

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

BIO KEY INTERNATIONAL INC

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **August 14, 2006**

BIO-key International, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

1-13463
(Commission
File Number)

41-1741861
(I.R.S. Employer
Identification No.)

**3349 Highway 138, Building D, Suite B
Wall, NJ 07719**

(Address of principal executive offices)

(732) 359-1100

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

On August [15], 2006, BIO-key International, Inc. (the "Company") issued a press release announcing its financial results for its second quarter ended June 30, 2006. A copy of such press release of the Company is attached as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference in its entirety.

The information, including the exhibit attached hereto, in this Current Report on Form 8-K shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as otherwise expressly stated in such filing.

Item 5.02

On August 14, 2006, Thomas J. Colatosti voluntarily resigned as co-Chief Executive Officer of the Company and Michael W. DePasquale, formerly co-Chief Executive Officer, was elected by the Board of Directors of the Company as sole Chief Executive Officer. Mr. Colatosti will continue to serve as Chairman of the Board of Directors of the Company and will focus his attention on external aspects of the Company, including without limitation, corporate financing and strategic alliances.

Mr. DePasquale has served as the Chief Executive Officer and a Director of the Company since January 3, 2003. He served as Co-Chief Executive Officer since July 2005. Mr. DePasquale brings more than 20 years of executive management, sales and marketing experience to the Company. Prior to joining the Company, Mr. DePasquale served as the President and Chief Executive Officer of Prism eSolutions, Inc., a Pennsylvania based provider of professional consulting services and online solutions for ISO-9001/14000 certification for customers in manufacturing, healthcare and government markets, since February 2001. From December 1999

through December 2000, Mr. DePasquale served as Group Vice President for WRC Media, a New York based distributor of supplemental education products and software. From January 1996 until December 1999, Mr. DePasquale served as Senior Vice President of Jostens Learning Corp., a California based provider of multi media curriculum. Prior to Jostes, Mr. DePasquale held sales and marketing management positions with McGraw-Hill and Digital Equipment Corporation. Mr. DePasquale earned a Bachelor of Science degree from the New Jersey Institute of Technology.

On March 28, 2006, the Company entered into a two-year employment agreement with Michael W. DePasquale to serve as the Co-Chief Executive Officer of the Company at an annual base salary of \$250,000 subject to adjustment by the Board of Directors as well as \$1,000 per month in lieu of participating in the Company's medical plan. In addition to the Base Salary and Stock Options, a "Discretionary Bonus" may be awarded to Mr. DePasquale on the basis of merit performance on an annual basis in the sole discretion of the Board of Directors. The employment agreement also provides for the grant of options to purchase up to 400,000 shares of Company common stock payable at the discretion of the Board of Directors.

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In the event that Mr. DePasquale is terminated without cause, Mr. DePasquale will receive severance payment equal to his base salary for the 6 months. The employment agreement contains standard and customary confidentiality, non-solicitation and "work made for hire" provisions as well as a covenant not to compete which prohibits Mr. DePasquale from doing business with any current or prospective customer of the Company or engaging in a business competitive with that of the Company during the term of his employment and for the one year period thereafter. The Company may terminate the agreement at any time with or without cause. In the event of termination without cause, Mr. DePasquale shall continue to be paid his then current base salary for the greater of six months from the date of such termination or the number of months remaining until the end of the term of the employment agreement.

Item 9.01. Financial Statements, Pro Forma Financial Information and Exhibits.

(d) Exhibits

99.1 Press Release, dated August 14, 2006, issued by the Company.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BIO-KEY INTERNATIONAL, INC.

Date: August 15, 2006

By: /s/Francis J. Cusick
Francis J. Cusick
Chief Financial Officer

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EXHIBIT INDEX

Exhibit No. **Description**

99.1 Press Release, dated August 14, 2006



NEWS RELEASE

Contacts: BIO-key International, Inc.
Mike DePasquale, CEO
732-359-1111

DRG&E
Gus Okwu, Managing Director
203-752-0446
Ken Dennard, Managing Partner
713-529-6600



BIO-key International Announces Strong Revenue Growth For Second Quarter 2006

*New Common Equity Raised at Premium to Market
Debt Reduced By More Than 50%*

WALL, NJ — August 15, 2006— BIO-key International, Inc. (OTC Bulletin Board: BKYI), a leading supplier of mobile and wireless solutions for public safety worldwide, today announced its financial results for the second quarter ended June 20, 2006.

For the second quarter of 2006, the Company reported revenue of \$3.8 million or 22% sequential growth from the \$3.1 million reported for the first quarter of 2006. The operating loss for the second quarter was \$1.3 million or an improvement of 27% from the \$1.8 million reported for the first quarter of 2006. Gross margin for the quarter improved to 78.9% compared to 76.0% for the first quarter of 2006. Net loss for the quarter was \$1.1 million or a net loss per basic share of \$0.02 compared to a net loss of \$3.8 million or a net loss per basic share of \$0.08 in the first quarter of 2006.

Mike DePasquale, BIO-key's Chief Executive Officer, stated, "I am pleased and excited at the solid progress the Company has made over the last few months resulting in strong sequential organic revenue growth. During that period we have seen continued growth in maintenance revenues, including \$635,000 from the completion of a long-term contract, providing us with an on-going annuity stream, greater activity in our sales pipeline and an increase in the size of contracts won and are currently pursuing. In addition, we continue to focus on cost containment that led to a 27% sequential quarterly reduction in operating losses during the second quarter of 2006. We believe this progress is a significant inflection point for the Company's continued and future success."

Mr. DePasquale added, "Subsequent to the close of the second quarter we completed several initiatives that significantly improve the Company's liquidity and strengthens our balance sheet." These initiatives included:

- A recapitalization of the balance sheet that resulted in a reduction of total debt of more than 50%, and included the conversion of all of the Company's 2009 15% Subordinated Notes to preferred equity. As part of this restructuring, the company also converted a portion of its senior debt to common equity and extended the maturity of the remaining payments due in 2006. The resulting improvements from the recapitalized debt reduced our debt from approximately \$11 million at the end of the second quarter to approximately \$5 million.
- The completion of a common equity raise of \$2 million at 50 cents per share or a 25% premium to market from the stock's closing price on July 31, 2006. We believe the significant premium paid by institutional investors reflects their confidence in the Company's business strategy and growth potential. This new common equity will provide the company with additional capital for growth.
- The Board of Directors has approved Mike DePasquale as the sole Chief Executive Officer. As a result, former co-CEO, Tom Colatosti, will remain Chairman of the Board.

DePasquale concluded, "We are pleased with our strong second quarter revenue growth performance. Furthermore, recent activity in the sales pipeline lead us to believe that we should continue to see revenue growth in the second half of 2006 as well as continued progress towards profitability. The recapitalized debt and new equity provide us with the financial resources to execute our plan."

Additional information on revenue and the Company's financial performance will be provided on BIO-key's second quarter 2006

earnings conference call to be held on Tuesday, August 15th at 9:00 a.m. Eastern Time. Dialing 303-262-2139 and asking for the BIO-key call at least 10 minutes prior to the start time can access the conference call live. The conference call will also be broadcast live over the Internet by logging onto www.bio-key.com. A telephonic replay of the conference call will be available through August 22nd, 2006 and may be accessed by dialing 303-590-3000 and using the pass code 11068298#. Additionally, an archive of the webcast will

be available shortly after completion of the call on the Company's website (www.bio-key.com) for a period of three months.

About BIO-key

BIO-key International, Inc., headquartered in Wall, New Jersey, develops and delivers advanced identification solutions and information services to law enforcement departments, public safety agencies, government and private sector customers. BIO-key's mobile wireless technology provides first responders with critical, reliable, real-time data and images from local, state and national databases. BIO-key's high performance, scalable, cost-effective and easy-to-deploy biometric finger identification technology accurately identifies and authenticates users of wireless and enterprise data to improve security, convenience and privacy and to reduce identity theft. Over 2,500 police, fire and emergency services departments in North America use BIO-key solutions, making BIO-key the leading supplier of mobile and wireless solutions for public safety worldwide. (<http://www.bio-key.com>)

This news release contains forward-looking statements that are subject to certain risks and uncertainties that may cause actual results to differ materially from those projected on the basis of these statements. The words "estimate," "project," "intends," "expects," "believes" and similar expressions are intended to identify forward-looking statements. Such forward-looking statements are made based on management's beliefs, as well as assumptions made by, and information currently available to, management pursuant to the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. For a more complete description of these and other risk factors that may affect the future performance of BIO-key International, see "Risk Factors" in the Company's Annual Report on Form 10-KSB and its other filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company also undertakes no obligation to disclose any revision to these forward-looking statements to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

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