

BIO KEY INTERNATIONAL INC  
Form 10QSB  
November 14, 2006

## U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

### FORM 10-QSB

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

For the quarterly period ended September 30, 2006

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**

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(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**

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: There were 53,956,837 issued and outstanding shares of the registrant's common stock, par value \$.0001 per share, as of November 10, 2006.

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

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## BIO-KEY INTERNATIONAL, INC.

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**Restatement of Consolidated Financial Statements**

As previously reported in our Annual Report on Form 10-KSB/A filed with the Securities and Exchange Commission on June 19, 2006, we have restated our previously reported financial information for the years ended December 31, 2003, 2004 and 2005 and our previously reported unaudited financial statements for the first, second and third quarters of 2003, 2004 and 2005 (the "restatement").

Our Annual Reports on Form 10-KSB for the years ended 2003 and 2004 and our Quarterly Reports on Form 10-QSB for fiscal 2003 through the third quarter of fiscal 2005 have not been revised to reflect the restatement and the financial statements contained in those reports should not be relied upon. The restated financial statements for years ended December 31, 2003, 2004 and 2005 included in our Annual Report on Form 10-KSB/A for the fiscal year ended December 31, 2005 should be relied upon.

The accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2005 should be read in conjunction with the footnote entitled results by quarter (unaudited) contained in the Company's Annual Report on Form 10-KSB/A for the fiscal year ended December 31, 2005.

**PART I**

**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

	<b>September 30, 2006 (Unaudited)</b>	<b>December 31, 2005</b>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 1,293,599	\$ 1,422,827
Receivables		
Billed, less allowance for doubtful receivables of \$184,074 and \$160,000, respectively	3,721,544	1,635,371
Unbilled	38,776	201,942
Costs and earnings in excess of billings on uncompleted contracts	1,448,905	4,321,392
Inventory	26,588	8,760
Prepaid expenses	163,332	137,000
Total current assets	6,692,744	7,727,292
Equipment and leasehold improvements, net	464,417	548,267
Deposits	800,974	1,828,560
Intangible assets less accumulated amortization	2,703,659	3,301,823
Deferred financing costs, net	231,879	1,562,338
Goodwill	11,389,654	11,389,654
Total non-current assets	15,590,583	18,630,642
<b>TOTAL ASSETS</b>	<b>\$ 22,283,327</b>	<b>\$ 26,357,934</b>
<b>LIABILITIES:</b>		
Current maturities of long-term obligations and related obligations, net of discount	\$ 1,481,611	\$ 6,584,437
Accounts payable	1,151,100	833,608
Billings in excess of costs and earnings on uncompleted contracts	78,343	32,385
Accrued liabilities	4,393,872	5,520,515
Deferred rent	485,163	443,603
Deferred revenue	5,491,144	3,264,283
Total current liabilities	13,081,233	16,678,831
Warrants and long-term obligations	4,131,950	1,483,511
Redeemable preferred stock derivatives	1,387,238	
Deferred rent	498,601	867,850
Deferred revenue	137,879	1,163,738
Total non-current liabilities	6,155,668	3,515,099
<b>TOTAL LIABILITIES</b>	<b>19,236,901</b>	<b>20,193,930</b>
Commitments and contingencies		
Series B redeemable convertible preferred stock: authorized, 1,000,000 shares (liquidation preference of \$1 per share); issued and outstanding 1,000,000 and 0 shares of \$.0001 par value respectively, net	753,229	
Series C redeemable convertible preferred stock: authorized, 600,000 shares (liquidation preference of \$10 per share); issued and outstanding 592,032 and 0 shares of \$.0001 par value respectively, net	4,878,005	
	5,631,234	
<b>STOCKHOLDERS (DEFICIT)/EQUITY:</b>		
Preferred stock authorized, 5,000,000 shares (liquidation preference of \$100 per share) Series A 7% Convertible; issued and outstanding 35,557 and 44,557 shares of \$.0001 par value, respectively	4	4
Common stock authorized, 170,000,000 shares; issued and outstanding; 53,956,837 and 46,306,589 shares of \$.0001 par value, respectively	5,545	4,632
Additional paid-in capital	51,399,062	48,921,316
Accumulated deficit	(53,989,419)	(42,761,948)
<b>TOTAL STOCKHOLDERS (DEFICIT)/EQUITY</b>	<b>(2,584,808)</b>	<b>6,164,004</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS (DEFICIT)/EQUITY</b>	<b>\$ 22,283,327</b>	<b>\$ 26,357,934</b>

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

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

	<b>Three months ended September 30, 2006</b>	<b>2005 (As restated)</b>	<b>Nine months ended September 30, 2006</b>	<b>2005 (As restated)</b>
<b>Revenues</b>				
Services	\$ 3,226,184	\$ 2,496,883	\$ 8,397,122	\$ 8,318,624
License fees and other	973,914	735,588	2,784,937	2,538,990
	4,200,098	3,232,471	11,182,059	10,857,614
<b>Costs and other expenses</b>				
Cost of services	612,441	503,843		