

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

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

FORM 10-Q/A

(Mark One)

x

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

For the quarterly period ended March 31, 2013

OR

o

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

For the transition period from _____ **to** _____

Commission File Number: 000-53981

BLUE CALYPSO, INC.

(Exact name of registrant as specified in its charter)

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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

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 May 13, 2013 there were 132,838,336 shares of the issuer's common stock outstanding.

EXPLANATORY NOTE

This Amendment No. 1 hereby amends our Quarterly Report on Form 10-Q (Form 10-Q/A) for the period ended March 31, 2013, which was originally filed with the Securities and Exchange Commission on May 15, 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 March 31, 2013 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.

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 March 31, 2013 and that its disclosure controls and procedures were not effective as of March 31, 2013.

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.

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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 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.

TABLE OF CONTENTS

	Page
PART I	
Item 1. Financial Statements	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	23
PART II	
Item 1. Legal Proceedings	24
Item 1A. Risk Factors	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 3. Defaults Upon Senior Securities	24
Item 4. Mine Safety Disclosures	24
Item 5. Other Information	24
Item 6. Exhibits	25

Part 1 Item 1

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

(Restated)

	March 31,	December 31,
	2013	2012
	Unaudited	Audited (Restated)
	(Restated)	
ASSETS		
Current assets:		
Cash and cash equivalents	64,593	218,798
Accounts receivable	0	43,868
Prepaid expenses	18,988	3,052
Total current assets	83,581	265,718
Property and equipment, net of accumulated depreciation of \$8,417 and 7,153 in 2013 and 2012 respectively	15,364	16,628
Capitalized software development costs, net of accumulated amortization of \$419,923 and \$352,957 in 2013 and 2012, respectively	914,822	923,449
Total assets	\$ 1,013,767	\$ 1,205,795
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	75,635	84,947
Accrued liabilities	440,095	186,508
Unearned revenue	-	10,000
Notes payable - LMD	-	465,000

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Notes payable-affiliate (net of discount of \$244,705)	-	301,253
Warrant liability	2,638,876	10,854,204
Debt liability- derivative	120,841	109,802
Total current liabilities	3,275,447	12,011,714
Long-term Liabilities		
Notes payable - LMD	515,000	-
Note payable - debentures (net of discount of \$200,535 and \$213,500 in 2013 and 2012, respectively)	390,484	236,500
Commitments and contingencies (note 10)	-	-
Total liabilities	4,180,931	12,248,214
Stockholders' equity (deficit)		
Series A convertible preferred stock, par value \$.0001 per share (Authorized 5,000,000 shares; issued and outstanding 1,700,000 shares)	170	170
Common stock, par value \$.0001 per share (Authorized 680,000,000 shares; issued and outstanding shares of 125,135,113 as of 3/31/13 and 125,135,113 shares at 12/31/12 respectively)	12,514	12,514
Additional paid in capital	10,568,951	9,533,095
Deferred compensation	(2,938,713)	(2,980,218)
Accumulated deficit during development stage	\$ (10,810,086)	\$ (17,607,980)
Total stockholders' equity (deficit)	(3,167,164)	(11,042,419)
Total liabilities and stockholders' equity (deficit)	\$ 1,013,767	\$ 1,205,795

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

BLUE CALYPSO INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2013 (RESTATED) AND
2012 (RESTATED) AND THE PERIOD SEPTEMBER 11, 2009 (DATE OF
INCEPTION) TO MARCH 31, 2013 (RESTATED)
(UNAUDITED)

	Three months	Three months	FROM
	ended	ended	INCEPTION
	March 31,	March 31,	SEP 11, 2009
	2013	2012	TO
	(Restated)	(Restated)	March 31, 2013
			(Restated)
REVENUE	\$ 10,000	\$ 584	\$ 136,211
COST OF REVENUE	4,323	92,707	270,856
GROSS LOSS	5,677	(92,123)	(134,645)
OPERATING EXPENSES			
Sales and marketing	125,957	243,425	1,414,311
General and administrative	923,151	962,626	6,819,387
Depreciation and Amortization	333,585	55,341	1,266,764
	1,382,693	1,261,392	9,500,462
LOSS FROM OPERATIONS	(1,377,016)	(1,353,515)	(9,635,107)
OTHER INCOME (EXPENSE)			
Interest income	-	-	15
Interest expense	(41,308)	(5,700)	(774,561)
Change in fair value of derivative liabilities	8,216,218	(426,580)	(400,433)
	8,174,910	(432,280)	(1,174,979)
INCOME OR (LOSS) BEFORE INCOME TAX PROVISION	6,797,894	(1,785,795)	(10,810,086)
INCOME TAX PROVISION	-	-	-
NET INCOME OR (LOSS)	6,797,894	(1,785,795)	(10,810,086)

Income or Loss per
share:

Basic	\$	0.05	\$	(0.01)
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Weighted Average
Shares Outstanding

Basic	130,893,388	127,003,882
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Income or Loss per share:

Weighted
Average
Shares
Outstanding

Diluted	\$	0.03	\$	(0.01)
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Diluted

205,355,014

127,003,882

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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 MARCH 31, 2013
(UNAUDITED) (RESTATED)

	Preferred Stock		Common Stock		Additional		Accumulated	Total
					Paid-In	Deferred	Deficit	Stockholders'
	Shares	Amount	Shares	Amount	Capital	Compensation	During	Equity
							Development	(Deficit)
							Stage	
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)
	-	-	-	-	-	22	-	22

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Restricted shares vested as of 12/31/10								
Net loss	-	-	-	-	-	-	(185,191)	(185,191)
Ending Balance, December 31, 2010	-	-	72,185,591	7,219	15,864	(83)	(412,688)	(389,688)
Restricted shares issued- 1/10/11	-	-	1,283,299	128	(108)	(20)	-	-
Additional Paid-In Capital	-	-	-	-	10	-	-	10
Restricted shares vested as of 03/31/11	-	-	-	-	-	12	-	12
Net loss	-	-	-	-	-	-	(174,767)	(174,767)
Ending Balance, March 31, 2011	-	-	73,468,891	7,347	15,766	(91)	(587,455)	(564,433)
Restricted shares issued- 4/29/11	-	-	1,283,299	128	(108)	(20)	-	-
Restricted shares vested as of 06/30/11	-	-	-	-	-	15	-	15
Net loss	-	-	-	-	-	-	(235,432)	(235,432)
Ending Balance, June 30, 2011	-	-	74,752,190	7,475	15,658	(96)	(822,887)	(799,850)
Restricted shares cancelled 7/25/11	-	-	(2,887,423)	(288)	192	96	-	-
Restricted shares vested as of 09/30/11	-	-	-	-	-	-	-	-
Conversion of Debt 9/1/11	-	-	28,135,234	2,814	1,562,274	-	-	1,565,088
Reverse merger shares issued 9/1/11	-	-	24,974,700	2,497	(2,497)	-	-	-
Restricted shares issued- 9/8/11	-	-	320,825	32	21,752	(21,784)	-	(0)
Net loss	-	-	-	-	-	-	(621,271)	(621,271)
Ending Balance, September 30, 2011	-	-	125,295,526	12,530	1,597,379	(21,784)	(1,444,158)	143,967
Additional paid-In capital-compensation expense	-	-	-	-	4,239	-	-	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	-	-	-	-	(712,828)	-	-	(712,828)
Net loss	-	-	-	-	-	-	(11,088,163)	(11,088,163)

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Ending Balance, December 31, 2011	1,500,000	\$ 150	126,845,641	\$ 12,685	\$ 3,954,101	(1,581,954)	\$ (12,532,321)	\$ (10,147,339)
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 stock from shareholder	-	-	(440,000)	-	-	-	-	-
Stock options - deferred income	-	-	-	-	-	2,181,627	-	2,181,627
Recording of restricted stock - 6/30/12	-	-	-	-	145,398	-	-	145,398
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)
Restricted shares - unvested	-	-	80,205	-	-	-	-	-
Purchase of common stock - related to private offering	-	-	450,000	62	232,438	-	-	232,500
Release of common stock from shareholder	-	-	(450,000)	-	-	-	-	-
Stock options - deferred income	-	-	-	-	-	13,872	-	13,872
July 2012 warrant adjustment	-	-	-	-	(29,349)	-	-	(29,349)
	-	-	-	-	436,194	-	-	436,194

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Recording of restricted stock									
Net loss	-	-	-	-	-	-	(856,619)	(856,619)	
Ending Balance September 30, 2012	1,700,000	\$ 150	125,135,112	\$ 12,612	\$ 7,831,774	\$ (2,275,358)	\$ (16,154,503)	\$ (10,585,325)	
Purchase of common stock - via AP settlements	-	-	1,068,105	107	354,788	-	-	354,895	
Release of common stock from shareholder	-	-	(1,068,105)	-	-	-	-	-	
Correction to reflect preferred stock amount	-	20	-	-	(20)	-	-	-	
Purchase of common stock - related to private offering	-	-	10,000	(17)	(29,983)	-	-	(30,000)	
Release of common stock from shareholder	-	-	(10,000)	-	-	-	-	-	
Stock options - deferred income	-	-	-	-	-	(753,254)	-	(753,254)	
Cumulative correction - common stock	-	-	1	(188)	(42,760)	42,948	-	-	
Beneficial conversion feature - notes payable	-	-	-	-	614,696	-	-	614,696	
Value of warrants -note payable	-	-	-	-	416,528	-	-	416,528	
Restricted shares vested as of 10/1/12	-	-	-	-	-	5,446	-	5,446	
Recording of restricted stock	-	-	-	-	436,193	-	-	436,193	
11/12 warrants	-	-	-	-	(21,755)	-	-	(21,755)	
12/12 warrants	-	-	-	-	(26,367)	-	-	(26,367)	
Net loss	-	-	-	-	-	-	(1,453,477)	(1,453,477)	
Ending Balance December 31, 2012	1,700,000	\$ 170	125,135,113	\$ 12,514	\$ 9,533,095	\$ (2,980,218)	\$ (17,607,980)	\$ (11,042,419)	
Purchase of common stock - via AP settlements	-	-	-	-	30,000	-	-	30,000	
Stock options - deferred income	-	-	-	-	-	-	-	-	
Conversion of Note Payable - Affiliate to Equity	-	-	-	-	552,995	41,505	-	594,500	
Beneficial conversion feature - notes	-	-	-	-	16,667	-	-	16,667	

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payable									
Recording of									
restricted stock	-	-	-	-	436,194	-	-	-	436,194
Net loss	-	-	-	-	-	-	6,797,894	-	6,797,894
Ending Balance									
March 31, 2013	1,700,000	\$170	125,135,113	\$12,514	\$10,568,951	\$(2,938,713)	\$(10,810,086)	\$	\$(3,167,164)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

BLUE CALYPSO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED) (RESTATED)

	Three months ended March 31, 2013 (Restated)	Three months ended March 31, 2012 (Restated)	FROM INCEPTION SEP 11, 2009 TO March 31, 2013 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (loss)	\$ 6,797,894	\$(1,785,795)	\$(10,810,086)
Adjustments to reconcile net loss to net cash used in operating activities:			-
Depreciation and amortization expense	68,229	55,341	995,941
Amortization of vested restricted stock and options and Deferred compensation	743,055	763,481	3,977,479
Change in fair value of derivative liability	(8,216,218)	426,580	400,433
Amortization of deferred debt discount	11,930	-	622,937
(Increase) decrease in assets:			-
Accounts receivable	43,868	32,200	(0)
Prepaid expenses and other current assets	(15,936)	(2,841)	(18,988)
Increase (decrease) in liabilities:			-
Accounts payable	(9,312)	46,003	75,635
Accounts payable-affiliate	-	(196,695)	21,958
Accrued expenses	253,587	(58,947)	443,682
Deferred revenue	(10,000)	(3,284)	-
Cash used in operating activities	(332,903)	(723,957)	(4,291,009)

CASH FLOWS FROM INVESTING ACTIVITIES

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Cash paid for software development	(58,338)	(176,973)	(1,232,763)
Cash paid for purchases of fixed assets	-	-	(23,781)
Cash used in investing activities	(58,338)	(176,973)	(1,256,544)

CASH FLOWS FROM FINANCING ACTIVITIES

Contributed capital received	-	(155)	1,170
Increase in notes payable	207,036	350,693	1,667,995
Purchase of common stock			388,873
Purchase of preferred stock	-	-	200,000
Conversion of Notes Payable to equity		200,155	200,000
Conversion of AP to equity	30,000		3,154,108
Cash provided by financing activities	237,036	550,693	5,612,146
Net increase in cash	(154,205)	(350,237)	64,593
Cash at beginning of year	218,798	371,392	-
Cash at end of year	\$ 64,593	\$ 21,155	\$ 64,593

SUPPLEMENTAL INFORMATION:

Cash paid for interest	\$ -	\$ -	\$ -
Cash paid for taxes	\$ -	\$ -	\$ -
Non-cash investing and financing activities:			
Conversion of notes payable and accounts payable -former affiliate to common stock	\$ -	\$ -	\$ 421,958
Former affiliate payable converted to note payable	\$ -	\$ -	\$ 545,958
Conversion of notes payable to common and preferred stock	\$ -	\$ -	\$ 2,769,214
Fair value of warrants issued in connection with preferred, common stock and notes payable	\$ -	\$ 1,470,037	\$ 15,889,449
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

BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(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 and in February 2010 were merged for strategic operating purposes.

On September 1, 2011, BCHI executed a share exchange agreement and merged with a public shell company Blue Calypso Acquisition, Corp., a wholly-owned subsidiary of Blue Calypso, Inc. (formerly known as JJ&R Ventures, Inc.). The Merger was accounted for as a reverse-merger and recapitalization in accordance with the generally accepted accounting principles in the United States. BCHI is the acquirer for financial reporting purposes and Blue Calypso, Inc. is the acquired company. Consequently, the assets and liabilities and the operations that will be reflected in the historical financial statements prior to the Merger will be those of BCHI and will be recorded at its historical cost basis. The operations after completion of the Merger include those of BCHI and Blue Calypso Inc. Common stock and corresponding capital amounts of BCHI pre-merger have been retroactively restated as capital stock shares reflecting the exchange ratio in the Merger. On December 16, 2011 Blue Calypso Holdings, Inc. was merged into its 100% sole-owner, Blue Calypso, Inc.

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

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 March 31, 2013 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.

The effects of the revision on the accompanying balance sheet as of December 31, 2012 and March 31, 2013 is summarized below:

Condensed Consolidated Balance Sheet December 31, 2012

	As previously reported	Adjustment	Reference	As Restated
Assets	\$ 1,205,795	\$ -		\$ 1,205,795
Current liabilities:				Conversion option liability
				-
				109,802
				(a)

109,802

Warrant
liabilities

-

10,854,204

(a)

10,854,204

Other current
liabilities

1,047,708

0

1,047,708

Total current
liabilities

1,047,708

10,964,006

12,011,714

Long term debt:

236,500

0

236,500

Total
liabilities

1,284,208

10,964,006

12,248,214

Stockholders'
deficiency
Series A
convertible
preferred stock

170

-

170

Common
stock

12,514

-

12,514

Additional
paid in capital

10,251,657

(718,562)

(a)

9,533,095

Additional
paid in capital -
deferred
compensation

(2,980,218)

-

(a)

(2,980,218)

Deficit
accumulated
during the
development
stage

(7,362,536)

(10,245,444)

(a)

(17,607,980)

Total
stockholders
deficiency

(78,413)

(10,964,006)

(11,042,419)

- Total
liabilities and
stockholders'
deficiency

\$ 1,205,795

\$ -

\$ 1,205,795

(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
March 31, 2013

	As previously reported	Adjustment	Reference	As Restated
Assets	\$ 1,013,767	\$ -		\$ 1,013,767
Current liabilities:				Conversion option liability
				-
				120,841
				(a)
				120,841
				Warrant liabilities
				-
				2,638,876
				(a)

2,638,876

Other current
liabilities

515,730

0

515,730

Total current
liabilities

515,730

2,759,717

3,275,447

Long term debt:

905,484

0

905,484

Total
liabilities

1,421,214

2,759,717

4,180,931

Stockholders'
deficiency
Series A
convertible
preferred stock

170

-

170

Common
stock

12,514

-

12,514

Additional
paid in capital

10,851,318

(282,367)

(a)

10,568,951

Additional
paid in capital -
deferred
compensation

(2,938,713)

-

(a)

(2,938,713)

Deficit
accumulated
during the
development
stage

(8,332,736)

(2,477,350)

(a)

(10,810,086)

Total
stockholders

deficiency

(407,447)

(2,759,717)

(3,167,164)

Total liabilities
and
stockholders'
deficiency

\$ 1,013,767

\$ -

\$ 1,013,767

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

BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(unaudited) (restated)

2. Restatement of Previously Issued Financial Statements, continued

The effects of the above described adjustments resulted in a change in the net gain or loss for the three months ended March 31, 2012 and March 31, 2013 and the period for the inception to date through March 31, 2013.

	Three Months Ended <u>Mar 31, 2012</u>	Three Months Ended <u>Mar 31, 2013</u>	Inception to Date <u>Mar 31, 2013</u>
Net Loss (as originally presented)	\$ (1,359,215)	\$ (970,200)	\$ (8,332,736)
Change in operating expenses	-	(436,194)	(1,453,980)
Change in fair value of derivative liabilities	(426,580)	8,216,218	(400,433)
Increase in interest expense related to derivative liabilities	-	(11,930)	(622,937)
Net gain or loss (as restated)	\$ (1,785,795)	\$ 6,797,894	\$ (10,810,086)
Net loss per share - basic and diluted (as restated)	\$ (0.01)	\$ 0.05	Net loss per share - diluted (as restated)
			\$ (0.01)

\$ 0.03

Weighted average
shares outstanding -
basic

127,003,882

130,893,388

Weighted average
shares outstanding
diluted

127,003,882

204,722,215

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 Blue Calypso, Inc. and BCHI which were merged effective December 16, 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.

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.

BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(unaudited) (restated)

3. Summary of Significant Accounting Policies, continued

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.

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 57,059,903 shares were excluded from the loss per share computation for three months ended March 31, 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 March 31, 2013, 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 March 31, 2012 and December 31, 2012 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 March 31, 2013 and 2012, the cash balance with the bank did not exceed the \$250,000 FDIC limit.

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 \$19,470 and \$4,535 for the three months ended March 31, 2013 and 2012, respectively.

Recent Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (FASB) issued ASU 2012-06-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 2012-06 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 2012-10-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 2012-10 to apply to the Company or to have a material effect on the financial position, results of operations or cash flows.

BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(unaudited) (restated)

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

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)

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Financial liabilities as of March 31, 2013 and December 31, 2012 measured at fair value on a recurring basis are summarized below:

	March 31, 2013	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)	\$2,759,717	\$ --	\$ --	\$2,759,717

	December 31, 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)	\$10,964,005	\$ --	\$ --	\$10,964,005

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.

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 months ended March 31, 2013:

Dividend Yield	0.00%
Volatility	85.43% - 85.99%
Risk-free Interest Rate	.11% - .77%
Term	1.7 - 4.0 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.

BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(unaudited) (restated)

4. Fair Value of Financial Instruments, continued

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.

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 three months ended March 31, 2013:

Balance - Beginning of period (as restated - see note 2)	\$10,964,005
Aggregate fair value of derivative instruments issued	11,930
Change in fair value of derivative liabilities	(8,216,218)

Balance - End of period \$ 2,759,717

5. Property and Equipment

Property and equipment consist of the following at March 31, 2013 and December 31, 2012:

	3/31/2013	12/31/2012
Office Equipment	\$ 23,781	\$ 23,781
Less: Accumulated depreciation	(8,417)	(7,153)
Net property and equipment	\$ 15,364	\$ 16,628

Depreciation expense was \$1,264 and \$1,189 for the three months ended March 31, 2013 and 2012, respectively.

6. Intangibles

Intangible assets consist of the following at March 31, 2013 and December 31, 2012:

	3/31/2013	12/31/2012
Capitalized Software Development Costs	\$ 1,334,745	\$ 1,276,406
Less: Accumulated amortization	(419,923)	(352,957)
Net capitalized development costs	\$ 914,822	\$ 923,449

The capitalized software development costs include \$-0- interest capitalized for the three months ended March 31, 2013 and 2012, respectively. The amortization expense relating to the capitalized development costs was \$66,965 and \$54,152 for the three months ended March 31, 2013 and 2012, respectively. Amortization for the next five years is estimated to be as follows:

2013	\$ 264,952
2014	262,063
2015	221,762
2016	126,813

2017	36,862
Thereafter	2,370
Total	\$ 914,822

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 March 31, 2013 and 2012 consisted of net operating losses from inception to March 31, 2013 and 2012 of \$10,810,086 and \$14,318,115, respectively, 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.

BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(unaudited) (restated)

7. Income Tax Provision, continued

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 March 31, 2013 and 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 November 9, 2012, the Company entered into the exchange agreement with Aztec, pursuant to which the Company and Aztec agreed to exchange the Note and the Company's existing accounts payable to Aztec for an 8% Convertible Note in the original principal amount of \$545,958. The 8% Convertible Note is due on March 31, 2013. Pursuant to the exchange agreement, the Company agreed to register the shares of Common Stock issuable upon conversion of the 8% Convertible Note and an aggregate of 3,733,428 shares of Common Stock currently held by Aztec on or before December 31, 2012. The 8% Convertible Note is convertible into shares of the Company's Common Stock at a conversion price equal to the greater of: (i) \$0.15 per share or (ii) the price per share at which Common Stock is sold in a subsequent financing. Upon effectiveness of the registration statement covering the resale of such shares, the 8% Convertible Note automatically convert into shares of the Company's Common Stock at the applicable conversion price. Per the above agreement, the note converted to equity on February 12, 2013.

The note was determined to have an embedded beneficial conversion feature (BCF) under the provisions of FAS ASC 470-20, Debt with Conversion and Other Options based on the issue date market value of \$0.40 per share and the exercise price of \$0.15 per share. In accordance with ASC 470-20, an embedded beneficial conversion feature shall be recognized separately at issuance by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid capital. A discount of \$341,224 was recorded at issuance and amortization expense of \$96,519 was recognized for the year ended December 31, 2012. The note balance was \$301,253 net of discount of \$244,705 at December 31, 2012. Amortization of the balance of the discount, \$244,205 was recognized for the three months ended March 31, 2013.

On April 19, 2012, the Company entered into a securities purchase agreement with an existing stockholder (the Buyer), pursuant to which the Company issued (i) a senior secured 8% convertible debenture convertible into shares of the Company at \$0.10 per share in the original aggregate principal amount of \$35,000 and (ii) a warrant to purchase 6,500,000 shares of common stock at \$0.10 per share, and the Buyer covenanted to purchase up to an additional \$465,000 of senior secured convertible debentures in a series of four closings at such times as may be designated by the Company in its sole discretion through November 30, 2012. The convertible debentures matured on November 30, 2012 and bear interest at a rate of 8%. A discount of \$416,528 was recorded for the warrant fair market value and amortization expense was fully recognized in the amounts of \$416,528 and \$0 for the three months ended December 31, 2012, and 2011, respectively. The unamortized discount balance was \$0 as of December 31, 2012 and December 31, 2011, respectively. The outstanding principal of the convertible debentures was \$465,000 as of December 31, 2012. The debentures were determined to have an embedded beneficial conversion feature (BCF) under the provisions of FAS ASC 470-20, Debt with Conversion and Other Options based on the issue date market value of \$0.71 per share and the exercise price of \$0.10 per share.

BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(unaudited) (restated)

8. Long Term Debt - Notes Payable, continued

In accordance with ASC 470-20, an embedded beneficial conversion feature shall be recognized separately at issuance by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid capital. A discount of \$48,472 was recorded at issuance and amortization expense of \$48,472 was recognized for the year ended December 31, 2012. An additional \$50,000 was loaned as part of this agreement during the three months ended March 31, 2012. The note balance was \$515,000 net of discount of \$0 at March 31, 2013.

On November 15, 2012, the Company commenced a private offering of up to \$3,000,000 of units at a purchase price of \$50,000 per unit pursuant to the Securities Purchase Agreement dated November 15, 2012 (the "Purchase Agreement"). Each Unit consists of a 10% Convertible Debenture in the principal amount of \$50,000 (the "Debenture") and 12,500 shares of the Company's common stock. The Debenture bears interest at a rate of 10% per annum, is due two years from the issuance date and is convertible into shares of the Company's common stock at a conversion price of \$0.20 per share. As of December 31, 2012, we have issued and sold an aggregate of 9 units totaling \$450,000. The debentures were determined to have an embedded beneficial conversion feature ("BCF") under the provisions of FAS ASC 470-20, "Debt with Conversion and Other Options" based on the issue date market value of \$0.40 per share and the exercise price of \$0.20 per share. In accordance with ASC 470-20, an embedded beneficial conversion feature shall be recognized separately at issuance by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid capital. A discount of \$225,000 was recorded at issuance and amortization expense of \$11,500 was recognized for the year ended December 31, 2012. For the quarter ended March 31, 2013 an additional \$150,000 of debentures were issued and a discount of \$16,667 was recorded. Additionally, amortization of \$29,632 was recorded. The note balance was \$399,465 net of discount of \$200,535 at March 31, 2013.

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 \$8,216,218 and \$(426,580) for the three months ended March 31, 2013 and 2012, respectively.

10. Stockholders' Equity (Deficit)

On June 13, 2012, the Company commenced a 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 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 October 14, 2012, the termination date of the offering, we issued and sold an aggregate of 445,000 Units in consideration of gross proceeds of \$445,000. As a result, the Company issued an aggregate of 890,000 shares of common stock and warrants to purchase an aggregate of 890,000 shares of Common Stock. WFG Investments, Inc. (WFG) acted as placement agent in connection with the Private Placement and received 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 December 31, 2012, WFG received a cash fee of \$44,500 and warrants to purchase 26,700 shares of common stock.

BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(unaudited) (restated)

10. Stockholders' Equity (Deficit), continued

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

On September 1, 2011 and as part of the reverse merger, the Company issued convertible promissory notes (the "Promissory Notes") to two accredited investors in a private placement transaction (the "Private Placement") pursuant to a Securities Purchase Agreement (the "Securities Purchase Agreement") in the aggregate principal amount of One Million Five Hundred Thousand Dollars (\$1,500,000) and five-year warrants (the "Warrants") to purchase up to 22,091,311 shares of the Company's common stock at an exercise price of \$0.10 per share. The notes are due December 1, 2012 and accrue no interest. The Promissory Notes are automatically convertible at \$1 into One Million Five Hundred Thousand (1,500,000) shares of the Company's Series A Convertible Preferred Stock ("Series A Preferred") immediately upon the creation of the Series A Preferred by the Company. The Series A Preferred stock was approved October 17, 2011 and the notes were immediately converted into 1,500,000 preferred shares. The Series A Preferred shares are convertible into shares of the Company's common stock at a conversion rate of \$0.0679 per share or 22,091,311 common shares. The conversion of preferred into common stock is limited to the extent that the beneficial owners own greater than 4.99% of the Company's common stock.

During the three months ended March 31, 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.

Blue Calypso, Inc. is authorized to issue 685,000,000 shares of capital stock: 680,000,000 shares of common stock with voting rights at a par value of \$.0001 and 5,000,000 shares of Series A Convertible Preferred Stock, also at \$.0001 par value per share. There were 125,135,112 shares of common stock issued and outstanding as of March 31, 2013. There were 1,700,000 shares of preferred stock were issued and outstanding as of March 31, 2013. The Company did not make or declare any distributions to shareholders during the quarters ended March 31, 2013 or March 31, 2012.

Long-Term Incentive Plan

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

BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(unaudited) (restated)

10. Stockholders' Equity (Deficit), continued

Stock Options

During the three months ended March 31, 2013, the Company granted options to purchase 5,218,530 shares of the Company's common stock to employees, non-employee board members and other consultants under the Plan.

During 2012 the Company granted options to purchase 9,873,543 shares of the Company's common stock to employees, non-employee board members and other consultants under the Plan

The options vest under a number of different 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 5-year constant maturity, quoted on investment basis determined at the date of grant.

Assumptions used for employee stock options:

Risk-free interest rate	.77 to .86%
Dividend yield	0%
Stock price volatility	20% - 37%
Expected life	5.75 years

Using the valuation assumptions noted above, the Company estimated the value of stock options granted to be \$549,926 and \$1,953,072 for the three months ended March 31, 2013 and 2012, respectively. The 4,578,530 of the March 31, 2013 options were granted February 21, 2013 when the stock price was at \$0.24 per share. The value of these options is being amortized to stock-based compensation expense annually over their three year vesting period. The stock-based compensation expense recorded was \$41,506 and \$763,480 during the three months ended March 31, 2013 and 2012, respectively. The following table summarizes the stock option activity as of March 31, 2013:

	Weighted	
	Average	
	Outstanding	Exercise
	Options	Price
Balance, December 31, 2012	9,460,543	\$ 0.2498
Granted	5,218,530	0.2383
Exercised	0	0
Cancelled	0	0
Balance, March 31, 2013	14,679,073	\$ 0.2457
Exercisable at 3/31/13	7,546,659	\$ 0.1982
Non-vested at 3/31/13	7,132,414	\$ 0.2960

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

MARCH 31, 2013

(unaudited) (restated)

Restricted Stock

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

The following table summarizes the restricted stock activity for the three months ended March 31, 2013:

Restricted Shares Activity:

Restricted
shares
issued as of
December
31, 2012

13,456,667

Granted
during
three
months
ended

March 31,
2013

0

Forfeited
during
three
months
ended
March 31,
2013

0

Total
Restricted
Shares
Issued at
March 31,
2013

13,456,667

Vested at
March 31,
2013

(160,412)

Unvested
restricted
shares as of
March 31,
2013

13,296,255

A total of 13,285,842 shares were granted in 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 was \$436,194 and \$0 for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, the unamortized stock based compensation related to restricted stock is \$3,940,039 and will be amortized on the remaining period of approximately 2 years.

11. Related Party Transactions

Aztec Systems, Inc. (Aztec) was an affiliate of the Company that provided 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.

On November 9, 2012, the Company entered into an exchange agreement with Aztec, pursuant to which the Company and Aztec agreed to exchange its note payable to Aztec and the Company's existing accounts payable to Aztec for an 8% Convertible Note in the original principal amount of \$545,958. The 8% Convertible Note was due on March 31, 2013. Pursuant to the exchange agreement, the Company agreed to register the shares of Common Stock issuable upon conversion of the 8% Convertible Note and an aggregate of 3,686,634 shares of Common Stock currently held by Aztec on or before December 31, 2012. The 8% Convertible Note was convertible into shares of the Company's Common Stock at a conversion price equal to the greater of: (i) \$0.15 per share or (ii) the price per share at which Common Stock is sold in a subsequent financing. Upon effectiveness of the registration statement covering the resale of such shares, the 8% Convertible Note automatically converted into shares of the Company's Common Stock at the applicable conversion price. As per the above agreement, the 8% Convertible Note was converted to Common Stock on February 12, 2013 upon effectiveness of the Company's Registration Statement on Form S-1.

BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(unaudited) (restated)

12. Liquidity-Going Concern

These financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the Company will need additional financing to continue to operate and fully implement its business plan. Management believes that the current cash and revenue should fund the Company's expected burn rate into the second quarter of 2013. The Company will require additional funds to continue operations.

The Company completed a private placement on May 6, 2013 resulting in gross proceeds to the Company of \$2,400,000; refer to the subsequent event Note 14.

The Company has accumulated losses from September 11, 2009 (inception) through March 31, 2013 of \$8,296,537.

13. Commitments and Contingencies

The Company leases office space under a month to month operating lease with no minimum future rental payments. The operating lease does not involve contingent liabilities. Rental expense under the operating lease totaled \$9,978 and \$0 for the three months ended March 31, 2013 and 2012, respectively.

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From time to time, the Company is involved in various legal matters in the ordinary course of business. In the opinion of management the ultimate liability, if any resulting from such legal matters will not have a material effect on the Company's financial position or results of operations.

14. Subsequent Events

The Company evaluated events or transactions occurring after March 31, 2013, the balance sheet date, through May 15, 2013, and October 9, 2013 from footnote 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 three months ended March 31, 2013.

On May 6, 2013, the Company entered into a Securities Purchase Agreement with an accredited investor pursuant to which it issued and sold a 10% Convertible Debenture in the principal amount of \$2,400,000 (the Debenture) and 1,200,000 shares of common stock in consideration of gross proceeds to the Company of \$2,400,000. The Debenture bears interest at a rate of 10% per annum, is due two years from the issuance date and is convertible into shares of the Company s common stock at a conversion price of \$0.25 per share.

On April 29, 2013, the Company entered into a series of agreements with the LMD, the holder of its 8% Senior Secured Convertible Debentures. The Debentures were due on November 30, 2012. As of April 29, 2013, the aggregate amount outstanding under the Debentures, including all accrued and unpaid interest and fees, was \$600,000. Pursuant to Amendment No. 1 to 8% Senior Secured Convertible Debentures, the conversion price of the Debentures was amended such that the aggregate amount outstanding under the Debentures will be convertible into an aggregate of 20,000,000 shares of the Company s common stock. The issuance of the Conversion Shares will not result in any dilution to the existing stockholders of the Company as the Company s Founder and Chief Technology Officer, Andrew Levi, has agreed to cancel and return to treasury 20,000,000 shares of common stock currently held by him in connection with this transaction. LMD also agreed to immediately terminate the Security Agreement dated April 19, 2012 by and between the Company, the Company s subsidiaries and the LMD, the Intellectual Property Security Agreement dated April 19, 2012 by and between the Company, the Company s subsidiaries and the LMD, and the Subsidiary Guarantee executed by the Company s subsidiary, Blue Calypso, LLC, and all of the security interests created thereby. The maturity dates of the Debentures were extended to June 30, 2013.

BLUE CALYPSO, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

(unaudited) (restated)

14. Subsequent Events, continued

In connection with the Amendment to 8% Debentures, the Company and the LMD also agreed to amend the terms of certain warrants currently held by LMD. The Company agreed to extend the maturity date of the warrants originally issued to LMD in September 2011 to April 30, 2018 and to extend the anti-dilution protection of such warrants for the life of the warrants. Pursuant to Amendment to the Common Stock Purchase Warrant, the Company agreed to extend the maturity date of the warrants originally issued to the LMD in April 2012 to April 30, 2018 and to extend the anti-dilution protection of such warrants for the life of the warrants.

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, 2012 filed with the Securities and Exchange Commission.

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

Business Overview

We 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 rewards and other incentives 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. We recently shifted our focus to the private label version of our platform and we believe that this product provides the Company with the greatest growth opportunities.

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.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements are stated in U.S. dollars and include the accounts of Blue Calypso Holdings, 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.

Concentrations of Credit Risk

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, and the fee is fixed or determinable, and 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 us and is recognized as earned when brand loyalists personally endorse and share the advertising campaigns with others in their digital social stream.

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.

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.

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.

Restatement of Previously Issued Financial Statements

This quarterly report contains the restated condensed consolidated balance sheet as of December 31, 2012 and the effects of the restated condensed consolidated statements of operations for the three months ended March 31, 2013 and from September 11, 2009 (date of inception) through March 31, 2013. 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 March 31, 2013 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 March 31, 2013 and 2012

Net Loss. For the three months ended March 31, 2013, we had a net income of \$6,797,894, as compared to a net loss of \$1,785,795 for the three months ended March 31, 2012. The increase was primarily due to a gain related to the changes in value of derivative liabilities of \$8,216,218. Also impacting the results was a decrease in deferred compensation for stock options from \$793,480 to \$477,700. This was offset by increases in general and administrative expenses and depreciation and amortization of \$260,926 and \$287,255, respectively and a decrease in sales and marketing expenses of \$143,458.

Revenue. Revenue for the three months ended March 31, 2013 was \$10,000, as compared to \$584 in revenues for the same period in 2012. 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 \$4,323 for the three months ended March 31, 2013, as compared to \$92,707 for the same period in 2012. The decrease was related to a planned effort to reduce endorser fees in the current period.

Sales and Marketing. For the three months ended March 31, 2013, sales and marketing expenses decreased by \$117,468 to \$125,957 as compared to the same period in 2012. The decrease resulted primarily from a reduction in marketing staff. Sales and marketing expense included the compensation and benefit expense of the four sales and marketing staff members as well as travel, entertainment and advertising expense directly attributable to the sales and marketing function.

General and Administrative. For the three months ended March 31, 2013, general and administrative expenses were \$923,151 as compared to \$962,626 for the three months ended March 31, 2012. Expenses included 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 \$55,341 for the three months ended March 31, 2012 to \$333,585 for the three months ended March 31, 2013 was due primarily to the amortization of loan discounts totaling \$265,356.

Our development activities were 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 prior to its sale in the second quarter of 2012. Beginning in the third quarter of 2012, we established a subsidiary in Costa Rica that works on our software development. For the quarter ended March 31, 2013, we incurred \$58,148 of software development costs versus \$173,537 for the quarter ended March 31, 2012, as we employ a more cost effective model.

Interest Expense. Interest expense was \$41,308 for the three months ended March 31, 2013 in comparison to \$5,700 for the three months ended March 31, 2012. The current period interest expense related to three (3) notes payable. The first was to the related party, Aztec Systems, Inc (see footnote #11 in financial statements above). The note has a per annum interest rate of 8% and was converted to equity on February 12, 2013. The balance at March 31, 2013 was

\$0. The second is for senior secured debentures to LMD Capital, LLC in the amount of \$515,000 and the third was for debentures as part of our private placement beginning in Q4 2012. The undiscounted balance at March 31, 2013 was \$600,000.

Cash Flows

Comparison of Three Months Ended March 31, 2013 and 2012

Cash used in operating activities during the three months ended March 31, 2013 was \$332,903 as compared to \$723,957 for the three months ended March 31, 2012. The change was due to an increase in accrued expenses of \$266,853 and a reduction in accounts receivable of \$43,868.

Cash used in investing activities during the three months ended March 31, 2013 was \$58,148, as compared to \$176,973 for the three months ended March 31, 2012. This was attributed to reduced expenditures on the development of software related to a more efficient model.

During the three months ended March 31, 2013, cash provided by financing was \$237,036, as compared to \$544,993 for the same period in 2012. During the current quarter, net cash of \$150,000 was provided from our private placement of debentures and \$50,000 was provided from the senior secured convertible debentures from LMD Capital, LLC. This compares to the prior year when the Company secured cash from the sale of preferred stock of \$200,000 and a note payable from its then affiliate, Aztec Systems totaling \$344,993.

On May 6, 2013, we raised \$2.4 million through the issuance of convertible debentures in the principal amount of \$2.4 million in a private placement. We expect these monies will provide adequate cash for operations for approximately twelve months, thus mitigating the ongoing concern consideration over this period.

Going Concern Consideration

Our registered independent auditors have issued an opinion on our financial statements for the year ended December 31, 2012, 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 \$10,810,086 since beginning operations on September 11, 2009. At March 31, 2013, we had a cash balance of \$64,593 and negative working capital of \$3,191,866.

On May 6, 2013, we entered into a Securities Purchase Agreement with an accredited investor pursuant to which we issued and sold a 10% Convertible Debenture in the principal amount of \$2,400,000 (the "Debenture") and 1,200,000 shares of common stock in consideration of gross proceeds to the Company of \$2,400,000. The Debenture bears interest at a rate of 10% per annum, is due two years from the issuance date and is convertible into shares of our common stock at a conversion price of \$0.25 per share.

On April 29, 2013, we entered into a series of agreements with the holder of our 8% Senior Secured Convertible Debentures. The Debentures were due on November 30, 2012. As of April 29, 2013, the aggregate amount outstanding under the Debentures, including all accrued and unpaid interest and fees, was \$600,000. Pursuant to Amendment No. 1 to 8% Senior Secured Convertible Debentures, the conversion price of the Debentures was amended such that the aggregate amount outstanding under the Debentures will be convertible into an aggregate of 20,000,000 shares of our common stock. The issuance of the Conversion Shares will not result in any dilution to our existing stockholders as our Founder and Chief Technology Officer, Andrew Levi, has agreed to cancel and return to treasury 20,000,000 shares of common stock currently held by him in connection with this transaction. The holder also agreed to immediately terminate the Security Agreement dated April 19, 2012 by and between us, our subsidiaries and the holder, the Intellectual Property Security Agreement dated April 19, 2012 by and between us, our subsidiaries and the holder, and the Subsidiary Guarantee executed by us, our subsidiary, Blue Calypso, LLC, and all of the security interests created thereby. The maturity dates of the Debentures were extended to June 30, 2013.

In connection with the Amendment to 8% Debentures, we also agreed to amend the terms of certain warrants currently held by the holder of the 8% Debentures. We also agreed to extend the maturity date of the warrants originally issued to the holder of the 8% Debentures in September 2011 to April 30, 2018 and to extend the anti-dilution protection of such warrants for the life of the warrants. Pursuant to Amendment to the Common Stock Purchase Warrant, we agreed to extend the maturity date of the warrants originally issued to the holder of the 8% Debentures in April 2012 to April 30, 2018 and to extend the anti-dilution protection of such warrants for the life of the warrants.

On February 12, 2013, The Company and Aztec completed the conversion of Aztec's 8% Convertible Note in the amount of \$545,958 into 3,686,634 shares of Common Stock of the Company.

On November 15, 2012, we commenced a private offering of up to \$3,000,000 of units at a purchase price of \$50,000 per unit pursuant to the Securities Purchase Agreement dated November 15, 2012 (the "Purchase Agreement"). Each Unit consists of a 10% Convertible Debenture in the principal amount of \$50,000 (the "Debenture") and 12,500 shares of the Company's common stock. The Debenture bears interest at a rate of 10% per annum, is due two years from the issuance date and is convertible into shares of the Company's common stock at a conversion price of \$0.20 per share. As of March 31, 2013, we have issued and sold an aggregate of 12 units.

On November 9, 2012, we entered into an exchange agreement with Aztec, pursuant to which we agreed to exchange the Note and our existing accounts payable to Aztec for an 8% Convertible Note in the original principal amount of \$545,958. The 8% Convertible Note was due on March 31, 2013. Pursuant to the exchange agreement, we agreed to register the shares of Common Stock issuable upon conversion of the 8% Convertible Note and an aggregate of 3,639,732 shares of Common Stock currently held by Aztec on or before December 31, 2012. The 8% Convertible Note was convertible into shares of our Common Stock at a conversion price equal to the greater of: (i) \$0.15 per share or (ii) the price per share at which Common Stock is sold in a subsequent financing. Upon effectiveness of the registration statement covering the resale of such shares, the 8% Convertible Note automatically converted into shares of the Company's Common Stock at the applicable conversion price.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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 March 31, 2013 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 March 31, 2013, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On July 31, 2012, the Company filed 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.

On August 24, 2012, the Company filed a patent infringement complaint against Living Social, 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. A Claim Construction Hearing or "Markman" hearing has been set for August 27, 2013.

On October 17, 2012, the Company filed patent infringement complaints against YELP, Inc. and IZEA, Inc. The suits allege 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.

On November 6, 2012, the Company filed patent infringement complaints against MyLikes. and Foursquare. The suits allege 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

Not applicable.

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

On November 15, 2012, we commenced a private offering of up to \$3,000,000 of units at a purchase price of \$50,000 per unit pursuant to the Securities Purchase Agreement dated November 15, 2012 (the "Purchase Agreement"). Each Unit consists of a 10% Convertible Debenture in the principal amount of \$50,000 (the "Debenture") and 12,500 shares of the Company's common stock. The Debenture bears interest at a rate of 10% per annum, is due two years from the issuance date and is convertible into shares of the Company's common stock at a conversion price of \$0.20 per share. As of March 31, 2013, we have issued and sold an aggregate of 12 units.

During the three months ended March 31, 2013, the Company granted options to purchase an aggregate of 5,218,530 shares of the Common Stock to certain officers, directors and employees of the Company pursuant to the Company's 2011 Long-Term Incentive Plan. The options have a term of ten years and have exercise prices ranging from \$0.22 - \$0.24 per share.

During the three months ended March 31, 2013, the Company issued an aggregate of 88,676 shares of Common Stock as consideration for services rendered to the Company.

The foregoing securities were sold to a limited number of accredited investors, without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon an exemption from registration provided by Section 4(2) under the Securities Act and/or Rule 506 of Regulation D promulgated thereunder. The securities may not be transferred or sold absent registration under the Securities Act or the availability of an applicable exemption therefrom.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Concentrations of Credit Risk

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.

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of September 1, 2011, by and among Blue Calypso, Inc., Blue Calypso Acquisition Corp., and Blue Calypso Holdings, Inc. (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2011)
2.2	Agreement and Plan of Merger, dated September 9, 2011, by and between Blue Calypso, Inc., a Nevada corporation, and Blue Calypso, Inc., a Delaware corporation (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 15, 2011)
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2011)
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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)
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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)
- 10.18 Form of Lock-Up Agreement (incorporated by reference to Exhibit 10.7 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.19 Amendment No. 1 to Common Stock Purchase Warrant (incorporated by reference to Exhibit 10.8 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.20 Stockholder s Agreement, dated April 19, 2012, by and between Andrew Levi and the Company (incorporated by reference to Exhibit 10.9 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012)
- 10.21 Letter Agreement dated June 1, 2012, between Blue Calypso, Inc. and Bill Ogle effective as of June 1, 2012 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 4, 2012)
- 10.22 Form of Subscription Agreement June 2012 Private Placement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2012)
- 10.23 Form of Warrant June 2012 Private Placement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2012)
- 10.24 Exchange Agreement dated November 9, 2012 between Blue Calypso, Inc. and Aztec Systems, Inc. (incorporated by reference to Exhibit 10.24 to our Quarterly Report on Form 10-Q for the period ended September 30, 2012 filed with the Securities and Exchange Commission on November 19, 2012)
- 10.25 8% Convertible Note dated November 9, 2012 (incorporated by reference to Exhibit 10.24 to our Quarterly Report on Form 10-Q for the period ended September 30, 2012 filed with the Securities and Exchange Commission on November 19, 2012)
- 10.26 Amendment No. 1 to 8% Senior Secured Convertible Debentures between Blue Calypso, Inc. and the Holder dated April 29, 2013 (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2013).
- 10.27 Amendment No. 2 to Common Stock Purchase Warrants between the Company and the Holder dated April 29, 2013 (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2013).
- 10.28 Amendment No. 1 to Common Stock Purchase Warrant between the Company and the Holder dated April 29, 2013 (Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2013).
- 10.29 Securities Purchase Agreement dated May 6, 2013 (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2013).
- 10.30 10% Convertible Debenture dated May 6, 2013 (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2013).

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

+ 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.

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

Exhibit List

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