Accounting Policies, continued

Property and Equipment and Long-Lived Assets

Property and equipment consists of office equipment and is recorded at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which for office equipment is three to five years. Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Intangible Assets

Software development costs are accounted for in accordance with FASB ASC 350-40**,** *Intangibles Goodwill and Other: Internal Use Software*. According to ASC 350-40 capitalization of costs shall begin when both of the following occur: a) preliminary project stage is completed, b) management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. The costs capitalized include fees paid to third parties for services provided to develop the software during the application development stage, payroll and payroll-related costs such as costs of employee benefits for employees who are directly associated with and who devote time to the internal-use computer software project on activities that include coding and testing during the application development stage and interest costs incurred while developing internal-use computer software(in accordance with ASC 835-20). Once the software is ready for its intended use, the costs are amortized using straight-line method over the estimated useful life of up to five years. The unamortized capitalized cost of the software is compared annually to the net realizable value. The amount by which the unamortized capitalized costs of the internal use software exceed the net realizable value of that asset is written off.

Impairment of Long-lived Tangible Assets and Definite-Lived Intangible Assets

Long-lived tangible assets and definite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Recoverability of assets held and used is generally measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by that asset. If it is determined that the carrying amount of an asset may not be recoverable, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Fair Value Measurements

The company has 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. The carrying amounts of accounts receivable and accounts payable of the Company approximate fair value because of the short maturity of these instruments.

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BLUE CALYPSO, INC. AND SUBSIDIARY

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

3. Summary of Significant Accounting Policies, continued

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.

Income Taxes

Income taxes are accounted for using the asset and liability method pursuant to the authoritative guidance on Accounting for Income Taxes. Deferred taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement and carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes future tax benefits to the extent that realization of such benefits is more likely than not.

The Company follows the authoritative guidance that prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. This authoritative guidance requires that a company recognize in its financial statements the impact of tax positions that meet a more likely than not threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

Loss per Share

We have presented basic loss per share, computed on the basis of the weighted average number of common shares outstanding at the end of the period, and diluted loss per share, computed on the basis of the weighted average number of common shares and all potentially dilutive common shares outstanding during the period. Potential common shares result from stock options, vesting of restricted stock grants and convertible notes. However, for the years presented, all outstanding stock options, restricted stock grants and convertible notes are anti-dilutive due to the losses incurred.

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BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

3. Summary of Significant Accounting Policies, continued

Stock-Based Compensation

The Company granted stock options and restricted stock as compensation to employees and directors. Compensation expense is measured in accordance with FASB ASC 718 (formerly SFAS No. 123R), *Compensation - Stock Compensation*. Compensation expense is recognized over the requisite service period for awards of equity instruments to employees based on the grant date fair value of those awards expected to ultimately vest. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates.

Concentrations of Credit Risk

Significant concentrations of credit risk may arise from the Company s cash maintained in the bank. The Company maintains cash in quality financial institution, however, at times, cash balance may exceed the federal deposit insurance limits (FDIC limits). As of September 30, 2011 the cash balance with the bank exceeded the $250,000 FDIC limit, but is covered under the temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts through December 31, 2011, and so there was no significant credit risk.

Advertising and Marketing

The Company s advertising and marketing costs, which consist primarily of marketing and trade show costs, business development and printed promotional and sales presentation materials, are charged to expense when incurred. The advertising and marketing expense was $99,039 and $108,835 for the three and nine months ended September 30, 2011 and $3,285 and 8,285 for the three and nine months ended September 30, 2010 respectively.

4. Property and Equipment

Property and equipment consisted of the following as of September 30, 2011 and December 31, 2010 respectively:

Office Equipment, Furniture & Fixtures	$	12,538	$	4,365
Less: Accumulated depreciation		(1,274)		(141)
Net property and equipment	$	11,264	$	4,224

Depreciation expense was $492 and $1,132 for the three and nine months ended September 30, 2011 and $23 for the three and nine months ended September 30, 2010, respectively.

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BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

5. Intangibles

Intangible assets consist of the following at September 30, 2011 and December 31, 2010 respectively:

Capitalized Software Development Costs		756,729	$	452,516
Less: Accumulated amortization		(95,097)		(11,937)
Net capitalized development costs	$	661,632	$	440,579

The capitalized software development costs include $13,119 of interest capitalized as of September 30, 2011. The amortization expense relating to the capitalized development cost was $32,107 and $83,160 for the three and nine months ended September 30, 2011 respectively and $0 for the three and nine months ended September 30, 2010.

Amortization expense over the next five years and thereafter is estimated to be as follows:

2011	$	36,758
2012	$	147,033
2013	$	147,033
2014	$	147,033
2015	$	133,977
thereafter	$	49,797
	$	661,632

6. Income Tax Provision

The Company s income taxes are recorded in accordance with ASC 740 Income Taxes . The tax effects of the Company s temporary differences that give rise to significant portions of the deferred tax assets consisted primarily of net operating losses totaling $491,013 as of September 30, 2011 which was fully reserved.

Deferred tax assets and liabilities are computed by applying the effective U.S. federal and state income tax rate to the gross amounts of temporary differences and other tax attributes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. At September 30, 2011, the Company believed it was more likely than not that future tax benefits from net operating loss carry-forwards and other deferred tax assets would not be realizable through generation of future taxable income and accordingly deferred tax assets are fully reserved.

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BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

7. Notes Payable

The company had convertible subordinated notes payable issued to eleven entities/individuals. The notes accrued simple interest at the rate of 8% per annum. The principal amount of the notes, along with all accrued interest thereon was subject to automatic conversion upon the next financing transaction in which the Company sells shares of its capital stock to an outside vendor in an arm s length transaction. The principal balance of $1,475,000 (including notes payable to affiliate of $200,000) and accrued interest thereon of $90,088 as of August 31, 2011 were converted into 28,135,234 common shares as of September 1, 2011.

On September 1, 2011 and as part of the reverse merger, the Company issued convertible promissory notes (the Promissory Notes) to two accredited investors in a private placement transaction (the Private Placement) pursuant to a Securities Purchase Agreement (the Securities Purchase Agreement) in the aggregate principal amount of One Million Five Hundred Thousand Dollars ($1,500,000) and five-year warrants (the Warrants) to purchase up to 22,091,311 shares of the Company s common stock at an exercise price of $0.10 per share. The notes are due December 1, 2011 and accrue no interest. The Promissory Notes are automatically convertible at $1 into One Million Five Hundred Thousand (1,500,000) shares of the Company s Series A Convertible Preferred Stock (Series A Preferred) immediately upon the creation of the Series A Preferred by the Company. The Series A Preferred stock was approved October 17, 2011 and the notes were immediately converted. The Series A Preferred shares are initially convertible into shares of the Company s common stock at a conversion price of $0.0679 per share. The conversion of preferred into common stock is limited to the extent that the beneficial owners own greater that 4.99% of the Company s common stock.

8. Stockholders Equity (Deficit)

Blue Calypso Holdings, Inc. is authorized to issue 685,000,000 shares of capital stock: 680,000,000 shares of common stock with voting rights at a par value of $.0001 and 5,000,000 shares of Series A Convertible Preferred Stock, also at $.0001 par value per share. There were 125,295,526 shares of common stock issued and outstanding as of September 30, 2011. No shares of preferred stock were issued and outstanding as of September 30, 2011. The Company did not make or declare any distributions to shareholders during the three and nine months ended September 30, 2011.

Long-Term Incentive Plan

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

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BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

8. Stockholders Equity (Deficit), continued

Stock Options

During the three months ended September 30, 2011 the Company granted options to purchase 2,420,000 shares of the Company s common stock to non-employee board members and other consultants under the Plan. The options vest pro rata quarterly over two years. No options were granted to employees during the three months ended September 30, 2010.

The fair value for the Company s options were estimated at the date of grant using the Black-Scholes option pricing model with the weighted average assumptions as noted in the following table. The Black-Scholes option valuation model incorporate ranges of assumptions for inputs, and those ranges are disclosed below. Expected volatilities are based on similar industry-sector indices. The expected life of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate assumption is based on market yield on U.S. Treasury securities at 2-year constant maturity, quoted on investment basis determined at the date of grant.

Assumptions used for employee stock options:	
Risk-free interest rate	0.25%
Stock price volatility	20% - 37%
Expected life	2 years

Using the valuation assumptions noted above, the Company estimated the value of stock options granted during the three months ended September 30, 2011 to be approximately $33,910. The value of these options is being amortized to stock-based compensation expense quarterly over their two year vesting period. The stock-based compensation expense recorded during the three and nine months ended September 30, 2011 as well as the three and nine months ended September 30, 2010 were $0 respectively.

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BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

8. Stockholders Equity (Deficit), continued

The following table summarizes the stock option activity as of September 30, 2011:

	Outstanding Options		Weighted Average Exercise Price
Balance, December 31, 2010	320,825		0.001
Granted	2,420,000		0.0679
Exercised	0		0
Cancelled	320,825		0.001
Balance, September 30, 2011	2,420,000	$	0.0679
Exercisable at 9/30/2011	0	$	0.0679
Non-vested at 9/30/2011	2,420,000	$	0.0679

Restricted Stock

The restricted stock granted prior to the reverse merger transaction, have been retroactively restated as capital stock shares reflecting the exchange ratio in the Merger.

The following table summarizes the restricted stock activity for the period ended September 30, 2011:

Restricted shares issued as of December 31, 2010	6,737,322
Granted prior to Reverse Merger	2,566,599
Granted subsequent to Reverse Merger	320,825
Expired and forfeited	2,887,424
Converted as part of the Reverse Merger	6,416,497
Vested	