

***Transcript of
Blue Calypso***
Third Quarter 2014 Earnings Conference Call
November 11, 2014

Participants

Alexandra Petek – Merriman Capital
Bill Ogle – Co-CEO
Andrew Levi – Co-CEO

Analysts

Andrew D'Silva – Merriman Capital
Bryan Luter – WFG Investments

Presentation

Operator

Greetings, and welcome to the Blue Calypso Third Quarter 2014 Conference Call. At this time, all participants are in a listen-only mode. (Operator instructions.) As a reminder, this conference is being recorded.

It is now my pleasure to introduce Alexandra Petek of Merriman Capital. Thank you, Ms. Petek, you may begin.

Alexandra Petek – Merriman Capital

Thank you, and welcome to Blue Calypso's Third Quarter 2014 call. On this call, Co-CEOs Bill Ogle and Andrew Levi will provide updates on the company's progress and results for the quarter, with a question and answer session to follow.

At this time, I'd like to introduce Bill Ogle, Co-CEO of Blue Calypso. Bill, please go ahead.

Bill Ogle – Co-CEO

Thank you, Alex, and thank you, everybody, for joining us today. We are very pleased to report the results for our third quarter of 2014. We have made quite a bit of progress this year in terms of building our revenue, our gross margins, we have made significant product enhancements that we believe will make our products even stronger going forward, and so we're really pleased with where we stand.

Revenue for the three months ending September 30, 2014, were \$310,360, which is an all-time high for Blue Calypso. That revenue was 32% higher than the year ago quarter, and 154% higher than in Q2 of 2014.

In conjunction with our increased sales, we also have experienced record gross margin. Our gross margin for Q3 was \$123,407, which is a 51% growth versus Q3 of last year, and 142% growth from Q2 of this year.

Further, sales and marketing expenses for the quarter have been reduced by \$81,000 as compared to the three months ending September 30, 2013, as the company has transferred the sales leadership function to our Co-CEO Andrew Levi. For the quarter, general and administrative expenses decreased approximately \$215,000 compared to Q3 of last year. This is primarily due to a reduction in stock-based compensation associated with certain vested stock incentives. The company anticipates a reduction in total payroll costs over the next 12 months, as both of the Co-CEOs have reduced their salaries to help the company.

As of September 30, the company had \$1,603,782 of cash on hand, with \$1,265,015 in working capital.

To summarize, Blue Calypso has had a very health Q3. We had record sales of over \$310,000, record gross margins of over \$123,000, reduced sales and marketing costs, we've optimized our sales efforts, and reduced general administrative costs. In addition to our operating results, we raised \$1.4 million during the quarter, and continue to be optimistic on our patent trial and appeals board-hearing results, which will be published by December the 19th. Overall, a very strong quarter for Blue Calypso. We just put out our press release, we'll be filing our 10-Q tomorrow morning. As you all know, the FCC is closed today on Veterans Day, even though the markets were open. We just wanted to make sure we could get our results out early to continue to show the excitement that Blue Calypso has about the future.

So with that, I'd like to turn it back over to the operator for any questions that might be had.

Operator

Ladies and gentlemen, we will now be conducting a question and answer session. (Operator instructions.) Our first question comes from the line of Andrew Andrew D'Silva with Merriman Capital. Please proceed with your question.

<Q>: Thank you. Good afternoon, guys. Thank you for taking my call. I just got a few questions for you. First off, Andrew, since you were the resident expert on the IP strategy, could you share your current events or any current events that you have on the progress you're making with your continuation patents?

Andrew Levi – Co-CEO

Sure. So, as you know, we've got eight pending patents sitting at the PTO right now, in some stages of review. There's one of them that we've recently replied to an office action on, and we put together a pretty extensive reply, but we're very focused on those patents that are pending, and we expect we're going to get some more office action responses soon.

<Q>: Okay, and the continuation patent you're mentioning is not the one for DashTAGG, correct? It's one of the other seven?

Andrew Levi – Co-CEO

The one that we just responded to is one of the CIPs, yes, Continuation In Part. It's not one of the DashTAGG family.

<Q>: Okay, and then, the last time we talked I think it was mentioned that BC Labs sales pipeline had grown to it's largest level. I was wondering if it was still full, and are there any companies that you've completed contracts for that are now utilizing some of your consumer facing, peer-to-peer products and technologies? Then, also, are you seeing a trend toward larger companies engaging with labs now?

Andrew Levi – Co-CEO

Great question. The labs part of our business is growing like gangbusters. It seems that we backlog some work and we get more work, and we complete work and we get more work, and so, the challenges you've got when you're dealing with a BC Labs type offering is availability of resources, and so we've continued to meet the demand of what our talented guys in the BC Labs team do with increased supply of talented resources and, as we've reported in the past, we've grown our team by several folks, and we're currently looking for additional ones.

So, it can be a little lumpy, the revenues, because projects come in, and then you work projects, and then you finish projects and start other projects, but as we continue to scale our supply of inventory, inventory being time

and talent, our objective is to continue to meet that with more and more opportunities, and we're seeing them. What's happening is the engagements that we're concluding and delivering for BC Labs are going so well that the clients that we're doing work for, predominantly either for IntegraColor, our strategic partner, or for clients of IntegraColor, although we do have several other sources of deal flow that we get, they're really extremely happy with the work that we've done and are continuing to come back and ask us to do more work for them. It becomes, I'm not going to call it a recurring revenue stream, but it is definitely ripe with opportunity.

<Q>: Good, and did you mention anything about the types of companies that are coming in now, do you feel like they're larger in magnitude or are they more regional or localized companies?

Andrew Levi – Co-CEO

Yes, that's a great question. So, just a little bit about IntegraColor, which I mentioned is one of our really fertile sources of deal flow. IntegraColor is one of the largest printing companies that focus on a global retail client, and so, they do really large printing jobs for predominantly point of purchase materials, so if you walk into a retail location there will be materials about products and specials and deals and offers and some of it's just printing décor and branding, but because these guys have been in this space and are really at the top of their game in that retail sector, it puts us in play with the same clients.

The partnership—the capability that we bring to IntegraColor makes them extremely strategic in their business in printing, which is highly competitive. It's a phenomenal relationship, I mean, I've never really seen a business partnership where the synergies are so strong and complementary and without overlap. Their entire sales team has been trained on all of our core technologies; MobileADvantage, SOCIALECHO, DashTAGG, and they all now have objectives in their comp programs to go and find business that really is core business for Blue Calypso, as well as looking for BD Labs type work, and the reason is, is it makes their relationship with their clients that much more sticky for them. So, to really acutely answer the question you asked, we're getting—all the work that we're doing for IntegraColor is for global retail organizations, big, big companies, big brands that you would know.

<Q>: Good, good. That's good to see that kind of progress. This last question—where does your internal model show monthly cash flow break-even at today, given recent hires and salary restructuring? Then, what was your stock-based compensation for the quarter, since your Q won't be out until tomorrow?

Andrew Levi – Co-CEO

Well, let's take those as two separate questions. As Bill mentioned, we're reducing expenses in a number of different ways across the organization. With me stepping into the Co-CEO role, one of the things that I wanted to do is take a fresh look at where we were spending our money and make sure that we reduced our expense burn as much as we could, while at the same time we're growing our revenue stream. So, my objective is to drive the burn of the company to zero, as fast as possible. I can't predict when that's going to be, but understand that it is getting a lot of attention, and as our revenues are growing, as you see with our announcement of Q3, another uptick in quarterly revenue, as that trend continues and expenses are reduced, then our burn is going to subsequently be reduced.

I'll let Bill take the stock-based compensation question.

Bill Ogle – Co-CEO

The total stock-based compensation for the three months ending September 30th was \$619,443, so a little over \$619,000.

<Q>: Got it. Thanks a lot, guys. Good quarter, and good luck going into the PTAB decision next month. I'll hop back in queue.

Bill Ogle – Co-CEO

Thanks, Andy.

Operator

Thank you. (Operator instructions.) Our next question comes from the line of Bryan Luter with WFG Investments. Please proceed with your question.

<Q>: Hello, guys. Good quarter, good improvements. I was wondering if you'd elaborate a bit on the strategic relationship with Points.com. Conversations, it seems like you guys have a good proposition. I was wondering what, if any, bottleneck might be in place in trying to win some of the business; and if there is a bottleneck, if it surrounds network security, initially, in doing some of the implementations for some of the clients.

Bill Ogle – Co-CEO

Sure, Bryan. We have had multiple conversations with the folks over at Points International, we have a good relationship with them. Obviously I can't discuss or get into any current discussions with any particular client, other than to say, we have a very good relationship with them, and we do think that there's opportunities for us going forward, and we're just working all the details of that.

Andrew Levi – Co-CEO

Bryan, I can add just a tiny bit more color. I have got myself involved in that opportunity, and there's a part of me taking over a lot of the sales and marketing here, and there is definitely some synergies. I think that what we do complements Point's space. They are working on some internal rebranding and some initiatives that they have to focus on in the very short term, but my expectation is, is that relationship will—we'll find the opportunities to engage, hopefully very soon.

<Q>: Great, that's all I have right now. I appreciate it. Thank you, guys.

Operator

Thank you. There are no further questions at this time. I would like to turn it back to management for closing comments.

Bill Ogle – Co-CEO

We are very excited about Blue Calypso. As you can see, we've had a record third quarter in 2014. A lot of hard work by our team has gone into this. I think that we are poised for a fantastic future. I think we all know that the patent trial and appeals board is just roughly a month out, some time between now and up to a month, before they announce their findings. We've had fantastic revenue, growth, good gross margin growth, we were able to raise cash in the third quarter, so—Andrew's done a phenomenal job with Blue Calypso Labs as well as with a lot of product enhancements to make us more competitive going forward. So, we're very pleased with the third quarter. High expectations going forward, and we thank you all very much for your time, and as we mentioned earlier, with Veterans Day and the FCC being closed, we'll be filing the 10-Q tomorrow morning. Thank you all very much for your time, we greatly appreciate it.