

BIO KEY INTERNATIONAL INC
Form 10QSB
May 16, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

**ý QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the quarterly period ended March 31, 2005

o TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT

For the Transition Period from to

Commission file number **1-13463**

BIO-KEY INTERNATIONAL, INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation of Organization)

41-1741861
(IRS Employer
Identification Number)

3349 HIGHWAY 138,BUILDING D, SUITE B, WALL, NJ 07719

(Address of Principal Executive Offices)

(732) 359-1100

(Issuer's Telephone Number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN
BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date : There were 44,782,217 issued and outstanding shares of the registrant's common stock, par value \$.0001 per share, as of May 12, 2005.

Transitional Small Business Disclosure Format (check one): Yes No

BIO-KEY INTERNATIONAL, INC.

INDEX

PART I. FINANCIAL INFORMATION

<u>Item 1 - Consolidated Financial Statements</u>	
<u>Balance sheets as of March 31, 2005 (unaudited) and December 31, 2004</u>	3
<u>Statements of operations for the three months ended March 31, 2005 and</u>	5
<u>2004 (unaudited)</u>	
<u>Statements of cash flows for the three months ended March 31, 2005 and</u>	6
<u>2004 (unaudited)</u>	
<u>Notes to consolidated financial statements</u>	7
<u>Item 2 - Management's Discussion and Analysis</u>	14
<u>Item 3 - Controls and Procedures</u>	22

PART II. OTHER INFORMATION

<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 6 - Exhibits</u>	23

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2005 (Unaudited)	December 31, 2004
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,370,585	\$ 956,230
Marketable securities		1,000,000
Receivables		
Billed, less allowance for doubtful receivables of \$209,102 and \$422,393, respectively	2,482,388	1,698,144
Unbilled	605,523	310,523
Due from selling stockholders	60,793	60,793
Costs and earnings in excess of billings on uncompleted contracts	6,040,927	6,292,603
Inventory	29,599	29,599
Prepaid expenses and other	208,222	190,027
Total current assets	10,798,037	10,537,919
EQUIPMENT AND LEASEHOLD IMPROVEMENTS - AT COST, less accumulated depreciation		
	658,859	644,101
OTHER ASSETS		
Costs and earnings in excess of billings on uncompleted contracts	657,000	657,000
Deposits	2,258,191	2,761,134
Intangible assets less accumulated amortization	3,954,286	4,177,279
Goodwill	11,374,946	12,067,248
	18,244,423	19,662,661
	\$ 29,701,319	\$ 30,844,681

See accompanying notes to the consolidated financial statements.

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARY**CONSOLIDATED BALANCE SHEETS**

LIABILITIES AND STOCKHOLDERS DEFICIT

	March 31, 2005 (Unaudited)	December 31, 2004
CURRENT LIABILITIES		
Current maturities of long-term obligations	\$ 3,254,511	\$ 3,255,182
Advances from stockholders		12,753
Accounts payable	1,109,874	1,325,282
Billings in excess of costs and earnings on uncompleted contracts	1,404,165	760,807
Accrued liabilities	5,448,507	4,639,619
Deferred rent	405,605	393,676
Deferred revenue	3,535,164	3,166,356
Total current liabilities	15,157,826	13,553,675
LONG-TERM OBLIGATIONS, less discounts and current maturities	2,696,322	5,286,951
DEFERRED RENT	1,205,468	1,311,454
DEFERRED REVENUE	53,317	71,203
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Preferred stock authorized, 5,000,000 shares of \$.0001 par value (liquidation preference of \$100 per share)		
Series A 7% Convertible; issued and outstanding 51,182 shares of \$.0001 par value	5	
Series C 7% Convertible; issued and outstanding 62,182 shares of \$.01 par value		622
Common stock authorized, 85,000,000 shares; issued and outstanding 44,344,251 shares of \$.0001 par value and 40,680,691 shares of \$.01 par value, respectively	4,434	406,807
Additional contributed capital	48,451,055	45,325,173
Accumulated deficit	(37,867,108)	(35,111,204)
	10,588,386	10,621,398
	\$ 29,701,319	\$ 30,844,681

See accompanying notes to the consolidated financial statements.

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2005	2004
Revenues		
Services	\$ 3,059,854	\$ 42,563
License fees and other	840,537	269,323
	3,900,391	311,886
Costs and other expenses		
Cost of services	835,565	
Cost of license fees and other	327,857	5,778
Selling, general and administrative	2,846,623	820,953
Research, development and engineering	2,075,070	262,761
	6,085,115	1,089,492
Operating loss	(2,184,724)	(777,606)
Other income (deductions)		
Interest income	26,062	
Interest expense	(505,055)	(136,620)
Other	(20,000)	2,348
	(498,993)	(134,272)
NET LOSS	\$ (2,683,717)	\$ (911,878)
Basic and diluted loss to common stockholders		
Net loss	\$ (2,683,717)	\$ (911,878)
Convertible preferred stock dividends and accretion	(10,692)	(13,348)
Loss applicable to common stockholders	\$ (2,694,409)	\$ (925,226)
Basic and diluted loss per common share		
Net loss	\$ (.06)	\$ (.04)
Convertible preferred stock dividend and accretion		
Loss applicable per common share	\$ (.06)	\$ (.04)
Weighted average number of shares	42,662,253	23,845,247

See accompanying notes to the consolidated financial statements.

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
	2005	2004
Cash flows from operating activities		
Net loss	\$ (2,683,717)	\$ (911,878)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	58,590	6,995
Amortization		
Intangible assets	222,993	
Discounts on convertible debt related to warrants and beneficial conversion features	133,341	
Allowance for doubtful receivables	19,790	2,000
Loss on sale of investment	20,000	
Write off deferred offering costs		81,900
Deferred rent	(94,057)	
Change in assets and liabilities:		
Accounts receivable	(616,393)	(334,292)
Costs in excess of billings	92,235	
Inventories		6,233
Prepaid expenses and other	(18,195)	131,525
Accounts payable	(238,721)	(124,191)
Accrued liabilities	776,864	103,494
Billings in excess of costs	1,054,043	
Deferred revenue	350,922	83,280
Net cash used in operating activities	(922,305)	(954,934)
Cash flows from investing activities		
Acquisition of PSG		(498,937)
Capital expenditures	(73,348)	(17,399)
Investment		(50,000)
Proceeds from sale of marketable debt securities	980,000	
Proceeds from sale of trademark	50,000	
Deposits	502,943	
Other		(6,869)
Net cash provided by (used in) investing activities	1,459,595	(573,205)
Cash flows from financing activities		
Issuance of long-term obligations		1,000,000
Net advance from (to) stockholders	(12,753)	(6,232)
Repay long term obligations	(738,346)	
Exercise of warrants and options	528,164	
Refund of offering costs	100,000	
Net cash provided by (used in) financing activities	(122,935)	993,768
NET INCREASE (DECREASE) IN CASH	414,355	(534,371)
Cash and cash equivalents, beginning of period	956,230	1,012,790

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Cash and cash equivalents, end of period	\$	1,370,585	478,419
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See accompanying notes to the consolidated financial statements.

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005 (Unaudited) and December 31, 2004

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements include the accounts of BIO-key International, Inc. and its wholly owned subsidiary (collectively, the Company) and are stated in conformity with accounting principles generally accepted in the United States, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. Significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all necessary adjustments, consisting only of those of a recurring nature, and disclosures to present fairly the financial position and the results of its operations and cash flows for the periods presented. It is suggested that these interim consolidated financial statements are read in conjunction with the financial statements and the related notes thereto included in the Company s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004.

Certain amounts in the 2004 consolidated financial statements have been reclassified to conform to the 2005 presentation. These reclassifications had no effect on the previously reported net loss or stockholders equity.

2. LIQUIDITY AND CAPITAL RESOURCE MATTERS

Broad commercial acceptance of the Company s technology is critical to the Company s success and ability to generate revenues. The Company has only recently begun to generate significant revenues, has suffered recurring losses from operations and has a working capital deficit.