

BIO KEY INTERNATIONAL INC
Form 10-Q
August 10, 2009
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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

or

**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 Registrant 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)

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(732) 359-1100

(Issuer's Telephone Number)

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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

Number of shares of Common Stock, \$.0001 par value per share, outstanding as of August 7, 2009 were 73,012,744.

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Table of Contents**PART I FINANCIAL INFORMATION****FINANCIAL STATEMENTS BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and cash equivalents	\$ 563,559	\$ 1,712,912
Accounts receivable, net of allowance for doubtful accounts of \$82,398 at June 30, 2009 and December 31, 2008	1,170,446	721,022
Costs and earnings in excess of billings on uncompleted contracts		144,551
Inventory	19,977	13,159
Prepaid expenses	89,006	96,109
Total current assets	1,842,988	2,687,753
Equipment and leasehold improvements, net	80,717	92,238
Deposits and other assets	8,711	7,812
Restricted cash	40,500	40,500
Intangible assets less accumulated amortization	310,714	582,701
Goodwill	7,836,986	7,836,986
Total non-current assets	8,277,628	8,560,237
TOTAL ASSETS	\$ 10,120,616	\$ 11,247,990
LIABILITIES		
Accounts payable	\$ 300,632	\$ 280,994
Accrued liabilities	1,182,104	1,301,889
Note payable	286,343	1,516,651
Deferred rent	16,352	6,541
Deferred revenue	3,373,878	3,684,476
Total current liabilities	5,159,309	6,790,551
Warrants	59,667	12,317
Redeemable preferred stock derivatives	8,066	439
Deferred rent	28,774	11,510
Deferred revenue	49,989	8,382
Total non-current liabilities	146,496	32,648
TOTAL LIABILITIES	5,305,805	6,823,199
Commitments and contingencies		
Series B redeemable convertible preferred stock: authorized, 1,000,000 shares (liquidation preference of \$1 per share); issued and outstanding 970,612 shares of \$.0001 par value at June 30, 2009 and December 31, 2008	1,012,322	1,008,224
Series C redeemable convertible preferred stock: authorized, 600,000 shares (liquidation preference of \$10 per share); issued and outstanding 592,032 shares of \$.0001 par value at June 30, 2009 and December 31, 2008	6,599,614	6,498,516
	7,611,936	7,506,740
STOCKHOLDERS DEFICIT:		
Series A convertible preferred stock: authorized, 100,000 shares (liquidation preference of \$100 per share); issued and outstanding 30,557 shares of \$.0001 par value, at June 30, 2009 and December 31, 2008	3	3

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Common stock authorized, 170,000,000 shares; issued and outstanding; 72,650,096 and 67,876,880 of \$.0001 par value at June 30, 2009 and December 31, 2008, respectively	7,265	6,788
Additional paid-in capital	51,614,631	51,692,103
Accumulated deficit	(54,419,024)	(54,780,843)
TOTAL STOCKHOLDERS DEFICIT	(2,797,125)	(3,081,949)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 10,120,616	\$ 11,247,990

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

Table of Contents**BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Revenues				
Services	\$ 1,889,047	\$ 1,828,345	\$ 3,834,428	\$ 3,545,615
License fees and other	823,675	1,751,608	1,970,280	2,574,756
	2,712,722	3,579,953	5,804,708	6,120,371
Costs and other expenses				
Cost of services	350,517	288,748	656,495	636,333
Cost of license fees and other	100,167	132,430	225,929	226,326
	450,684	421,178	882,424	862,659
Gross Profit	2,262,038	3,158,775	4,922,284	5,257,712
Operating Expenses				
Selling, general and administrative	1,320,761	1,695,306	2,796,986	3,484,398
Research, development and engineering	769,109	1,164,217	1,668,882	2,411,248
	2,089,870	2,859,523	4,465,868	5,895,646
Operating profit (loss)	172,168	299,252	456,416	(637,934)
Other income (expenses)				
Derivative and warrant fair value adjustments	(19,646)	(41,915)	(54,976)	(11,174)
Interest income		399		1,298
Interest expense	(12,752)	(7,884)	(36,246)	(18,007)
Other		(16,142)	(3,375)	(16,142)
	(32,398)	(65,542)	(94,597)	(44,025)
Income (loss) from continuing operations	139,770	233,710	361,819	(681,959)
Income (loss) from discontinued operations		(65,454)		(65,454)
Net income (loss)	\$ 139,770	\$ 168,256	\$ 361,819	\$ (747,413)
Basic and Diluted Earnings per Common Share:				
Income (loss) from continuing operations	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.03)
Income (loss) from discontinued operations	0.00	0.00	0.00	0.00
Net income (loss)	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.03)
Weighted Average Shares Outstanding:				
Basic	71,291,168	63,180,281	69,892,130	62,483,507
Diluted	71,306,168	63,180,281	70,682,130	62,483,507

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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	Six Months Ended June 30,	
	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 361,819	\$ (747,413)
Less:		
Income from discontinued operations		65,454
Income (loss) from continuing operations	361,819	(681,959)
Adjustments to reconcile net loss to cash used in operating activities:		
Derivative and warrant fair value adjustments	54,976	11,174
Depreciation	34,893	68,745
Amortization		
Intangible assets	271,987	368,712
Allowance for doubtful receivables		(1,371)
Deferred rent	27,075	(273,225)
Share-based compensation	65,408	332,201
Change in assets and liabilities:		
Accounts receivable trade	(449,423)	680,188
Costs and earnings in excess of billings on uncompleted contracts	144,551	168,100
Inventory	(6,818)	(33,439)
Prepaid expenses and other	7,103	39,728
Accounts payable	19,638	1,996,658)
Accrued liabilities	(119,785)	(2,125,406)
Note payable	(1,230,308)	
Deferred revenue	(268,991)	(973,442)
Net cash used for continuing operations	(1,087,875)	(423,336)
Net cash used for discontinued operations		(15,454)
Net cash used for operating activities	(1,087,875)	(438,790)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(23,372)	(15,371)
Deposits	(899)	
Transfer of funds from restricted cash		153,094
Proceeds from sale of assets		10,530
Net cash provided by (used for) continuing operations	(24,271)	148,253
Net cash used for discontinued operations		(50,000)
Net cash provided by (used for) investing activities	(24,271)	98,253
CASH FLOW FROM FINANCING ACTIVITIES:		