

CALIBRUS, INC.
Form 10-Q
November 15, 2010

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

FORM 10-Q

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

For the quarterly period ended: September 30, 2010
or

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

For the transition period from: _____ to _____

CALIBRUS, INC.
(Exact name of registrant as specified in its charter)

NEVADA
(State or Other Jurisdiction
of Incorporation)

000-53408
(Commission
File Number)

86-0970023
(I.R.S. Employer
Identification No.)

1225 W. Washington Street, Suite 213, Tempe AZ 85281
(Address of Principal Executive Office) (Zip Code)

(602) 778-7516
(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer., or a smaller reporting company.

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Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares of the issuer's Common Stock outstanding as of November 14, 2010 is 6,794,600.

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). The registrant has not been phased into the Interactive Data reporting system.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CALIBRUS, INC.
CONDENSED BALANCE SHEETS

| | ASSETS | |
|---|--------------------------------------|----------------------|
| | September 30, 2010 (Unaudited) | December 31, 2009 |
| Current Assets | | |
| Cash and cash equivalents | \$ 31,864 | \$ 174,428 |
| Accounts receivable - trade, net | 696,699 | 580,487 |
| Prepaid expenses | 15,078 | 92,613 |
| Total Current Assets | 743,641 | 847,528 |
| Property and equipment, net | 39,973 | 80,008 |
| Software development | 2,441,285 | 1,014,328 |
| Deposits | 29,392 | 29,869 |
| Intangible asset, net | 292 | 1,167 |
| Total Assets | \$ 3,254,583 | \$ 1,972,900 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Notes payable, net of discount - current portion | \$ 593,425 | \$ 371,474 |
| Related party notes payable - current portion | 405,000 | - |
| Short term related party advance | 115,000 | - |
| Accounts payable - trade | 646,124 | 254,678 |
| Accrued liabilities | 236,567 | 284,383 |
| Total Current Liabilities | 1,996,116 | 910,535 |
| Total Liabilities | 1,996,116 | 910,535 |
| Commitments and Contingencies | - | - |
| Stockholders' Equity | | |
| Preferred stock, \$.001 par value, 5,000,000 shares authorized, none issued or outstanding | - | - |
| Common stock, \$.001 par value, 45,000,000 shares authorized, | | |

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| | | |
|---|--------------|--------------|
| 6,794,600 shares issued and outstanding at September 30, 2010 and December 31, 2009 | 6,795 | 6,795 |
| Additional paid-in capital | 4,765,758 | 4,640,812 |
| Accumulated deficit | (3,514,086) | (3,585,242) |
| Total Stockholders' Equity | 1,258,467 | 1,062,365 |
| Total Liabilities and Stockholders' Equity | \$ 3,254,583 | \$ 1,972,900 |

The Accompanying Notes are an Integral
Part of these Condensed Financial Statements

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CALIBRUS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

| | For the Three Months Ended September 30, 2010 | For the Three Months Ended September 30, 2009 | For the Nine Months Ended September 30, 2010 | For the Nine Months Ended September 30, 2009 |
|--|---|---|--|--|
| Revenues | \$ 945,929 | \$ 1,023,829 | \$ 2,889,594 | \$ 3,449,453 |
| Cost of revenues | 329,621 | 429,409 | 1,025,257 | 1,406,906 |
| Gross profit | 616,308 | 594,420 | 1,864,337 | 2,042,547 |
| Research and development expense | - | - | 17,690 | 545,485 |
| General and administrative expenses | 627,125 | 554,121 | 1,706,576 | 1,760,963 |
| Income (Loss) from Operations | (10,817) | 40,299 | 140,071 | (263,901) |
| Other Income (Expense): | | | | |
| Interest income | 159 | 377 | 589 | 2,356 |
| Interest expense | (31,188) | - | (69,504) | - |
| | (31,029) | 377 | (68,915) | 2,356 |
| Income (Loss) before income taxes | (41,846) | 40,676 | 71,156 | (261,545) |
| Income tax benefit (expense) - deferred | - | - | - | - |
| Net Income (Loss) | \$ (41,846) | \$ 40,676 | \$ 71,156 | \$ (261,545) |
| Income (Loss) per Common Share: (Note 1) | | | | |
| Basic and Diluted | \$ (0.01) | \$ 0.01 | \$ 0.01 | \$ (0.04) |
| Weighted Average Common Shares Outstanding: | 6,794,600 | 6,794,600 | 6,794,600 | 6,794,600 |

The Accompanying Notes are an Integral
Part of these Condensed Financial Statements

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CALIBRUS, INC.

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the Nine Months Ended September 30, 2010 | For the Nine Months Ended September 30, 2009 |
|---|---|---|
| Increase (decrease) in cash and cash equivalents: | | |
| Cash flows from operating activities: | | |
| Net income (Loss) | \$ 71,156 | \$ (261,545) |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities: | | |
| Depreciation and amortization | 45,902 | 92,277 |
| Amortization of debt discount | 6,951 | - |
| Stock based compensation expense | 124,520 | - |
| Warrants issued for services | 426 | - |
| Bad debt expense | 495 | 50,772 |
| Changes in assets and liabilities: | | |
| Accounts receivable - trade | (116,707) | 25,019 |
| Prepaid expenses | 77,535 | 63,431 |
| Deposits | 477 | 4,512 |
| Accounts payable - trade | 391,446 | 27,781 |
| Accrued liabilities | (47,816) | (15,082) |
| Net cash provided (used) by operating activities | 554,385 | (12,835) |
| Cash flows from investing activities: | | |
| Purchase of fixed assets | (4,992) | (28,022) |
| Purchase of software development | (1,426,957) | (537,731) |
| Net cash used by investing activities | (1,431,949) | (565,753) |
| Cash flows from financing activities: | | |
| Proceeds from short term related party advance | 115,000 | - |
| Proceeds from issuance of debt | 620,000 | - |
| Net cash provided by financing activities | 735,000 | - |
| Net decrease in cash and cash equivalents | (142,564) | (578,588) |
| Cash and cash equivalents at beginning of period | 174,428 | 854,159 |
| Cash and cash equivalents at end of period | \$ 31,864 | \$ 275,571 |

Supplemental disclosure of cash flow information:

Cash paid during the year for:

| | | |
|--------------|-------|------|
| Interest | \$ - | \$ - |
| Income taxes | \$ 50 | \$ - |

The Accompanying Notes are an Integral
Part of these Condensed Financial Statements

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CALIBRUS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. Summary of Significant Accounting Policies and Use of Estimates:

Presentation of Interim Information:

The condensed financial statements included herein have been prepared by Calibrus, Inc. (“we”, “us”, “our” or “Company”) without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) and should be read in conjunction with the audited financial statements as of December 31, 2009. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, as permitted by the SEC, although we believe the disclosures, which are made, are adequate to make the information presented not misleading. Further, the condensed financial statements reflect, in the opinion of management, all normal recurring adjustments necessary to present fairly our financial position at September 30, 2010, and the results of our operations and cash flows for the periods presented. The December 31, 2009 condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Interim results are subject to significant seasonal variations and the results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year.

Nature of Corporation:

Calibrus, Inc. (the “Company”) was incorporated on October 22, 1999, in the State of Nevada. The Company’s principal business purpose is to operate a customer contact center for a variety of clients, who are located throughout the United States. The Company provides customer contact support services for various companies wishing to outsource these functions. The Company is also developing a social networking website named JabberMonkey.com. JabberMonkey is a social expression site featuring questions on issues and topics that are current and relevant to its members. JabberMonkey questions will be on pertinent issues that in many instances will evoke an emotional response from its members. Many of the questions on JabberMonkey will provide the individuals voting with a voice to cause an action or affect a result.

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 and 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. These estimates include, but are not limited to, the collection of accounts receivable, the recoverability of software development, and the valuation of stock options and warrants. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The carrying amounts of accounts receivable, accounts payable, accrued liabilities, and notes payable approximate fair value given their short term nature or effective interest rates.

Earnings per Share:

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period and contains no dilutive securities. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. The Company calculates diluted earnings per share using the treasury stock method. For the three and nine month periods ended September 30, 2010 and 2009, none of the potentially dilutive securities was deemed to be in the money. As such, all potentially dilutive securities are anti-dilutive.

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CALIBRUS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

| | Three Months Ended September 30, 2010 | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|--|--|---|---|
| Income (Loss) available to common stockholders | \$ (41,846) | \$ 40,676 | \$ 71,156 | \$ (261,545) |
| Weighted average number of common shares used in basic earnings per share | 6,794,600 | 6,794,600 | 6,794,600 | 6,794,600 |
| Effect of dilutive securities: | | | | |
| Stock options | - | - | - | - |
| Stock warrants | - | - | - | - |
| Note conversions | - | - | - | - |
| Weighted average number of common shares and dilutive potential common stock used in diluted earnings per share | 6,794,600 | 6,794,600 | 6,794,600 | 6,794,600 |

All dilutive common stock equivalents are reflected in our earnings per share calculations. Anti-dilutive common stock equivalents are not included in our earnings per share calculations. For the nine month periods ended September 30, 2010 and 2009 the Company had outstanding options to purchase 2,742,499 and 1,525,832 shares of common stock at a per share weighted average exercise price of \$1.12 and \$1.31, which were not included in the earnings per share calculation as they were anti-dilutive. In addition, the Company did not include in either period warrants to purchase 508,500 shares of common stock at a price of \$1.95 per share in the earnings per share calculation as they were anti-dilutive. In addition, as of September 30, 2010 the Company has \$1,000,000 principal balance of convertible debentures along with \$66,252 in accrued interest which is convertible into 710,835 shares of the Company's common stock if converted.

Revenue Recognition

Revenue for inbound calls is recorded on a per-call or per-minute basis in accordance with the rates established in the respective contracts. Revenue for outbound calls is on a commission basis, with revenue being recognized as the commission is earned. As the Company's customers are primarily well established, creditworthy institutions, Management believes collectability is reasonably assured at the time of performance. The Company from time to time executes outbound sales campaigns for customers, primarily for the sale of telecommunications services. Although this revenue source has been immaterial, the Company recognizes the commissions earned on these campaigns on a net basis in accordance with FASB ASC 605-45 Reporting Revenue Gross as a Principal versus Net as an Agent.

Stock-Based Compensation:

The Company has stock-based compensation plans. Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant date fair value estimated in accordance with the Black Scholes Pricing Model. The value of the compensation cost is amortized on a straight-line basis over the requisite service periods of the award (the option vesting term).

Assumptions used in the Black Scholes Pricing Model to estimate compensation expense are determined as follows:

- Expected term is determined using an average of the contractual term and vesting period of the award. The Company uses the simplified method as it does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time its equity shares have been publicly traded;
-

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CALIBRUS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

Stock-Based Compensation (Continued):

- Expected volatility of award grants made under the Company's plans is measured using the historical daily changes in the market price of similar industry indices, which are publicly traded, over the expected term of the award. The Company uses the market index as it does not have sufficient historical trading activity to provide a reasonable basis upon which to calculate the expected volatility due to the limited amount of time its equity shares have been publicly traded;
- Risk-free interest rate is equivalent to the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards; and,
- Forfeitures are based on the history of cancellations of awards granted by the Company and management's analysis of potential forfeitures.

During the nine months ended September 30, 2010, the Company granted a total of 984,167 incentive stock options to its employees and an additional 510,000 non-qualified stock options to members of its Board of Directors. An additional 50,000 options will vest upon completion of the Company's Fanatic Fan smart phone application. Expense related to those options is \$4,319 and will be expensed upon completion of the application. Total compensation expense related to the issuance of the options was \$124,520 and was calculated using the Black Scholes Pricing Model. All of the newly issued options have a grant price of \$1.00 and five year expiration terms. The Company also increased the amount of options available under its incentive stock option plan by 550,000 options bringing the total options available for grant under the plan to 2,000,000.

Income Taxes:

The Company estimates the annual tax rate based on projected taxable income for the full year and records a quarterly income tax provision in accordance with the anticipated annual rate. As the year progresses, we refine the estimates of the year's taxable income as new information becomes available, including year-to-date financial results. This continual estimation process can result in a change to the expected effective tax rate for the year. When this occurs, the Company adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual tax rate. Significant judgment may be required in determining the Company's effective tax rate and in evaluating our tax positions.

The effective income tax rate of 0% for the nine months ended September 30, 2010 and 2009 differed from the statutory rate, due primarily to net operating losses incurred by the Company in past and/or respective periods. The tax liability generated by the net income at the effective income tax rate would have been approximately \$7,000 for the nine months ended September 30, 2010 and would have reduced the deferred tax benefit and reserve by the same amount. A tax benefit of \$102,000 should have been generated for the nine months ended September 30, 2009. However, all benefits have been fully offset through an allowance account due to the uncertainty of the utilization of the net operating losses. As of September 30, 2010 the Company had net operating losses of approximately \$3,000,000 resulting in a deferred tax asset of approximately \$1,200,000. The Company has established a valuation allowance in the full amount of the deferred tax asset due to the uncertainty of the utilization of operating losses in future periods.

Software Development

The Company capitalizes certain software costs in accordance with FASB ASC 985-20 Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. The product under development is still in the development stage and has not reached marketability. Upon completion of the project, the capitalized costs will be amortized over the estimated economic life of the product.

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CALIBRUS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

Pending Accounting Pronouncements:

There have been no recent accounting pronouncements issued which are expected to have a material effect on the Company's financial statements.

2. Related Party Transactions

During the nine months ended September 30, 2010, the Company received \$310,000 in note proceeds from family members of the Company's officers related to the private placement offering discussed below.

During the nine months ended September 30, 2010, the Company received \$95,000 in note proceeds from an entity controlled by one of its officers.

During the nine months ended September 30, 2010, the Company received an \$115,000 short term advance from one of its officers. Due to the short duration of the advance no interest was accrued on the advance.

3. Notes Payable

During the nine months ended September 30, 2010, we sold an additional 124 units (the "Units") of the 200 Unit offering for proceeds of \$620,000, at \$5,000 per unit for total offering proceeds of \$1,000,000. Each Unit consists of a five thousand dollar (\$5,000) principal amount Convertible Debenture ("the Debenture") and twenty five hundred (2,500) common stock purchase warrants. As of September 30, 2010 a total of 200 units have been sold in the offering. Each Debenture is convertible into shares of common stock of Calibrus at the lower of \$1.50 per share or the price of any additional private placement of Calibrus in the next twelve months and bears interest at the rate of 12% per annum. Each warrant entitles the holder to purchase one share of Calibrus' common stock for each warrant held an exercise price equal to the lower of (i) one dollar and ninety-five cents (\$1.95) per share, or (ii) one hundred thirty percent (130%) of the per share price paid by any investor in a private placement by Calibrus of shares of our common stock at any time in the next twelve months (the "Warrants"). The Warrants are only exercisable if the Debentures, which are part of the underlying Unit, are converted into shares of Calibrus' common stock. As of September 30, 2010 a total of 500,000 warrants have been issued in relation to the offering.

Subsequent to September 30, 2010 the Company has raised \$5,000 (1 unit) of a \$500,000 convertible debenture offering for a total of \$5,000 raised under the offering. The opening date of the offering was October 1, 2010. The offering consists of 100 units consisting of five thousand dollars (\$5,000) in Debentures of the Company and twenty five hundred (2,500) common stock purchase warrants (the "Units"). Each convertible debenture is convertible into shares of common stock of the Company at the lower of \$1.50 per share or the price of any additional private placement of the Company in the next twelve months and bears interest at the rate of 12% per annum (the "Debentures"). Each common stock purchase warrant entitles the holder to purchase one share of the Company's common stock for each warrant held at the warrant exercise price of the lower of (i) one dollar and ninety-five cents (\$1.95) per share, or (ii) one hundred thirty percent (130%) of the per share price paid by any investor in a private placement by the Company of shares of its common stock at any time in the next twelve months (the "Warrants"). The Warrants are only exercisable if the Debentures, which are part of the underlying Unit, are converted into shares of the Company's common stock. As such 2,500 warrants have been issued in accordance with the offering language.

4. Warrants

On March 9, 2010 the Company issued a total of 8,500 warrants to two broker dealers as commissions for raising funds in the Company's private placement offering. The warrants have a two year expected term and are exercisable at the lower of (i) one dollar and ninety-five cents (\$1.95) per share, or (ii) one hundred thirty percent (130%) of the per share price paid by any investor in a private placement by the Company of shares of its common stock at any time in the next twelve months. The warrants were valued at a total of \$426 using the black-scholes pricing model and were expensed at the date of grant.

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CALIBRUS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

5. Subsequent Events

Management has evaluated subsequent events pursuant to the requirements of ASC Topic 855 and has determined that other than the events described below no other material subsequent events exist.

Subsequent to September 30, 2010 the Company has raised \$5,000 (1 unit) of a \$500,000 convertible debenture offering for a total of \$5,000 raised under the offering. The opening date of the offering was October 1, 2010. The offering consists of 100 units consisting of five thousand dollars (\$5,000) in Debentures of the Company and twenty five hundred (2,500) common stock purchase warrants (the "Units"). Each convertible debenture is convertible into shares of common stock of the Company at the lower of \$1.50 per share or the price of any additional private placement of the Company in the next twelve months and bears interest at the rate of 12% per annum (the "Debentures"). Each common stock purchase warrant entitles the holder to purchase one share of the Company's common stock for each warrant held at the warrant exercise price of the lower of (i) one dollar and ninety-five cents (\$1.95) per share, or (ii) one hundred thirty percent (130%) of the per share price paid by any investor in a private placement by the Company of shares of its common stock at any time in the next twelve months (the "Warrants"). The Warrants are only exercisable if the Debentures, which are part of the underlying Unit, are converted into shares of the Company's common stock. As such 2,500 warrants have been issued in accordance with the offering language.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is management's discussion and analysis of certain significant factors affecting the Company's financial position and operating results during the periods included in the accompanying condensed financial statements. Except for the historical information contained herein, the matters set forth in this discussion are forward-looking statements.

Overview

Our performance for the nine months ended September 30, 2010 continued to reflect the overall volume decline in the Third Party Verification business as a whole. Fortunately, we have been able to significantly reduce our operating expenses as they relate to our current revenue rate and have also entered into new contracts with some of our existing customers. These contracts called for increased pricing which has offset the continued decline in volume resulting in a net profit for the nine months ended September 30, 2010. We have also continued to increase our expenditures into software development in an effort to diversify our business offerings and generate alternative revenue sources. The Company intends to launch its JabberMonkey.com social expression website during the fourth quarter 2010. The Company has also begun development of a live event social networking application for smartphones. The application uses the phone's GPS to determine the event that the fan is attending. Through communication with the application service or a separate event service the application then retrieves relevant information on the event based on the user's GPS location, and allows the fan to "check-in" to the event through the application service.

Results of Operations

The following table sets forth certain items derived from our Condensed Statements of Operations for the periods indicated and the corresponding percentage of total revenue for each item:

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| | Nine Months Ended September 30, 2010 | | | | Three Months Ended September 30, 2009 | | | |
|---|--|--------|--------------|--------|---|--------|-------------|--------|
| | 2010 | | 2009 | | 2010 | | 2009 | |
| | (Unaudited) | | | | (Unaudited) | | | |
| Revenue | \$2,889,594 | 100.0% | \$3,449,453 | 100.0% | \$945,929 | 100.0% | \$1,023,829 | 100.0% |
| Cost of Goods Sold | 1,025,257 | 35.5% | 1,406,906 | 40.8% | 329,621 | 34.8% | 429,409 | 41.9% |
| Gross Profit | 1,864,337 | 64.5% | 2,042,547 | 59.2% | 616,308 | 65.2% | 594,420 | 58.1% |
| Research and Development | 17,690 | 0.6% | 545,485 | 15.8% | - | 0.0% | - | 0.0% |
| General and Administrative Expenses | 1,706,576 | 59.1% | 1,760,963 | 51.1% | 627,125 | 66.3% | 554,121 | 54.1% |
| Profit (loss) from Operations | 140,071 | 4.8% | (263,901) | -7.7% | (10,817) | -1.1% | 40,299 | 3.9% |
| Interest Income | 589 | 0.0% | 2,356 | 0.1% | 159 | 0.0% | 377 | 0.0% |
| Interest Expense | (69,504) | -2.4% | - | 0.0% | (31,188) | -3.3% | - | 0.0% |
| Net Income (loss) | \$71,156 | 2.5% | \$(261,545) | -7.6% | \$(41,846) | -4.4% | \$40,676 | 4.0% |

Three Months Ended September 30, 2010 compared to Three Months Ended September 30, 2009

Revenue – Revenue decreased 7.61% to \$945,929 for the three months ended September 30, 2010, which we refer to as “3rd quarter 2010,” from \$1,023,829 for the three months ended September 30, 2009, which we refer to as “3rd quarter 2009.” The decrease was due to the continued volume decline of Third Party Verification business however, this was offset partially by increased rates to existing customers.

Cost of Revenue – Cost of Revenues decreased 23.24% to \$329,621 for the 3rd quarter 2010, from \$429,409 for the 3rd quarter 2009. The decrease was due to lower revenue and the Company’s efforts to reduce fixed expenses related to its business. Of the \$99,788 reduction, approximately 90% was attributable to reduced sales and approximately 10% was attributable to cost reductions.

Gross Profit – Gross profit increased to \$616,308 in the 3rd quarter 2010 from \$594,420 in the 3rd quarter 2009 and the gross profit margin increased to 65.15% from 58.06% in the respective periods. The increase in the gross profit and gross profit margin was a result of the Company’s reduction of fixed expenses related to its Third Party Verification business, new pricing terms with existing customers and a greater percentage of higher margin automated services.

General and Administrative Expenses – General and administrative expense increased 13.17% to \$627,125 in the 3rd quarter of 2010 from \$554,121 in the 3rd quarter of 2009. The increase was primarily due to the issuance of stock options to the Company’s employees and Board of Directors. Excluding the expense related to this issuance, general and administrative expenses would have been \$502,605 or a decrease of 19.85% over the prior year period. This is indicative of the Company’s continued effort to reduce administrative expenses to be in line with its current revenue.

Net Loss – The Company incurred a net loss of \$41,846 for the 3rd quarter of 2010 compared to net income of \$40,676 in the 3rd quarter of 2009. This was a direct result of the expense related to the issuance of stock options in the

quarter as discussed above. Excluding this expense, the Company would have generated net income of \$82,674 for the 3rd quarter of 2010. These results continue to reflect higher pricing terms as negotiated in new contracts with existing customers and a higher percentage of automated services that provide for a higher margin.

Nine Months Ended September 30, 2010 compared to Nine Months Ended September 30, 2009

Revenue – Revenue decreased 16.23% to \$2,889,594 for the nine months ended September 30, 2010 from \$3,449,453 for the nine months ended September 30, 2009. The decrease was due to the continued volume decline of Third Party Verification business however, was offset partially by increased rates to existing customers.

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Cost of Revenue – Cost of Revenues decreased 27.13% to \$1,025,257 for the nine months ended September 30, 2010, from \$1,406,906 for the nine months ended September 30, 2009. The decrease was due to lower revenue and the Company's efforts to reduce fixed expenses related to its business. Of the \$381,649 reduction, approximately 90% was attributable to reduced sales and approximately 10% was attributable to cost reductions.

Gross Profit – Gross profit decreased to \$1,864,337 in the nine months ended September 30, 2010 from \$2,042,547 in the nine months ended September 30, 2009 and the gross profit margin increased to 64.52% from 59.21% in the respective periods. The increase in gross profit margin during the nine months ended September 30, 2010 was primarily due to the Company's reduction of fixed expenses related to its Third Party Verification business, higher pricing terms as negotiated in new contracts with existing customers and higher percentage of IVR and call recording services which provide for higher profit margins. The decrease in gross profit was a direct result of declines in operating revenue.

Research and Development – Research and development expenses decreased to \$17,690 in the nine months ended September 30, 2010 from \$545,485 in the nine months ended September 30, 2009. This is a result of the Company's capitalization of the expenditures related to its JabberMonkey.com social networking website. During the nine months ended September 30, 2010 the Company capitalized \$1,426,957 related to the project. The Company continues to invest capital into diversifying its product offerings in an attempt to offset volume drops in its core TPV business. The research and development expense incurred in the nine months ended September 30, 2010 relates directly to the development of the Company's live event social networking application.

General and Administrative Expenses – General and administrative expense decreased 3.09% to \$1,706,576 in the nine months ended September 30, 2010 from \$1,760,963 in the nine months ended September 30, 2009. Excluding the expense related to the Company's issuance of stock options to its employees and board of directors, general and administrative expenses would have been \$1,582,056 or a decrease of 10.13% over the prior year period. This is indicative of the Company's continued effort to reduce administrative expenses to be in line with its current revenue.

Net Income (Loss) – The Company generated net income of \$71,156 for the nine months ended September 30, 2010 compared to a net loss of (\$261,545) for the nine months ended September 30, 2009, a difference of \$279,142. Excluding the expense related to the issuance of stock options as discussed above, net income for the nine months ended September 30, 2010 would have been \$195,676. The difference was a result of higher pricing terms as negotiated in new contracts with existing customers and a higher percentage of automated services that provide for a higher margin. The Company also continued to reduce general and administrative expenses as outlined above.

Liquidity and Capital Resources

As of June 30, 2010 we had cash on hand of \$31,864 and negative working capital of \$1,252,475. Historically, the Company has been able to fund operations through the generation of positive cash flow from its business operations. The Company was able to generate a small amount of positive cash flow from operations in the first three quarters of 2010. As of September 30, 2010 the Company has also sold 200 Units, at \$5,000 per Unit, in its private placement offering, for total offering proceeds of \$1,000,000. The Company has used the majority of the \$1,000,000 in proceeds for development work on its JabberMonkey.com website and smart phone application. The company has been investing all of its excess capital in the development of its JabberMonkey.com website at the rate of approximately \$160,000 per month. At this rate the Company will need to raise additional capital to continue the development of its website and smart phone application. As such in October 2010, the Company has initiated an additional \$500,000 private placement of convertible debentures to fund this development. If the Company is not able to consistently run its operations at a profit and raise the additional capital, it will be forced to significantly reduce its expenditures related to the JabberMonkey.com and smart phone applications. There can be no assurance that the Company will be able to raise such capital or do so on favorable terms.

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The Company also has \$250,000 of principal balance convertible debentures maturing in November 2010 and an additional \$130,000 maturing in December 2010. The Company is in the process of obtaining six month extensions from the debenture holders and is confident it can do so. If the Company is not able to obtain extensions or the debenture holders do not convert their debentures and accrued interest into shares of the Company's common stock it will put significant pressure on the Company to repay these debentures. The Company would be forced to cease development on its JabberMonkey.com website and smart phone application and use any proceeds from its current convertible debenture raise to repay these debentures.

Significant accounting policies and pending accounting pronouncements are addressed in detail in the Company's Form 10-K filing for the year ended December 31, 2009. There have been no significant changes in these matters since that filing.

Forward-Looking Statements

We have made forward-looking statements, within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, in this quarterly report on Form 10-Q, including the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are based on our beliefs and assumptions and on information currently available to us. Forward-looking statements include the information concerning our possible or assumed search for new business opportunities and future costs of operations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "anticipate," "intend," "plan," "estimate" or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in the forward-looking statements. You should understand that many important factors could cause our results to differ materially from those expressed in the forward-looking statements. These factors include, without limitation, the difficulty in locating new business opportunities, our regulatory environment, our limited operating history, our ability to implement our growth strategy, our ability to integrate acquired companies and their assets and personnel into our business, our obligations to pay professional fees, and other economic conditions and increases in corporate maintenance and reporting costs. Unless legally required, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Off Balance Sheet Arrangements

None

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required.

Item 4. Controls and Procedures.

An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Disclosure controls and procedures are defined as those controls and other procedures of an issuer that are designed to ensure that the information required to be disclosed by the issuer in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the United States Securities and Exchange Commission's rules and

forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that those disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the United States Securities and Exchange Commission's rules and forms. In addition, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II – OTHER INFORMATION

Item 1.

Legal Proceedings.

None.

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Item 1A. Risk Factors.

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There are no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 during the nine months ended September 30, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

From October 2009 through July 2010, we sold 200 Units, at \$5,000 per unit, in our private placement of Units for total offering proceeds of \$1,000,000. Each Unit consists of a five-thousand dollar (\$5,000) principal amount Debenture and twenty-five hundred (2,500) common stock purchase warrants. Each Debenture is convertible into shares of common stock of Calibrus at the lower of \$1.50 per share or the price of any additional private placement of Calibrus in the next twelve months and bears interest at the rate of 12% per annum. Each warrant entitles the holder to purchase one share of Calibrus' common stock for each warrant held at the warrant exercise price of (i) one dollar and ninety-five cents (\$1.95) per share, or (ii) one hundred thirty percent (130%) of the per share price paid by any investor in a private placement by Calibrus of shares of our common stock at any time in the next twelve months. The Warrants are only exercisable if the Debentures, which are part of the underlying Unit, are converted into shares of Calibrus' common stock. At March 31, 2010, we had completed the sale of the original 150 Units for total proceeds of \$750,000. We extended the offering and increased the amount of the offering to \$1,000,000 because the offering was over committed. As of September 30, 2010 a total of 500,000 warrants have been issued in relation to the offering.

In addition 8,500 placement agent warrants have been issued during the nine months ended September 30, 2010 related to the offering. The terms of the warrants mirror those of the private placement offering.

Subsequent to September 30, 2010 the Company has raised \$5,000 (1 unit) of a \$500,000 convertible debenture offering for a total of \$5,000 raised under the offering. The opening date of the offering was October 1, 2010. The offering consists of 100 units consisting of five thousand dollars (\$5,000) in Debentures of the Company and twenty five hundred (2,500) common stock purchase warrants (the "Units"). Each convertible debenture is convertible into shares of common stock of the Company at the lower of \$1.50 per share or the price of any additional private placement of the Company in the next twelve months and bears interest at the rate of 12% per annum (the "Debentures"). Each common stock purchase warrant entitles the holder to purchase one share of the Company's common stock for each warrant held at the warrant exercise price of the lower of (i) one dollar and ninety-five cents (\$1.95) per share, or (ii) one hundred thirty percent (130%) of the per share price paid by any investor in a private placement by the Company of shares of its common stock at any time in the next twelve months (the "Warrants"). The Warrants are only exercisable if the Debentures, which are part of the underlying Unit, are converted into shares of the Company's common stock. As such 2,500 warrants have been issued in accordance with the offering language.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Removed and Reserved.

Item 5. Other Information.

None.

Item 6.

Exhibits.

None.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Calibrus, Inc.

By: /s/ Jeff W. Homes
Jeff W. Holmes, CEO

Date: November 15, 2010

By: /s/ Kevin J. Asher
Kevin J. Asher, CFO

Date: November 15, 2010

In accordance with the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--|---------------|-------------------|
| /s/ Jeff W. Homes Jeff W. Holmes | Director, CEO | November 15, 2010 |
| /s/ Kirk Blosch Kirk Blosch | Director | November 15, 2010 |
| /s/ Christian J. Hoffmann, III Christian J. Hoffmann, III | Director | November 15, 2010 |
| /s/ Charles House Charles House | Director | November 15, 2010 |