BLUE CALYPSO, INC.
Form 10-Q
November 19, 2012

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, 2012

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: 000-53981

BLUE CALYPSO, INC.

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 (Do not check if a smaller reporting company)	Smaller reporting company x

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 16, 2012, there were 125,135,112 shares of the issuer’s common stock outstanding.

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Part 1 – Item 1

BLUE CALYPSO INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 30, 2012 unaudited	December 31, 2011 audited
ASSETS		
Current assets:		
Cash and cash equivalents	51,789	371,393
Accounts Receivable	44,369	51,900
Prepaid expenses	24,251	34,807
Total current assets	120,409	458,100
Property and equipment, net of accumulated depreciation of $5,964 and $2,397 in 2012 and 2011 respectively	17,817	21,384
Capitalized software development costs, net of accumulated amortization of $298,185 and $133,279 in 2012 and 2011, respectively	866,284	814,874
Total assets	**$ 1,004,510**	**$ 1,294,358**
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	284,179	68,162
Accounts payable-affiliate	92,833	254,838
Accrued liabilities	107,821	96,962
Unearned revenue	37,177	24,174
Total current liabilities	522,010	444,136
Notes payable - LMD	300,000	-

Notes payable-affiliate		364,861		-
Total liabilities		1,186,871		444,136
Stockholders' equity (deficit)				
Series A Convertible Preferred stock, par value $.0001 per share (Authorized 5,000,000 shares; issued and outstanding 1,700,000 shares)		150		150
Common stock, par value $.0001 per share (Authorized 680,000,000 shares; issued, and outstanding 125,135,112 shares as of 9/30/12 and 126,845,641 shares at 12/31/11 respectively)		12,612		12,685
Additional paid in capital		8,938,408		4,666,929
Deferred compensation		(2,275,358)		(1,581,954)
Accumulated deficit during development stage	$	(6,858,173)		(2,247,588)
Total stockholders' equity (deficit)		(182,361)		850,222
Total liabilities and stockholders' equity (deficit)	**$**	**1,004,510**	**$**	**1,294,358**

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

	(UNAUDITED)		(UNAUDITED)		
	Three months ended September 2012	**Three months ended September 2011**	**Nine months ended September 2012**	**Nine months ended September 2011**	**FROM INCEPTION September 11, 2009 TO September 30, 2012**
REVENUE	$ 9,547	$ 1,665	$ 10,307	$ 7,701	$ 61,934
COST OF REVENUE	8,717	58,958	147,551	71,093	265,744
GROSS PROFIT (LOSS)	830	(57,293)	(137,244)	(63,392)	(203,810)
OPERATING EXPENSES					
Sales and marketing	120,604	153,063	244,942	255,390	1,421,789
General and administrative	364,217	357,571	1,072,434	568,229	1,765,785
Other operating expenses (includes deferred compensation expense related to stock options)	13,872	0	2,958,981	0	3,059,848
Depreciation and Amortization	57,170	32,599	168,474	84,319	304,198
	555,863	543,233	4,444,831	907,938	6,551,640
LOSS FROM OPERATIONS	(555,033)	(600,526)	(4,582,075)	(971,330)	(6,755,430)
OTHER INCOME (EXPENSE)					
Interest income	0	0	0	0	15
Interest expense	(13,248)	(20,745)	(28,510)	(60,138)	(102,758)
	(13,248)	(20,745)	(28,510)	(60,138)	(102,743)
					-

LOSS BEFORE INCOME TAX PROVISION	(568,281)	(621,271)	(4,610,585)	(1,031,468)	(6,858,173)
INCOME TAX PROVISION	-	-	-	-	-
NET LOSS	(568,281)	(621,271)	(4,610,585)	(1,031,468)	(6,858,173)
Loss per share: Basic and Diluted	$ (0.00)	$ (0.01)	$ (0.04)	$ (0.01)	
Weighted Average Shares Outstanding Basic and Diluted	138,431,367	72,185,591	131,461,321	73,285,040	

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, 2012

(UNAUDITED)

	Preferred Stock		**Common Stock**				**Accumulated Deficit During Development Stage**	**Total Stockholders' Equity (Deficit)**
	Shares	**Amount**	**Shares**	**Amount**	**Additional Paid-In Capital**	**Deferred Compensation**		
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	-	-	-	-	-	-	(115,880)	(115,880)
Ending Balance, September 30, 2010			72,185,591	7,219	15,864	(105)	(227,497)	(204,519)
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
Restricted shares vested as of 03/31/11			-	-	-	12	-	12
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
Additional Paid-In Capital-Compensation Expense					4,240			4,240
Conversion of Debt to Pref Stock 10/17/11	1,500,000	150			1,499,850			1,500,000
Restricted shares vested as of 10/1/11						5,446		5,446
Restricted shares issued- 12/30/11			1,550,115	155	1,565,461	(1,565,616)	-	-
Net loss	-	-	-	-	-	-	(803,430)	(803,430)
Ending Balance, December 31, 2011	1,500,000	$ 150	126,845,641	$ 12,685	$ 4,666,929	$ (1,581,954)	$ (2,247,588)	$ 850,222
Additional Paid-In Capital-Compensation Expense					-			-

Purchase of Preferred Stock	200,000				200,000			200,000
Restricted Shares Issued			200,000					
Stock Options - Deferred Income						763,480		763,480
Net loss	-	-	-	-	-	-	(1,359,215)	(1,359,215)
Ending Balance, March 31, 2012	1,700,000	$ 150	127,045,641	$ 12,685	$ 4,866,929	$ (818,474)	$ (3,606,803)	$ 454,487
					-			-
Restricted Shares Issued					5,234,337	(5,234,337)		-
Restricted Shares Cancelled			(1,700,115)	(155)	(1,565,461)	1,565,616		-
Restricted Shares - Unvested			(290,619)	(24)	(16,314)	16,338		
Purchase of Common Stock - related to Private Offering			440,000	44	186,479			186,523
Release of Common Stock from Shareholder			(440,000)					
Stock Options - Deferred Income						2,181,627		2,181,627
Net loss	-	-	-	-	-	-	(2,683,089)	(2,683,089)
Ending Balance, June 30, 2012	1,700,000	$ 150	125,054,907	$ 12,550	$ 8,705,970	$ (2,289,230)	$ (6,289,892)	$ 139,548
Restricted Shares Issued								-
Restricted Shares Cancelled								-
Restricted Shares - vested			80,205					
Purchase of Common Stock - related to Private Offering			450,000	62	232,438			232,500
Release of Common Stock from Shareholder			(450,000)					
Stock Options - Deferred Income						13,872		13,872
Net loss	-	-	-	-	-	-	(568,281)	(568,281)
Ending Balance September 30, 2012	1,700,000	$ 150	125,135,112	$ 12,612	$ 8,938,408	$ (2,275,358)	$ (6,858,023)	$ (182,361)

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)

	Nine months ended September 30, 2012	Nine months ended September 30, 2011	FROM INCEPTION SEP 11, 2009 TO June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (4,610,585)	$ (1,031,468)	$ (6,858,173)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense	168,473	33,240	298,731
Amortization of vested restricted stock and options	2,958,980	21,688	2,964,448
(Increase) decrease in assets:	-	-	-
Accounts receivable	7,532	(35,200)	(44,368)
Prepaid expenses and other current assets	10,555	(105,639)	(24,251)
Increase (decrease) in liabilities:	-	-	-
Accounts payable	216,017	22,188	284,179
Accounts payable-affiliate	(162,005)	43,420	114,791
Accrued expenses	(29,859)	(49,273)	126,820
Deferred revenue	13,004	38,749	37,178
Cash used in operating activities	(1,368,170)	(1,062,295)	(3,100,645)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash paid for software development	(216,317)	(253,161)	(1,059,052)
Cash paid for purchases of fixed assets	-	(8,173)	(23,781)
Cash used in investing activities	(216,317)	(261,334)	(1,082,833)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contributed capital received	7,154	37	8,324
Increase in Notes Payable - Affiliate	357,707	-	357,707
Shareholder Subscriptions Receivable	-	-	-
Increase in Notes Payable -LMD	300,000	225,000	300,000

Increase in Notes Payable		-		-		200,000
Sale of Common Stock associated with Private Placement		400,022				400,022
Purchase of Stock		200,000		1,543,399		2,969,214
Convertible Notes Payable		-		500,000		
Cash provided by financing activities		1,264,883		2,268,436		4,235,267
Net increase in cash		(319,604)		944,807		51,789
Cash at beginning of year		371,393		113,511		-
Cash at end of year	$	51,789	$	1,058,318	$	51,789
SUPPLEMENTAL INFORMATION:						
Cash paid for interest	$	-	$	-	$	-
Cash paid for taxes	$	-	$	-	$	-
Non-cash investing and financing activities:					$	221,958
Affiliate payable converted to equity	$	-	$	-	$	344,993
Affiliate payable converted to note payable	$	-	$	-	$	344,993

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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BLUE CALYPSO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012
(unaudited)

1. 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.

On September 1, 2011, Blue Calypso Inc., which was then a Nevada corporation (formerly known as JJ&R Ventures, Inc. (the "Company") entered into an Agreement of Merger and Plan of Reorganization (the "Merger Agreement") with BCHI, and Blue Calypso Acquisition Corp., the Company's newly-formed wholly-owned subsidiary ("Acquisition Sub"). Upon the closing of the transaction contemplated under the Merger Agreement (the "Merger"), Acquisition Sub merged into and with BCHI, and BCHI, as the surviving corporation, became a wholly-owned subsidiary of the Company. The merger was accounted for as a reverse-merger and recapitalization in accordance with the generally accepted accounting principles in the United States. BCHI was the acquirer for financial reporting purposes and Blue Calypso, Inc. is the acquired company. Consequently, the assets and liabilities and the operations that are reflected in the historical financial statements prior to the Merger are those of BCHI and are recorded at their historical cost basis. The operations after completion of the merger include those of BCHI and the Company. 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. On October 17, 2011, the Company was merged into and with its newly formed wholly owned subsidiary Blue Calypso, Inc., a Delaware corporation for the sole purpose of changing the state of incorporation of the Company from Nevada to Delaware.

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.

2. 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.

Basis of Presentation

The financial statements are stated in U.S. dollars and include the accounts of the Company and BCHI which were merged effective September 1, 2011. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

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BLUE CALYPSO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
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(unaudited)

2. Summary of Significant Accounting Policies, continued

Segments

The Company operates in a single segment.

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 ASC 605, “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.

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 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

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BLUE CALYPSO, INC. AND SUBSIDIARY
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NOTES TO FINANCIAL STATEMENTS
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2. Summary of Significant Accounting Policies, continued

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. 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.

BLUE CALYPSO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012
(unaudited)

2. Summary of Significant Accounting Policies, continued

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 prescribing 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 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 during the year, 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 year. 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. Anti-dilutive common stock equivalents of 290,619 were excluded from the loss per share computation for the three months ended September 30, 2012.

Stock-Based Compensation

The Company granted stock options and restricted stock as compensation to employees and directors. Compensation expense is measured in accordance with 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, 2012, the cash balance with the bank did not exceed the $250,000 FDIC limit.

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BLUE CALYPSO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012
(unaudited)

2. Summary of Significant Accounting Policies, continued

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 $1,250 and $69,059 for the three month periods ended September 30, 2012 and 2011, respectively.

Recent Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-06-Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force) . This ASU is effective for periods ending after December 31, 2013. We do not expect this ASU 2011-06 to apply to the Company or to have a material effect on the financial position, results of operations or cash flows.

In December 2011, the FASB issued ASU 2011-10-Property, Plant, and Equipment (Topic 360): De-recognition of in Substance Real Estate—a Scope Clarification (a consensus of the FASB Emerging Issues Task Force). This ASU is effective for periods after June 15, 2012. We do not expect this ASU 2011-10 to apply to the Company or to have a material effect on the financial position, results of operations or cash flows.

3. Property and Equipment

Property and equipment consist of the following at September 30, 2012 and December 31, 2011:

		9/30/2012		**12/31/2011**
Office Equipment	$	23,781	$	23,781
Less: Accumulated depreciation		(5,964)		(2,397)
Net property and equipment	$	17,817	$	21,384

Depreciation expense was $1,189 for the three months September 30, 2012.

4. Intangibles

Intangible assets consist of the following at September 30, 2012 and December 31, 2011:

		9/30/2012		12/31/2011
Capitalized Software Development Costs	$	1,164,469	$	948,153
Less: Accumulated amortization		(298,185)		(133,279)
Net capitalized development costs	$	866,284	$	814,874

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BLUE CALYPSO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012
(unaudited)

4. Intangibles, continued

The amortization expense relating to the capitalized development costs was $54,152 and $32,107 for the three months ended September 30, 2012 and 2011, respectively. Amortization expense for the next five years is estimated to be as follows:

Capitalized Development Cost Amortization

2012	$ 55,981
2013	233,842
2014	233,842
2015	210,657
2016	119,006
2017	12,955
	$866,284

5. 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 for the quarter ended September 30, 2012 and 2011 consisted primarily of net operating losses totaling $568,131 and $621,270 which were 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, 2012, 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.

6. Long Term Debt - Notes Payable

On April 19, 2012, the Company entered into a securities purchase agreement with an existing stockholder (the "Buyer"), pursuant to which the Company issued (i) a senior secured 8% convertible debenture in the original aggregate principal amount of $35,000 and (ii) a warrant to purchase 6,500,000 shares of common stock, $0.001 par value per share of the Company, and the Buyer covenanted to purchase up to an additional $465,000 of senior secured convertible debentures in a series of four closing at such times as may be designated by the Company in its sole discretion through October 19, 2012. The outstanding principal of the convertible debentures as of September 30, 2012 was $300,000. The convertible debentures mature on October 19, 2012 and bear interest at a rate of 8%.

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6. Long Term Debt - Notes Payable (continued)

In connection with the above private placement, the Company also entered into a security agreement, an intellectual property security agreement, a stockholder's agreement and various ancillary certificates, disclosure schedules and exhibits in support thereof, each dated April 19, 2012. In addition, the subsidiary of the Company, Blue Calypso, LLC, entered into a subsidiary guarantee in favor of the Buyer, dated April 19, 2012.

At August 31, 2011, 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 were converted into 28,135,234 common shares as of September 1, 2011.

7. Stockholders' Equity (Deficit)

On June 14, 2012, the Company commenced a private offering of up to $10,000,000 of Units (the "Units"), at a purchase price of $1.00 per Unit. Each Unit consists of: (i) two shares of the Company's common stock and (ii) a warrant to purchase one share of common stock. The warrant is exercisable for a term of two years at an exercise price of $0.75 per share.

As of September 30, 2012, the Company has issued and sold an aggregate of 445,000 Units in the private placement in consideration of gross cash proceeds of $445,000. As a result, the Company has issued an aggregate of 890,000 shares of common stock and warrants to purchase an aggregate of 890,000 shares of Common Stock. WFG Investments, Inc. ("WFG") acted as placement agent in connection with the Private Placement and was entitled to receive a commission equal to 10% of any subscriptions received and warrants to purchase 3% of the number of shares of common stock included in the Units sold in the Private Placement. As of September 30, 2012, WFG has received a cash fee of $44,500 and warrants to purchase 26,700 shares of common stock.

In April 2012, the Company entered into a stockholder's agreement with Andrew Levi, our Chief Technology Officer, whereby Mr. Levi agreed to place 25,000,000 shares of Common Stock held by him in escrow for a period of one year. In the event that the Company issues shares of Common Stock in a financing transaction, or in connection with the hiring or retention of senior management or directors during such period of time, the corresponding number of escrowed shares will be cancelled and returned to the Company's treasury.

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 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 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 were due December 1, 2011 and accrue no interest. On October 17, 2011, prior to their maturity, the notes automatically converted into One Million Five Hundred Thousand (1,500,000) shares of the Company's Series A Convertible Preferred Stock ("Series A Preferred"). In addition, pursuant to the Securities Purchase Agreement, one of the investors irrevocably committed to purchase an additional 200,000 shares of Series A Preferred and warrants to purchase up to 2,945,509 shares of the Company's common stock at an exercise price of $0.10 per share. The shares of Series A Preferred are convertible into shares of the Company's common stock at a conversion price of $0.0679 per share.

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7. Stockholders' Equity (Deficit), continued

During the three months ended September 30, 2012, the investor completed the purchase of the additional 200,000 shares of Series A Preferred and warrants to purchase an additional 2,945,509 shares of common stock. The conversion of Series A Preferred into common stock and exercise of warrants is limited to the extent that the beneficial owners own greater that 4.99% of the Company's common stock.

Blue Calypso, Inc. is authorized to issue 685,000,000 shares of capital stock: 680,000,000 shares of common stock at a par value of $.0001 and 5,000,000 shares of preferred stock, also at $.0001 par value per share. There were 125,135,112 shares of common stock issued and outstanding as of September 30, 2012. There were 1,700,000 shares of Series A Preferred were issued and outstanding as of September 30, 2012. The Company did not make or declare any distributions to shareholders during the quarter ended September 30, 2012 or September 30, 2011.

Long-Term Incentive Plan

The Blue Calypso, Inc 2011 Long Term Incentive Plan (the "Plan") was approved by the Company's stockholders 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.

Stock Options

During 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. During the three months ended September 30, 2012, the Company granted options to purchase 770,000 shares of the Company's common stock to employees, and non employee board members. During this period 375,000 of stock options were forfeited. These options were granted at a range of strike prices and vesting schedules. 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	5.75 years

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7. Stockholders' Equity (Deficit), continued

Using the valuation assumptions noted above, the Company estimated the value of stock options granted to be $13,872 and $0 for the three months ended September 30, 2012 and September 30, 2011, respectively. The value of these options is being amortized to stock-based compensation expense consistently with the vesting events. The stock-based compensation expense recorded was $13,872 and $0 during quarter ended September 30, 2012 and September 30, 2011, respectively. The following table summarizes the stock option activity as of September 30, 2012

Stock option activity for the nine months ended September 30, 2012:

Outstanding

Options