

BIO KEY INTERNATIONAL INC

Form 10-Q

August 14, 2017

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, 2017

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 A, SUITE E, WALL, NJ 07719

(Address of Principal Executive Offices)

(732) 359-1100

(Issuer's Telephone Number)

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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 Smaller Reporting Company

Non-accelerated filer (Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 11, 2017 is 6,498,438.

BIO-KEY INTERNATIONAL, INC.

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

	June 30,	December
	2017	31,
	(Unaudited)	2016
ASSETS		
Cash and cash equivalents	\$988,342	\$1,061,307
Accounts receivable, net	847,889	1,563,246
Due from factor	29,462	53,638
Inventory	567,182	465,428
Software license rights	2,100,000	1,560,000
Prepaid expenses and other	203,113	206,677
Total current assets	4,735,988	4,910,296
Software license rights, net	9,253,008	10,598,411
Accounts receivable, net	1,070,000	1,570,000
Equipment and leasehold improvements, net	153,529	67,814
Deposits and other assets	8,712	8,712
Intangible assets, net	166,735	134,132
Total non-current assets	10,651,984	12,379,069
TOTAL ASSETS	\$15,387,972	\$17,289,365
LIABILITIES		
Accounts payable	\$333,627	\$466,842
Accrued liabilities	421,350	335,323
Dividends payable	802,500	401,250
Deferred revenue	417,464	633,062
Total current liabilities	1,974,941	1,836,477
TOTAL LIABILITIES	1,974,941	1,836,477

Commitments and contingencies

STOCKHOLDERS' EQUITY

Series A-1 convertible preferred stock: authorized, 100,000 (liquidation preference of \$100 per share); issued and outstanding 90,000 of \$.0001 par value at June 30, 2017 and December 31, 2016	9	9
Series B-1 convertible preferred stock; authorized, 105,000 (liquidation preference of \$100 per share): issued and outstanding 105,000 of \$.0001 par value at June 30, 2017	11	11

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and December 31, 2016

Common stock: authorized, 170,000,000 shares; issued and outstanding; 6,493,290 and 6,093,843 of \$.0001 par value at June 30, 2017 and December 31, 2016, respectively	649	609
Additional paid-in capital	79,359,032	78,253,413
Accumulated deficit	(65,946,670)	(62,801,154)
TOTAL STOCKHOLDERS' EQUITY	13,413,031	15,452,888
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$15,387,972	\$17,289,365

All BIO-key shares issued and outstanding for all periods reflect BIO-key's 1-for-12 reverse stock split, which was effective December 29, 2016.

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)**

	Three months ended		Six months ended	
	June 30, 2017	2016	June 30, 2017	2016
Revenues				
Services	\$ 134,061	\$ 220,926	\$ 454,648	\$ 505,652
License fees and other	752,820	194,888	1,850,568	340,754
	886,881	415,814	2,305,216	846,406
Costs and other expenses				
Cost of services	55,660	66,597	94,480	122,379
Cost of license fees and other	740,301	69,893	1,362,415	125,959
	795,961	136,490	1,456,895	248,338
Gross Profit	90,920	279,324	848,321	598,068
Operating Expenses				
Selling, general and administrative	1,431,208	1,038,904	3,051,358	2,031,429
Research, development and engineering	449,049	566,448	942,493	1,055,849
Total Operating Expenses	1,880,257	1,605,352	3,993,851	3,087,278
Operating loss	(1,789,337)	(1,326,028)	(3,145,530)	(2,489,210)
Other income (expenses)				
Interest income	8	7	14	13
Loss on derivative liabilities	-	(49,468)	-	(49,506)
Total other income (expenses)	8	(49,461)	14	(49,493)
Net loss	(1,789,329)	(1,375,489)	(3,145,516)	(2,538,703)
Convertible preferred stock dividends	(200,625)	(200,625)	(401,250)	(401,250)
Net loss available to common stockholders	\$(1,989,954)	\$(1,576,114)	\$(3,546,766)	\$(2,939,953)
Basic and Diluted Loss per Common Share	\$(0.32)	\$(0.29)	\$(0.57)	\$(0.53)
Weighted Average Shares Outstanding:				
Basic and diluted	6,359,974	5,523,072	6,228,197	5,516,726

All BIO-key shares issued and outstanding for all periods reflect BIO-key's 1-for-12 reverse stock split, which was effective December 29, 2016.

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 CASH FLOWS****(Unaudited)**

	Six Months Ended June	
	30,	
	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	\$(3,145,516)	\$(2,538,703)
Adjustments to reconcile net loss to cash used for operating activities:		
Allowance for doubtful accounts	500,000	-
Depreciation	15,513	24,577
Amortization of intangible assets	6,833	6,803
Amortization of software license rights	729,755	-
Loss on derivative liabilities	-	49,506
Share-based and warrant compensation for employees and consultants	564,275	184,299
Stock based directors fees	10,008	39,999
Change in assets and liabilities:		
Accounts receivable	715,357	1,092,661
Due from factor	24,176	35,098
Inventory	(101,754)	(131,394)
Software license rights	75,648	-
Prepaid expenses and other	16,556	4,348
Accounts payable	(133,215)	(462,136)
Accrued liabilities	86,027	(142,234)
Deferred revenue	(215,598)	(58,359)
Net cash used for operating activities	(851,935)	(1,895,535)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(140,664)	(51,783)
Net cash used for investing activities	(140,664)	(51,783)
CASH FLOW FROM FINANCING ACTIVITIES:		
Issuance of common stock	1,000,000	-
Preferred dividends paid	-	(334,476)
Costs to issue preferred and common stock	(80,366)	(32,619)
Net cash provided by financing activities	919,634	(367,095)