

Transcript of Blue Calypso First Quarter 2015 Earnings May 14, 2015

Participants

Chris Fameree – CFO
Andrew Levi – CEO

Analysts

Andrew D'Silva – Merriman Capital
Steve Connolly – Private Investor

Presentation

Operator

Greetings and welcome to the Blue Calypso First Quarter 2015 conference call. At this time, all participants are in a listen-only mode. (Operator instructions.) As a reminder, this conference is being recorded. On this call, Andrew Levi, CEO, and Chris Fameree, CFO of Blue Calypso 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 Chris Fameree, CFO for Blue Calypso. Chris, please go ahead.

Chris Fameree – CFO

Thank you. Thanks, everyone, for joining our 2015 Q1 financial and operational review. Just in summary, I want to mention that we do continue to reduce our monthly cash burn rate while we work hard to grow revenues from both our core products as well as our BC Labs group. Specifically, the revenue for the three months ended March 31, 2015 with approximately \$116,000 as compared to \$164,000 in revenue for the same period in 2014.

Again, the majority of the revenue did come from our Blue Calypso Lab services and the decrease is really, primarily due to timing in development projects, as we do have a good pipeline of new projects that we should be seeing here over the remainder of the year.

The company was able to narrow its loss during the quarter as compared to the prior year. So, for the first quarter of 2015, we had a net loss of approximately \$609,000, as compared to a net loss of \$1.745 million for the three months ending March 31, 2014.

This is a result of Q1, we were able to reduce our general and administrative expenses to \$536,000, as compared to approximately \$1 million for the three months ended March 31, 2014. This reduction is—a good amount of it due to a reduction in stock-based compensation as we reduce our restricted share expense.

Interest expense also was reduced to an amount below \$1,000, from \$518,000 for the same period in Q1 of 2014. Again, this is as a result of us eliminating all debt during 2014 and so in Q1, we did not have any debt.

As of March 31st, the company had approximately \$640,000 cash on hand with \$568,000 in working capital. Again, we have reduced our monthly burn rate, and we are continuing to find efficiencies as we work hard to grow our revenues and margin. We do continue to believe that we will be cash flow break even by the end of 2015.

Now, Andrew Levi, our CEO will provide an update on the general business, technology, and the status of patent-related matters.

Andrew Levi – CEO

Thanks, Chris. We've had a very busy quarter. We see an accelerated rate of exploration and commitment by multi-location brick and mortar retailers to a next generation level shopping experience. This is exciting for us, because this is exactly where we positioned the company starting at the beginning of this year.

This is a massive global opportunity as online retailers continue to take mind and market share from traditional retailers. The next chapter will be an omnidirectional experience for shoppers which creates a seamless journey where people are on a path to purchase.

We're in very early innings in this long evolution, but things are accelerating very quickly, as I mentioned. We're adding new strategic partners, which deliver product services and solutions to our target market of manufacturers and/or multi-location brick and mortar retailers.

These strategic partners are providing access to thousands of retailers with a combined footprint of tens of thousands of retail locations. We're also approaching brands directly in our sales pursuit process. As mentioned previously, you may remember that we have forged a very strategic relationship with one of the preeminent retail printing organizations in the country called IntegraColor and we're looking to grow with similarly focused partners to give us complementary access in the same capacity that Integra has for us.

We recently hired Bill Mould as VP of sales to help us identify changes and close the growing pipeline of opportunities. Bill brings us a very strong background in digital media, agency, and retail as consultant of sales, which will serve us very well as we're pursuing all these growing opportunities that are landing in our pipeline.

We've also added several fantastic new members to our board of advisors, who help us refine our messaging, position our solutions, and make introductions into grocery, big box retail, specialty retail, convenience stores, as well as other retail segments.

Another exciting point of news is we just recently engaged the public relations firm located here in Dallas, called HCK2. We're really excited that they can really affect the positioning of all the great success that we're having out in the market on a broader reach base. They're a well-respected firm focused on technology companies and retail brands. Their charter with us is to create awareness for all facets of the business in the public markets, including trade publications, conferences, investors, shareholders, consumers, and other interested parties. They'll help us with our positioning, marketing, launch of consumer facing apps, and other good market initiatives.

We launched our KIOSentrix mobile app as we mentioned in our 10K, our annual update that we did back in March. We're very excited about KIOSentrix because this platform brings to the market the unique ability for consumers to deploy what we call a universal app, which gives them a very unique shopping experience driven by a single app when they walk into any participating retailer. That's really—that and Mobile ADvantage are the cornerstones of the opportunity that we're building in the marketplace.

So, KIOSentrix is available for both IOS and Android mobile devices. We've also iterated our Mobile ADvantage and DashTAGG products several times throughout the quarter helping us to better position ourselves in the market with a very rich and growing feature set.

On the legal front, the stay which has been in place through our PTAB proceedings has finally lifted on April 2nd, recently, which launched us back into the process of protecting our patent portfolio in the Eastern District of Texas, against defendants Groupon, Foursquare, Yelp, and IZEA.

We've got a Claim Construction Hearing. Also there's a Markman hearing set for June 29th in Tyler. Actually, in Marshall, Texas, with Judge Gilstrap, and we've got a trial date set for December 14, 2015, at the end of the year.

There will be a lot of things that happen between now and the Markman and then between the Markman and the trial. So, we're back full steam spending a lot of real thoughtful cycles on our legal proceedings. So, as mentioned, we're currently in the throes of document discovery and production in preparation for that Markman hearing.

We've also filed an appeal regarding the PTAB decisions, which caused us to lose some of our patent claims at the end of 2014. While we emerged from the cover business method patent review process with 28 claims intact, I feel strongly that there were mistakes made by the PTAB and some of their rulings, which caused us to surrender claims and, therefore, we plan to work vigorously to get those claims back.

While our revenues for the quarter are down, we remain very confident in our ability to grow both the top and bottom line of the company while we're aggressively seeking to dominate this emerging and important technology segment. We will continue to innovate and develop and file to protect our IT while we defend our innovations against infringement of the marketplace.

So, I want to take this opportunity to thank you for your support and confidence and trust in Blue Calypso as a shareholder. And at this point, I would like to turn it back to our operator to begin the Q&A session.

Operator

Thank you. Ladies and gentlemen, we will be conducting a question and answer session. (Operator instructions.)

Our first question is coming from Andrew D'Silva of Merriman Capital. Please proceed with your question.

<Q>: Good afternoon. Thanks for taking my call. I just have a few questions for everyone. First off, what should we be thinking about or looking for out of the Markman hearing? Can you, maybe, provide some insight on what would be a positive or negative outcome, in your opinion, as far as definitions that will determine those?

Andrew Levi – CEO

Sure, thanks for the question. The Markman is a very important juncture in this path to trial for infringement and what the Markman really does is it sets up what's called the Claim Construction, meaning, it really creates the boundaries, the curves, the arguments, the points that the judge will then review, and the parties then, basically, put out all of the elements of their legal argument in front of the judge at that time, to help shape the path towards trial.

One of the most important things that happens at the Markman is if there are any ambiguous claims, which there always are with patents, that the parties have got to negotiate an understanding of—the Markman is where that happens, and so, to your question, Andy, the terms that we're in the process of negotiating with the defendants to define, really have, for the most part, already been defined as part of the cover business method patent review with the PTAB.

And so, it's our feeling while some of those we really feel require some shaping, because there are different criteria for what happens in the PTAB versus what happens in a court, the litigation process, there are different

measures for broadest level of interpretation or narrow levels of interpretation. We feel that worst case scenario, if the claim terms—that the only handful that we are wrestling with are close to the way that they were defined by the PTAB, then, we're pretty happy with that. But, make no mistake, there are some that we want to revise.

So, I would tell you that our legal team is extremely optimistic about what we think will happen in the Markman. The Markman, historically, and you guys can read about this on the web or talk to other people that have been through it, the Markman is generally viewed as a pretty good indication of what, kind of, the rhythm and velocity and the tone of the trial will be.

<Q>: Yes, okay, well, that makes sense. And then, I guess, if maybe you could provide a little bit of context as far as what else could go wrong in the Eastern District of Texas. I know there was an issue, maybe, with prior art. Can you educate me, maybe on the process that needs to take place for that and is it a possibility or likely for new prior art to be introduced?

Andrew Levi – CEO

Well, it is possible that the defendants can introduce prior art, but right now the proceedings for the trial are really getting pretty firmed up, and so to introduce prior art, the judge in the Eastern District is going to have to allow that grant it, and the defendants are going to have to make a good case as to why the prior art—one of the things you have to keep in mind is we really already went down this path. We were very close to Markman prior to entering the PTAB proceedings.

And so, with us having already, kind of, spent time together to try and present our case, or prior art, prepare for the Markman, now when the judge is reviewing the things that are being submitted, since everything was stayed, basically you're asking the court to allow you to introduce additional information, additional prior art, additional things into this process, when we were already down the road.

So, it's not definitely not a given that—not just prior art, but other issues, defenses, claims, things that weren't introduced before could be introduced. Now, I'm going to caveat that with the fact that I'm not a lawyer. I have certainly spent a lot of time in this process and had to get up to speed as much as I can, but somebody that is a bar card carrying attorney would be better suited to give you a more in-depth answer on that.

<Q>: Well, at least it sounds like it's more difficult than just them having the ability to file with their Claim Construction Brief new potential prior art that I thought what was initially could take place. So, at least there are a couple barriers in place that seem to impede the defendants from being able to do that, which sounds positive.

Andrew Levi – CEO

True. Yes, that's true.

<Q>: Okay. And then just moving over to the operational side really quickly. As far as break even goes, can you give us an idea of where revenue is expected to come from to get you there? Maybe just discuss what the Mobile ADvantage and KIOSentrix pipeline look like today.

Andrew Levi – CEO

Yes, sure. So, there are really two lines of business in the organization. We've got Blue Calypso Labs, which historically has generated the lion's share of all the reported revenue. And our Blue Calypso Lab pipeline is big. As Chris mentioned, our revenues are down from prior quarter, but anybody that has been in the business of delivering work for hire, which is really what Blue Calypso does, we deliver professional services consulting in R&D for strategic partners and clients that are synergistic with the products that are our core business.

So, we've got a very strong pipeline of Blue Calypso Lab's business that we're expecting to see some business close in very short order. As with any sales performance program and pipeline, it's not closed until it's closed, and sometimes you get all indications that things are on a path to close and sometimes they disappear. So, we've had a little of that happen and we've scared up some really new exciting opportunities as well.

So, what we're doing right now is we're positioning the company to capture revenue around Mobile ADvantage, KIOSentrix, and DashTAGG. With some supplement of SOCIALECHO, but today, our SOCIALECHO product, which is an advocacy and [indiscernible] platform, is really just designed to create awareness for the other three products that we bring to market.

So, we expect to be closing business and actually announcing closed business on our core products in the very near term. And with the growing pipeline that we've gotten from our relationship with our partners, specifically IntegraColor, with a couple more that are in the early stages of bearing fruit that could be as big, if not bigger than IntegraColor, as well as the addition of our new VP of sales, with KPIs, and performance goals and objectives to go hunt and close core business revenue. We've got a world class board of advisors that we're just signing on right now with objectives to add more of those guys that will do a great job of helping us position and open doors.

Having relationships and some really smart talent around us that are friends of the firm is really key as we're getting some early stage traction on these exciting products. So, that's where it's coming from. I wouldn't say it's a wish or a hope that we're going to grow a pipeline. I can tell you we have a growing pipeline that we're very excited about that I feel strongly will produce the soft commitment that we've made to get to cash flow break even by the end of the year.

So, we're here on the phone still making that statement. If we thought that that statement was in jeopardy and risk, we'd be telling you, "Don't bet on it." It's a function of us selling stuff and that's what you're asking, Andy, and I appreciate the question, so, there is risk in our pipeline not closing or something happening, but we're very committed to grow a profitable business and capitalize on this opportunity for this space that we've identified and positioned ourselves in.

<Q>: Okay, well, that sounds like you've got work ahead of you, but at least it's promising and it's still on ups. That's positive. I think that's everything I have for right now. Good luck going forward.

Andrew Levi – CEO

Great. Thank you. Thanks for your questions.

Operator

Thank you. Our next question is coming from Steve Connolly, a private investor. Please proceed with your question.

<Q>: Hey, Andrew, it's Steve. Hello?

Andrew Levi – CEO

Hey, hello.

<Q>: Hey, Andrew, can you walk through after the current cases what it looks like potential infringers and other companies out there might be infringing on the technology?

Andrew Levi – CEO

Well, you know, Steve, I can't really go into much detail there, but what I can tell you and everybody else on the phone is that the patents, the claims, the IP that the patent office said was an invention and novel that comprises

our portfolio, really has become a commercialized method of brands and retailers of all types connecting with their consumers to turn them into advocates and then into influencers.

And so, as a general statement, I can tell you that every brand in the world has got a commitment, a financial and a resource commitment to social media. They're trying to figure out this next generation of a sharing economy, and our technology was engineered and invented around the concept ten years ago, considering the vision that we had that brands would realize that their consumers, married with relevant brand content, is circumstantially and geographically relevant to their situation, wrapped with an incentive is a very, very powerful way of generating net new customers, brand awareness, product launches and so on.

So, my general answer is we're watching a lot of companies as they explore leveraging similar techniques as we have invented in our patent portfolio, and so I think that this is an early stage of the next generation in the way that marketing happens and that's what our portfolio does.

<Q>: Okay. I guess I wasn't asking for names or anything, just trying to understand the opportunities.

Andrew Levi – CEO

Yes. Sure.

<Q>: Common companies, because based on what you say, based on a lot of companies, they're [indiscernible] today.

Andrew Levi – CEO

Yes. There are quite a few folks that we're watching. We're committed to the defendants that we've filed with in the Eastern District of Texas at this moment in time. We're also equally committed to building a profitable business. And so until we, kind of, play our scenario out as it sits in the Eastern District, right now the strategy of what's next, I'm really, kind of, not in a position to discuss in any further detail, but thanks for the question.

<Q>: Okay.

Operator

Thank you. At this time, I'd like to turn the floor back over to management for any additional or closing comments.

Andrew Levi – CEO

Great. Thank you. In closing and in summary, we're continued to be excited about 2015. We really think we have positioned the company, both technically and opportunistically in a real hot emerging sector. So, thanks for your support. Appreciate you being a shareholder and commitment to the company, and we will talk to you in another three months as we move through Q2 with more exciting announcements.