

BioMETRX
Form 10KSB
April 19, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-KSB

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-15807

BIOMETRX, INC.

(Name of small business issuer in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

31-1190725

(I.R.S. Employer Identification No.)

500 North Broadway, Suite 204, Jericho, New York

(Address of principal executive offices)

11753

(Zip Code)

(516) 937-2828

Issuer's telephone number

Securities registered under Section 12(b) of the Exchange Act:

Title of each class

Name of each exchange on which registered

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock Par Value \$.001
(Title of class)

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(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. o

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

State issuer's revenues for its most recent fiscal year. \$0

The aggregate market value of the Company's common stock held by non-affiliates was approximately \$8,555,619.50 based upon the average bid and asked price of \$2.95 as reported by the OTC Bulletin Board as of April 6, 2006.

The Company has 5,985,999 shares of common stock outstanding, as of April 14, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

None

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

PART I

INTRODUCTORY COMMENT

Throughout this Annual Report on Form 10-KSB the terms “we,” “us,” “our,” “bioMETRX” and “our company” refer to bioMETRX, Inc., a Delaware corporation, and, unless the context indicates otherwise, includes our wholly owned subsidiaries.

FORWARD-LOOKING STATEMENTS

The discussion in this report on Form 10-KSB contains forward-looking statements that involve risks and uncertainties. The statements contained in this Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, beliefs, intentions or strategies regarding the future. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from those described in our forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, our unproven business model and a limited operating history in a new and rapidly evolving industry; our ability to implement our business plan; and our ability to manage our growth, retain and grow our customer base and expand our service offerings.

We make forward-looking statements in the “Management’s Discussion and Analysis of Financial Condition and, Results of Operations” below. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations, intentions and assumptions and other statements that are not historical facts. We generally intend the words “expect”, “anticipate”, “intend”, “plan”, “believe”, “seek”, “estimate” and similar expressions to id forward-looking statements.

This Report contains certain estimates and plans related to us and the industry in which we operate, which assumes certain events, trends and activities will occur and the projected information based on those assumptions. We do not know that all of our assumptions are accurate. In particular, we do not know what level of growth will exist in our industry, if any, and particularly in the foreign markets in which we operate, have devoted resources and in which we shall seek to expand. If our assumptions are wrong about any events, trends and activities, then our estimates for future growth for our business may also be wrong. There can be no assurances that any of our estimates as to our business growth will be achieved.

The following discussion and analysis should be read in conjunction with our financial statements and the notes associated with them contained elsewhere in this Report. This discussion should not be construed to imply that the results discussed in this quarterly report will necessarily continue into the future or that any conclusion reached in this quarterly report will necessarily be indicative of actual operating results in the future. The discussion represents only the best present assessment of management.

Item 1. Description of Business.

Background

The Company was incorporated on March 13, 1985, under the laws of the State of Utah with the name Univenture Capital Corp. The Company was organized to engage in any lawful business and had no specific business plan except the investigation, analysis, and possible acquisition of business opportunities.

On August 29, 1986, the Company acquired all of the outstanding stock of Health & Leisure Inc., a Delaware corporation which subsequently changed its name to Entre Vest, Inc. (“Entre Vest”), in a transaction in which a subsidiary of the Company merged with and into Entre Vest and the former stockholders of Entre Vest obtained a controlling interest in the Company. The Company subsequently changed its own name from Univenture Capital Corp. to Health & Leisure, Inc. and changed its state of incorporation from Utah to Delaware.

Entre Vest was incorporated on June 6, 1985, under the laws of the State of Delaware.

Pursuant to an Acquisition Agreement and Plan of Merger dated June 13, 2003 (the “Merger Agreement”), by and among Health & Leisure, Inc (the “Registrant”); Venture Sum, Inc., a Delaware corporation and a wholly owned subsidiary of Registrant (“Mergerco”); and MarketShare Recovery, Inc., a New York corporation, (“MKSR”), Mergerco merged with and into MKSR, and MKSR became a wholly-owned subsidiary of the Registrant. The merger became effective June 13, 2003, (the “Effective Date,”) however closing of the Agreement occurred on July 15, 2003. Subsequently, Health & Leisure, Inc. filed an amendment to its certificate of incorporation and thereby changed its name to MarketShare Recovery, Inc.

Our former subsidiary similarly named MarketShare Recovery, Inc. was incorporated in New York in November 2000. The subsidiary, MarketShare Recovery, Inc. was a provider of online direct marketing solutions for enterprises. The solutions enabled corporations to create and deliver online direct marketing programs that drive revenue, influence behavior and deepen customer relationships. Our solutions provided customer insight and powerful program execution through a combination of hosted applications and technology infrastructure. As a result of new technology, the Company found it harder to maintain and grow this business and at the end of 2004 this business was discontinued.

On October 7, 2004, we entered into an Asset Purchase Agreement with Palomar Enterprises, Inc. (the “Agreement”). Pursuant to the Agreement, we agreed to purchase certain assets, including certain automotive notes and contracts, a business plan and model for an automotive financial services company and a data base of potential customers and \$150,000 in cash from Palomar in exchange for a controlling interest in us.

On November 2, 2004, by mutual agreement, Palomar and us terminated the Agreement.

In 2004, we entered into a database license agreement with 110 Media Group to use and to sublicense the use of its database for a term of ten years for a total license fee of \$45,567. For financial reporting, revenue is recognized using the straight-line method, based upon the economic useful life of three years. At December 31, 2004, our remaining deferred revenue of \$30,378 was recognized as revenue due to the Company completing its obligations under the agreement and we are no longer required to perform any further services nor incur any costs related to this agreement.

On May 27, 2005, we completed a merger (“Merger”) of MarketShare Merger Sub, Inc. a wholly owned subsidiary of the Company (“Merger Sub”) with bioMetrx Technologies, Inc., a Delaware corporation (“bioMetrx Technologies”) pursuant to the Agreement and Plan of Merger dated April 27, 2005, by and among the Company, Merger Sub and bioMetrx Technologies (“Merger Agreement”). bioMetrx Technologies, a development stage company, is engaged in the development of biometrics-based products for the home security and electronics market, including biometrically enabled residential door locks, central station alarm keypads, thermostats and garage/gate openers.

On June 1, 2005 (the “Effective Date”), Merger Sub filed a Merger Certificate completing the acquisition of bioMetrx Technologies. The consideration for the Merger was 3,554,606 restricted shares of our common stock and the issuance of 45,507 Common Stock Purchase Warrants to the holders of corresponding instruments of bioMetrx Technologies. The Merger was completed according to the terms of the Merger Agreement. Simultaneously with the Merger, certain stockholders of the Company surrendered 552,130 shares of the Company’s common stock which was cancelled and returned to the status of authorized and unissued. In addition, 75,000 shares of the Company’s common stock were deposited by these stockholders into escrow to cover contingent liabilities, if any. As a result of the Merger, bioMetrx Technologies was merged into the Merger Sub and became our wholly owned subsidiary.

Since the Company had no meaningful operations immediately prior to the Merger, the Merger is being treated as a reorganization of bioMetrx Technologies via a reverse merger with the Company for accounting purposes.

The 3,554,606 shares and the shares issuable upon the exercise of 45,507 warrants issued as part of Merger to the former bioMetrx Technologies stockholders represented approximately 90% of the total outstanding post-merger stock.

On October 10, 2005, the Company amended its Certificate of Incorporation to change its name to bioMETRX, Inc., as a result, the Company’s trading symbol was changed to “BMTX”.

On March 14, 2006, the Company filed an amendment to its Certificate of Incorporation to effect a reverse split of all of the outstanding shares of its Common Stock at a ratio of one-for-four and increase the number of authorized shares of its Common Stock to 25,000,000 shares and decrease the par value of the Company’s common stock to \$.001 per share. Our certificate of incorporation amendment authorized the issuance of up to 10,000,000 shares of \$.01 par value preferred stock, with such designation rights and preferences as may be determined from time to time by the Board of Directors. The Company’s trading symbol was changed to “BMRX.” The combined companies are hereinafter referred to as the “Company” or “bioMETRX.”

Operations

The Company, through its wholly owned subsidiaries, designs, develops, engineers and markets biometrics-based products for the consumer home security, consumer electronics, medical records and medical products markets. The Company's executive offices are located in Jericho, New York.

Originally founded in 2001, bioMETRX is focused on developing simple-to-use, cost-efficient, finger-activated, lifestyle products under the trade name SmartTOUCHÔ. The Company's product line includes biometrically enabled residential locks, central station alarm keypads, thermostats, garage/gate openers, medical crash carts and industrial medicine cabinets. Our products utilize finger recognition technology designed to augment or replace conventional security methods such as keys, keypads, and PIN numbers.

The Company operates its business through three (3) wholly owned subsidiaries, bioMETRX Technologies Inc., which conducts the product engineering and design, smartTOUCH Consumer Products, Inc., the consumer-based marketing and sales group and smartTOUCH Medical, Inc. which is designing and will market medical industry products.

The home security industry consists of garage door manufacturers, key and lock manufacturers and central station alarm monitoring companies, representing a \$25 billion global market. bioMETRX develops market-specific products in this area which are being sold through retailers, dealers and direct to consumers in the United States. The company's first product, the Garage Door Opener, also known as the smartTOUCH GDO, will be available through the Home Depot this summer.

The Company also developed a finger-activated thermostat (smartSTAT) that will be marketed to the general public as well as small box retailers, restaurant chains and small business owners. The Company's smartSTAT product will allow consumers and small business owners the ability to prevent unwanted tampering of their heating and cooling settings and hence control the temperature within their homes or business establishments, as the case may be, without having to install a cumbersome security box around the thermostat. The Company's smartSTAT thermostat allows homeowners and small business owner's complete control and security over their costly HVAC systems.

The Company is also developing technology for the medical products market. Currently, devices such as medical crash carts, rolling medicine drawers and cabinets and medical tool supply bins are either accessible in a hallway of a hospital or require medical personnel to enter a 4-digit PIN code to unlock these products. The Company is developing technology to secure these items while simplifying the procedure so that the proper medical personnel can access them quickly when necessary.

bioMETRX, to date, has introduced its products and services commercially and is considered an entry level market vendor of consumer-based biometric products. bioMETRX has limited assets, significant liabilities and limited business operations. To date, activities have been limited to organizational matters, development of its products and services and capital raising.

Management's plan of operations for the next twelve months is to raise additional capital, complete further development of its product line and commence marketing the Company's products and services. The Company expects it will require \$6,000,000 over the next 12 months to accomplish these goals and expects to be financed by the private sale of its securities and lines of credit with commercial banks for continuous manufacturing output of its products. There are no firm commitments on anyone's part to invest in the Company and if it is unable to obtain financing through the sale of its securities or other financing, the Company's products and services may never be commercially sold.

Current Market Outlook - Target Markets/Applications

There is a unique opportunity in the consumer electronics market for the incorporation of biometrics technology in multiple devices, requiring personal identification or key access. Two current examples are biometrically secured laptops (IBM-Lenovo Thinkpad) and cell phones (Samsung SCH370). Prospective home/office security and electronics devices includes the introduction of "biometric" access controls on anything that presently requires a key, keypad or Personal Identification Number ("PIN"). bioMETRX is the first company to offer biometric security and electronics products for the home consumer market at any significant level.

We are focused on developing simple to use, cost efficient, finger activated consumer electronics products principally under the trade name "smartTOUCHÔ". Our current and prospective consumer products include biometrically enabled and secure residential garage/gate door openers/locks, central station alarm pads and thermostats.

Product Offerings

smartTOUCHÔ products allow a person to open a door, or set an alarm or thermostat simply by placing a finger upon a sensor chip, the size of a postage stamp. smartTOUCHÔ products are designed to simplify access, while substantially increasing the security level of the systems used for such purposes. Our smartTOUCHÔ products use one-to-one biometrics matching authenticated systems embodied in its products. The bioMETRX patent-pending system includes a hand held universal programmer designed to control access to the administrative functions of each smartTOUCHÔ device. All smartTOUCHÔ products are designed to work with this universal programmer, and permit up to fifteen (15) authorized users to be enrolled. Our system allows two types of users, an access user who can only operate the smartTOUCHÔ device, and an administrative user who can operate and also add or delete other users.

Consumer Products

smartTOUCHÔ Garage Door Opener

The smartTOUCHÔ Garage Door Opener (GDO) is a weatherproof, shockproof, tamper resistant garage door opener that allows a homeowner to control the opening of a garage door with a touch of a finger. The garage door opener currently comes as a hardwired unit, designed specifically to withstand the elements for years of reliable service and dependability. The homeowner's finger is used to activate the garage door opening mechanism.

The GDO unit is programmed using a handheld universal programmer that was designed by the Company to program the complete range of smartTOUCH products. The programmer simply plugs into the main Sensor Unit and initiates a series of simple prompts on the menu screen, allowing the Sensor to be programmed quickly and easily.

We are also developing a wireless biometric version of the smartTOUCH GDO unit which removes the need for a hard-wired connection between the Sensor unit and Relay for easier installation. The wireless version will allow the unit to communicate with a device such as a cell phone or other alternative wireless remote. This will eliminate the possibility of a criminal wirelessly using a frequency descrambler to open the garage door. Our wireless technology is being designed to actually transmit the user's information that is authenticated at the remote device first, then transmitted to the receiver located on the garage door frame for re-authentication. We call this feature our "Failsafe Authentication Process" ("FAP").

Although market data on the use of automatic garage door openers is limited, management estimates that there are 30 million homes in the United States equipped with automatic garage doors. For many families, the automatic garage door opener has made the garage door the most frequently used door for entering and exiting the home. Consequently, there is a large potential market for the smartTOUCHÔ Garage Door Opener which meets the consumer need for security and convenience combined. We have filed our initial patent for this device with the United States Patents and Trademark Office in March 2004 and have been assigned a "Patent Pending" number.

During the quarter ended March 31, 2006 we received an initial purchase order for our smartTOUCHÔ Garage Door Opener in the amount of 23,000 units from The Home Depot. Delivery of the order is scheduled for summer 2006. The company has received numerous inquiries from other home improvement and consumer electronic retailers and is making every effort to meet with these other retailers.

We are also negotiating with several large retailers to private-label the Garage Door Opener unit under their brand name. In addition, the Company has had discussions with garage door manufacturers with the objective of providing the Company's product as an additional option to their standard garage door openers. In addition, following numerous inquiries, we have begun to establish a National Dealer Network, with the introduction of our proTOUCH Dealer Program. Our products are also available on the Company's website. To date, the Company has received approximately 1,100 on-line orders for its garage door opener unit.

We are currently initiating manufacturing of the garage door opener unit with a third party contract manufacturer located in the United States, who will be providing turn-key manufacturing services. We have also established a credit facility with our major component supplier.

smartSTATÔ Thermostat

Every residential, commercial and industrial building is equipped with at least one thermostat. Typically, thermostats can be adjusted by children, housekeepers, employees, guests and even strangers, which can cost the homeowner or business owner hundreds, if not thousands, of dollars per year in lost energy costs due to unauthorized operations. Currently, the only security device available for thermostats is a clear plastic “lockbox” that fits over the thermostat. These boxes are used in a number of different buildings, including, but not limited to, shopping malls, apartment buildings office buildings, restaurants and factories. They are cumbersome and ineffective deterrents. In fact, these lockboxes are usually broken or simply ripped off the wall.

The smartSTATÔ Thermostat allows business owners/homeowners complete and secure control of the facility’s heating and cooling system without having to invest tens of thousands of dollars in computer-based HVAC systems. By programming the smartSTATÔ Thermostat, only those individuals with authority to change the temperature can access the thermostat menus and functions.

smartSTATÔ Thermostats are designed to the same operational standards as currently available electronic programmable thermostats. The smartSTATÔ Thermostat is the Company’s second product to market. The smartSTATÔ Thermostat will have a suggested retail price of \$189.00.

Management estimates that approximately 10 million thermostats are sold in the United States annually, 45% of which are electronic models, either programmable or non-programmable. Management expects that there will be an increase in the sale of electronic thermostats as several states enact laws addressing the sale and disposal of mercury-based thermostats, some are even offering rebate programs to consumers that replace mercury thermostats with new energy-efficient programmable models.

The Company intends to manufacture approximately one thousand (1,000) thermostat units for two programs. One program will be designed for commercial applications and the Company has had several discussions with a number of restaurant chains who have expressed interest in participating in the program. The second program will be designed for residential use. The Company anticipates that these programs will commence within the next three to six months.

smartGATEÔ Automatic Gate Opener

The smartGATEÔ Automatic Gate Opener serves a similar function as our garage door opener, as it allows homeowners and employees who gain access to their premises or place of business through either drive-through or walk-through security gates, easy, simple to use access with just a touch of a finger. Automatic gates work on the same principles as mechanized overhead garage door units. Many residences and businesses that use security gates use some sort of digital keypad, or universal “clicker” to open the gate from outside the premises.

The smartGATE[®] Automatic Gate Opener is designed similarly to our garage door opener, except that it is housed in a weatherproof box that is usually an aftermarket product, purchased through gate installation companies. Our automatic gate opener is designed to fit conveniently into most vendors weatherproof containers designed for automatic gate opener units. While presently targeted for high-end residential installations, this unit is being re-engineered to meet the prospective needs of gated communities and moderate traffic commercial users.

Although market data is not readily available for this product, our own market analysis and information gathered through membership in industry organizations indicates large potential for the sale of this product for both residential and commercial use. These products will be marketed through traditional retail channels, as well as through contractor/installer channels.

Other smartTOUCH[®] Consumer Products

The smartTOUCH[®] line of products under development includes a biometric deadbolt, smartLOCK[®] for use on residential doors and a biometrically enabled home alarm/central station alarm keypad smartALARM[®] that will be designed to communicate directly with home monitoring systems.

smartTOUCH[™] Medical

We are also developing products for the healthcare industry. Government legislation surrounding the integrity, confidentiality and privacy of patient data was enacted under HIPAA. HIPAA requires the healthcare industry to restructure current information technology (“IT”) infrastructures and methods. We are developing biometrics products and solutions for end users, as well as enabling biometric technology for original equipment manufacturers (“OEMs”) and application developers to incorporate into their offerings, to assist healthcare organizations working towards meeting these legislative demands, while increasing efficiencies and user convenience and lowering overall administrative costs and risks associated with passwords, PINs and keys. To that end, the Company is working on a number of prospective medical products that are expected to be available by 2007. These products include a series of medical crash carts, rolling medicine carts, fixed medicine and supply cabinets and a portable patient medical record system that integrates digital medical records with biometrics-based technology.

Intellectual Property

We currently have two patents pending, both utility and mechanical for our products. The Company is seeking patents on its system that combines software and hardware that off load all administrative functionality of a biometric device. By off loading all administrative functionality, the Company’s products can be smaller and hence more compatible with multiple consumer applications. In addition, this function enables the products to comply with and connect to any OEM’s equipment specifications.

Wherever possible we seek to protect our inventions through filing U.S. patents and foreign counterpart applications in selected other countries. Because patent applications in the U.S. are maintained in secrecy for at least eighteen months after the applications are filed and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, we cannot be certain that we were the first to make the inventions covered by each of our issued or pending patent applications or that we were the first to file for protection of inventions set forth in such patent applications. Our planned or potential products may be covered by third-party patents or other intellectual property rights, in which case continued development and marketing of the products would require a license. Required licenses may not be available to us on commercially acceptable terms, if at all. If we do not obtain these licenses, we could encounter delays in product introductions while we attempt to design around the patents, or could find that the development, manufacture or sale of products requiring these licenses is foreclosed.

We may rely on trade secrets to protect our technology. Trade secrets are difficult to protect. We seek to protect our proprietary technology and processes by confidentiality agreements with our employees and certain consultants and contractors. These agreements may be breached, we may not have adequate remedies for any breach and our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that our employees or our consultants or contractors use intellectual property owned by others in their work for us, disputes may also arise as to the rights in related or resulting know-how and inventions.

Manufacturing

We do not own any manufacturing facilities and have been negotiating with, and expect a third party contract manufacturer located in the United States to manufacture our garage door opening units. As the need arises, we plan to either contract additional contract manufacturers or license our technology to third party manufacturers to incorporate into their products. Each decision will depend on demand, our available cash resources and our ability to access expertise.

Marketing

The primary target market for our marketing effort of our home security products will be consumers and hardware security and device manufacturers. bioMETRX has established marketing initiatives by developing channel distribution through retailers, development partner's, authorized dealers and original equipment manufacturers and solutions-based companies.

An initial pilot program was implemented to test the consumer market for response as to the acceptance and use of the smartTOUCH™ line of home security products. Feedback from the “test” families demonstrates that our products are consumer friendly and competitively priced. The first product tested was our garage door opener. The reports indicate that most every family member enrolled into the devices now use the garage as their main access point to their homes. The families seem to end up relying on our product since it is easy to operate. The units have had no material operational problems and have been subjected to temperatures well below zero and various snow and ice storms with no problems.

The Company will market its products through three (3) distinct sales channels, (i) vendors/installers, (ii) Retailers, and (iii) direct internet sales. The Company's first product to be introduced to the public will be its garage door opener. The Company, through its membership in the Door Access Systems Manufacturing Association ("DASMA") and the International Door Association (IDA) has access to most garage door vendors/installers. The Company has commenced an e-mail campaign to recruit these installers, has begun taking pre-orders and in the near future will begin a training program for each vendor/installer. The Company offers three levels of participation in this program, corresponding to the level of sales volume generated by each vendor/installer.

The Company will also market its products to large do-it-yourself retail chains. To date, the Company has received an initial purchase order from The Home Depot for 23,000 units. The Company also intends on private labeling its products for large retail chains.

The Company also offers its products through direct Internet sales. The Company's garage door opener was recently featured on a home improvement television show, which has generated approximately 1,100 Internet orders. The Company will seek other forms of media coverage to market its products directly to the consumer.

Competition

The markets for our products and solutions are extremely competitive and are characterized by rapid technological change as a result of technical developments exploited by competitors, the changing technical needs of the customers, and frequent introductions of new features. We expect competition to increase as other companies introduce products that are competitively priced, that may have increased performance or functionality, or that incorporate technological advances not yet developed or implemented by us. In order to compete effectively in this environment, we must continually develop and market new and enhanced products at competitive prices, and have the resources to invest in significant research and development activities. There is a risk that we may not be able to make the technological advances necessary to compete successfully. Existing and new competitors may enter or expand their efforts into our markets, or develop new products to compete against ours. Our competitors may develop new technologies or enhancements to existing products or introduce new products that will offer superior price or performance features. New products or technologies may render our products obsolete.

Employees

As of March 31, 2006, the Company has 7 full time employees and 3 part time employees. The Company expects that it will hire at least 4 more key people over the next 4 months. We believe our employee relations are satisfactory.

RISK FACTORS

This report on Form 10-KSB contains forward-looking statements that involve risks and uncertainties. The Company's business, operating results, financial performance and share price may be materially adversely affected by a number of factors, including but not limited to the following risk factors, any one of which could cause actual results to vary materially from anticipated results or from those expressed in any forward-looking statements made by the Company in this annual report on Form 10-KSB or in other reports, press releases or other statements issued from time to time. Additional factors that may cause our results to vary are set forth elsewhere in this annual report on Form 10-KSB.

Our business will not grow unless the market for biometric products and services expands both domestically and internationally.

Our revenues are derived from the sale of biometric products and services. Biometric products have not gained widespread commercial acceptance. We cannot accurately predict the future growth rate, if any, or the ultimate size of the biometric technology market. The expansion of the market for our products depends on a number of factors including without limitation:

- national or international events which may affect the need for or interest in biometric products or services;
- the cost, performance and reliability of our products and services and those of our competitors;
- customers' perception of the perceived benefit of biometric products and services and their satisfaction with our products and services;
- public perceptions of the intrusiveness of these products and services and the manner in which firms are using the information collected;
- public perceptions regarding the confidentiality of private information;
- proposed or enacted legislation related to privacy of information; and
- marketing efforts and publicity regarding these products and services.

Certain groups have publicly objected to the use of biometric products for some applications on civil liberties grounds and legislation has been proposed to regulate the use of biometric security products. From time to time, biometrics technologies have been the focus of organizations and individuals seeking to curtail or eliminate such technologies on the grounds that they may be used to diminish personal privacy rights. If such initiatives result in restrictive legislation, the market for biometric solutions may be adversely affected. Even if biometric solutions gain wide market acceptance, our products and services may not adequately address the requirements of the market and may not gain wide market acceptance.

We may face intense competition from other biometric solution providers as well as identification and security systems providers.

A significant number of established and startup companies are marketing or developing software and hardware for facial and/or fingerprint biometric products and applications that may eventually compete with our current offerings.

The biometric security market is a rapidly evolving and intensely competitive, and we believe that additional significant long-term competitors will continue to enter the market. We expect competition in the biometrics markets to increase and intensify in the near term. Companies competing with us may introduce products that are targeted at our target markets and competitively priced, have increased performance or functionality or incorporate technological advances we have not yet developed or implemented. Some present and potential competitors have financial, marketing, research, and manufacturing resources substantially greater than ours. Other players in the biometric do have the potential to directly compete with us. Among these companies are Sagem Morpho, Inc., Cogent, NEC, Printrak International, Inc., (a Motorola company), and Saflink. However, these companies primarily focus on networked-based, or computer based systems that require a sophisticated computer-based infrastructure to operate. Our company's products are embedded and self contained and do not require a computer to operate.

The biometrics industry is characterized by rapid technological change and requires introduction of new and enhanced products at competitive prices.

In order to compete effectively in the biometrics market, we must continually design, develop and market new and enhanced products at competitive prices and we must have the resources available to invest in significant research and development activities. Our future success will depend upon our ability to address the changing and sophisticated needs of the marketplace. Frequently, technical development programs in the biometric industry require assessments to be made of the future directions of technology and technology markets generally, which are inherently risky and difficult to predict. Delays in introducing new products, services and enhancements, the failure to choose correctly among technical alternatives or the failure to offer innovative products and services at competitive prices may cause customers to forego purchases of our products and services and purchase those of our competitors, and could adversely affect our business operations, financial results and stock price.

Our financial and operating results often vary significantly from quarter to quarter and may be negatively affected by a number of factors.

Our financial and operating results may fluctuate from quarter to quarter because of the following reasons:

- unavailability or delays in authorization of government funding or cancellations, delays or contract amendments by government agency customers;

- reduced demand for products and services caused, for example, by product offerings from new competitors;
- the inability to timely and successfully (i) complete development of complex designs, components and products, (ii) complete new product introductions that may result in improved gross margins, (iii) manufacture in volume or
install certain of our complex products or (iv) obtain relevant government agency certifications for newly introduced products on a timely basis;
- changes in the mix of products and services we or our distributors sell;
- the readiness of customers to accept delivery of new products on a timely basis;
- protests of federal, state or local government contract awards by competitors;
- unforeseen legal expenses, including litigation and/or administrative protest costs;