

BLUE CALYPSO, INC.  
Form 10-Q/A  
October 09, 2013

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q/A  
(Amendment No. 2)**

**(Mark One)**

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

**For the quarterly period ended June 30, 2012**

**or**

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

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

**Commission File Number: 000-53981**

**BLUE CALYPSO, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or  
Organization)

**20-8610073**

(I.R.S. Employer Identification No.)

**19111 North Dallas Parkway, Suite 200**

**Dallas, TX**

(Address of Principal Executive Offices)

**75287**

(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.  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

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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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 10, 2012 there were 125,054,907 shares of the issuer's common stock outstanding.

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### EXPLANATORY NOTE

This Amendment No. 2 hereby amends our Quarterly Report on Form 10-Q ( Form 10-Q/A ) for the period ended June 30, 2012, which was originally filed with the Securities and Exchange Commission on August 15, 2012 and subsequently amended on August 17, 2012 (the Original 10-Q ). This Amendment is being filed mainly to include restated financial statements as described in Note 2, Restatement of Previously Issued Financial Statements of the Notes to the condensed consolidated financial statements. The condensed consolidated financial statements are being restated to reflect the following:

On August 26, 2013, after consulting with the Company's Audit Committee and with the Company's newly appointed Independent Registered Public Accounting Firm, Marcum LLP, management changed its accounting for certain of the Company's warrants previously issued in connection with preferred stock and common stock and conversion features related to previously issued convertible notes which were recorded in periods prior to the engagement of Marcum LLP in order to comply with US GAAP. Such warrants and the embedded conversion options should have been reflected as liabilities on the consolidated balance sheets included in the Original 10-Q, rather than as a component of equity.

Specifically, the change in treatment of the warrants and the conversion feature embedded in certain convertible notes resulted in a change to the equity, and liability portions of the consolidated balance sheets as of June 30, 2012 and resulted in a loss on the fair value of the derivative liabilities which impacted our results of operations and earnings (loss) per share as reported in our Original 10-Q.

In addition, management determined that the Company had not properly accreted compensation expense for certain restricted stock grants for the period June 1, 2012 to March 31, 2013. The Company also discovered certain errors in our condensed statement of cash flows for the six months ended June 30, 2012.

In addition, the Company has concluded that these accounting changes constitute an additional deficiency in the Company's internal control over financial reporting as of June 30, 2012 and that its disclosure controls and procedures were not effective as of June 30, 2012.

The following sections of this Form 10-Q/A have been amended to reflect the restatement:

- Part I Item 1 Financial Statements and Notes to the Condensed Consolidated Financial Statements;
- Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations; and
- Part I Item 4 Controls and Procedures.

For the convenience of the reader, this Form 10-Q/A sets forth the Original 10-Q in its entirety, as amended by, and to reflect the restatements, as described above. Except as described above, the Company has not modified or updated disclosures presented in this Amendment No. 1. Accordingly, this Amendment No. 1 does not reflect events occurring after the Original 10-Q or modify or update those disclosures affected by subsequent events, except as specifically referenced herein. Information not affected by the restatements is unchanged and reflects the disclosures made at the time of filing of the Original 10-Q.

This Form 10-Q/A has been signed as of a current date and all certifications of the Company's Chief Executive Officer/Principal Executive Officer and Chief Financial Officer/Chief Accounting Officer and Principal Financial

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Officer are given as of a current date. Accordingly, this Form 10-Q/A should be read in conjunction with the Company's filings with the Securities and Exchange Commission subsequent to the filing of the Original 10-Q, including any amendments to those filings.

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**BLUE CALYPSO INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED BALANCE SHEETS**  
(unaudited) (restated)

	<b>June 30,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>
	unaudited	audited
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 91,826	\$ 371,393
Shareholder subscriptions Receivable	120,000	
Accounts Receivable	18,700	51,900
Prepaid expenses	16,928	34,806
Total current assets	247,454	458,100
Property and equipment, net of accumulated depreciation of \$4,775 and \$2,397 in 2012 and 2011 respectively	19,006	21,384
Capitalized software development costs, net of accumulated amortization of \$242,204 and \$133,279 in 2012 and 2011, respectively	898,090	814,874
Total assets	<b>\$ 1,164,550</b>	<b>\$ 1,294,358</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	209,948	68,162
Accounts payable-affiliate	70,942	254,838
Accrued liabilities	72,980	96,962
Unearned revenue	20,877	24,174
Warrant liabilities	10,465,293	10,997,560
Conversion option liability	56,178	-
Total current liabilities	10,876,218	11,441,696
Notes payable LMD Capital	292,548	-
Notes payable-affiliate	357,707	-
Total liabilities	11,546,473	11,441,696
Stockholders' equity (deficit)		
Series A Convertible Preferred stock, par value \$.0001 per share (Authorized 5,000,000 shares; issued and	150	150

outstanding 1,700,000 and 1,500,000 shares at 6/30/12 and 12/31/11, respectively)

Common stock, par value \$.0001 per share (Authorized 680,000,000 shares; issued and outstanding 125,054,907 shares

as of 6/30/12 and 126,845,641 shares at 12/31/11 respectively)

Additional paid in capital	12,550	12,685
Deferred compensation	7,192,491	3,954,102
Accumulated deficit during development stage	(2,289,230)	(1,581,954)
Total stockholders' equity (deficit)	(15,297,884)	(12,532,321)
	(10,381,923)	(10,147,338)

Total liabilities and stockholders' equity (deficit)	\$	<b>1,164,550</b>	\$	<b>1,294,358</b>
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**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 MONTHS ENDED JUNE 30, 2012 (RESTATED) AND 2011; SIX MONTHS ENDED  
JUNE 30, 2012 (RESTATED) AND 2011 AND THE PERIOD SEPTEMBER 11, 2009 (DATE OF  
INCEPTION) TO JUNE 30, 2012 (RESTATED)**

	(UNAUDITED) (RESTATED)		(UNAUDITED) (RESTATED)		(RESTATED)
	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30 2012	Six months ended June 30 2011	FROM INCEPTION SEP 11, 2009 TO June 30,2012
REVENUE	\$ 176	\$ 1,278	\$ 760	\$ 6,036	\$ 52,387
COST OF REVENUE	52,809	12,064	145,516	12,136	257,027
GROSS LOSS	(52,633)	(10,786)	(144,756)	(6,100)	(204,640)
OPERATING EXPENSES					
Sales and marketing	190,098	54,791	433,523	128,222	1,301,185
General and administrative	2,520,232	116,050	3,482,858	184,763	4,592,942
Depreciation and Amortization	55,962 2,766,292	27,464 198,305	111,303 4,027,684	51,720 364,705	247,028 6,141,155
LOSS FROM OPERATIONS	(2,818,925)	(209,091)	(4,172,440)	(370,805)	(6,345,795)
OTHER INCOME (EXPENSE)					
Interest income	-	-	-	-	15
Interest expense	(578,809)	(26,341)	(584,509)	(39,393)	(658,757)
Change in fair value of derivative liabilities	2,417,965 1,839,156	(26,341)	1,991,385 1,406,876	(39,393)	(8,293,348) (8,952,090)
LOSS BEFORE INCOME TAX PROVISION	(979,769)	(235,432)	(2,765,564)	(410,198)	(15,297,885)

INCOME TAX PROVISION	-	-	-	-	-
NET LOSS	\$ (979,769)	\$ (235,432)	\$ (2,765,564)	\$ (410,198)	\$(15,297,885)
Loss per share:					
Basic and Diluted	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)	
Weighted Average Shares Outstanding					
Basic and Diluted	125,054,906	72,185,591	125,054,906	72,185,591	

**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 JUNE 30, 2012**  
**(UNAUDITED) (RESTATED)**

	Preferred Stock		Common Stock		Additional	Deferred	Accumulated Deficit During Development	Total Stockholders' Equit
	Shares	Amount	Shares	Amount	Paid-In Capital	Compensation	Stage	(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	-	-	-	-	-	-	(115,880)	(115,880)
Ending Balance, September 30, 2010	-	-	72,185,591	7,219	15,864	(105)	(227,497)	(204,519)

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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)

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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	-	-	-	-	4,239	-	-	4,239
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	-	1,565,461	(1,565,616)	-	-
Allocation of proceeds from warrants 12/31/11	-	-	-	-	(712,827)	-	-	(712,827)
Net loss	-	-	-	-	-	-	(11,088,163)	(11,088,163)
Ending Balance, December 31, 2011	1,500,000	\$ 150	126,845,641	\$ 12,685	\$ 3,954,102	\$ (1,581,954)	\$ (12,532,321)	\$ (10,147,338)
Purchase of Preferred Stock	200,000	-	-	-	200,000	-	-	200,000
Restricted Shares Issued	-	-	200,000	-	-	-	-	-
Stock Options - Deferred Income	-	-	-	-	-	763,480	-	763,480
Allocation of proceeds from warrants 3/31/12	-	-	-	-	(946,049)	-	-	(946,049)
Net loss	-	-	-	-	-	-	(1,785,795)	(1,785,795)
Ending Balance, March 31, 2012	1,700,000	\$ 150	127,045,641	\$ 12,685	\$ 3,208,052	\$ (818,474)	\$ (14,318,115)	\$ (11,915,702)
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 from Shareholder	-	-	(440,000)	-	-	-	-	-
Stock Options - Deferred Income	-	-	-	-	-	2,181,627	-	2,181,627
Recording of restricted stock 6/30/12	-	-	-	-	145,398	-	-	145,318
Net loss	-	-	-	-	-	-	(979,769)	(979,769)
Ending Balance, June 30, 2012	1,700,000	\$ 150	125,054,907	\$ 12,550	\$ 7,192,491	\$ (2,289,230)	\$ (15,297,884)	\$ (10,381,923)

**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) (RESTATED)**

	Six months ended	Six months ended	FROM INCEPTION
	June 30,	June 30,	SEP 11, 2009 TO
	2012	2011	June 30, 2012
	(RESTATED)		(RESTATED)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (2,765,564)	\$ (410,198)	\$ (15,297,885)
Adjustments to reconcile net loss to net cash used in operating activities:			
Change in fair value of derivative liability	(1,991,385)	-	8,293,348
Amortization of deferred debt discount	569,247	-	569,247
Depreciation and amortization expense	111,303	641	241,561
Amortization of vested restricted stock and options	3,090,506	-	3,095,974
(Increase) decrease in assets:			
Accounts receivable	33,201	-	(18,699)
Prepaid expenses and other current assets	17,878	(70,501)	(16,928)
Increase (decrease) in liabilities:			
Accounts payable	141,786	(48,816)	209,948
Accounts payable-affiliate	(183,896)	43,420	92,900
Accrued expenses	(23,983)	47,649	72,979
Deferred revenue	(3,296)	5,214	20,878
<b>Cash used in operating activities</b>	<b>(1,004,203)</b>	<b>(432,591)</b>	<b>(2,736,677)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash paid for software development	(192,142)	(124,124)	(1,034,877)
Cash paid for purchases of fixed assets	-	(3,311)	(23,781)
<b>Cash used in investing activities</b>	<b>(192,142)</b>	<b>(127,435)</b>	<b>(1,058,658)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Contributed capital received	-	37	1,170
Increase in Notes Payable - Affiliate	357,707	-	357,707

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Shareholder Subscriptions Receivable	(120,000)	-	(120,000)
Increase in Notes Payable -LMD	292,548	-	292,548
Increase in Notes Payable	-	200,000	200,000
Sale of Common Stock associated with Private Placement	186,523	-	186,523
Purchase of Stock	200,000	-	-
Convertible Notes Payable	-	500,000	2,969,214
<b>Cash provided by financing activities</b>	<b>916,778</b>	<b>700,037</b>	<b>3,887,162</b>
<b>Net increase in cash</b>	<b>(279,567)</b>	<b>140,011</b>	<b>91,826</b>
Cash at beginning of year	371,393	113,511	-
Cash at end of year	\$ 91,826	\$ 253,522	\$ 91,826

**SUPPLEMENTAL INFORMATION:**

Cash paid for interest	\$ 0	\$ -	\$ 0
Cash paid for taxes	\$ -	\$ -	\$ -
Non-cash investing and financing activities:			
Conversion of notes payable and accounts payable -former affiliate to common stock	\$ 0	\$ -	\$ 221,958
Former affiliate payable converted to note payable	\$ 344,993	\$ 0	\$ 344,993
Conversion of notes payable to common and preferred stock	\$ 0	\$ 0	\$ 2,769,214
Fair value of warrants issued in connection with preferred, common stock and notes payable	\$ 4,710,159	\$ 0	\$ 15,832,892
Fair value of conversion option issued in connection with notes payable	\$ -	\$ -	\$ 787,192
Fair value of warrants issued in settlement of accounts payable	\$ -	\$ -	\$ 45,206
Issuance of stockholder subscription receivable	\$ 120,000	\$ 0	\$ 120,000

**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  
JUNE 30, 2012  
(unaudited) (restated)**

**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. October 16, 2011, the Company was merged into and with Blue Calypso, Inc., a Delaware corporation and wholly owned subsidiary 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. Restatement of Previously Issued Financial Statements**

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On August 26, 2013, after consulting with the Company's Audit Committee, management changed its accounting for certain of the Company's warrants previously issued in connection with preferred stock and common stock and conversion features related to previously issued convertible notes which were recorded in periods prior to the engagement of Marcum LLP in order to comply with US GAAP. Such warrants and the embedded conversion options should have been reflected as liabilities on the consolidated balance sheets included in the Original 10-Q, rather than as a component of equity.

Specifically, the change in treatment of the warrants and the conversion feature embedded in certain convertible notes resulted in a change to the equity and liability portions of the consolidated balance sheets as of June 30, 2012 and resulted in an aggregate loss to date through June 30, 2012 on the fair value of the derivative liabilities which impacted our results of operations and earnings (loss) per share as reported in our Original 10-Q.

The effects of the revision on the accompanying balance sheet as of December 31, 2011 and June 30, 2012 is summarized below:

**Condensed Consolidated Balance Sheet  
December 31, 2011**

	As previously reported	Adjustment	Reference	As Restated
Assets	\$ 1,294,358	\$ -		\$ 1,294,358
Current liabilities:				
Conversion option liability	-	-	(a)	0
Warrant liabilities	-	10,997,560	(a)	10,997,560
Other current liabilities	444,136	0		444,136
Total current liabilities	444,136	10,997,560		11,441,696
Long term debt:	0	0		-
Total liabilities	444,136	10,997,560		11,441,696
Stockholders' deficiency				
Series A convertible preferred stock	150	-		150
Common stock	12,685	-		12,685
Additional paid in capital	4,666,929	(712,827)	(a)	3,954,102
Additional paid in capital - deferred compensation	(1,581,954)	-	(a)	(1,581,954)
Deficit accumulated during the development stage	(2,247,588)	(10,284,733)	(a)	(12,532,321)
Total stockholders' deficiency	850,222	(10,997,560)		(10,147,338)
	\$ 1,294,358	\$ -		\$ 1,294,358

Total liabilities and stockholders' deficiency

(a) Reclassify cumulative effect of reclassifying warrants and conversion options with reset provisions as a liability and adjustment for accretion of stock based compensation.

**Condensed Consolidated Balance Sheet**  
**June 30, 2012**

	As previously reported	Adjustment	Reference	As Restated
Assets	\$ 1,164,550	\$ -		\$ 1,164,550
Current liabilities:				
Conversion option liability	-	56,178	(a)	56,178
Warrant liabilities	-	10,465,293	(a)	10,465,293
Other current liabilities	374,747	0		374,747
Total current liabilities	374,747	10,521,471		10,896,218
Long term debt:	650,255	0		650,255
Total liabilities	1,025,002	10,521,471		11,546,473
Stockholders' deficiency				
Series A convertible preferred stock	150	-		150
Common stock	12,550	-		12,550
Additional paid in capital	8,705,970	(1,513,479)	(a)	7,192,491
Additional paid in capital - deferred compensation	(2,289,230)	-	(a)	(2,289,230)
Deficit accumulated during the development stage	(6,289,892)	(9,007,992)	(a)	(15,297,884)
Total stockholders' deficiency	139,548	(10,521,471)		(10,381,923)
				-
Total liabilities and stockholders' deficiency	\$ 1,164,550	\$ -		\$ 1,164,550

(a) Reclassify cumulative effect of reclassifying warrants and conversion options with reset provisions as a liability and adjustment for accretion of stock based compensation.

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CONDENSED NET LOSS ADJUSTMENTS BY QUARTER ENDED 6/30/12, SIX MONTHS ENDED 6/30/2012  
AND INCEPTION TO 6/30/12

The effects of above described adjustments resulted in a change in the net gain or loss for the three month period ended June. 30, 2012, the six month period ended June 30, 2012 and from inception to date through June 30, 2012.

	Three	Six	Inception
	Months Ended	Months Ended	to Date
	June 30, 2012	June 30, 2012	June 30, 2012
Net Loss (as originally presented)	\$ (2,683,089)	\$ (4,042,304)	\$ (6,289,892)
Change in operating expenses	(145,398)	(145,398)	(145,398)
Change in fair value of derivative liabilities	2,417,965	1,991,386	(8,293,348)
Increase in interest expense related to derivative liabilities	(569,247)	(569,247)	(569,247)
Net gain or loss (as restated)	\$ (979,769)	\$ (2,765,564)	\$(15,297,885)
Net loss per share - basic and diluted (as restated)	\$ (0.01)	\$ (0.02)	
Weighted average shares outstanding - basic and diluted	125,054,906	125,054,906	

**3. Summary of Significant Accounting Policies***Development Stage Company*

The Company is a development stage company as defined by 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.

*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 Accounting Standards Codification ( 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.



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**3. Summary of Significant Accounting Policies, continued**

*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.

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**3. 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 67,504,899 were excluded from the loss per share computation for the three months ended June 30, 2012.

*Preferred Stock*

Preferred shares subject to mandatory redemption (if any) are classified as liability instruments and are measured at fair value. The Company classifies conditionally redeemable preferred shares, which includes preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control, as temporary equity. At all other times, the Company



classifies its preferred shares in stockholders' deficiency. As of June 30, 2012, the Company does not have any preferred shares subject to mandatory redemption outstanding.

### *Convertible Instruments*

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

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

### *Common Stock Warrants and Other Derivative Financial Instruments*

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

The Company's free standing derivatives consist of warrants to purchase common stock that were issued in connection with its private placement transactions (see Note 7) and embedded conversion options with convertible notes. The Company evaluated these derivatives to assess their proper classification in the condensed consolidated balance sheets as of June 30, 2012 and December 31, 2011 using the applicable classification criteria enumerated under GAAP. The Company determined that certain common stock purchase warrants and the embedded conversion features do not contain fixed settlement provisions. The exercise price of such warrants is subject to adjustment in the event that the Company subsequently issues equity securities or equity linked securities with exercise prices lower than the exercise price in these warrants. The convertible notes contained a conversion feature such that the Company could not ensure

it would have adequate authorized shares to meet all possible conversion demands.

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

The Company has adopted a sequencing policy that reclassifies contracts (from equity to assets or liabilities) with the most recent inception date first. Thus any available shares are allocated first to contracts with the most recent inception dates.

## ***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 June 30, 2012, the cash balance with the bank did not exceed the \$250,000 FDIC limit.

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**3. 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 \$12,080 and \$1,550 for the three month periods ended June 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 Financial Accounting Standards Board (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.

**4. Fair Value of Financial Instruments**

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

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

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

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

Concentrations of Credit Risk

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

Financial liabilities as of June 30, 2012 and December 31, 2011 measured at fair value on a recurring basis are summarized below:

	June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative liabilities (as restated - see note 2)	\$ 10,521,471	\$ --	\$ --	\$ 10,521,471

	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative liabilities (as restated - see note 2)	\$ 10,997,560	\$ --	\$ --	\$ 10,997,560

The Company determined that the warrants issued in connection with certain financing transactions and certain conversion options related to convertible notes did not have fixed settlement provisions and are deemed to be derivative financial instruments, since the exercise prices were subject to adjustment based on certain subsequent equity issuances. Accordingly, the Company was required to record the warrants and conversion option as liabilities and mark all such derivatives to fair value each reporting period. Such instruments were classified within Level 3 of the valuation hierarchy.

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The fair value of the warrants and the conversion options was calculated using a binomial lattice formula with the following weighted average assumptions during the three and six months ended June 30, 2012:

Dividend Yield	0.00%
Volatility	90.60% - 95.63%
Risk-free Interest Rate	0.16% - 0.72%
Term	4.2 - 4.8 years

The risk-free interest rate is the United States Treasury rate on the measurement date having a term equal to the remaining contractual life of the warrant. The volatility is a measure of the amount by which the Company's share price has fluctuated or is expected to fluctuate. Since the Company's common stock has not been publicly traded for a long period of time, an average of the historical volatility of comparative companies was used. The dividend yield is 0% as the Company has not made any dividend payment and has no plans to pay dividends in the foreseeable future.

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

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

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

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

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The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis for the six months ended June 30, 2012:

Balance - Beginning of period (as restated - see note 3)	\$ 10,997,560
Aggregate fair value of derivative instruments issued	1,515,297
Change in fair value of derivative liabilities	(1,991,386)
Balance - End of period	\$ 10,521,471

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**5. Property and Equipment**

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

	<b>6/30/2012</b>	<b>12/31/2011</b>
Office Equipments	\$ 23,781	\$ 23,781
Less-Accumulated depreciation	(4,775)	(2,397)
Net property and equipment	\$ 19,006	\$ 21,384

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

**6. Intangibles**

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

	<b>6/30/2012</b>	<b>12/31/2011</b>
Capitalized Software Development Costs	\$ 1,140,294	\$ 948,153
Less: Accumulated amortization	(242,204)	(133,279)
Net capitalized development costs	\$ 898,090	\$ 814,874

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**6. Intangibles, continued**

The amortization expense relating to the capitalized development costs was \$54,152 and \$23,999 for the three months ended

June 30, 2012 and 2011, respectively. Amortization expense for the next five years is estimated to be as follows:

## Capitalized Development Cost Amortization

<b>2012</b>	\$ 109,545
<b>2013</b>	229,007
<b>2014</b>	229,007
<b>2015</b>	205,822
<b>2016</b>	114,171
<b>2017</b>	10,538
	<b>\$ 898,090</b>

**7. 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 as of June 30, 2012 and 2011 consisted primarily of net operating losses totaling \$979,769 and \$235,432 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 June 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.

**8. 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 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 June 30, 2012 was \$290,000. The convertible debentures mature on October 19, 2012 and bears interest at a rate of 8%.

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**8. 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 shares of common stock as of September 1, 2011.

**9. Warrant Derivative Liabilities**

The Company issued warrants in conjunction with the issuance of convertible debentures and the sale of Series A Convertible Preferred and Common Stock. These warrants contain certain reset provisions. Therefore, in accordance with ASC 815-40, the Company classified the fair value of the warrant as a liability at the date of issuance. Subsequent to the initial issuance date, the Company is required to adjust the warrant to fair value as an adjustment to current period operations.

The Company recorded a gain (loss) on change in fair value of derivative liabilities of \$1,991,385 and \$0 for the six months ended June 30, 2012 and \$2,417,965 and \$0 for the three months ended June 30, 2012 and 2011, respectively.

**10. Stockholders' Equity (Deficit)**

On June 14, 2012, the Company commenced a private offering (the "Private Placement") 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 June 30, 2012, the Company has issued and sold an aggregate of 100,000 Units in the Private Placement in consideration of gross cash proceeds of \$100,000. As a result, the Company has issued an aggregate of 200,000 shares of common stock and warrants to purchase an aggregate of 100,000 shares of Common Stock. WFG Investments, Inc. ("WFG") is acting as placement agent in connection with the Private Placement and is 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 June 30, 2012, WFG is entitled to receive a cash fee of \$10,000 and warrants to purchase 6,000 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, such as the Private Placement, 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. During the three months ended June 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 than 4.99% of the Company s common stock.

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**10. Stockholders Equity (Deficit), continued**

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 125,054,907 shares of common stock issued and outstanding as of June 30, 2012. There were 1,700,000 shares of Series A Preferred were issued and outstanding as of June 30, 2012. The Company did not make or declare any distributions to shareholders during the quarter ended June 30, 2012 or June 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 June 30, 2012, the Company granted options to purchase 6,608,218 shares of the Company's common stock to employees, and non employee board members. During this period 1,980,333 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%

Concentrations of Credit Risk

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Stock price volatility  
Expected life

20% - 37%  
5.75 years

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**10. Stockholders Equity (Deficit), continued**

Using the valuation assumptions noted above, the Company estimated the value of stock options granted to be \$2,181,627 and \$0 for the three months ended June 30, 2012 and June 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 \$2,181,627 and \$0 during quarter ended June 30, 2012 and June 30, 2011, respectively. The following table summarizes the stock option activity as of June 30, 2012

Stock Option Activity for the six months ended 6/30/12

	Outstanding	Weighted Average Exercise Price
Balance, December 31, 2011	2,420,000	0.0679
Granted Q1, 2012	2,495,325	0.3292
Granted Q2, 2012	6,608,218	0.1536
Forfeited Q2, 2012	(1,980,333)	0.0679
Balance, June 30, 2012	9,543,210	0.1956
Exercisable at 6/30/12	7,602,242	0.1764

The following table summarizes the restricted stock activity for the period ended June 30, 2012:

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.

**Restricted Shares Activity**

Restricted shares issued as of December 31, 2011	1,870,940
Granted during three months ended March 31, 2012	200,000
Granted during three months ended June 30, 2012	13,085,842
Forfeited during three months ended June 30, 2012	(1,700,115)
Vested at June 30, 2012	(80,206)
Unvested restricted shares as of June 30, 2012	13,376,461

A total of 13,085,842 shares were granted in the quarter ended June 30, 2012 and will vest 1/3 in the first year following the grant and the balance over the following 8 calendar quarters. The share based compensation expense is \$145,398 and \$0 for quarters ended June 30, 2012 and June 30, 2011, respectively. As of June 30, 2012, unamortized stock compensation expense related to restricted stock is \$5,248,621 and will be amortized over the remaining period of approximately 3 years.

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

**11. Related Party Transactions**

Aztec Systems, Inc. ( Aztec ) is an affiliate of the Company that provides administrative and technical support services to the Company. The majority owner of Aztec was also the majority stockholder of the Company until the date of sale of Aztec on June 15, 2012. The Company incurred management fees of \$ 9,064 and \$11,827 and software development fees of \$18,148 and \$99,770 relating to Aztec Systems for quarter ended June 30, 2012 and June 30, 2011, respectively. The Company had accounts payable to Aztec Systems of \$70,942 and \$99,117 as of June 30, 2012 and June 30, 2011, respectively.

On January 16, 2012, the Company entered into a letter agreement with Aztec, pursuant to which Aztec agreed to extend credit to the Company in an amount requested by the Company up to a maximum of \$30,000 in any single month through March 31, 2012 to assist the Company with its ongoing software development efforts. In connection with the credit extension, the Company agreed to pay Aztec a minimum of \$30,000 per month beginning January 2012 to be applied against any amounts currently owed by the Company to Aztec or incurred in the future for software development or hosting services. Aztec may terminate the credit extension immediately upon notice to the Company. On January 17, 2012, the Company issued a promissory note to Aztec in the principal amount of \$254,992.89 (the Note ). The principal amount of the Note reflects the balance due by the Company to Aztec as of December 31, 2011 for software development and hosting services provided by Aztec to the Company. The note bears interest at a rate of 8% per annum and the entire principal and interest under the note is due on September 30, 2012. There is no penalty for prepayment of the note by the Company.

**12. Liquidity-Going Concern**

These financial statements have been prepared assuming that the Company is a going concern. The Company incurred a net loss in the periods ended June 30, 2012 and 2011 and for the period from September 11, 2009 (inception) to June 30, 2012.

Management believes that the current cash and revenue should fund the Company s expected burn rate into the third quarter of 2012. The Company will require additional funds to continue operations.



### 13. Subsequent Events

The Company evaluated events or transactions occurring after June 30, 2012, the balance sheet date, through August 8, 2012, and October 9, 2013 as to Note 2, the date the financial statements were available to be issued, and determined any events or transactions which could impact the financial statements as of and for the quarter ended June 30, 2012.

From July 1, 2012 through August 6, 2012, the Company has issued and sold an aggregate of 205,000 Units in the Private Placement in consideration of gross cash proceeds of \$205,000. As a result, the Company has issued an aggregate of 410,000 shares of common stock and warrants to purchase an aggregate of 140,000 shares of Common Stock. WFG is entitled to receive a commission equal to 10% of any subscriptions received and warrants to purchase and 3% of the number of shares of common stock included in the Units sold in the Private Placement. For subscriptions received subsequent to June 30, 2012, WFG is entitled to receive a cash fee of \$20,500 and warrants to purchase 12,300 shares of common stock.

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

#### **Cautionary Statement Regarding Forward-Looking Statements**

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

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

- our ability to raise additional capital;
- the absence of any operating history or revenue;
- our ability to attract and retain qualified personnel;
- market acceptance of our platform;
- our limited experience in a relatively new industry;
- regulatory and competitive developments;
- intense competition with larger companies;
- general economic conditions
- failure to adequately protect our intellectual property;
- technological obsolescence of our products and services;
- technical problems with our products and services; and

- loss or retirement of key executives, and
- other factors set forth under the caption "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission.

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

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### Recent Events

On June 14, 2012, Blue the Company commenced a private Private Placement of up to \$10,000,000 of Units , at a purchase price of \$1.00 per Unit. Each Unit consists of: (i) two shares of the Company s common stock, par value \$0.0001 per shares (the 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 August 6, 2012, the Company has issued and sold an aggregate of 305,000 Units in the Private Placement in consideration of gross cash proceeds of \$305,000. As a result, the Company has issued an aggregate of 610,000 shares of Common Stock and Warrants to purchase an aggregate of 305,000 shares of Common Stock. WFG Investments, Inc. is acting as placement agent in connection with the Private Placement and is 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 August 6, 2012, WFG is entitled to receive a cash fee of \$30,500 and Warrants to purchase 18,300 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, such as the Private Placement, 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 April 19, 2012 the Company entered into a Securities Purchase Agreement with an existing stockholder pursuant to which the Company issued (i) a senior secured 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 stockholder 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 principal balance of the convertible debenture was \$290,000 as of June 30, 2012. The convertible debentures mature on October 19, 2012 and bear an interest rate of 8%.

Prior to September 1, 2011, we were a public shell company without material assets or liabilities. On September 1, 2011, Blue Calypso Holdings, Inc. completed a reverse merger with us, pursuant to which Blue Calypso Holdings, Inc. became our wholly-owned subsidiary and we succeeded to the business of Blue Calypso Holdings, Inc. as our sole line of business and the former security holders of Blue Calypso Holdings, Inc. became our controlling stockholders. For financial reporting purposes, Blue Calypso Holdings, Inc. was the accounting acquirer in the reverse merger and the former public shell company is considered the acquired company. Accordingly, the historical financial statements presented and the discussion of financial condition and results of operations herein are those of Blue Calypso, Inc., and do not include the historical financial results of our former business. The accumulated earnings of Blue Calypso, Inc. were also carried forward after the reverse merger for all periods presented. Operations reported for periods prior to the reverse merger are those of Blue Calypso Holdings, Inc.

## **Business Overview**

We offer a patented social mobile advertising platform through which advertisers offer advertising content to our subscribers, who publicly endorse the products and services of these advertisers using their mobile smartphones as well as other internet enabled devices. Endorsers receive cash and other rewards for each endorsement they make.

Additionally, we offer a private label version of our patented platform, where the friends and advocates of the advertiser are engaged to endorse the products and services of the advertisers. These friends and advocates receive a broad range of rewards for their participation.

## **Critical Accounting Policies**

### *Development Stage Company*

We are a development stage company as defined by Accounting Standards Codification ( ASC ) 915, Development Stage Entities and are still devoting substantial efforts to establishing our business. Our principal operations have commenced but there has been no significant revenue thus far. All losses accumulated since inception have been considered part of our development stage activities.

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### *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 its subsidiary Blue Calypso, LLC, which is wholly owned. 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 revenue and expenses during the reporting period. Significant estimates include: the useful lives of intangible assets and the recoverability or impairment of tangible and intangible asset values; deferred revenues; legal and other contingencies that are recorded when it is probable that a loss has been incurred and the amount is reasonably estimable; and our effective income tax rate and the valuation allowance applied against deferred tax assets, which are based upon the expectations of future taxable income, allowable deductions, and projected tax credits. Actual results may differ from these estimates.

### *Revenue Recognition*

We recognize 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 is comprised primarily of fees received from customers for advertising and marketing services provided by us, which is generally earned when brand loyalists personally endorse and share the advertising campaigns with others in their digital social stream or when we provide services related to customer advertising campaigns. Recognition timing is based on the specific services delivered to our customer and the terms of our agreements with each customer. Agreements may be based on campaigns delivered, monthly billings or campaign activity. If the customer agreement provides, customers may pay or be invoiced for services prior to final service delivery, leading to unearned revenues being recorded.

Each endorsement event is tracked by the Blue Calypso system and any activity by the endorsers' network of contacts is tracked and credited to the endorser. Customers receive weekly reports providing a detailed history of all initial endorser posts and subsequent activities generated by the initial endorsements, which allow them to verify that brand loyalists have personally endorsed their products. Reports can include geographic and demographic information related to the endorser. We believe that our tracking system, as well as the fact that endorsers must provide certain identifying information, including their name, address and social security number, in order to be issued a loyalty reward card and become eligible to receive payments for any endorsements, helps reduce opportunities for fraudulent endorsements. Making fraudulent endorsements is a violation of the terms and conditions that our endorsers agree to and any endorser discovered engaging in fraudulent or other activities violating our terms and conditions will have his or her account closed and endorser registration terminated.

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### *Cost of Revenue*

Cost of revenue is accrued and recorded as earned by the endorser under the defined reward programs. Expense related to our payments to endorsers is recognized when we recognize revenue for such payments, in the case of endorsements related to our customers, and when the endorsement is made, in the case of endorsements of advertisers who are endorsed through our participation in one of the affiliate programs in which we participate. This is in accordance with the terms and conditions agreed to by the endorsers.

Rewards are delivered periodically to the endorser by loading loyalty cards. Endorsers are required to provide certain information before loyalty cards can be issued and loaded. Endorsers retain rights to any unpaid rewards until they have been inactive for three months or the applicable time frame specified in the endorser terms and conditions, if such time frame is changed. There is no additional expense to us associated with compensating endorsers through cash that is reloaded on a personal Visa debit card rather than compensating endorsers through cash sent directly to them.

### *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash held in bank demand deposits. We consider 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 related to a computer software project should begin when both of the following occur: (a) the preliminary project stage is complete; and (b) management, with relevant authority, implicitly or explicitly authorizes and commits to funding the 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 software project on activities that include coding and testing during the application development stage; and interest costs incurred while developing the software (in accordance with ASC 835-20). The costs are amortized using straight-line amortization over the estimated useful life of up to five years, once the software is ready for its intended use. 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.

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### *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*

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

### *Income Taxes*

Income taxes are recorded in accordance with ASC 740, Income Taxes. Deferred income taxes are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. An allowance is provided when it is more likely than not that tax benefits will not be utilized, which is the case as of the June 30, 2012 financial statements.

### *Stock-Based Compensation*

We grant stock options and restricted stock as compensation to employees, directors and consultants. Compensation expense is measured in accordance with FASB ASC 718 (formerly Statement of Financial Accounting Standards

No. 123R), Compensation Stock Compensation. Compensation expense is recognized over the requisite service period for awards of equity instruments 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 our cash maintained in the bank. We maintain cash in quality financial institutions; however, at times, cash balances may exceed the federal deposit insurance limits.

*Advertising and Marketing*

Our 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.

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### *Restatement of Previously Issued Financial Statements*

This quarterly report contains the restated condensed consolidated balance sheet as of December 31, 2011 and the effects of the restated condensed consolidated statements of operations for the three months ended June 30, 2012 and six months ended June 30, 2012 and from September 11, 2009 (date of inception) through June 30, 2012. Refer to Note 2 of the Notes to the accompanying Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for further detail.

On August 26, 2013, after consulting with the Company's Audit Committee and with the Company's newly appointed Independent Registered Public Accounting Firm, Marcum LLP, management changed its accounting for certain of the Company's warrants previously issued in connection with preferred stock and common stock and conversion features related to previously issued convertible notes which were recorded in periods prior to the engagement of Marcum LLP in order to comply with US GAAP. Such warrants and the embedded conversion options should have been reflected as liabilities on the consolidated balance sheets included in the Original 10-Q, rather than as a component of equity.

Specifically, the change in treatment of the warrants and the conversion feature embedded in certain convertible notes resulted in a change to the equity, and liability portions of the consolidated balance sheets as of June 30, 2012 and resulted in a loss on the fair value of the derivative liabilities which impacted our results of operations and earnings (loss) per share as reported in our Original 10-Q.

## **Results of Operations**

### Comparison of Three Months Ended June 30, 2012 and 2011

**Net Loss.** For the three months ended June 30, 2012, we had a net loss of \$979,769, as compared to a net loss of \$235,432 for the three months ended June 30, 2011. The increase in net loss was due to three factors. The first was related to an increase in investment in sales, marketing, operations and administration in comparison to the three months ended June 30, 2011 of \$212,463. The second was related to the recording of a deferred compensation expense of \$2,327,026 related to options vested during the three months ended June 30, 2012. The first two items were partially offset by a change in value in derivative liabilities that reflected a gain of \$2,417,965.

**Revenue.** Revenue for the three months ended June 30, 2012 was \$176, as compared to \$1,278 in revenues for the same period in 2011. We are a development stage company and have had modest revenue to date.



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*Cost of Revenue.* Cost of revenue is primarily comprised of payments to endorsers for promoting advertiser content. Our cost of revenue was \$52,809 for the three months ended June 30, 2012, as compared to \$12,064 for the same period in 2011. The increase was due to company-sponsored advertising activity intended to attract an endorser base.

*Sales and Marketing.* For the three months ended June 30, 2012 sales and marketing expenses increased by \$135,307 to \$190,098 compared to the same period in 2011. The increase was due primarily to increased costs related to additional sales and marketing staff. Sales and marketing expense included the compensation and benefit expense of the five sales and marketing staff members employees as well as travel, entertainment and advertising expense directly attributable to the sales and marketing function.

*General and Administrative.* For the three months ended June 30, 2012, general and administrative expense were \$2,520,232, as compared to \$116,050 for the three months ended June 30, 2011. The increase was due to non-cash deferred compensation expense related to stock options that vested in the current quarter totaling \$2,181,628 and \$145,398 amortization of restricted stock compensation expense. Also contributing to the increase were legal and professional expenses related to statutory filing process, patent legal and legal and accounting related to continued fund raising activities. General and administrative expenses primarily consisted of contract labor, outside services and professional fees.

*Depreciation and Amortization.* Depreciation and amortization expenses relate primarily to the amortization of capitalized software development. The increase from \$27,464 for the three months ended June 30, 2011 to \$55,962 for the three months ended June 30, 2012 was due to our ongoing software development initiative and implementation of improvements and new services related to our network.

Our development activities are outsourced to Aztec Systems, Inc., a company that was majority owned by Mr. Levi, our chief technology officer and a member of our board of directors. For the quarter ended June 30, 2012, we incurred \$18,148 of software development costs versus \$99,770 for the quarter ended June 30, 2012.

*Interest Expense.* Interest expense was \$578,809 for the three months ended June 30, 2012 in comparison to \$26,341 for the three months ended June 30, 2011. The current period interest expense related to two notes payable and \$569,247 amortization of deferred debt discount. The first to related party, Aztec Systems, Inc (see footnote #11 in financial statements above). The note has a per annum interest rate of 8%. The balance at June 30, 2012 was \$357,707 including accumulated accrued interest of \$12,714. The second is for a senior secured debentures to LMD Capital, LLC in the amount of \$292,548 including accrued interest of \$2,548.

*Comparison of Six Months Ended June 30, 2012 and 2011*

*Net Loss.* For the six months ended June 30, 2012, we had a net loss of \$2,765,564 as compared to a net loss of \$410,198 for the six months ended June 30, 2011. The increase in net loss was due to three factors. The first was related to an increase in investment in sales, marketing, operations and administration in comparison to the six months ended June 30, 2012 of \$513,026. The second was related to the recording of a deferred compensation expense of \$2,945,108 related to options vested and \$145,398 restricted stock amortized during the six months ended June 30, 2012. The first two items were partially offset by a change in value in derivative liabilities that reflected a gain of \$1,991,385.

*Revenue.* Revenue for the six months ended June 30, 2012 was \$760, as compared to \$6,036 in revenues for the same period in 2011. We are a development stage company and have had modest revenue to date.

*Cost of Revenue.* Cost of revenue is primarily comprised of payments to endorsers for promoting advertiser content. Our cost of revenue was \$145,516 for the six months ended June 30, 2012, as compared to \$12,136 for the same period in 2011. The increase was due to company-sponsored advertising activity intended to attract an endorser base.

*Sales and Marketing.* For the six months ended June 30, 2012 sales and marketing expenses increased by \$305,301 to \$433,523 compared to the same period in 2011. The increase was due primarily to increased costs related to additional sales and marketing staff. Sales and marketing expense included the compensation and benefit expense of the five sales and marketing staff members employees as well as travel, entertainment and advertising expense directly attributable to the sales and marketing function.

*General and Administrative.* For the six months ended June 30, 2012, general and administrative expenses were \$3,482,858, as compared to \$184,763 for the six months ended June 30, 2011. The increase was due to non-cash deferred compensation expense of \$2,945,108 related to stock options that vested and \$145,398 restricted stock compensation expense amortized in the six month period ended June 30, 2012. Also contributed to the increase were legal and professional expenses related to statutory filing process, patent legal and legal and accounting related to continued fund raising activities. General and administrative expenses primarily consisted of contract labor, outside services and professional fees.

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*Depreciation and Amortization.* Depreciation and amortization expenses relate primarily to the amortization of capitalized software development. The increase from \$51,720 for the six months ended June 30, 2011 to \$111,303 for the six months ended June 30, 2012 was due to our ongoing software development initiative and implementation of improvements and new services related to our network.

Our development activities are outsourced to Aztec Systems, Inc., a company that was majority owned by Mr. Levi, our chief technology officer and a member of our board of directors. For the six months ended June 30, 2012, we incurred \$194,923 of software development costs versus \$170,340 for the six months ended June 30, 2011.

*Interest Expense.* Interest expense was \$584,509 for the six months ended June 30, 2012 in comparison to \$39,393 for the six months ended June 30, 2011. The current period interest expense related to two notes payable and \$569,247 amortization of deferred debt discount. The first to related party, Aztec Systems, Inc., interest expense was \$12,714 and the second is for a senior secured debentures to LMD Capital, LLC., interest expense was \$2,548. At June 30, 2011, the Company had a total of \$1,475,000 of subordinated convertible debt outstanding.

## **Cash Flows**

### *Comparison of Six Months Ended June 30, 2012 and 2011*

Cash used in operating activities during the six months ended June 30, 2012 was \$1,004,203 and was comparable to \$432,591 for the six months ended June 30, 2011. The change was due to a \$2,355,366 increase in net loss, offset by the non-cash expense for deferred stock option compensation of \$3,090,506 offset by non cash gain on the change in fair value of derivatives of 1,991,385. The other significant factor was the non-cash increase in depreciation and amortization of \$110,662.

Cash used in investing activities during the six months ended June 30, 2012 was \$192,142, as compared to \$127,435 for the six months ended June 30, 2011. This was attributed to increased investment in the development of software.

During the six months ended June 30, 2012, cash provided by financing was \$916,778, as compared to \$700,037 for the same period in 2011. During the six months ended June 30, 2012, cash of \$82,523 was provided from our private placement transaction and \$292,548 was provided from the senior secured convertible debentures from LMD Capital, LLC; and \$357,707 was provided from a note payable to related party, Aztec. This compares to the prior year when



the Company secured cash from a note payable from Aztec Systems, Inc of \$200,000 and cash relative to a \$500,000 convertible note payable.

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### *Going Concern Consideration*

Our registered independent auditors have issued an opinion on our financial statements for the year ended December 31, 2011 which includes a statement describing our going concern status. This means that there is substantial doubt that we can continue as an on-going business for the next 12 months unless we obtain additional capital to pay our bills and meet our other financial obligations. Our ability to continue as a going concern is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies, reduce expenditures, dispose of selective assets, and ultimately, generate additional revenue. The going concern opinion may also limit our ability to access certain types of financing, prevent us from obtaining financing on acceptable terms, and limit our ability to obtain new business due to potential customers' concern about our ability to deliver products or services. We must raise capital to implement our project and stay in business.

### *Liquidity and Capital Resources*

We are a development stage company and have incurred cumulative losses of \$15,297,885 since beginning operations on September 11, 2009. At June 30, 2012, we had a cash balance of \$91,826 and negative working capital of \$10,648,764.

On June 13, 2012, the Company commenced a private placement (the "Private Placement") 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 common stock and (ii) a warrant to purchase one share of the Company's common stock (the "Warrant"). The Warrant is exercisable for a term of two years at an exercise price of \$0.75 per share. As of June 30, 2012, we have received subscriptions for \$100,000.

On April 19, 2012 the Company entered into a securities purchase agreement with an existing stockholder pursuant to which the Company issued (i) a senior secured convertible debenture in the original aggregate principal amount of \$35,000 and (ii) a warrant to purchase 6,500,000 shares of common stock 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 balance outstanding under this agreement was \$292,548. The convertible debentures mature on October 19, 2012 and bear an interest rate of 8%.

In connection with this private placement, the Company also entered into a Security Agreement, an Intellectual Property Security Agreement, Amendment No. 1 to the Common Stock Purchase Warrant, a Stockholder's Agreement and various ancillary certificates, disclosure schedules and exhibits in support thereof, each dated April 19, 2012. Pursuant to the Security Agreement and the Intellectual Property Security Agreement, the Company's obligations

under the debentures are secured by a first priority perfected security interest in all of the assets and properties of the Company, including the stock of Blue Calypso, LLC. In addition, the subsidiary of the Company, Blue Calypso, LLC, entered into a Subsidiary Guarantee in favor of the investor.

On October 17, 2011, \$1,500,000 of our convertible promissory notes converted into 1,500,000 shares of our Series A Convertible Preferred Stock. On September 1, 2011, \$1,475,000 of notes payable converted to 28,135,234 shares of common stock as part of the reverse merger. Funding for our operations has been primarily dependent upon the proceeds from the issuance of debt and equity securities.

As a development stage company, we have been and continue to be dependent upon outside sources of cash to pay operating expenses. We have had only nominal revenue and we expect operating losses to continue through the foreseeable future. Until we develop a consistent source of revenue to achieve a profitable level of operations that generates sufficient cash flow, we will need additional capital resources to fund growth and operations. We are continuing our efforts to raise capital through equity and/or debt offerings. However, there can be no assurance that we will be able to raise equity or debt capital on terms we consider reasonable and prudent, or at all. The availability of capital to us may be subject to the volatility in the financial markets, our future financial condition and credit rating, and whether sufficient assets are available to be used as debt collateral in connection with any future debt financing, among other factors. Future financings through equity investments are likely to be dilutive to the existing stockholders. Also, the terms of securities we issue in future capital transactions may be more favorable for our new investors. Newly issued securities may include preferences, superior voting rights, and the issuance of warrants or other derivative securities, which may have additional dilutive effects. Further, we may incur substantial costs in pursuing future capital and/or financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which may adversely impact our financial condition.

If we are unable to raise sufficient funding through the Private Placement, we will need to seek funding from alternative sources. We have no assurance that future financing will be made available to us, and if made available to us, in amounts or on terms acceptable to us. If we are unable to raise any additional funding in the Private Placement or from other sources, we will either have to suspend operations until we do raise capital or cease operations entirely.

#### *Contractual Obligations*

During 2011, the Company had a significant contractual obligation consisting of convertible promissory notes payable of \$1,500,000 that would have been due on December 1, 2011. These promissory notes automatically converted into 1,500,000 shares of Series A Convertible Preferred Stock on October 17, 2011. During the three months ended March 31, 2012, an additional 200,000 shares of Series A Convertible Preferred Stock were issued that provided \$200,000 of funding in the quarter. As indicated in footnote 11 of the financial statements, Blue Calypso has engaged the services of the related party, Aztec Systems, Inc., for software development, use of network operating center, and accounting. We have warrants outstanding for a total of 31,536,818 shares at a price of \$0.10 per share. We have warrants outstanding for a total of 106,000 shares at a price of \$0.75 per share.



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

Since we are a smaller reporting company, as defined by SEC regulation, we are not required to provide the information required by this Item.

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

#### Evaluation of Disclosure Controls and Procedures

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

Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were not effective.

*Restatement of Previously Issued Financial Statements.* On August 26, 2013, after consulting with the Company's Audit Committee and with the Company's newly appointed Independent Registered Public Accounting Firm, Marcum LLP, management changed its accounting for certain of the Company's warrants previously issued in connection with preferred stock and common stock and conversion features related to previously issued convertible notes which were recorded in periods prior to the engagement of Marcum LLP in order to comply with US GAAP. Such warrants and the embedded conversion options should have been reflected as liabilities on the consolidated balance sheets included in the Original 10-Q, rather than as a component of equity.

Specifically, the change in treatment of the warrants and the conversion feature embedded in certain convertible notes resulted in a change to the equity, and liability portions of the consolidated balance sheets as of June 30, 2012 and

resulted in a loss on the fair value of the derivative liabilities which impacted our results of operations and earnings (loss) per share as reported in our Original 10-Q.

*Remediation plan.* Since the determination regarding this deficiency, we have devoted significant effort and resources to remediation and improvement of our internal control over financial reporting. While we had processes in place to identify and apply developments in accounting standards, we enhanced these processes to better evaluate our research of the nuances of complex accounting standards and engaged a third party financial reporting consulting firm to assist the Company in its financial reporting compliance. Our enhancements included retaining a third party consultant, who is a technical accounting professional, to assist us in the interpretation and application of new and complex accounting guidance. The firm has been engaged to assist in the analysis of complex financial instruments. Management will continue to review and make necessary changes to the overall design of our internal control environment.

(b) *Changes in internal control over financial reporting.* There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2012, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

On July 31, 2012, the Company filed a patent infringement complaint against Groupon, Inc. alleging infringement of two of its patents, 7,664,516 and 8,155,679, focused on its peer-to-peer marketing technology. The complaint was filed in the U.S. District Court in the Eastern District of Texas.

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

**ITEM 1A. Risk Factors.**

Since we are a smaller reporting company, as defined by SEC regulation, we are not required to provide the information required by this Item.

**ITEM 2. unregistered sales of equity securities and use of proceeds.**

None.

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**ITEM 3. Defaults Upon Senior Securities.**

None.

**ITEM 4. Mine Safety Disclosures.**

None.

**ITEM 5. OTHER INFORMATION.**

None.

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

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

<b>Exhibit Number</b>	<b>Description</b>
2.1	Agreement and Plan of Merger and Reorganization, dated as of September 1, 2011, by and among Blue Calypso, Inc., Blue Calypso Acquisition Corp., and Blue Calypso Holdings, Inc. (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
2.2	Agreement and Plan of Merger, dated September 9, 2011, by and between Blue Calypso, Inc., a Nevada corporation, and Blue Calypso, Inc., a Delaware corporation (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 15, 2011)
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011)
3.2	Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011)
3.3	Bylaws of Blue Calypso, Inc., a Delaware corporation, adopted September 9, 2011 (incorporated by reference to Exhibit 3.3 to Current Report on Form 8-K filed with the Securities and Exchange



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- Commission on October 19, 2011)
- 10.1 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
  - 10.2 Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
  - 10.3 Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
  - 10.4 Form Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
  - 10.5 Agreement of Conveyance, Transfer and Assignment of Assets and Assumption of Obligations, dated as of September 1, 2011 (incorporated by reference to Exhibit 10.5 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
  - 10.6 Stock Purchase Agreement, by and between Blue Calypso, Inc. and Deborah Flores, dated as of September 1, 2011 (incorporated by reference to Exhibit 10.6 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
  - 10.7 Securities Purchase Agreement, dated as of September 1, 2011, by and among Blue Calypso, Inc. and certain purchasers set forth therein (incorporated by reference to Exhibit 10.7 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
  - 10.8 Registration Rights Agreement, dated as of September 1, 2011, by and among Blue Calypso, Inc. and certain purchasers set forth therein (incorporated by reference to Exhibit 10.9 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
  - 10.9 Form of Warrant (incorporated by reference to Exhibit 10.10 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
  - 10.10 Letter Agreement, dated January 16, 2012, by and between Blue Calypso, Inc. and Aztec Systems, Inc. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 20, 2012)
  - 10.11 Promissory Note, dated January 17, 2012, issued by Blue Calypso, Inc. to Aztec Systems, Inc. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 20, 2012)
  - 10.12 Securities Purchase Agreement, dated April 19, 2012, by and between Blue Calypso, Inc. and the Buyer thereto (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
  - 10.13 Senior Secured Convertible Note issued April 19, 2012 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
  - 10.14 Common Stock Purchase Warrant issued April 19, 2012 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
  - 10.15 Security Agreement, dated April 19, 2012, by and between the Company, Blue Calypso, LLC and the Buyer (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
  - 10.16 Intellectual Property Security Agreement, dated April 19, 2012, by and between the Company, Blue Calypso, LLC, and the Buyer (incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
  - 10.17 Subsidiary Guarantee, dated April 19, 2012, by Blue Calypso, LLC, in favor of the Buyer (incorporated by reference to Exhibit 10.6 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
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  - 10.19 Amendment No. 1 to Common Stock Purchase Warrant (incorporated by reference to Exhibit 10.8 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
  - 10.20 Stockholder's Agreement, dated April 19, 2012, by and between Andrew Levi and the Company.(incorporated by reference to Exhibit 10.9 to our Current Report on Form 8-K filed with the

- Securities and Exchange Commission on April 24, 2012)
- 10.21 Letter Agreement dated June 1, 2012, between Blue Calypso, Inc. and Bill Ogle effective as of June 1, 2012 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 4, 2012)
- 10.22 Form of Subscription Agreement June 2012 Private Placement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2012)
- 10.23 Form of Warrant June 2012 Private Placement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2012)
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS+ XBRL Instance Document
- 101.SCH+ XBRL Taxonomy Extension Schema Document
- 101.CAL+ XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF+ XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB+ XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE+ XBRL Taxonomy Extension Presentation Linkbase Document
- + The Interactive Data Files on Exhibit 101 hereto (XBRL (Extensive Business Reporting Language) information) is furnished and not filed as part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise not subject to liability under these sections.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**BLUE CALYPSO, INC.**

Date: October 9, 2013

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

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## EXHIBIT INDEX

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(b) Reports on Form 8-K

None.

(c) Financial Statement Schedules

None.

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