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Transcript of
Blue Calypso
Third Quarter 2015 Earnings Conference Call
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Participants

Chris Fameree – CFO
Andrew Levi – CEO

Analysts

Andrew D'Silva – Merriman Capital

Presentation

Operator
Greetings and welcome to the Blue Calypso Third 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 Blue Calypso CFO, Chris Fameree. Please go ahead.

Chris Fameree – CFO
Thank you, and thanks for everybody for joining our 2015 third quarter financial and operational review. We continue to closely manage our monthly financials while we work hard to grow revenues from both our core products as well as BC Labs. As a financial overview, revenue for the three months ending September 30, 2015 were approximately $510,000 as compared to $310,000 for the same period in 2014, representing a 64% increase from the same period last year. The increase in revenue is primarily attributable to royalty revenue associated with our litigation settlement.

The company was able to continue to narrow its loss during the quarter as compared to the prior year. For the three months ending September 30, 2015, we are reporting a net loss of approximately $790,000 as compared to a net loss of $1.3 million for the three months ending September 30, 2014, which constitutes a 38% improvement.

The Q3 fiscal '15 loss includes approximately $280,000 in costs associated with our terminated secondary offering, offset by a $188,000 gain on the change in the fair value of derivative liability associated with our outstanding debt. To exclude the impact of these items, our loss from operations narrowed to approximately $600,000 for Q3 of 2015, as compared to $1.2 million during the same period last year.

For the three months ending September 30, 2015, our general and administrative expenses were reduced to approximately $460,000 as compared to $1.13 million for the three months ended September 30, 2014. As previously discussed, the decrease is primarily due to a reduction in stock-based compensation and reduced headcount in the executive compensation when looking at the periods year-over-year.

As of September 30th, the company had approximately $1.7 million of cash on hand, with approximately $1 million of working capital. Excluding the cost associated with the potential secondary offering, our monthly cash burn has remained relatively consistent with the second quarter, as we really continue to work hard to grow our revenues and operating margin.

Andrew will discuss our progress on this front next, but as previously disclosed, in order to meet our short-term working capital goals, on July 20th, we did issue a senior convertible note with a principal amount of approximately $550,000 for a purchase price of $500,000. The note is due one year from the issuance date, and more detail can be found in the 10-Q and our related 8-K filings.

As we've discussed and described in previous communications, during Q3, we did explore the option of a secondary offering and listing our shares on the national exchange. After several months preparing the company for public offering and uplift to either the NASDAQ or NYSE exchange, in early September the Board decided to pull the offering based on market conditions. We may evaluate an uplist strategy in the future, but for now we are focusing our energies on growing the business and improving operations.

In lieu of the secondary offering, we instead closed a round of private financing in which we sold and issued an aggregate of 482,500 shares of our common stock at a price per share of $4.25. This resulted in gross proceeds to the company of approximately $2.1 million. The common shares also included warrants to purchase an aggregate of 482,500 shares of common stock which are exercisable for a term of five years at an exercised price of $4.75 per share. Again, the financing occurred during Q3 and Q4, with approximately $1.8 million being raised during September and a residual amount during October.

That gives a financial overview for Q3. Andrew Levi, our CEO, will now provide an update on the general business, technology, and status of patent-related matters.

Andrew Levi – CEO
Thanks, Chris. I've got a few additional comments on financing. As you mentioned, we spent much of Q2 and Q3 working on a public offering to uplist to a major exchange. Unfortunately, the markets didn't cooperate with us in late August and in September, so we decided that it wasn't in the best interest of the company or the shareholders to complete the offering. The raise that we recently completed provides us ample working capital for the near term. Subject to our sales efforts ramping at the rates that our models predict, we don't see a need for additional capital to be raised in the near term. Again, our future capital needs are predicated on an accelerated sales ramp with little change to monthly expenses which we believe is feasible. Our models have been vetted pretty aggressively; we think that we've got the right ramp and the right focus going forward.

On the IP and legal front, we've discussed in detail in prior communications that we completed the covered business method patent review, or CBMR, at the patent trials and appeals board last December. As part of that process, while we emerged with 28 claims affirmed and patentable, a meaningful number of our claims were found to be invalid or unpatentable. We subsequently filed for appeal with the Federal Circuit whereby our hearing date was set for mid-January 2016. We were recently notified that the hearing would be accelerated with oral arguments to be delivered coming up here shortly on December 7th.

As a result, we agreed to stay the pending case in the Eastern District. In accordance with the stay, Judge Gilstrap has ordered the parties to submit a joint schedule for proceeding with the case within ten days of the ruling from the Federal Circuit. Depending upon the outcome of the appeals hearing, the claims in suit and, therefore, the case strategy could be different than what is currently in preparation for trial. There are so many permutations and possibilities for how this can play out that it's impossible to predict, but we will know very soon what happens next. At this time, we don't have a good sense of when the trial could resume specifically as it's subject to the next available slot on the court's docket, but we think it could be very quick, again, depending upon what happens in the Federal Circuit.

As we reported several months ago, we did come to a settlement agreement with Yelp, who, as a part of that agreement agreed to purchase 4,000 of our KIOSentrix beacons. We're in the early stages of working with Yelp to test and roll those beacons out. We also resolved our dispute with IZEA in July. The terms of those are under confidential.

On the technology front, the new Mobile ADvantage portal includes an extensive upgrade to lifecycle-based mobile marketing in analytics, and improvements to location-based capture of activation engagement, conversion, and influencer data. The new portal enables customers to get real-time business intelligence on how campaigns and targeted content convert shoppers into buyers through in-store intercept and engagement. This version of the portal lays the foundation for an aggressive development roadmap, including additional self-service content, activation administration, and double opt-in driven out-of-store marketing capabilities, which will be released starting this evening and through the rest of the month.

Also new to the market is the Apple IOS based KIOSentrix beacon manager, which is an easy to use, mobile administration app designed to configure and manage KIOSentrix beacons. We have also made extensive improvements to our KIOSentrix beacons firmware, which includes more comprehensive security. KIOSentrix beacons are some of the most flexible on the market as they are natively AC powered, but also can be configured with a rechargeable battery or simply a USB port deployed at a point-of-sale system.

Our latest version of the KIOSentrix universal shopping app for IOS and Android devices includes a comprehensive list of retailer favorites, including loyalty, locations, reviews, deals and offers, and additional retailer-driven content. Also included are price comparison and UPC and QR code scanning capabilities, as well as a robust shopping list management tool. KIOSentrix will reskin itself as a shopper enters a beacon-enabled retailer, presenting geographically and circumstantially relevant shopping content, powered by hyper-local in-store beacon activation.

On the technology side, finally, we're now shifting our branded KIOSentrix programmable near-field communication, or NFC chips. While Android devices are currently offering open NFC access, the world is eagerly anticipating Apple's commitment to NFC by allowing access to its NFC chip to the developer community. Currently there is no word from Apple when this open access might happen.

On the marketing front of the business, in Q3, we exhibited in several industry conferences including the Shopper Marketing Conference in Minneapolis, and the Multi-Unit Food Service Operator Show in Dallas. We've recently been featured in several trade publications including *The Dallas Business Journal, The Dallas Morning News, Progressive Grocer,* and *The Texas CEO Magazine*, all resulting from efforts on behalf of our PR company. We're working on a rebranding effort which will improve our organic and search engine optimization, which should result in additional lead flow in conjunction with increased spend in paid search and retargeting.

With the recent addition of Jeff Spock as our Director of Sales and the subsequent addition of several folks to his team, we're ramping our sales traction in the pipeline. Jeff comes to us with a great background in digital advertising sales and has already had a great impact on our traction in the marketplace. When you take into consideration the highly capable and enthusiastic and focused sales team, enhancements to company branding and positioning, media attention at a growing rate, and all the great new features we're bringing to market, we expect to see exponential growth in our core business in the very near term.

Thank you for your support, confidence, and trust in Blue Calypso as a shareholder. I'd like to turn the call back over to the operator to begin the Q&A session.

Operator
Thank you. We will now be conducting a question and answer session. (Operator instructions.)

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

<Q>: Hi. Thanks, good afternoon. Just a couple of quick questions for everyone. First off, Andrew, just if you could, quantify, if you can, the size of the pipeline or perhaps you can also articulate within there where you are in the sales process with some of the larger players that you are working with today, and if possible a little bit about your internal model. What kind of customer needs to utilize your platform so you can reach break-even?

Andrew Levi – CEO
Yes. Great question, Andy. Thanks for that. As you guys know, we don't forecast at this point. We're so early stage in really finalizing and creating some predictability in our business; it's difficult for us to really do a good job in forecasting. I can give you a little bit of context to your question. We've probably got 40 opportunities in our pipeline right now, approximately, and they vary in size.

Our business is a recurring model business, and so what we hope to generate is monthly recurring revenue from retailers as well as consumer packaged goods manufacturers. The revenue model for retailers is per month, per location. The revenue model for consumer packaged goods and product manufacturers is per month, per SKU. I can tell you, with all the subsectors in retail that we're chasing, everything from big-box retail, specialty retail, grocery, convenience stores, entertainment, movie theaters, car dealerships, we have active sales pursuits in every one of those sectors amongst a few others, and they vary in size pretty dramatically as you can imagine.

A big-box retailer opportunity is going to be potentially in the thousands of locations, which has a very interesting revenue model. I didn't mention food service and hospitality, for instance, quick serve and fast food restaurants. Those could be in the—sometimes in the tens of thousands of locations if we're dealing with corporate, or hundreds if we're dealing with a franchisee. So, we've got opportunities that could generate a few thousand dollars per month per brand or per retailer and some that could generate hundreds of thousands of dollars per month per customer. I wish I could give you a little more detail than that.

We hope as we really hit stride with some of our sales efforts that result from bringing on really a whole fresh sales team, Jeff Spock, he's just—I mentioned him in my narrative. He's just been tremendous and is making a world of difference here. It's great to have a sales force full of folks that have basically all worked together at prior digital marketing and advertising companies. They know our space and have really helped us to evolve our marketing and pipeline and demands and efforts [ph]. Like I said, we've probably got solid 40 opportunities we're working today, in varying stages of close. You'll start to see some announcements from us about wins and proof of concept started, and some of these we're pretty far down the path on.

<Q>: Great color there. You mentioned that you have potential customers that could be hundreds of thousands of dollars a month in revenues if they're landed. Should we assume margins will be fairly consistent as what we've seen the past, around 50% range or so? Gross margins that is?

Andrew Levi – CEO
Yes. Our business model is really predicated on at least a 50% gross margin for what we're doing. Sometimes it depends on whether we're brought into an opportunity through a partner. We've talked a lot about the opportunities in the pipeline so far. Some of those opportunities are coming directly to us, where we're dealing directly with the marketing folks in a retailer or a goods manufacturer. Some of those we're being brought into by partners.

As we're brought in by partners, there might be a little bit of a different margin structure, but not dramatically. We're not giving away a big bite of the gross margin even if we're brought in by partner, because the folks that we're aligning with are very strategic, in that our technology and our platform is unique and causes them to differentiate their core competency to the market. So they're really not looking to us as a commoditized offering in any way, shape, or form. They see us as very strategic, and, therefore, they recognize that they're going end up generating more revenue and profit by bringing us in because a combination of us plus the strategic partner creates that differentiation.

<Q>: Great. You just mentioned that your technology is pretty unique. I know one aspect of it, at least, is activation methodologies utilized for retail engagement. Can you maybe elaborate on what your "secret sauce" is versus some of the other companies that are in the market today, as far as activation goes?

Andrew Levi – CEO

I've got to be careful giving away too much "secret sauce" because then it's not a secret anymore, right? We really believe that we have built a platform that accommodates—you mentioned activation. Our platform, at the activation stage of the lifecycle, and just to brief everybody on the call as to what the mobile engagement lifecycle is. You've got awareness, which is driven by in-store materials that when a shopper walks into a location, it's brought to their attention. They've got an opportunity to participate.

So you've got awareness, activation. Activation is the stage about which somebody, through beacons, through NFC, through shortcodes, through QR, a multi-dimensional strategy often times employed in these retailers, causes a shopper to be engaged in digital content that then can help them guide them in their shopping experience while they're in-store. The awareness for a packaged goods manufacturer, for instance, might be a shortcode or a QR code or something of that nature on a box or a package or a bag of chips, or a product like a lawn mower. As the shopper is in that pass to purchase in-store, they're trying to learn more about a product they're interested in. POP on packaging can cause them to get the information they need to make a buying decision while they're in-aisle.

From activation, you move into engagement. Engagement is the delivery of all that content. The next stage would be conversion, meaning if the—the obvious conversion from an engagement event with the product would be a purchase. Let's say a conversion might be the delivery and redemption of a coupon right in-store. So you can see the entire lifecycle happen from one shopping visit where somebody walks in, learns about the digital platform, engages with the digital platform, is delivered a coupon, goes to a product, buys the product, possibly buys complementary products because those may be offered digitally in the content as delivered, and ultimately goes to the point of sale, the cash register, purchases the product. That's really not where we end.

There's another phase of that lifecycle called influence and loyalty, which, in traditional shopping the real difference between an online experience and today's physical brick and mortar shopping, is the fact that today, people that walk through the front door of a physical brick and mortar retailer remain relatively anonymous. If they're involved in a retailer's loyalty program there may be some de-anonymizing that shopper. But today, by and large people remain anonymous. Online, there's not the ability to do that. Once you make a purchasing transaction using an eCommerce platform like Amazon, you're a known entity to Amazon. Amazon is going to do everything they can to put the right content in front of you the next time that you visit. It's called retargeting. You can have geographically and circumstantially relevant content.

That's what that last phase of that lifecycle does for retailers, is it de-anonymizes that shopper and gives that retailer the ability to communicate with that shopper once they've left the store to drive them back in. The two magic things in retail are more foot traffic and a bigger basket size. The way we see the way that our platform engages, is build a relationship, develop confidence in-store, and potentially grow that bigger basket size on the first introduction of our platform, earning loyalty and confidence and the ability for the retailer then to communicate with the shopper once they've left, and drag them back in.

<Q>: All right. Thank you, thank you for that. The last question I've got is just on a litigation front. As far as the Federal Circuit goes, after the hearing, do you have a sense of about how long it takes for the panel of judges to make a decision? Are there any statistics that you can push us toward so we can better understand that?

Andrew Levi – CEO
Yes, you bet. Working real closely with our team at Fish & Richardson, we've really had to wrap our head around what does this do to the timeline to get back into the Eastern District, as we were considering the stay. Did it make sense, and what was the right strategy here? What we're finding is as much as somewhere between 60% and 80% of the cases that have come through CBMR that have been appealed that then end up in front of the Federal Circuit Appellate Court for review, the findings and results come back from the Fed Circuit in as short as a week to two weeks.

There's a high probability that the Fed Circuit could come back very quickly and then we've got—Judge Gilstrap mandated we've got ten days for all parties to convene and submit a revised trial schedule back to the courts, the Eastern District. From there, it really becomes dependent upon the availability of their docket as to when we get re-docketed to pick it back up. There are so many permutations of what can happen in the Federal Circuit. If we end up getting—so part of the issue, what we're really going to the Federal Circuit to argue, is that the claims that were deemed invalid or unpatentable in our 516 patent, which is the parent patent of the patent portfolio, are the claims that we really believe that we are due back, that they should not have been invalidated or deemed unpatentable.

The very first patent is the one that establishes precedent with the provisional filed all the way back to December of 2004. The second patent was issued in 2012, and it depends on—issue date, and filing date are really, really important when we're talking about precedents in prior art, and infringement and things like that. We're hopeful that we can have some success in front of the Fed Circuit and get back some of those 516 claims. They really change the complexion of our case quite a bit if that happens.

<Q>: Understandable. Great, well good luck with that, and your operating business going forward. Thanks a lot.

Andrew Levi – CEO
Thanks, Andy.

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

Andrew Levi – CEO
Great. I just want to thank the shareholders for the company, again, for your continued commitment. I think we're really on the cusp of breaking this thing loose in the operating business. I'm excited about the sales team, about the work that we're doing on marketing and awareness, and I'm—I remain confident that our IP efforts are going to play out well for us. We're really going full steam ahead, foot on the throttle all the way to the floor, and we look forward to the rest of 2015. I think we're set up to really do great things through the rest of this year. You'll see some announcements from us as we win new lines of business and set the company up to have a great 2016. Thanks, again.