

CALIBRUS, INC.  
Form 10-Q  
May 16, 2011

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

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

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

For the quarterly period ended: March 31, 2011  
or

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

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

\_\_\_\_\_  
CALIBRUS, INC.  
(Exact name of registrant as specified in its charter)  
\_\_\_\_\_

NEVADA (State or Other Jurisdiction of Incorporation)	000-53408 (Commission File Number)	86-0970023 (I.R.S. Employer Identification No.)
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1225 W. Washington Street, Suite 213, Tempe AZ 85281  
(Address of Principal Executive Office) (Zip Code)

(602) 778-7516  
(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.

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.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

The number of shares of the issuer's Common Stock outstanding as of May 10, 2011 is 6,794,600.

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## PART I – FINANCIAL INFORMATION

Item 1.

Financial Statements.

CALIBRUS, INC.  
CONDENSED BALANCE SHEETS

	ASSETS	
	March 31, 2011	December 31, 2010
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,155	\$ 21,519
Accounts receivable - trade, net	487,592	372,990
Prepaid expenses	216	6,133
<b>Total Current Assets</b>	<b>491,963</b>	<b>400,642</b>
Property and equipment, net	41,049	47,357
Software development, net	2,445,771	2,675,062
Deposits	28,649	29,392
Deferred financing fees	2,987	-
<b>Total Assets</b>	<b>\$ 3,010,419</b>	<b>\$ 3,152,453</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Convertible notes payable, net of discount - current portion	\$ 670,000	\$ 605,000
Convertible related party notes payable - current portion	405,000	405,000
Notes payable - current portion	50,000	-
Related party notes payable - current portion	116,000	-
Due to factor	198,784	132,729
Accounts payable - trade	486,500	684,570
Accrued liabilities	431,198	266,106
<b>Total Current Liabilities</b>	<b>2,357,482</b>	<b>2,093,405</b>
<b>Total Liabilities</b>	<b>2,357,482</b>	<b>2,093,405</b>
<b>Stockholders' Equity</b>		
Preferred stock, \$.001 par value, 5,000,000 shares authorized, none issued or outstanding	-	-

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Common stock, \$.001 par value, 45,000,000 shares  
authorized,

6,794,600 shares issued and outstanding	6,795	6,795
Additional paid-in capital	4,769,074	4,765,758
Accumulated deficit	(4,122,932 )	(3,713,505 )
Total Stockholders' Equity	652,937	1,059,048
Total Liabilities and Stockholders' Equity	\$ 3,010,419	\$ 3,152,453

The Accompanying Notes are an Integral  
Part of these Condensed Financial Statements

CALIBRUS, INC.  
CONDENSED STATEMENTS OF OPERATIONS  
(Unaudited)

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Revenues	\$ 870,319	\$ 1,044,609
Cost of revenues	302,175	367,286
Gross profit	568,144	677,323
Research and development expense	369,882	-
General and administrative expenses	575,282	548,818
Income (loss) from Operations	(377,020 )	128,505
Other Income (Expense):		
Interest income	1	211
Interest expense	(32,408 )	(13,561 )
	(32,407 )	(13,350 )
Income (loss) before income taxes	(409,427 )	115,155
Income tax benefit (expense) - deferred	-	-
Net Income (loss)	\$ (409,427 )	\$ 115,155
Income (Loss) per Common Share: (Note 1)		
Basic and Diluted	\$ (0.06 )	\$ 0.02
Weighted Average Common Shares Outstanding:		
Basic and Diluted	6,794,600	6,794,600

The Accompanying Notes are an Integral  
Part of these Condensed Financial Statements

CALIBRUS, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income (loss)	\$ (409,427 )	\$ 115,155
Adjustments to reconcile net income (loss) to net cash flows from		
operating activities:		
Depreciation and amortization	236,163	18,743
Amortization of debt discount	-	2,317
Amortization of deferred financing fees	329	-
Warrants issued for services	-	425
Changes in assets and liabilities:		
Accounts receivable - trade	(114,602 )	(199,335 )
Prepaid expenses	5,917	26,485
Deposits	743	477
Accounts payable - trade	(198,070 )	195,941
Accrued liabilities	165,092	(84,967 )
Net cash provided (used) by operating activities	(313,855 )	75,241
Cash flows from investing activities:		
Purchase of fixed assets	(564 )	-
Capitalized software development	-	(470,069 )
Net cash used by investing activities	(564 )	(470,069 )
Cash flows from financing activities:		
Proceeds from issuance of debt	241,000	370,000
Repayment of debt	(10,000 )	-
Proceeds from factoring line	614,694	-
Repayment of factoring line	(548,639 )	-
Net cash provided by financing activities	297,055	370,000
Net decrease in cash and cash equivalents	(17,364 )	(24,828 )
Cash and cash equivalents at beginning of period	21,519	174,428
Cash and cash equivalents at end of period	\$ 4,155	\$ 149,600

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest	\$ 1,200	\$ -
Income taxes	\$ 50	\$ 50

The Accompanying Notes are an Integral  
Part of these Condensed Financial Statements

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CALIBRUS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. Summary of Significant Accounting Policies and Use of Estimates:

Presentation of Interim Information:

The condensed financial statements included herein have been prepared by Calibrus, Inc. (“we”, “us”, “our” or “Company”) without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) and should be read in conjunction with the audited financial statements as of December 31, 2010. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, as permitted by the SEC, although we believe the disclosures, which are made, are adequate to make the information presented not misleading. Further, the condensed financial statements reflect, in the opinion of management, all normal recurring adjustments necessary to present fairly our financial position at March 31, 2011, and the results of our operations and cash flows for the periods presented. The December 31, 2010 condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Interim results are subject to significant seasonal variations and the results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year.

Nature of Corporation:

Calibrus, Inc. (the “Company”) was incorporated on October 22, 1999, in the State of Nevada. The Company’s principal business purpose is to operate a customer contact center for a variety of clients, who are located throughout the United States. The Company provides customer contact support services for various companies wishing to outsource these functions. We have provided Hosted Business Solutions for ten years and now plan to expand our offerings to offer a social networking site called JabberMonkey (Jabbermonkey.com) and development of a location based social networking application for smart phones called Fanatic Fans.

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 and 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. These estimates include, but are not limited to, the collection of accounts receivable, the recoverability of software development, and the valuation of stock options and warrants. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The carrying amounts of accounts receivable, accounts payable, accrued liabilities, and notes payable approximate fair value given their short term nature or effective interest rates.

Earnings per Share:

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period and contains no dilutive securities. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. The Company calculates diluted earnings per share using the treasury stock method. For the three month periods ended March 31, 2011 and 2010, none of the potentially dilutive securities were deemed to be in the money. As such, all potentially dilutive securities are anti-dilutive.

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CALIBRUS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Income (loss) available to common stockholders	\$ (409,427 )	\$ 115,155
Weighted average number of common shares used in basic earnings per share	6,794,600	6,794,600
Effect of dilutive securities:		
Stock options	-	-
Stock warrants	-	-
Weighted average number of common shares and potential dilutive common stock used in diluted earnings per share	6,794,600	6,794,600

All dilutive common stock equivalents are reflected in our earnings per share calculations. Anti-dilutive common stock equivalents are not included in our earnings per share calculations. For the three month periods ended March 31, 2011 and 2010 the Company had outstanding options to purchase 2,512,499 and 1,383,332 shares of common stock at a per share weighted average exercise prices of \$1.09 and \$1.29, respectively, which were not included in the earnings per share calculation as they were anti-dilutive. For the three month periods ended March 31, 2011 and 2010 the Company had outstanding warrants to purchase 679,500 and 383,500 shares of common stock at a per share weighted average exercise price of \$1.68 and \$1.95, respectively, which were not included in the earnings per share calculation as they were anti-dilutive. In addition, as of March 31, 2011 the Company has \$1,075,000 principal balance of convertible debentures along with \$126,000 in accrued interest which is convertible into 800,667 shares of the Company's common stock if converted.

#### Revenue Recognition

Revenue for inbound calls is recorded on a per-call or per-minute basis in accordance with the rates established in the respective contracts. Revenue for outbound calls is on a commission basis, with revenue being recognized as the commission is earned. As the Company's customers are primarily well established, creditworthy institutions, management believes collectability is reasonably assured at the time of performance. The Company from time to time executes outbound sales campaigns for customers, primarily for the sale of telecommunications services. Although this revenue source has been immaterial, the Company recognizes the commissions earned on these campaigns on a net basis in accordance with FASB ASC 605-45 Reporting Revenue Gross as a Principal versus Net as an Agent.

#### Stock-Based Compensation:

The Company has stock-based compensation plans. Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant date fair value estimated in accordance with

the Black Scholes Pricing Model. The value of the compensation cost is amortized on a straight-line basis over the requisite service periods of the award (the option vesting term).

Assumptions used in the Black Scholes Pricing Model to estimate compensation expense are determined as follows:

- Expected term is determined using an average of the contractual term and vesting period of the award. The Company uses the simplified method as it does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time its equity shares have been publicly traded;
  - Expected volatility of award grants made under the Company's plans is measured using the historical daily changes in the market price of similar industry indices, which are publicly traded, over the expected term of the award;
-

CALIBRUS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

- Risk-free interest rate is equivalent to the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards; and,
- Forfeitures are based on the history of cancellations of awards granted by the Company and management's analysis of potential forfeitures.

#### Income Taxes:

The Company estimates the annual tax rate based on projected taxable income for the full year and records a quarterly income tax provision in accordance with the anticipated annual rate. As the year progresses, we refine the estimates of the year's taxable income as new information becomes available, including year-to-date financial results. This continual estimation process can result in a change to the expected effective tax rate for the year. When this occurs, the Company adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual tax rate. Significant judgment may be required in determining the Company's effective tax rate and in evaluating our tax positions.

The effective income tax rate of 0% for the three months ended March 31, 2011 and 2010 differed from the statutory rate, due primarily to net operating losses incurred by the Company in past and/or respective periods. For the three month period ended March 31, 2011 a tax benefit of approximately \$160,000 would be generated. For the three month period ended March 31, 2010, the tax liability generated by the net income at the effective income tax rate would have been approximately \$44,000 and would have reduced the deferred tax benefit and reserve by the same amount. However, all benefits have been fully offset through an allowance account due to the uncertainty of the utilization of the net operating losses. As of March 31, 2011 the Company had net operating losses of approximately \$6,300,000 resulting in a deferred tax asset of approximately \$2,250,000. The Company has established a valuation allowance in the full amount of the deferred tax asset due to the uncertainty of the utilization of operating losses in future periods.

#### Software Development

The Company capitalizes certain software costs in accordance with FASB ASC 985-20 Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. The product was under development through November 2010 and reached availability for general commercial use in December, 2010. Capitalized costs are being amortized over the estimated economic life of the product which is estimated to be 3 years. Amortization expense for the three months ended March 31, 2011 was \$229,291.

#### Pending Accounting Pronouncements:

There have been no recent accounting pronouncements issued which are expected to have a material effect on the Company's financial statements.

#### 2. Related Party Transactions

On January 31, 2011, the Company issued a promissory note in the principal amount of \$50,000 to evidence a loan made to the Company by Jeff W. Holmes, the Company's CEO and a beneficial owner. The terms of the note are 1

year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 50,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

On March 16, 2011, the Company issued a promissory note in the principal amount of \$10,000 to evidence a loan made to the Company by an entity controlled by Christian J. Hoffmann, III, a Director. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 10,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

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CALIBRUS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 2. Related Party Transactions (Continued)

On March 16, 2011, the Company issued a promissory note in the principal amount of \$10,000 to evidence a loan made to the Company by an entity controlled by Christian J. Hoffmann, III, a Director. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 10,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

On March 16, 2011, the Company issued a promissory note in the principal amount of \$5,000 to evidence a loan made to the Company by an entity controlled by Christian J. Hoffmann, III, a Director. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 5,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

During the three months ended March 31, 2011, the Company received a \$25,000 short term advance from its CEO. Due to the short duration of the advance no interest was accrued on the advance.

During the three months ended March 31, 2011, the Company received a \$16,000 short term advance from its President. Due to the short duration of the advance no interest was accrued on the advance.

## 3. Convertible Notes Payable

For the three months ended March 31, 2011 the Company has raised an additional \$75,000 (15 units) of a convertible debenture offering for a total of \$1,085,000 raised under the offering with \$1,075,000 principal balance outstanding. The offering consists of units of five thousand dollars (\$5,000) in Debentures of the Company and twenty five hundred (2,500) common stock purchase warrants (the "Warrants"). Each convertible debenture is convertible into shares of common stock of the Company at the lower of \$1.50 per share or the price of any additional private placement of the Company in the next twelve months and bears interest at the rate of 12% per annum (the "Debentures"). Each common stock purchase warrant entitles the holder to purchase one share of the Company's common stock for each Warrant held at the Warrant exercise price of the lower of (i) one dollar and ninety-five cents (\$1.95) per share, or (ii) one hundred thirty percent (130%) of the per share price paid by any investor in a private placement by the Company of shares of its common stock at any time in the next twelve months (the "Warrants"). The Warrants are only exercisable if the Debentures, which are part of the underlying Unit, are converted into shares of the Company's common stock. As such, for the three months ended March 31, 2011, 37,500 warrants have been issued in accordance with the offering language.

## 4. Notes Payable

On January 31, 2011, the Company issued a promissory note in the principal amount of \$50,000 to evidence a loan made to the Company by Jeff W. Holmes, the Company's CEO and a beneficial owner. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 50,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

On February 16, 2011, the Company issued a promissory note in the principal amount of \$50,000 to evidence a loan made to the Company by a current shareholder and Debenture holder. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 50,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

On March 16, 2011, the Company issued a promissory note in the principal amount of \$10,000 to evidence a loan made to the Company by an entity controlled by Christian J. Hoffmann, III, a Director. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 10,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

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CALIBRUS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

4. Notes Payable (Continued)

On March 16, 2011, the Company issued a promissory note in the principal amount of \$10,000 to evidence a loan made to the Company by an entity controlled by Christian J. Hoffmann, III, a Director. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 10,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

On March 16, 2011, the Company issued a promissory note in the principal amount of \$5,000 to evidence a loan made to the Company by an entity controlled by Christian J. Hoffmann, III, a Director. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 5,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

5. Warrants

On January 31, 2011 the Company issued a total of 7,500 warrants to a broker dealer as commissions for raising funds in the Company's private placement offering. The warrants have a two year expected term and are exercisable at the lower of (i) one dollar and ninety-five cents (\$1.95) per share, or (ii) one hundred thirty percent (130%) of the per share price paid by any investor in a private placement by the Company of shares of its common stock at any time in the next twelve months. The warrants had no value using the black-scholes pricing model.

During the three months ended March 31, 2011, the Company issued a total of 125,000 warrants in relation to bridge loans obtained during the period. The warrants have a three year term and an exercise price of \$.50 per share. The warrants were valued at \$3,316 and are being amortized over the respective terms of the loan agreements.

As of March 31, 2011 the Company had outstanding warrants to purchase a total of 679,500 shares of the Company's common stock at a weighted average exercise price of \$1.68.

6. Subsequent Events

Management has reviewed subsequent events from March 31, 2011 through the date of this filing. No material subsequent events were noted other than those listed below.

On April 26, 2011, the Company's Fanatic Fans location based social networking application became available for download through the iTunes App Store.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is management's discussion and analysis of certain significant factors affecting the Company's financial position and operating results during the periods included in the accompanying condensed financial statements. Except for the historical information contained herein, the matters set forth in this discussion are forward-looking statements.

## Overview

Our performance for the three months ended March 31, 2011 continued to reflect the overall volume decline in the Third Party Verification business as a whole. Fortunately, we have been able to significantly reduce our operating expenses to be more inline with our current revenue rate and have also entered into new contracts with some of our existing customers. These contracts called for increased pricing which offset the continued decline in volume. Core TPV operations continue to generate positive cash flow, however, we have also continued to increase our expenditures into software development in an effort to diversify our business offerings and generate alternative revenue sources. The Company launched its JabberMonkey social networking website in the 4th quarter of 2010. However, the Company does not currently have sufficient capital to market the website. The Company launched its mobile smart phone location based application Fanatic Fans on April 26, 2011. The Company will need to raise significant additional capital in order to execute the business plans related to JabberMonkey and Fanatic Fans.

## Results of Operations

The following table sets forth certain items derived from our Condensed Statements of Operations for the periods indicated and the corresponding percentage of total revenue for each item:

	Three Months Ended March 31, 2011 (Unaudited)		2010	
Revenues	\$ 870,319	100.0 %	\$ 1,044,609	100.0 %
Cost of Goods Sold	302,175	34.7 %	367,286	35.2 %
Gross Profit	568,144	65.3 %	677,323	64.8 %
Research and Development	369,882	42.5 %	-	0.0 %
General and Administrative Expenses	575,282	66.1 %	548,818	52.5 %
Income (loss) from Operations	(377,020)	-43.3 %	128,505	12.3 %
Interest Income	1	0.0 %	211	0.0 %
Interest Expense	(32,408 )	-3.7 %	(13,561 )	-1.3 %
Net Income (loss)	\$ (409,427)	-47.0 %	\$ 115,155	11.0 %

Three Months Ended March 31, 2011 compared to Three Months Ended March 31, 2010

Revenue – Revenue decreased 16.68% to \$870,319 for the three months ended March 31, 2011, which we refer to as “1st quarter 2011,” from \$1,044,609 for the three months ended March 31, 2010, which we refer to as “1st quarter

2010.” The decrease was due to the continued volume decline of Third Party Verification business and customers moving to lower priced automated services.

Cost of Revenue – Cost of Revenues decreased 17.73% to \$302,175 for the 1st quarter 2011, from \$367,286 for the 1st quarter 2010. The decrease was primarily due to lower revenue.

Gross Profit – Gross profit decreased to \$568,144 in the 1st quarter 2011 from \$677,323 in the 1st quarter 2010 and gross profit margin increased to 65.3% from 64.8% in the respective periods. The decrease in the gross profit was a direct result of reduced sales volume. However, gross profit margin during the 1st quarter 2011 increased as a direct result of new pricing terms with existing customers and a greater percentage of higher margin automated services.

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Research and Development – Research and development expenses increased to \$369,882 in the 1st quarter of 2011 from \$0 in the 1st quarter of 2010. This is a result of the Company’s ceasing of the capitalization of the expenditures related to its JabberMonkey.com social networking website due to its launch in the fourth quarter of 2010 and also due to the development of its Fanatic Fans mobile smart phone application. The Company continues to invest capital into diversifying its product offerings in an attempt to offset volume drops in its core TPV business.

General and Administrative Expenses – General and administrative expense increased 4.82% to \$575,282 in the 1st quarter of 2011 from \$548,818 in the 1st quarter of 2010. The increase was directly related to amortization expense of the Company’s JabberMonkey website. Total amortization related to the website totaled \$229,291 for the 1st quarter 2011. This increase was offset by lower administrative salaries and lower rent.

Interest Expense – Interest expense increased to \$32,408 for the 1st quarter of 2011 from \$13,561 in the 1st quarter of 2010. The increase in interest expense was a direct result of additional borrowings.

Net Income (Loss) – The Company generated a net loss of (\$409,427) for the 1st quarter of 2011 compared to net income of \$115,155 for the 1st quarter of 2010, a difference of (\$524,582). The decrease was a result of the Company expensing costs related to its JabberMonkey website and Fanatic Fans application and the amortization expense related to the website. Excluding research and development expense and amortization expense related to the website, the Company would have generated net income of \$189,746.

#### Liquidity and Capital Resources

As of March 31, 2011 we had cash on hand of \$4,155 and negative working capital of \$1,865,519. Historically, the Company has been able to fund operations through the generation of positive cash flow from its business operations. The Company has been and continues to use cash in its operations. As of March 31, 2011 the Company had sold 217 units, at \$5,000 per unit, consisting of five thousand dollars (\$5,000) in Convertible Debentures (“the Debentures”) of Calibus and twenty five hundred (2,500) common stock purchase warrants (the “Units”) for total proceeds of \$1,085,000. Each convertible debenture is convertible into shares of common stock of Calibus at the lower of \$1.50 per share or the price of any additional private placement of Calibus in the next twelve months and bears interest at the rate of 12% per annum. Each common stock purchase warrant entitles the holder to purchase one share of Calibus’ common stock for each warrant held at the warrant exercise price of the lower of (i) one dollar and ninety-five cents (\$1.95) per share, or (ii) one hundred thirty percent (130%) of the per share price paid by any investor in a private placement by Calibus of shares of our common stock at any time in the next twelve months (the “Warrants”). The Warrants are only exercisable if the Debentures, which are part of the underlying Unit, are converted into shares of Calibus’ common stock. The Company also received \$125,000 in bridge loans during the quarter ended March 31, 2011. If the Company is not able to consistently run its operations at a profit and raise the additional capital, it will be forced to significantly reduce its expenditures related to JabberMonkey.com and Fanatic Fans. There can be no assurance that the Company will be able to raise such capital or do so on favorable terms.

The Company has the following principal amounts of debentures coming due: May 16, 2011, \$250,000; June 30, 2011, \$185,000; July 31, 2011, \$135,000; September 30, 2011, \$370,000; November 30, 2011, \$10,000; December 31, 2011, \$50,000; January 31, 2012. The previous dates and amounts reflect \$830,000 in principal amount debentures for which six month extensions have been received. To the extent necessary, the Company will attempt to obtain additional six month extensions from Debenture holders as deemed necessary or until which point the debentures are converted into common shares or to a limited amount can be repaid, if we are able to do so. We cannot project when the new product offerings will be successful and if we are unable to return to profitability, we may not be able to repay the Debenture holders. Additionally, it would be difficult to convince new investors to contribute money that may be used to repay existing debts.



Significant accounting policies and pending accounting pronouncements are addressed in detail in the Company's Form 10-K filing for the year ended December 31, 2010. There have been no significant changes in these matters since that filing.

#### Forward-Looking Statements

We have made forward-looking statements, within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, in this quarterly report on Form 10-Q, including the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are based on our beliefs and assumptions and on information currently available to us. Forward-looking statements include the information concerning our possible or assumed search for new business opportunities and future costs of operations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "anticipate," "intend," "plan," "estimate" or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in the forward-looking statements. You should understand that many important factors could cause our results to differ materially from those expressed in the forward-looking statements. These factors include, without limitation, the difficulty in locating new business opportunities, our regulatory environment, our limited operating history, our ability to implement our growth strategy, our ability to integrate acquired companies and their assets and personnel into our business, our obligations to pay professional fees, and other economic conditions and increases in corporate maintenance and reporting costs. Unless legally required, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

#### Off Balance Sheet Arrangements

None

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required.

#### Item 4. Controls and Procedures.

An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Disclosure controls and procedures are defined as those controls and other procedures of an issuer that are designed to ensure that the information required to be disclosed by the issuer in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the United States Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that those disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the United States Securities and Exchange Commission's rules and forms.

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## Changes in Internal Control Over Financial Reporting

In addition, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

On September 13, 2010, a former employee filed a lawsuit in the Superior Court of the State of Arizona, in and for the County of Maricopa (Case No. CV2010-027027) against the Company. The complaint was hand-written and does not itemize the specific legal claims, but could include (1) discrimination (no statute identified), (2) failure to pay minimum wage or overtime (no statute identified), (3) retaliation, (4) assault, and (5) intentional infliction of emotional distress. The court entered a scheduling order on March 15, 2011, setting a discovery schedule. The Company intends to vigorously defend this matter. The suit is currently in the discovery phase and as such, the likelihood of any outcome is indeterminable. As such, the accompanying financial statements have not been adjusted to reflect any possible outcome.

### Item 1A. Risk Factors.

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There are no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 during the three months ended March 31, 2011.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

From October 2009 through January 2011, we sold 217 units, at \$5,000 per unit, consisting of five thousand dollars (\$5,000) in Convertible Debentures (“the Debentures”) of Calibus and twenty five hundred (2,500) common stock purchase warrants (the “Units”) for total offering proceeds of \$1,085,000 of which \$1,075,000 principal balance remains outstanding. Each convertible debenture is convertible into shares of common stock of Calibus at the lower of \$1.50 per share or the price of any additional private placement of Calibus in the next twelve months and bears interest at the rate of 12% per annum. Each common stock purchase warrant entitles the holder to purchase one share of Calibus’ common stock for each warrant held at the warrant exercise price of the lower of (i) one dollar and ninety-five cents (\$1.95) per share, or (ii) one hundred thirty percent (130%) of the per share price paid by any investor in a private placement by Calibus of shares of our common stock at any time in the next twelve months (the “Warrants”). The Warrants are only exercisable if the Debentures, which are part of the underlying Unit, are converted



into shares of Calibrus' common stock. As of March 31, 2011 a total of 537,500 warrants related to the offering remain outstanding.

In addition 7,500 placement agent warrants have been issued during the quarter ended March 31, 2011 related to the offering. The terms of the warrants mirror those of the private placement offering.

On January 31, 2011, the Company issued a promissory note in the principal amount of \$50,000 to evidence a loan made to the Company by Jeff W. Holmes, the Company's CEO and a beneficial owner. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 50,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

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On February 16, 2011, the Company issued a promissory note in the principal amount of \$50,000 to evidence a loan made to the Company by a current shareholder and Debenture holder. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 50,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

On March 16, 2011, the Company issued a promissory note in the principal amount of \$10,000 to evidence a loan made to the Company by an entity controlled by Christian J. Hoffmann, III, a Director. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 10,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

On March 16, 2011, the Company issued a promissory note in the principal amount of \$10,000 to evidence a loan made to the Company by an entity controlled by Christian J. Hoffmann, III, a Director. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 10,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

On March 16, 2011, the Company issued a promissory note in the principal amount of \$5,000 to evidence a loan made to the Company by an entity controlled by Christian J. Hoffmann, III, a Director. The terms of the note are 1 year with interest at 12% per annum, with interest due monthly. The loan also included warrants to purchase 5,000 shares of the Company's common stock with an exercise price of \$.50 per share. The warrants have a 3 year term.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Removed and Reserved.

Item 5. Other Information.

None.

Item 6. Exhibits.

None.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Calibrus, I