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): **September 29, 2004**

BIO-key International, Inc.

(Exact name of registrant as specified in its charter)

Minnesota	**1-13463**	**41-1741861**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1285 Corporate Center Drive, Suite 175
Eagan, MN 55121
(Address of principal executive offices)

(651) 687-0414
(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))

Item 1.01. Entry Into Material Definitive Agreements

1. Senior Secured Notes. On September 29, 2004, BIO-key International, Inc. (the "Company") entered into a Securities Purchase Agreement (the "Senior Purchase Agreement") with certain institutional and accredited investors.

Under the Senior Purchase Agreement, the Company issued Secured Convertible Term Notes (the "Senior Convertible Notes") in the aggregate principal amount of $5,050,000, convertible into Common Stock of the Company in certain circumstances at $1.35 per share, and issued warrants (the "Senior Warrants") to purchase an aggregate of 1,122,222 shares of the Common Stock at a per share exercise price of $1.55. The proceeds from this transaction were used to finance in part the Company's acquisition from Aether Systems, Inc. ("Aether") of Aether's Mobile Government Division (the "Aether Acquisition"). The Company's obligations under the Senior Purchase Agreement, the Senior Convertible Notes and the Senior Warrants are secured by a security interest in all or substantially all of the Company's assets.

The foregoing description does not purport to be a complete statement of the parties' rights and obligations under the Senior Purchase Agreement and the transactions contemplated thereby or a complete explanation of the material terms thereof. The foregoing description is qualified in its entirety by reference to the provisions of the Senior Purchase Agreement, the form of Senior

Convertible Note, the form of Senior Warrant and the other material agreements and documents executed in connection therewith attached as Exhibits 99.1 through 99.7, 99.12 and 99.13, respectively, to this Current Report on Form 8-K.

2. Subordinated Convertible Notes. On September 29, 2004, the Company entered into a Securities Purchase Agreement (the "Subordinated Purchase Agreement") with existing shareholders of the Company and other accredited investors (collectively, the "Subordinated Investors").

Under the Subordinated Purchase Agreement, the Company issued Secured Convertible Term Notes (the "Subordinated Convertible Notes") in the aggregate principal amount of $4,950,000, convertible into Common Stock of the Company in certain circumstances at $1.35 per share, and issued warrants (the "Subordinated Warrants") to purchase an aggregate of 955,111 shares of the Common Stock at a per share exercise price of $1.55. The Subordinated Convertible Notes are convertible into shares of the Common Stock at a conversion price of $1.35 per share. The proceeds from this transaction were used in part to finance a portion of the Aether Acquisition and will be used in part for working capital purposes.

The foregoing description does not purport to be a complete statement of the parties' rights and obligations under the Subordinated Purchase Agreement and the transactions contemplated thereby or a complete explanation of the material terms thereof. The foregoing description is qualified in its entirety by reference to the provisions of the Subordinated Purchase Agreement, the form of Subordinated Convertible Note, the form of Subordinated Warrant and the Registration Rights Agreement executed in connection therewith attached as Exhibits 99.8 through 99.11 and 99.13 to this Current Report on Form 8-K.

3. Subordinated Secured Promissory Note. In connection with the Aether Acquisition, the Company issued a Subordinated Secured Promissory Note to Aether in the face

amount of $6,884,588 (the "Aether Note"). The Aether Note evidences a contingent reimbursement obligation of the Company to Aether and a surety fee payable by the Company to Aether, in each case with respect to a letter of credit maintained by Aether for the Company's benefit in connection with the Aether Acquisition. The Company's obligations under the Aether Note are secured by a security interest granted to Aether in all or substantially all of the Company's assets, subordinate to the security interest described in Section 1 above.

The foregoing description does not purport to be a complete statement of the parties' rights and obligations under the Aether Note or a complete explanation of the material terms thereof. The foregoing description is qualified in its entirety by reference to the provisions of the Aether Note attached as Exhibit 99.14 to this Current Report on Form 8-K.

Item 2.01 Completion of Acquisition or Disposition of Assets.

On September 30, 2004, the Company completed its previously announced acquisition from Aether of Aether's Mobile Government Division. Pursuant to the Asset Purchase Agreement dated as of August 16, 2004 by and among the Company, Aether, Cerulean Technology, Inc. and SunPro, Inc. (the "Asset Purchase Agreement"), the Company paid Aether a purchase price of $10,000,000 in cash, subject to post closing adjustments to reflect changes in the Mobile Government Division's working capital since June 30, 2004. In connection with the Aether Acquisition, the Company issued to Aether the Subordinated Secured Note discussed in Item 1.01 above.

The foregoing description does not purport to be a complete statement of the parties' rights and obligations under the Subordinated Purchase Agreement and the transactions contemplated thereby or a complete explanation of the material terms thereof. The foregoing description is qualified in its entirety by reference to the provisions of the Asset Purchase Agreement attached as Exhibit 99.15 to this Current Report on Form 8-K.

A copy of the press release that the Company issued to announce the closing of the acquisition is furnished as Exhibit 99.16 to this Current Report on Form 8-K.

Item 3.02 Unregistered Sales of Equity Securities

The disclosures in Item 1.01 are incorporated in this Item 3.02 by reference.

The Senior Convertible Notes, the Senior Warrants, the Subordinated Convertible Notes and the Subordinated Warrants were issued to accredited investors in a private placement transaction exempt from registration under the Securities Act pursuant to Rule 506 of Regulation D thereunder. Jesup & Lamont Securities ("Jesup & Lamont") served as placement agent for the transaction.

The Senior Convertible Notes, the Senior Warrants, the Subordinated Convertible Notes and the Subordinated Warrants have not been registered under the Securities Act or applicable state securities laws and may not be offered or sold in the United States

absent registration under the Securities Act and applicable state securities laws or an applicable exemption from registration requirements. The Company has agreed to file a registration statement with the Securities and Exchange Commission ("SEC") covering the resale of the subject shares of the Company's Common Stock underlying such securities.

In connection with the placement contemplated by the Senior Purchase Agreement and

the Subordinated Purchase Agreement, the Company entered into a placement agent agreement with Jesup & Lamont which permits Jesup & Lamont to purchase certain warrants for the Company's Common Stock at a price per share equal to the price per share sold in the placement. The amount of warrants subject to this agreement is currently under review by the Company.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements. As permitted by Item 9.01(a)(4) of Form 8-K, the Company will deliver the provide the pro forma financial information required by Item 9.01(a)(1) of Form 8-K pursuant to an amendment to this Current Report on Form 8-K to be filed on or before December 20, 2004.

(b) Pro Forma Financial Information. As permitted by Item 9.01(b)(2) of Form 8-K, the Company will deliver the provide the pro forma financial information required by Item 9.01(b)(1) of Form 8-K pursuant to an amendment to this Current Report on Form 8-K to be filed on or before December 20, 2004.

(c) Exhibits. The following Exhibits are attached to this Current Report on Form 8-K:

Exhibit No.:	Description:
Exhibit 99.1	Securities Purchase Agreement dated as of September 29, 2004 by and among the Company, Laurus Fund, Ltd. and the other Purchasers that are a party thereto
Exhibit 99.2	Form of Common Stock Purchase Warrant issued pursuant to the Securities Purchase Agreement dated as of September 29, 2004 by and among the Company, Laurus Master Fund, Ltd. and the other Purchasers that are a party thereto
Exhibit 99.3	Form of Secured Convertible Term Note issued pursuant to the Securities Purchase Agreement dated as of September 29, 2004 by and among the Company, Laurus Master Fund, Ltd. and the other Purchasers that are a party thereto
Exhibit 99.4	Master Security Agreement dated as of September 29, 2004 by and among the Company, Public Safety Group, Inc., Laurus Master Fund, Ltd., as Collateral Agent
Exhibit 99.5	Subsidiary Guaranty dated as of September 29, 2004 that are a made by Public Safety Group, Inc. in favor of Laurus Master Fund, Ltd., and the other Purchasers that are a party thereto
Exhibit 99.6	Stock Pledge Agreement dated as of September 29, 2004
Exhibit 99.7	Registration Rights Agreement dated as of September 29, 2004 by and among the Company, Laurus Fund, Ltd. and the other Purchasers that are a party thereto
Exhibit 99.8	Securities Purchase Agreement dated as of September 29, 2004 by and among the Company, The Shaar Fund, Ltd. and the other

Purchasers that are a party thereto

Exhibit 99.9	Form of Common Stock Purchase Warrant issued pursuant to the Securities Purchase Agreement dated as of September 29, 2004 by and among the Company, The Shaar Fund, Ltd. and the other Purchasers that are a party thereto

Exhibit 99.10	Form of Convertible Term Note issued pursuant to the Securities Purchase Agreement dated as of September 29, 2004 by and among the Company, The Shaar Fund, Ltd. and the other Purchasers that are a party thereto
Exhibit 99.11	Registration Rights Agreement dated as of September 29, 2004 by and among the Company, The Shaar Fund, Ltd. and the other Purchasers that are a party thereto
Exhibit 99.12	Intercreditor Agreement dated as of September 30, 2004 by and among Laurus Master Fund, Ltd., individually and as Collateral Agent, Aether Systems, Inc., Public Safety Group, Inc. and the Company
Exhibit 99.13	Subordination and Intercreditor Agreement dated as of September 30, 2004 by and among Laurus Master Fund, Ltd., as Collateral Agent, The Shaar Fund, Ltd., as Purchaser Agent, Aether Systems, Inc., Public Safety Group, Inc. and the Company
Exhibit 99.14	Subordinated Secured Promissory Note dated September 30, 2004 issued by the Company and Public Safety Group, Inc. in favor of Aether Systems, Inc.
Exhibit 99.15	Asset Purchase Agreement dated August 16, 2004 by and among the Company, Aether Systems, Inc., Cerulean Technology, Inc. and SunPro, Inc.
Exhibit 99.16	Press release dated October 1, 2004 issued by BIO-key International, Inc.

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.

By: /s/ Michael W. DePasquale
Michael W. DePasquale
Chief Executive Officer

EXHIBIT INDEX

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BIO-KEY INTERNATIONAL, INC.

SECURITIES PURCHASE AGREEMENT

September 29, 2004

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LIST OF EXHIBITS

THIS AGREEMENT AND THE INDEBTEDNESS EVIDENCED HEREBY ARE SUBJECT TO THE PROVISIONS OF THAT CERTAIN INTERCREDITOR AND SUBORDINATION AGREEMENT (THE "SUBORDINATION AGREEMENT") DATED AS OF SEPTEMBER 29, 2004 AMONG SHAAR FUND, LTD., AS PURCHASER AGENT, LAURUS MASTER FUND, LTD., AS COLLATERAL AGENT, AETHER SYSTEMS, INC., BIO-KEY INTERNATIONAL, INC. AND PUBLIC SAFETY GROUP, INC.; AND EACH HOLDER OF THIS NOTE, BY ITS ACCEPTANCE HEREOF, SHALL BE BOUND BY THE PROVISIONS OF THE SUBORDINATION AGREEMENT.

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT (this "Agreement") is made and entered into as of September 29, 2004, by and between BIO-KEY INTERNATIONAL, INC., a Minnesota corporation (the "Company"), Laurus Master Fund, Ltd., a Cayman Islands company ("Laurus"), and the parties signatory hereto as purchasers (collectively with Laurus and individually, the "Purchaser"), and (iii) Laurus, as Collateral Agent for the Purchasers (in such capacity, the "Collateral Agent").

RECITALS

WHEREAS, the Company has authorized the sale to the Purchaser of Convertible Term Notes in the aggregate principal amount of Five Million Fifty Thousand Dollars ($5,050,000) (individually and collectively and as amended, modified or supplemented from time to time, the "Note"), which Note is convertible into shares of the Company's common stock, $0.01 par value per share (the "Common Stock") at an initial fixed conversion price of $1.35 per share of Common Stock ("Fixed Conversion Price");

WHEREAS, the Company wishes to issue warrants (individually and collectively and as amended, modified or supplemented from time to time, the "Warrant") to the Purchaser to purchase up to an aggregate 1,122,222 shares of the Company's Common Stock (subject to adjustment as set forth therein) in connection with Purchaser's purchase of the Note;

WHEREAS, Purchaser desires to purchase the Note and the Warrant on the terms and conditions set forth herein; and

WHEREAS, the Company desires to issue and sell the Note and Warrant to Purchaser on the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises, representations, warranties and covenants hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Agreement to Sell and Purchase. Pursuant to the terms and conditions set forth in this Agreement, on the Closing Date (as defined in Section 3), the Company agrees to sell to the Purchaser, and the Purchaser hereby agrees to purchase from the Company, the Note in the

aggregate principal amount of $5,050,000 as allocated on Schedule 1 hereto convertible in accordance with the terms thereof into shares of the Company's Common Stock in accordance with the terms of the Note and this Agreement. The Note purchased on the Closing Date shall be known as the "Offering." A form of the Note is annexed hereto as Exhibit A. The Note will mature on the Maturity Date (as defined in the Note). Collectively, the Note and Warrant and Common Stock issuable in payment of the Note, upon conversion of the Note and upon exercise of the Warrant are referred to as the "Securities."

2. Expenses and Warrant. On the Closing Date:

(a) The Company will issue and deliver to the Purchaser the Warrant to purchase up to an aggregate of 1,122,222 shares of Common Stock as allocated on Schedule 1 hereto in connection with the Offering pursuant to Section 1 hereof. The Warrant must be delivered on the Closing Date. A form of Warrant is annexed hereto as Exhibit B. All the representations, covenants, warranties, undertakings, and indemnification, and other rights made or granted to or for the benefit of the Purchaser by the Company are hereby also made and granted in respect of the Warrant and shares of the Company's Common Stock issuable upon exercise of the Warrant (the "Warrant Shares").

(b) The Company shall reimburse the Purchaser for its reasonable expenses (including legal fees and expenses) incurred in connection with the preparation and negotiation of this Agreement and the Related Agreements (as hereinafter defined), and expenses incurred in connection with the Purchaser's due diligence review of the Company and its Subsidiaries (as defined in Section 6.8) and all related matters. Amounts required to be paid under this Section 2(c) will be paid on the Closing Date and, when taken together with all fees to be paid by the Company to the Escrow Agent (defined below) shall not exceed $27,000 for such expenses referred to in this Section 2(c).

(c) The expenses referred to in the preceding clause (b) (net of deposits previously paid by the Company) shall be paid at closing out of funds held pursuant to the Escrow Agreement (as defined below) and a disbursement letter (the "Disbursement Letter").

3. Closing, Delivery and Payment

3.1 Closing. Subject to the terms and conditions herein, the closing of the transactions contemplated hereby (the "Closing"), shall take place on the date hereof, at such time or place as the Company and Purchaser may mutually agree (such date is hereinafter referred to as the "Closing Date").

3.2 Delivery. Pursuant to the Escrow Agreement, at the Closing on the Closing Date, the Company will deliver to the Purchaser, among other things, a Note in the form attached as Exhibit A representing the aggregate principal amount of $5,050,000 and a Warrant in the form attached as Exhibit B in the Purchaser's name representing 1,122,222 Warrant Shares and the Purchaser will deliver to the Company, among other

things, the amounts set forth in the Disbursement Letter by certified funds or wire transfer.

4. Representations and Warranties of the Company. The Company hereby represents and warrants to the Purchaser as of immediately prior to the acquisition of the Mobile Government Division of Aether Systems, Inc. as follows (which representations and warranties are supplemented by the Company's filings under the Securities Exchange Act of 1934 (collectively, the "Exchange Act Filings"), public access to copies of which having been provided to the Purchaser):

4.1 Organization, Good Standing and Qualification. Each of the Company and each of its Subsidiaries is a corporation, partnership or limited liability company, as the case may be, duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. Each of the Company and each of its Subsidiaries has the corporate power and authority to own and operate its properties and assets, to execute and deliver (i) this Agreement, (ii) the Note and the Warrant to be issued in connection with this Agreement, (iii) the Master Security Agreement dated as of the date hereof between the Company, certain Subsidiaries of the Company and the Purchaser (as amended, modified or supplemented from time to time, the "Master Security Agreement"), (iv) the Registration Rights Agreement relating to the Securities dated as of the date hereof between the Company and the Purchaser (as amended, modified or supplemented from time to time, the "Registration Rights Agreement"), (v) the Subsidiary Guaranty dated as of the date hereof made by certain Subsidiaries of the Company (as amended, modified or supplemented from time to time, the "Subsidiary Guaranty"), (vi) the Stock Pledge Agreement dated as of the date hereof among the Company, certain Subsidiaries of the Company and the Purchaser (as amended, modified or supplemented from time to time, the "Stock Pledge Agreement"), (vii) the Funds Escrow Agreement dated as of the date hereof among the Company, the Purchaser and the escrow agent referred to therein (the "Escrow Agent"), substantially in the form of Exhibit D hereto (as amended, modified or supplemented from time to time, the "Escrow Agreement") and (viii) all other agreements related to this Agreement and the Note and referred to herein (the preceding clauses (ii) through (viii), collectively, the "Related Agreements"), to issue and sell the Note and the shares of Common Stock issuable upon conversion of the Note (the "Note Shares"), to issue and sell the Warrant and the Warrant Shares, and to carry out the provisions of this Agreement and the Related Agreements and to carry on its business as presently conducted. Each of the Company and each of its Subsidiaries is duly qualified and is authorized to do business and is in good standing as a foreign corporation, partnership or limited liability company, as the case may be, in all jurisdictions in which the nature of its activities and of its properties (both owned and leased) makes such qualification necessary, except for those jurisdictions in which failure to do so has not, or could not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, assets, liabilities, condition (financial or otherwise), properties, operations or prospects of the Company and it Subsidiaries, taken individually and as a whole (a "Material Adverse Effect").

4.2 Subsidiaries. Each direct and indirect Subsidiary of the Company, the direct owner of such Subsidiary and its percentage ownership thereof, is set forth on

Schedule 4.2. For the purpose of this Agreement, a "Subsidiary" of any person or entity means (i) a corporation or other entity whose shares of stock or other ownership interests having ordinary voting power (other than stock or other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the directors of such corporation, or other persons or entities performing similar functions for such person or entity, are owned, directly or indirectly, by such person or entity or (ii) a corporation or other entity in which such person or entity owns, directly or indirectly, more than 50% of the equity interests at such time.

4.3 Capitalization; Voting Rights.

(a) The authorized capital stock of the Company, as of the date hereof consists of 90,000,000 shares, of which 85,000,000 are shares of Common Stock, par value $0.01 per share, 38,433,829 shares of which are issued and outstanding , and 5,000,000 are shares of preferred stock, par value $0.01 per share (the "Preferred Stock") of which 75,682 shares of preferred stock are issued and outstanding. The authorized capital stock of each Subsidiary of the Company is set forth on Schedule 4.3.

(b) Except as disclosed on Schedule 4.3 or as disclosed in any Exchange Act Filings, other than: (i) the shares reserved for issuance under the Company's stock option plans; and (ii) shares which may be granted pursuant to this Agreement and the Related Agreements, there are no outstanding options, warrants, rights (including conversion or preemptive rights and rights of first refusal), proxy or stockholder agreements, or arrangements or agreements of any kind for the purchase or acquisition from the Company of any of its securities. Except as disclosed on Schedule 4.3 or as disclosed in any Exchange Act Filings, neither the offer, issuance or sale of any of the Note or the Warrant, or the issuance of any of the Note Shares or Warrant Shares, nor the consummation of any transaction contemplated hereby will result in a change in the price or number of any securities of the Company outstanding, under anti-dilution or other similar provisions contained in or affecting any such securities.

(c) All issued and outstanding shares of the Company's Common Stock: (i) have been duly authorized and validly issued and are fully paid and nonassessable; and (ii) were issued in compliance with all applicable state and federal laws concerning the issuance of securities.

(d) The rights, preferences, privileges and restrictions of the shares of the Common Stock are as stated in the Company's Certificate of Incorporation, including its Certificate of Designations (the "Charter"). The Note Shares and Warrant Shares have been duly and validly reserved for issuance. When issued in compliance with the provisions of this Agreement and the Company's Charter, the Securities will be validly issued, fully paid and nonassessable, and will be free of any liens or encumbrances; provided, however, that the Securities may be subject to restrictions on transfer under state and/or federal securities laws as set forth herein or as otherwise required by such laws at the time a transfer is proposed.

4.4 Authorization; Binding Obligations. All corporate, partnership or limited liability company, as the case may be, action on the part of the Company and each of its Subsidiaries (including the respective officers and directors) necessary for the authorization of this Agreement and the Related Agreements, the performance of all obligations of the Company and its Subsidiaries hereunder and under the other Related Agreements at the Closing and, the authorization, sale, issuance and delivery of the Note and Warrant has been taken or will be taken prior to the Closing. This Agreement and the Related Agreements, when executed and delivered and to the extent it is a party thereto, will be valid and binding obligations of each of the Company and each of its Subsidiaries, enforceable against each such person in accordance with their terms, except:

(a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights; and

(b) general principles of equity that restrict the availability of equitable or legal remedies.

Except as set forth on Schedule 4.3, the sale of the Note and the subsequent conversion of the Note into Note Shares are not and will not be subject to any preemptive rights or rights of first refusal that have not been properly waived or complied with. Except as set forth on schedule 4.3, the issuance of the Warrant and the subsequent exercise of the Warrant for Warrant Shares are not and will not be subject to any preemptive rights or rights of first refusal that have not been properly waived or complied with.

4.5 Liabilities. Neither the Company nor any of its Subsidiaries has any contingent liabilities, except current liabilities incurred in the ordinary course of business and liabilities disclosed in any Exchange Act Filings.

4.6 Agreements; Action. Except as set forth on Schedule 4.6 or as disclosed in any Exchange Act Filings:

(a) there are no agreements, understandings, instruments, contracts, proposed transactions, judgments, orders, writs or decrees to which the Company or any of its Subsidiaries is a party or by which it is bound which may involve: (i) obligations (contingent or otherwise) of, or payments to, the Company in excess of $50,000 (other than obligations of, or payments to, the Company arising from purchase or sale agreements entered into in the ordinary course of business); or (ii) the transfer or license of any patent, copyright, trade secret or other proprietary right to or from the Company (other than licenses arising from the purchase of "off the shelf" or other standard products); or (iii) provisions restricting the development, manufacture or distribution of the Company's products or services; or (iv) indemnification by the Company with respect to infringements of proprietary rights.

(b) Since June 30, 2004, neither the Company nor any of its Subsidiaries has: (i) declared or paid any dividends, or authorized or made any

distribution upon or with respect to any class or series of its capital stock other than dividends paid to the holders of the Company's Series C Preferred Stock; (ii) incurred any indebtedness for money borrowed or any other liabilities (other than ordinary course obligations) individually in excess of $50,000 or, in the case of indebtedness and/or liabilities individually less than $50,000, in excess of $100,000 in the aggregate; (iii) made any loans or advances to any person not in excess, individually or in the aggregate, of $100,000, other than ordinary course advances for travel expenses; or (iv) sold, exchanged or otherwise disposed of any of its assets or rights, other than the sale of its inventory in the ordinary course of business.

(c) For the purposes of subsections (a) and (b) above, all indebtedness, liabilities, agreements, understandings, instruments, contracts and proposed transactions involving the same person or entity (including persons or entities the Company has reason to believe are affiliated therewith) shall be aggregated for the purpose of meeting the individual minimum dollar amounts of such subsections.

4.7 Obligations to Related Parties. Except as set forth on Schedule 4.7 or as disclosed in any Exchange Act Filings, there are no obligations of the Company or any of its Subsidiaries to officers, directors, stockholders or employees of the Company or any of its Subsidiaries other than:

(a) for payment of salary for services rendered and for bonus payments;

(b) reimbursement for reasonable expenses incurred on behalf of the Company and its Subsidiaries;

(c) for other standard employee benefits made generally available to all employees (including stock option agreements outstanding under any stock option plan approved by the Board of Directors of the Company); and

(d) obligations listed in the Company's financial statements or disclosed in any of its Exchange Act Filings.

Except as described above or set forth on Schedule 4.7 or as disclosed in any Exchange Act Filings, none of the officers, directors or, to the best of the Company's knowledge, key employees or stockholders of the Company or any members of their immediate families, are indebted to the Company, individually or in the aggregate, in excess of $50,000 or have any direct or indirect ownership interest in any firm or corporation with which the Company is affiliated or with which the Company has a business relationship, or any firm or corporation which competes with the Company, other than passive investments in publicly traded companies (representing less than one percent (1%) of such company) which may compete with the Company. Except as described above, no officer, director or stockholder, or any member of their immediate families, is, directly or indirectly, interested in any material contract with the Company and no agreements, understandings or proposed transactions are contemplated between

the Company and any such person. Except as set forth on Schedule 4.7 or as disclosed in any Exchange Act Filings, the Company is not a guarantor or indemnitor of any indebtedness of any other person, firm or corporation.

4.8 Changes. Since June 30, 2004 , except as disclosed in any Exchange Act Filing or in any Schedule to this Agreement or to any of the Related Agreements, there has not been:

(a) any change in the business, assets, liabilities, condition (financial or otherwise), properties, operations or prospects of the Company or any of its Subsidiaries, which individually or in the aggregate has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(b) any resignation or termination of any officer, key employee or group of employees of the Company or any of its Subsidiaries;

(c) any material change, except in the ordinary course of business, in the contingent obligations of the Company or any of its Subsidiaries by way of guaranty, endorsement, indemnity, warranty or otherwise;

(d) any damage, destruction or loss, whether or not covered by insurance, has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(e) any waiver by the Company or any of its Subsidiaries of a valuable right or of a material debt owed to it;

(f) any direct or indirect loans made by the Company or any of its Subsidiaries to any stockholder, employee, officer or director of the Company or any of its Subsidiaries, other than advances made in the ordinary course of business;

(g) any material change in any compensation arrangement or agreement with any employee, officer, director or stockholder of the Company or any of its Subsidiaries;

(h) any declaration or payment of any dividend or other distribution of the assets of the Company or any of its Subsidiaries, other than dividends paid to the holders of the Company's Series C Preferred Stock;

(i) any labor organization activity related to the Company or any of its Subsidiaries;

(j) any debt, obligation or liability incurred, assumed or guaranteed by the Company or any of its Subsidiaries, except those for immaterial amounts and for current liabilities incurred in the ordinary course of business;

(k) any sale, assignment or transfer of any patents, trademarks, copyrights, trade secrets or other intangible assets owned by the Company or any of its Subsidiaries;

(l) any change in any material agreement to which the Company or any of its Subsidiaries is a party or by which either the Company or any of its Subsidiaries is bound which either individually or in the aggregate has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(m) any other event or condition of any character that, either individually or in the aggregate, has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect; or

(n) any arrangement or commitment by the Company or any of its Subsidiaries to do any of the acts described in subsection (a) through (m) above.

4.9 Title to Properties and Assets; Liens, Etc. Except as set forth on Schedule 4.9, each of the Company and each of its Subsidiaries has good and marketable title to its properties and assets, and good title to its leasehold estates, in each case subject to no mortgage, pledge, lien, lease, encumbrance or charge, other than:

(a) those resulting from taxes which have not yet become delinquent;

(b) minor liens and encumbrances which do not materially detract from the value of the property subject thereto or materially impair the operations of the Company or any of its Subsidiaries; and

(c) those that have otherwise arisen in the ordinary course of business.

All facilities, machinery, equipment, fixtures, vehicles and other properties owned, leased or used by the Company and its Subsidiaries are in good operating condition and repair and are reasonably fit and usable for the purposes for which they are being used. Except as set forth on Schedule 4.9, the Company and its Subsidiaries are in compliance with all material terms of each lease

to which it is a party or is otherwise bound.

4.10 Intellectual Property.

(a) Each of the Company and each of its Subsidiaries owns or possesses sufficient legal rights to all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes necessary for its business as now conducted and to the Company's knowledge, as presently proposed to be conducted (the "Intellectual Property"), without any known infringement of the rights of others. There are no outstanding options, licenses or agreements of any kind relating to the foregoing proprietary rights, nor is the Company or any of its Subsidiaries bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses,

information and other proprietary rights and processes of any other person or entity other than such licenses or agreements arising from the purchase of "off the shelf" or standard products.

(b) Neither the Company nor any of its Subsidiaries has received any communications alleging that the Company or any of its Subsidiaries has violated any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity, nor is the Company or any of its Subsidiaries aware of any basis therefor.

(c) The Company does not believe it is or will be necessary to utilize any inventions, trade secrets or proprietary information of any of its employees made prior to their employment by the Company or any of its Subsidiaries, except for inventions, trade secrets or proprietary information that have been rightfully assigned to the Company or any of its Subsidiaries.

4.11 Compliance with Other Instruments. Neither the Company nor any of its Subsidiaries is in violation or default of (x) any term of its Charter or Bylaws, or (y) of any provision of any indebtedness, mortgage, indenture, contract, agreement or instrument to which it is party or by which it is bound or of any judgment, decree, order or writ, which violation or default, in the case of this clause (y), has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. The execution, delivery and performance of and compliance with this Agreement and the Related Agreements to which it is a party, and the issuance and sale of the Note by the Company and the other Securities by the Company each pursuant hereto and thereto, will not, with or without the passage of time or giving of notice, result in any such material violation, or be in conflict with or constitute a default under any such term or provision, or result in the creation of any mortgage, pledge, lien, encumbrance or charge upon any of the properties or assets of the Company or any of its Subsidiaries or the suspension, revocation, impairment, forfeiture or nonrenewal of any permit, license, authorization or approval applicable to the Company, its business or operations or any of its assets or properties.

4.12 Litigation. Except as set forth on Schedule 4.12 hereto or as disclosed in any Exchange Act Filings, there is no action, suit, proceeding or investigation pending or, to the Company's knowledge, currently threatened against the Company or any of its Subsidiaries that prevents the Company or any of its Subsidiaries from entering into this Agreement or the other Related Agreements, or from consummating the transactions contemplated hereby or thereby, or which has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect or any change in the current equity ownership of the Company or any of its Subsidiaries, nor is the Company aware that there is any basis to assert any of the foregoing. Neither the Company nor any of its Subsidiaries is a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company or any of its Subsidiaries currently pending or which the Company or any of its Subsidiaries intends to initiate.

4.13 Tax Returns and Payments. Each of the Company and each of its Subsidiaries has timely filed all tax returns (federal, state and local) required to be filed by it. All taxes shown to be due and payable on such returns, any assessments imposed, and all other taxes due and payable by the Company or any of its Subsidiaries on or before the Closing, have been paid or will be paid prior to the time they become delinquent. Except as set forth on Schedule 4.13, neither the Company nor any of its Subsidiaries has been advised:

(a) that any of its returns, federal, state or other, have been or are being audited as of the date hereof; or

(b) of any deficiency in assessment or proposed judgment to its federal, state or other taxes.

The Company has no knowledge of any liability of any tax to be imposed upon its properties or assets as of the date of this Agreement that is not adequately provided for.

4.14 Employees. Except as set forth on Schedule 4.14, neither the Company nor any of its Subsidiaries has any collective bargaining agreements with any of its employees. There is no labor union organizing activity pending or, to the Company's knowledge, threatened with respect to the Company or any of its Subsidiaries. Except as disclosed in the Exchange Act Filings or on Schedule 4.14, neither the Company nor any of its Subsidiaries is a party to or bound by any currently effective employment contract, deferred compensation arrangement, bonus plan, incentive plan, profit sharing plan, retirement agreement or other employee compensation plan or agreement. To the Company's knowledge, no employee of the Company or any of its Subsidiaries, nor any consultant with whom the Company or any of its Subsidiaries has contracted, is in violation of any term of any employment contract, proprietary information agreement or any other agreement relating to the right of any such individual to be employed by, or to contract with, the Company or any of its Subsidiaries because of the nature of the business to be conducted by the Company or any of its Subsidiaries; and to the Company's knowledge the continued employment by the Company or any of its Subsidiaries of its present employees, and the performance of the Company's and its Subsidiaries' contracts with its independent contractors, will not result in any such violation. Neither the Company nor any of its Subsidiaries is aware that any of its employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with their duties to the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries has received any notice alleging that any such violation has occurred. Except for employees who have a current effective employment agreement with the Company or any of its Subsidiaries, no employee of the Company or any of its Subsidiaries has been granted the right to continued employment by the Company or any of its Subsidiaries or to any material compensation following termination of employment with the Company or any of its Subsidiaries. Except as set forth on Schedule 4.14, the Company is not aware that any officer, key employee or group of employees intends to terminate his, her or their employment with the Company or any of its Subsidiaries, nor does the Company or any

of its Subsidiaries have a present intention to terminate the employment of any officer, key employee or group of employees.

4.15 Registration Rights and Voting Rights. Except as set forth on Schedule 4.15 and except as disclosed in Exchange Act Filings, neither the Company nor any of its Subsidiaries is presently under any obligation, and neither the Company nor any of its Subsidiaries has granted any rights, to register any of the Company's or its Subsidiaries' presently outstanding securities or any of its securities that may hereafter be issued. Except as set forth on Schedule 4.15 and except as disclosed in Exchange Act Filings, to the Company's knowledge, no stockholder of the Company or any of its Subsidiaries has entered into any agreement with respect to the voting of equity securities of the Company or any of its Subsidiaries.

4.16 Compliance with Laws; Permits. Neither the Company nor any of its Subsidiaries is in violation of any applicable statute, rule, regulation, order or restriction of any domestic or foreign government or any instrumentality or agency thereof in respect of the conduct of its business or the ownership of its properties which has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. No governmental orders, permissions, consents, approvals or authorizations are required to be obtained and no registrations or declarations are required to be filed in connection with the execution and delivery of this Agreement or any other Related Agreement and the issuance of any of the Securities, except such as has been duly and validly obtained or filed, or with respect to any filings that must be made after the Closing, as will be filed in a timely manner. Each of the Company and its Subsidiaries has all material franchises, permits, licenses and any similar authority necessary for the conduct of its business as now being conducted by it, the lack of which could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

4.17 Environmental and Safety Laws. Neither the Company nor any of its Subsidiaries is in violation of any applicable statute, law or regulation relating to the environment or occupational health and safety, and to its knowledge, no material expenditures are or will be required in order to comply with any such existing statute, law or regulation. Except as set forth on Schedule 4.17, no Hazardous Materials (as defined below) are used or have been used, stored, or disposed of by the Company or any of its Subsidiaries or, to the Company's knowledge, by any other person or entity on any property owned, leased or used by the Company or any of its Subsidiaries. For the purposes of the preceding sentence, "Hazardous Materials" shall mean:

(a) materials which are listed or otherwise defined as "hazardous" or "toxic" under any applicable local, state, federal and/or foreign laws and regulations that govern the existence and/or remedy of contamination on property, the protection of the environment from contamination, the control of hazardous wastes, or other activities

involving hazardous substances, including building materials; or

(b) any petroleum products or nuclear materials.

4.18 Valid Offering. Assuming the accuracy of the representations and warranties of the Purchaser contained in this Agreement, the offer, sale and issuance of the Securities will be exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), and will have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable state securities laws.

4.19 Full Disclosure. Each of the Company and each of its Subsidiaries has provided the Purchaser with all information requested by the Purchaser in connection with its decision to purchase the Note and Warrant, including all information the Company and its Subsidiaries believe is reasonably necessary to make such investment decision. Neither this Agreement, the Related Agreements, the exhibits and schedules hereto and thereto nor any other document delivered by the Company or any of its Subsidiaries to Purchaser or its attorneys or agents in connection herewith or therewith or with the transactions contemplated hereby or thereby, contain any untrue statement of a material fact nor omit to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances in which they are made, not misleading. Any financial projections and other estimates provided to the Purchaser by the Company or any of its Subsidiaries were based on the Company's and its Subsidiaries' experience in the industry and on assumptions of fact and opinion as to future events which the Company or any of its Subsidiaries, at the date of the issuance of such projections or estimates, believed to be reasonable.

4.20 Insurance. Each of the Company and each of its Subsidiaries has general commercial, product liability, fire and casualty insurance policies with coverages which the Company believes are customary for companies similarly situated to the Company and its Subsidiaries in the same or similar business.

4.21 SEC Reports. Except as set forth on Schedule 4.21, the Company has filed all proxy statements, reports and other documents required to be filed by it under the Securities Exchange Act 1934, as amended (the "Exchange Act"). The Company has provided public access to copies of: (i) its Annual Reports on Form 10-KSB for its fiscal years ended December 31, 2003 ; and (ii) its Quarterly Reports on Form 10-QSB for its fiscal quarter ended June 30, 2004 , and the Form 8-K filings which it has made during the fiscal year 2004 to date (collectively, the "SEC Reports"). Except as set forth on Schedule 4.21, each SEC Report was, at the time of its filing, in substantial compliance with the requirements of its respective form and none of the SEC Reports, nor the financial statements (and the notes thereto) included in the SEC Reports, as of their respective filing dates, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

4.22 Listing. The Company's Common Stock is traded on the NASD Over the Counter Bulletin Board ("OTCBB") and satisfies all requirements for the continuation of such trading . The Company has not received any notice that its Common Stock will be ineligible to trade or that its Common Stock does not meet all requirements for such trading .

4.23 No Integrated Offering. Neither the Company, nor any of its Subsidiaries or affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would cause the offering of the Securities pursuant to this Agreement or any of the Related Agreements to be integrated with prior offerings by the Company for purposes of the Securities Act which would prevent the Company from selling the Securities pursuant to Rule 506 under the Securities Act, or any applicable exchange-related stockholder approval provisions, nor will the Company or any of its affiliates or Subsidiaries take any action or steps that would cause the offering of the Securities to be integrated with other offerings.

4.24 Stop Transfer. The Securities are restricted securities as of the date of this Agreement. Neither the Company nor any of its Subsidiaries will issue any stop transfer order or other order impeding the sale and delivery of any of the Securities at such time as the Securities are registered for public sale or an exemption from registration is available, except as required by state and federal securities laws.

4.25 Dilution. The Company specifically acknowledges that its obligation to issue the shares of Common Stock upon conversion of the Note and exercise of the Warrant is binding upon the Company and enforceable regardless of the dilution such issuance may have on the ownership interests of other shareholders of the Company.

4.26 Patriot Act. The Company certifies that, to the best of Company's knowledge, neither the Company nor any of its Subsidiaries has been designated, and is not owned or controlled, by a "suspected terrorist" as defined in Executive Order 13224. The Company hereby acknowledges that the Purchaser seeks to comply with all applicable laws concerning money laundering and related activities. In furtherance of those efforts, the Company hereby represents, warrants and agrees that: (i) none of the cash or property that the Company or any of its Subsidiaries will pay or will contribute to the Purchaser has been or shall be derived from, or related to, any activity that is deemed criminal under United States law; and (ii) no contribution or payment by the Company or any of its Subsidiaries to the Purchaser, to the extent that they are within the Company's and/or its Subsidiaries' control shall cause the Purchaser to be in violation of the United States Bank Secrecy Act, the United States International Money Laundering Control Act of 1986 or the United States International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001. The Company shall promptly notify the Purchaser if any of these representations ceases to be true and accurate regarding the Company or any of its Subsidiaries. The Company agrees to provide the Purchaser any additional information regarding the Company or any of its Subsidiaries that the Purchaser deems necessary or convenient to ensure compliance with all applicable laws concerning money laundering and similar activities. The Company understands and agrees that if at any time it is discovered that any of the foregoing representations are incorrect, or if otherwise required by applicable law or regulation related to money laundering similar activities, the Purchaser may undertake appropriate actions to ensure compliance with applicable law or regulation, including but not limited to segregation and/or redemption of the Purchaser's investment in the Company. The Company further understands that the Purchaser may release confidential information about the Company and its

Subsidiaries and, if applicable, any underlying beneficial owners, to proper authorities if the Purchaser, in its sole discretion, determines that it is in the best interests of the Purchaser in light of relevant rules and regulations under the laws set forth in subsection (ii) above.

5. Representations and Warranties of the Purchaser. The Purchaser hereby represents and warrants to the Company as follows (such representations and warranties do not lessen or obviate the representations and warranties of the Company set forth in this Agreement):

5.1 No Shorting. The Purchaser or any of its affiliates and investment partners has not at any time after September 8, 2004, will not and will not cause any person or entity, directly or indirectly, to engage in "short sales" of the Company's Common Stock as long as the Note shall be outstanding.

5.2 Requisite Power and Authority. The Purchaser has all necessary power and authority under all applicable provisions of law to execute and deliver this Agreement and the Related Agreements and to carry out their provisions. All corporate action on Purchaser's part required for the lawful execution and delivery of this Agreement and the Related Agreements have been or will be effectively taken prior to the Closing. Upon their execution and delivery, this Agreement and the Related Agreements will be valid and binding obligations of Purchaser, enforceable in accordance with their terms, except:

(a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights; and

(b) as limited by general principles of equity that restrict the availability of equitable and legal remedies.

5.3 Investment Representations. Purchaser understands that the Securities are being offered and sold pursuant to an exemption from registration contained in the Securities Act based in part upon Purchaser's representations contained in the Agreement, including, without limitation, that the Purchaser is an "accredited investor" within the meaning of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). The Purchaser confirms that it has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the Note and the Warrant to be purchased by it under this Agreement and the Note Shares and the Warrant Shares acquired by it upon the conversion of the Note and the exercise of the Warrant, respectively. The Purchaser further confirms that it has had an opportunity to ask questions and receive answers from the Company regarding the Company's and its Subsidiaries' business, management and financial affairs and the terms and conditions of the Offering, the Note, the Warrant and the Securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to the Purchaser or to which the Purchaser had access.

5.4 Purchaser Bears Economic Risk. The Purchaser has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company so that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests. The Purchaser must bear the economic risk of this investment until the Securities are sold pursuant to: (i) an effective registration statement under the Securities Act; or (ii) an exemption from registration is available with respect to such sale.

5.5 Acquisition for Own Account. The Purchaser is acquiring the Note and Warrant and the Note Shares and the Warrant Shares for the Purchaser's own account for investment only, and not as a nominee or agent and not with a view towards or for resale in connection with their distribution.

5.6 Purchaser Can Protect Its Interest. The Purchaser represents that by reason of its, or of its management's, business and financial experience, the Purchaser has the capacity to evaluate the merits and risks of its investment in the Note, the Warrant and the Securities and to protect its own interests in connection with the transactions contemplated in this Agreement and the Related Agreements. Further, Purchaser is aware of no publication of any advertisement in connection with the transactions contemplated in the Agreement or the Related Agreements.

5.7 Accredited Investor. Purchaser represents that it is an accredited investor within the meaning of Regulation D under the Securities Act.

5.8 Legends.

(a) The Note shall bear substantially the following legend:

"THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE, STATE SECURITIES LAWS. THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS NOTE OR SUCH SHARES UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BIO-KEY INTERNATIONAL, INC. THAT SUCH REGISTRATION IS NOT REQUIRED."

(b) The Note Shares and the Warrant Shares, if not issued by DWAC system (as hereinafter defined), shall bear a legend which shall be in substantially the following form until such shares are covered by an effective registration statement filed with the SEC:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS

AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH SECURITIES ACT AND APPLICABLE STATE LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BIO-KEY INTERNATIONAL, INC. THAT SUCH REGISTRATION IS NOT REQUIRED."

(c) The Warrant shall bear substantially the following legend:

"THIS WARRANT AND THE COMMON SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THIS WARRANT AND THE COMMON SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS WARRANT OR THE UNDERLYING SHARES OF COMMON STOCK UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BIO-KEY INTERNATIONAL, INC. THAT SUCH REGISTRATION IS NOT REQUIRED."

6. Covenants of the Company. The Company covenants and agrees with the Purchaser as follows:

6.1 Stop-Orders. The Company will advise the Purchaser, promptly after it receives notice of issuance by the Securities and Exchange Commission (the "SEC"), any state securities commission or any other regulatory authority of any

stop order or of any order preventing or suspending any offering of any securities of the Company, or of the suspension of the qualification of the Common Stock of the Company for offering or sale in any jurisdiction, or the initiation of any proceeding for any such purpose.

6.2 Trading. The Company shall promptly secure the trading of the shares of Common Stock issuable upon conversion of the Note and upon the exercise of the Warrant on the OTCBB (the "Principal Market") upon which shares of Common Stock are traded (subject to official notice of issuance) and shall maintain such trading so long as any other shares of Common Stock shall be so traded. The Company will maintain the trading of its Common Stock on the Principal Market or Nasdaq, and will comply in all material respects with the Company's reporting, filing and other obligations under the bylaws or rules of the National Association of Securities Dealers ("NASD") and such exchanges, as applicable.

6.3 Market Regulations. The Company shall notify the SEC, NASD and applicable state authorities, in accordance with their requirements, of the transactions

contemplated by this Agreement, and shall take all other necessary action and proceedings as may be required and permitted by applicable law, rule and regulation, for the legal and valid issuance of the Securities to the Purchaser and promptly provide copies thereof to the Purchaser.

6.4 Reporting Requirements. The Company will timely file with the SEC all reports required to be filed pursuant to the Exchange Act and refrain from terminating its status as an issuer required by the Exchange Act to file reports thereunder even if the Exchange Act or the rules or regulations thereunder would permit such termination.

6.5 Use of Funds. The Company agrees that it will use the proceeds of the sale of the Note and the Warrant to acquire the Mobile Government Division of Aether Systems, Inc. and for general working capital purposes only.

6.6 Access to Facilities. Each of the Company and each of its Subsidiaries will permit any representatives designated by the Purchaser (or any successor of the Purchaser), upon reasonable notice and during normal business hours, at such person's expense and accompanied by a representative of the Company, to:

(a) visit and inspect any of the properties of the Company or any of its Subsidiaries;

(b) examine the corporate and financial records of the Company or any of its Subsidiaries (unless such examination is not permitted by federal, state or local law or by contract) and make copies thereof or extracts therefrom; and

(c) discuss the affairs, finances and accounts of the Company or any of its Subsidiaries with the directors, officers and independent accountants of the Company or any of its Subsidiaries.

Notwithstanding the foregoing, neither the Company nor any of its Subsidiaries will provide any material, non-public information to the Purchaser unless the Purchaser signs a confidentiality agreement and otherwise complies with Regulation FD, under the federal securities laws.

6.7 Taxes. Each of the Company and each of its Subsidiaries will promptly pay and discharge, or cause to be paid and discharged, when due and payable, all lawful taxes, assessments and governmental charges or levies imposed upon the income, profits, property or business of the Company and its Subsidiaries; provided, however, that any such tax, assessment, charge or levy need not be paid if the validity thereof shall currently be contested in good faith by appropriate proceedings and if the Company and/or such Subsidiary shall have set aside on its books adequate reserves with respect thereto, and provided, further, that the Company and its Subsidiaries will pay all such taxes, assessments, charges or levies forthwith upon the commencement of proceedings to foreclose any lien which may have attached as security therefor.

6.8 Insurance. Each of the Company and its Subsidiaries will keep its assets which are of an insurable character insured by financially sound and reputable insurers against loss or damage by fire, explosion and other risks customarily insured against by

companies in similar business similarly situated as the Company and its Subsidiaries; and the Company and its Subsidiaries will maintain, with financially sound and reputable insurers, insurance against other hazards and risks and liability to persons

and property to the extent and in the manner which the Company reasonably believes is customary for companies in similar business similarly situated as the Company and its Subsidiaries and to the extent available on commercially reasonable terms. The Company, and each of its Subsidiaries will jointly and severally bear the full risk of loss from any loss of any nature whatsoever with respect to the assets pledged to the Purchaser as security for its obligations hereunder and under the Related Agreements. At the Company's and each of its Subsidiaries' joint and several cost and expense in amounts and with carriers reasonably acceptable to Purchaser, the Company and each of its Subsidiaries shall (i) keep all its insurable properties and properties in which it has an interest insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts, as is customary in the case of companies engaged in businesses similar to the Company's or the respective Subsidiary's including business interruption insurance; (ii) maintain a bond in such amounts as is customary in the case of companies engaged in businesses similar to the Company's or the respective Subsidiary's insuring against larceny, embezzlement or other criminal misappropriation of insured's officers and employees who may either singly or jointly with others at any time have access to the assets or funds of the Company or any of its Subsidiaries either directly or through governmental authority to draw upon such funds or to direct generally the disposition of such assets; (iii) maintain public and product liability insurance against claims for personal injury, death or property damage suffered by others; (iv) maintain all such worker's compensation or similar insurance as may be required under the laws of any state or jurisdiction in which the Company or the respective Subsidiary is engaged in business; and (v) furnish Purchaser with (x) copies of all policies and evidence of the maintenance of such policies at least thirty (30) days before any expiration date, (y) excepting the Company's workers' compensation policy, endorsements to such policies naming Purchaser as "co-insured" or "additional insured" and appropriate loss payable endorsements in form and substance satisfactory to Purchaser, naming Purchaser as loss payee, and (z) evidence that as to Purchaser the insurance coverage shall not be impaired or invalidated by any act or neglect of the Company or any Subsidiary and the insurer will provide Purchaser with at least thirty (30) days notice prior to cancellation. The Company and each Subsidiary shall instruct the insurance carriers that in the event of any loss thereunder, the carriers shall make payment for such loss to the Company and/or the Subsidiary and Purchaser jointly. In the event that as of the date of receipt of each loss recovery upon any such insurance, the Purchaser has not declared an event of default with respect to this Agreement or any of the Related Agreements, then the Company and/or such Subsidiary shall be permitted to direct the application of such loss recovery proceeds toward investment in property, plant and equipment that would comprise "Collateral" secured by Purchaser's security interest pursuant to its security agreement, with any surplus funds to be applied toward payment of the obligations of the Company to Purchaser. In the event that Purchaser has properly declared an event of default with respect to this Agreement or any of the Related Agreements, then all loss recoveries received by Purchaser upon any such insurance thereafter may be applied to the obligations of the Company hereunder and under the

Related Agreements, in such order as the Purchaser may determine. Any surplus (following satisfaction of all Company obligations to Purchaser) shall be paid by Purchaser to the Company or applied as may be otherwise required by law. Any deficiency thereon shall be paid by the Company or the Subsidiary, as applicable, to Purchaser, on demand**.**

6.9 Intellectual Property. Each of the Company and each of its Subsidiaries shall maintain in full force and effect its existence, rights and franchises and all licenses and other rights to use Intellectual Property owned or possessed by it and reasonably deemed to be necessary to the conduct of its business.

6.10 Properties. Each of the Company and each of its Subsidiaries will keep its properties in good repair, working order and condition, reasonable wear and tear excepted, and from time to time make all needful and proper repairs, renewals, replacements, additions and improvements thereto; and each of the Company and each of its Subsidiaries will at all times comply with each provision of all leases to which it is a party or under which it occupies property if the breach of such provision could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.11 Confidentiality. The Company agrees that it will not disclose, and will not include in any public announcement, the name of the Purchaser, unless expressly agreed to by the Purchaser or unless and until such disclosure is required by law or applicable regulation, and then only to the extent of such requirement. Notwithstanding the foregoing, the Company may disclose Purchaser's identity and the terms of this Agreement to its current and prospective debt and equity financing sources, and to satisfy any pre-emptive right obligations it may have.

6.12 Required Approvals. For so long as twenty-five percent (25%) of the principal amount of the Note is outstanding, the Company, without the prior written consent of the Purchaser, shall not, and shall not permit any of its Subsidiaries to:

(a) (i) directly or indirectly declare or pay any dividends, other than dividends paid to the Parent or any of its wholly-owned Subsidiaries or to the holders of its Preferred Stock to the extent that it is required to do so, (ii) issue any preferred stock that is mandatorily redeemable prior to one year anniversary of Maturity Date (as defined in the Note) or (iii) redeem any of its preferred stock or other equity interests;

(b) liquidate, dissolve or effect a material reorganization (it being understood that in no event shall the Company dissolve, liquidate or merge with any other person or entity (unless the Company is the surviving entity) other than to effect a reincorporation in the state of Delaware;

(c) become subject to (including, without limitation, by way of amendment to or modification of) any agreement or instrument which by its terms would (under any circumstances) restrict the Company's or any of its Subsidiaries

right to perform the provisions of this Agreement, any Related Agreement or any of the agreements contemplated hereby or thereby;

(d) materially alter or change the scope of the business of the Company and its Subsidiaries taken as a whole other than in connection with an acquisition after which the Company is the surviving entity;

(e) (i) create, incur, assume or suffer to exist any indebtedness (exclusive of trade debt and debt incurred to finance the purchase of equipment (not in excess of five percent (5%) of the fair market value of the Company's and its Subsidiaries' assets) whether secured or unsecured other than (x) the Company's indebtedness to the Purchaser, (y) indebtedness set forth on Schedule 6.12(e) attached hereto and made a part hereof and any refinancings or replacements thereof on terms no less favorable to the Purchaser than the indebtedness being refinanced or replaced, and (z) any debt incurred in connection with the purchase of assets in the ordinary course of business, or any refinancings or replacements thereof on terms no less favorable to the Purchaser than the indebtedness being refinanced or replaced; (ii) cancel any debt owing to it in excess of $50,000 in the aggregate during any 12 month period; (iii) assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any obligations of any other Person, except the endorsement of negotiable instruments by the Company for deposit or collection or similar transactions in the ordinary course of business or guarantees of indebtedness otherwise permitted to be outstanding pursuant to this clause (e); and

(f) create or acquire any Subsidiary after the date hereof unless (i) such Subsidiary is a wholly-owned Subsidiary of the Company and (ii) such Subsidiary becomes party to the Master Security Agreement, the Stock Pledge Agreement and the Subsidiary Guaranty (either by executing a counterpart thereof or an assumption or joinder agreement in respect thereof) and, to the extent required by the Purchaser, satisfies each condition of this Agreement and the Related Agreements as if such Subsidiary were a Subsidiary on the Closing Date.

6.13 Reissuance of Securities. The Company agrees to reissue certificates representing the Securities without the legends set forth in Section 5.8 above at such time as:

(a) the holder thereof is permitted to dispose of such Securities pursuant to Rule 144(k) under the Securities Act; or

(b) upon resale subject to an effective registration statement after such Securities are registered under the Securities Act.

The Company agrees to cooperate with the Purchaser in connection with all resales pursuant to Rule 144(d) and Rule 144(k) and provide legal opinions necessary to allow such resales provided the Company and its counsel receive reasonably requested representations from the selling Purchaser and broker, if any.

6.14 Opinion. On the Closing Date, the Company will deliver to the Purchaser an opinion acceptable to Laurus from Choate, Hall & Stewart. On or before October 14, 2004, the Company will deliver to the Purchaser an opinion from Minnesota counsel as to due authorization acceptable to Laurus. The Company will provide, at the Company's expense, such other legal opinions in the future as are deemed reasonably necessary by the Purchaser (and acceptable to the Purchaser) in connection with the conversion of the Note and exercise of the Warrant.

6.15 Margin Stock. The Company will not permit any of the proceeds of the Note or the Warrant to be used directly or indirectly to "purchase" or "carry" "margin stock" or to repay indebtedness incurred to "purchase" or "carry" "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the

Federal Reserve System as now and from time to time hereafter in effect.

7. Covenants of the Purchaser. The Purchaser covenants and agrees with the Company as follows:

7.1 Confidentiality. The Purchaser agrees that it will not disclose, and will not include in any public announcement, the name of the Company, unless expressly agreed to by the Company or unless and until such disclosure is required by law or applicable regulation, and then only to the extent of such requirement.

7.2 Non-Public Information. The Purchaser agrees not to effect any sales in the shares of the Company's Common Stock while in possession of material, non-public information regarding the Company if such sales would violate applicable securities law.

7.3 Regulation M. The Purchaser acknowledges and agrees that Regulation M promulgated under the Exchange Act will apply to any sales of the Company's Common Stock, and the Purchaser will, and will cause each of its affiliates and its investment partners to, comply with Regulation M in all respects during such time as they may be engaged in a distribution of shares of the Company's Common Stock.

8. Covenants of the Company and Purchaser Regarding Indemnification.

8.1 Company Indemnification. The Company agrees to indemnify, hold harmless, reimburse and defend the Purchaser, each of the Purchaser's officers, directors, agents, affiliates, control persons, and principal shareholders, against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of any nature, incurred by or imposed upon the Purchaser which results, arises out of or is based upon: (i) any misrepresentation by the Company or any of its Subsidiaries or breach of any warranty by the Company or any of its Subsidiaries in this Agreement, any other Related Agreement or in any exhibits or schedules attached hereto or thereto; or (ii) any breach or default in performance by Company or any of its Subsidiaries of any covenant or undertaking to be performed by Company or any of its Subsidiaries hereunder, under any other Related Agreement or any other agreement entered into by the Company and/or any of its Subsidiaries and Purchaser relating hereto or thereto.

8.2 Purchaser's Indemnification. Purchaser agrees to indemnify, hold harmless, reimburse and defend the Company and each of the Company's officers, directors, agents, affiliates, control persons and principal shareholders, at all times against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of any nature, incurred by or imposed upon the Company which results, arises out of or is based upon: (i) any misrepresentation by Purchaser or breach of any warranty by Purchaser in this Agreement or in any exhibits or schedules attached hereto or any Related Agreement; or (ii) any breach or default in performance by Purchaser of any covenant or undertaking to be performed by Purchaser hereunder, or any other agreement entered into by the Company and Purchaser relating hereto.

9. Conversion of Convertible Note.

9.1 Mechanics of Conversion.

(a) Provided the Purchaser has notified the Company of the Purchaser's intention to sell the Note Shares and the Note Shares are included in an effective registration statement or are otherwise exempt from registration when sold: (i) upon the conversion of the Note or part thereof, the Company shall, at its own cost and expense, take all necessary action (including the issuance of an opinion of counsel reasonably acceptable to the Purchaser following a request by the Purchaser) to assure that the Company's transfer agent shall issue shares of the Company's Common Stock in the name of the Purchaser (or its nominee) or such other persons as designated by the Purchaser in accordance with Section 9.1(b) hereof and in such denominations to be specified representing the number of Note Shares issuable upon such conversion; and (ii) the Company warrants that no instructions other than these instructions have been or will be given to the transfer agent of the Company's Common Stock and that after the Effectiveness Date (as defined in the Registration Rights Agreement) the Note Shares issued will be freely transferable subject to the prospectus delivery requirements of the Securities Act and the provisions of this Agreement, and will not contain a legend restricting the resale or transferability of the Note Shares.

(b) Purchaser will give notice of its decision to exercise its right to convert the Note or part thereof by telecopying or otherwise delivering an executed and completed notice of the number of shares to be converted to the Company (the "Notice of Conversion"). The Purchaser will not be required to surrender the Note until the Purchaser receives a credit to the account of the Purchaser's prime broker through the DWAC system (as defined below), representing the Note Shares or until the Note has been fully satisfied. Each date on which a Notice of Conversion is telecopied or delivered to the Company in accordance with the provisions hereof shall be deemed a "Conversion

Date." Pursuant to the terms of the Notice of Conversion, the Company will issue instructions to the transfer agent accompanied by an opinion of counsel within one (1) business day of the date of the delivery to the Company of the Notice of Conversion and shall cause the transfer agent to transmit the certificates representing the Conversion Shares to the Holder by crediting the account of the

Purchaser's prime broker with the Depository Trust Company ("DTC") through its Deposit Withdrawal Agent Commission ("DWAC") system within three (3) business days after receipt by the Company of the Notice of Conversion (the "Delivery Date").

(c) The Company understands that a delay in the delivery of the Note Shares in the form required pursuant to Section 9 hereof beyond the Delivery Date could result in economic loss to the Purchaser. In the event that the Company fails to direct its transfer agent to deliver the Note Shares to the Purchaser via the DWAC system within the time frame set forth in Section 9.1(b) above and the Note Shares are not delivered to the Purchaser by the Delivery Date, as compensation to the Purchaser for such loss, the Company agrees to pay late payments to the Purchaser for late issuance of the Note Shares in the form required pursuant to Section 9 hereof upon conversion of the Note in the amount equal to the greater of: (i) $500 per business day after the Delivery Date; or (ii) the Purchaser's actual damages from such delayed delivery. Notwithstanding the foregoing, the Company will not owe the Purchaser any late payments if the delay in the delivery of the Note Shares beyond the Delivery Date is solely out of the control of the Company and the Company is actively trying to cure the cause of the delay. The Company shall pay any payments incurred under this Section in immediately available funds upon demand and, in the case of actual damages, accompanied by reasonable documentation of the amount of such damages. Such documentation shall show the number of shares of Common Stock the Purchaser is forced to purchase (in an open market transaction) which the Purchaser anticipated receiving upon such conversion, and shall be calculated as the amount by which (A) the Purchaser's total purchase price (including customary brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (B) the aggregate principal and/or interest amount of the Note, for which such Conversion Notice was not timely honored.

Nothing contained herein or in any document referred to herein or delivered in connection herewith shall be deemed to establish or require the payment of a rate of interest or other charges in excess of the maximum permitted by applicable law. In the event that the rate of interest or dividends required to be paid or other charges hereunder exceed the maximum amount permitted by such law, any payments in excess of such maximum shall be credited against amounts owed by the Company to a Purchaser and thus refunded to the Company.

10. Registration Rights.

10.1 Registration Rights Granted. The Company hereby grants registration rights to the Purchaser pursuant to a Registration Rights Agreement dated as of even date herewith between the Company and the Purchaser.

10.2 Offering Restrictions. Except as previously disclosed in the SEC Reports or in the Exchange Act Filings, or stock or stock options granted to employees or directors of the Company (these exceptions hereinafter referred to as the "Excepted Issuances"), neither the Company nor any of its Subsidiaries will issue any securities with

a continuously variable/floating conversion feature which are or could be (by conversion or registration) free-trading securities (i.e. common stock subject to a registration statement) prior to the full repayment or conversion of the Note (together with all accrued and unpaid interest and fees related thereto) (the "Exclusion Period").

11. Miscellaneous.

11.1 Governing Law. THIS AGREEMENT AND EACH RELATED AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS. ANY ACTION BROUGHT BY EITHER PARTY AGAINST THE OTHER CONCERNING THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT AND EACH RELATED AGREEMENT SHALL BE BROUGHT ONLY IN THE STATE COURTS OF NEW YORK OR IN THE FEDERAL COURTS LOCATED IN THE STATE OF NEW YORK. BOTH PARTIES AND THE INDIVIDUALS EXECUTING THIS AGREEMENT AND THE RELATED AGREEMENTS ON BEHALF OF THE COMPANY AGREE TO SUBMIT TO THE JURISDICTION OF SUCH COURTS AND WAIVE TRIAL BY JURY. IN THE EVENT THAT ANY PROVISION OF THIS AGREEMENT OR ANY RELATED

AGREEMENT DELIVERED IN CONNECTION HEREWITH IS INVALID OR UNENFORCEABLE UNDER ANY APPLICABLE STATUTE OR RULE OF LAW, THEN SUCH PROVISION SHALL BE DEEMED INOPERATIVE TO THE EXTENT THAT IT MAY CONFLICT THEREWITH AND SHALL BE DEEMED MODIFIED TO CONFORM WITH SUCH STATUTE OR RULE OF LAW. ANY SUCH PROVISION WHICH MAY PROVE INVALID OR UNENFORCEABLE UNDER ANY LAW SHALL NOT AFFECT THE VALIDITY OR ENFORCEABILITY OF ANY OTHER PROVISION OF THIS AGREEMENT OR ANY RELATED AGREEMENT.

11.2 Survival. The representations, warranties, covenants and agreements made herein shall survive any investigation made by the Purchaser and for one year after the date of the closing of the transactions contemplated hereby to the extent provided therein. All statements as to factual matters contained in any certificate or other instrument delivered by or on behalf of the Company pursuant hereto in connection with the transactions contemplated hereby shall be deemed to be representations and warranties by the Company hereunder solely as of the date of such certificate or instrument.

11.3 Successors. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, heirs, executors and administrators of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of the Securities from time to time, other than the holders of Common Stock which has been sold by the Purchaser pursuant to Rule 144 or an effective registration statement. Purchaser may not assign its rights hereunder to a competitor of the Company.

11.4 Entire Agreement. This Agreement, the Related Agreements, the exhibits and schedules hereto and thereto and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein.

11.5 Severability. In case any provision of the Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

11.6 Amendment and Waiver.

(a) This Agreement may be amended or modified only upon the written consent of the Company and Laurus.

(b) The obligations of the Company and the rights of the Purchaser under this Agreement may be waived only with the written consent of Laurus.

(c) The obligations of the Purchaser and the rights of the Company under this Agreement may be waived only with the written consent of the Company.

11.7 Delays or Omissions. It is agreed that no delay or omission to exercise any right, power or remedy accruing to any party, upon any breach, default or noncompliance by another party under this Agreement or the Related Agreements, shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of or in any similar breach, default or noncompliance thereafter occurring. All remedies, either under this Agreement or the Related Agreements, by law or otherwise afforded to any party, shall be cumulative and not alternative.

11.8 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given:

(a) upon personal delivery to the party to be notified;

(b) when sent by confirmed facsimile if sent during normal business hours of the recipient, if not, then on the next business day;

(c) three (3) business days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or

(d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt.

All communications shall be sent as follows:

If to the Company, to:

Bio-Key International, Inc.
1285 Corporate Center Drive
Suite 175
Eagan, MN 55121

Attention: Chief Financial Officer
Facsimile: 651-687-0515

with a copy to:

Charles J. Johnson, Esq.
Choate Hall and Stewart
53 State Street
Boston, MA 02109
Facsimile: 617-248-4000

If to the Purchaser, to:

Laurus Master Fund, Ltd.
c/o Ironshore Corporate Services ltd.
P.O. Box 1234 G.T.
Queensgate House, South Church Street
Grand Cayman, Cayman Islands
Facsimile: 345-949-9877

with a copy to:

John E. Tucker, Esq.
825 Third Avenue 14th Floor
New York, NY 10022
Facsimile: 212-541-4434

or at such other address as the Company or the Purchaser may designate by written notice to the other parties hereto given in accordance herewith.

11.9 Attorneys' Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including, without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

11.10 Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

11.11 Facsimile Signatures; Counterparts. This Agreement may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

11.12 Broker's Fees. Except as set forth on Schedule 11.12 hereof, each party hereto represents and warrants that no agent, broker, investment banker, person or firm acting on behalf of or under the authority of such party hereto is or will be entitled to any broker's or finder's fee or any other commission directly or indirectly in connection with the transactions contemplated herein. Each party hereto further agrees to indemnify each other party for any claims, losses or expenses incurred by such other party as a result of the representation in this Section 11.12 being untrue.

11.13 Construction. Each party acknowledges that its legal counsel participated in the preparation of this Agreement and the Related Agreements and, therefore, stipulates that the rule of construction that ambiguities are to be resolved against the drafting party shall not be applied in the interpretation of this Agreement to favor any party against the other.

12. Collateral Agent.

12.1 Each Purchaser hereby appoints Laurus Master Fund, Ltd. as collateral agent for such Purchaser under this Agreement and all Related Agreements (in such capacity, the "Collateral Agent") solely for purposes of administering the Collateral and enforcing the terms of (and exercising remedies) under this Agreement and all Related Agreements and for no other purpose whatsoever. Each Purchaser hereby irrevocably authorizes the Collateral Agent to take such action on its behalf under this Agreement and the Related Agreements and to exercise such powers and perform such duties hereunder and thereunder as are specifically delegated to or required of the Collateral Agent by the terms hereof and thereof and such powers as are incidental thereto. The Collateral Agent shall have no duties or responsibilities except those expressly set forth in this Agreement. Nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon the Collateral Agent any obligations except as expressly set forth herein. The Collateral Agent shall not have, nor shall it be deemed to have, any fiduciary relationship with any Purchaser, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Related Agreement or otherwise exist against the Collateral Agent.

12.2 Each Purchaser holds harmless the Collateral Agent for any costs, expenses, liability, damage, claim or losses in connection with or arising out of the transactions contemplated under this Agreement and the Related Agreements except to the extent such cost, expense, liability, damage, claim or loss arises from the Collateral Agent's gross negligence or willful misconduct.

12.3 The Collateral Agent may execute any of its duties under this Agreement, the Note or any other Related Agreement by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel and other consultants or experts concerning all matters pertaining to such duties. The Collateral Agent shall not be

responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects in the absence of gross negligence or willful misconduct.

12.4 No Agent-Related Person shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any Related Agreement or the transactions contemplated hereby (except for its own gross negligence or willful misconduct in connection with its duties expressly set forth herein), or (b) be responsible in any manner to any Purchaser or participant for any recital, statement, representation or warranty made by the Company or any officer thereof, contained in this Agreement or any Related Agreement, or in any certificate, report, statement or other document referred to or provided for in, or received by the Collateral Agent under or in connection with, this Agreement or any Related Agreement, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any Related Agreement, or for any failure of the Company or any other party to any Related Agreement to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Purchaser or participant to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any Related Agreement, or to inspect the properties, books or records of the Company or any Affiliate thereof. As used herein, "Agent-Related Person" means the Collateral Agent, together with any of its Affiliates, and the officers, directors, employees, counsel, agents and attorneys-in-fact of the Collateral Agent and such Affiliates.

12.5 The Collateral Agent shall have the sole right, power and authority to declare defaults and exercise remedies under this Agreement and the Related Agreements and to otherwise enforce the terms of this Agreement and the Related Agreements against the Company and its Affiliates, except in connection with claims arising with respect to the exercise of any Warrant in which case the holder of such Warrant shall have the right to enforce its rights thereunder. The Collateral Agent shall have the sole right, power and authority to receive and issue receipts for any of the sums, amounts, income, revenues, issues, profits and proceeds under, on account of or with respect to the Collateral and the proceeds of any judicial or public or private no judicial foreclosure sale with respect to the Collateral, and the sole right to collect all proceeds of the Collateral and to apply and pay such proceeds in accordance with the terms of this Agreement and the Related Agreements.

12.6 Purchasers (i) further agree not take any action that would hinder, delay, limit, impede or prohibit any exercise of remedies by the Collateral Agent, including any collection, sale, lease, exchange, transfer or other disposition of the Collateral, whether by foreclosure or otherwise, or that would limit, invalidate, avoid or set aside any Lien or Related Agreement securing or purporting to secure the Obligations and (ii) hereby waive any and all rights it may have (other than as specified herein) to object to the manner in which the Collateral Agent or Laurus seek to enforce or collect the Obligations Liens now or hereafter granted in any Collateral to secure the Obligations.

12.7 Application of Proceeds of Collateral. All proceeds of Collateral received by the Collateral Agent (including, without limitation, any interest earned thereon)

resulting from the sale, collection or other disposition of Collateral in connection with any demand for payment or acceleration thereof, the exercise of any rights or remedies with respect to any Collateral securing the Obligations or the commencement or prosecution of enforcement of any of the rights and remedies under, as applicable, the Purchase Agreement, the Related Agreements, or applicable law, including without limitation the exercise of any rights of set-off or recoupment, and the exercise of any rights or remedies of a secured creditor under the UCC of any applicable jurisdiction or under the Bankruptcy Code shall be applied to the Obligations as follows:

First, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including the reasonable fees and expenses of counsel) payable to the Collateral Agent in its capacity as such;

Second, to payment of that portion of the Obligations constituting fees payable to the Purchasers, ratably among them in proportion to the amounts described in Schedule 1 attached hereto;

Third, to payment of that portion of the Obligations constituting indemnities and other amounts (other than fees, principal and interest) payable to the Purchasers (including the reasonable fees and expenses of counsel), ratably among them in proportion to the amounts described in Schedule 1 attached hereto;

Fourth, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Notes, ratably among the Purchasers in proportion to the respective amounts described in Schedule 1 attached hereto; and

Fifth, to payment of that portion of the Obligations constituting unpaid principal of the Notes, ratably among the Purchasers in proportion to the respective amounts described in Schedule 1 attached hereto in proportion to the aggregate amounts of such Notes owing to Purchasers then due and payable.

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IN WITNESS WHEREOF, the parties hereto have executed the SECURITIES PURCHASE AGREEMENT as of the date set forth in the first paragraph hereof.

COMPANY:

BIO-KEY INTERNATIONAL, INC.

By: /s/ Michael DePasquale
Name: _____
Title: _____

PURCHASER:

LAURUS MASTER FUND, LTD.

By: /s/ David Grin
Name: _____
Title: _____

PURCHASER

ALBERT FRIED, JR.

By: /s/ Albert Fried, Jr.

Name:

Title:

Schedule 1

Purchaser	Amount of Note	No. of shares of Common Stock for which Warrant exercisable:
The Laurus Master Fund, Ltd.	$ 5,000,000	1,111,111
Albert Fried & Company, LLC	$ 50,000	11,111

EXHIBIT A

FORM OF CONVERTIBLE NOTE

EXHIBIT B

FORM OF WARRANT

EXHIBIT C

FORM OF OPINION

1. Each of the Company and each of its Subsidiaries is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Minnesota and has all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as it is now being conducted.

2. Each of the Company and each of its Subsidiaries has the requisite corporate power and authority to execute, deliver and perform its obligations under the Agreement and the Related Agreements. All corporate action on the part of the Company and each of its Subsidiaries and its officers, directors and stockholders necessary has been taken for: (i) the authorization of the Agreement and the Related Agreements and the performance of all obligations of the Company and each of its Subsidiaries thereunder; and (ii) the authorization, sale, issuance and delivery of the Securities pursuant to the Agreement and the Related Agreements. The Note Shares and the Warrant Shares, when issued pursuant to and in accordance with the terms of the Agreement and the Related Agreements and upon delivery shall be validly issued and outstanding, fully paid and non assessable.

3. The execution, delivery and performance by each of the Company and each of its Subsidiaries of the Agreement and the Related Agreements to which it is a party and the consummation of the transactions on its part contemplated by any thereof, will not, with or without the giving of notice or the passage of time or both:

(a) Violate the provisions of their respective Charter or bylaws; or

(b) Violate any judgment, decree, order or award of any court binding upon the Company or any of its Subsidiaries; or

(c) Violate any [insert jurisdictions in which counsel is qualified] or federal law

4. The Agreement and the Related Agreements will constitute, valid and legally binding obligations of each of the Company and each of its Subsidiaries (to the extent such person is a party thereto), and are enforceable against each of the

Company and each of its Subsidiaries in accordance with their respective terms, except:

(a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights; and

(b) general principles of equity that restrict the availability of equitable or legal remedies.

5. To such counsel's knowledge, the sale of the Note and the subsequent conversion of the Note into Note Shares are not subject to any preemptive rights or rights of first refusal that have not been properly waived or complied with. To such counsel's knowledge, the sale of the Warrant and the subsequent exercise of the Warrant for Warrant Shares are not subject to any

preemptive rights or, to such counsel's knowledge, rights of first refusal that have not been properly waived or complied with.

6. Assuming the accuracy of the representations and warranties of the Purchaser contained in the Agreement, the offer, sale and issuance of the Securities on the Closing Date will be exempt from the registration requirements of the Securities Act. To such counsel's knowledge, neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy and security under circumstances that would cause the offering of the Securities pursuant to the Agreement or any Related Agreement to be integrated with prior offerings by the Company for purposes of the Securities Act which would prevent the Company from selling the Securities pursuant to Rule 506 under the Securities Act, or any applicable exchange-related stockholder approval provisions.

7. There is no action, suit, proceeding or investigation pending or, to such counsel's knowledge, currently threatened against the Company or any of its Subsidiaries that prevents the right of the Company or any of its Subsidiaries to enter into this Agreement or any of the Related Agreements, or to consummate the transactions contemplated thereby. To such counsel's knowledge, the Company is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality; nor is there any action, suit, proceeding or investigation by the Company currently pending or which the Company intends to initiate.

8. The terms and provisions of the Master Security Agreement and the Stock Pledge Agreement create a valid security interest in favor of Laurus, in the respective rights, title and interests of the Company and its Subsidiaries in and to the Collateral (as defined in each of the Master Security Agreement and the Stock Pledge Agreement). Each UCC-1 Financing Statement naming the Company or any Subsidiary thereof as debtor and Laurus as secured party are in proper form for filing and assuming that such UCC-1 Financing Statements have been filed with the Secretary of State of Minnesota , the security interest created under the Master Security Agreement will constitute a perfected security interest under the Uniform Commercial Code in favor of Laurus in respect of the Collateral that can be perfected by filing a financing statement. After giving effect to the delivery to Laurus of the stock certificates representing the ownership interests of each Subsidiary of the Company (together with effective endorsements) and assuming the continued possession by Laurus of such stock certificates in the State of New York, the security interest created in favor of Laurus under the Stock Pledge Agreement constitutes a valid and enforceable first perfected security interest in such ownership interests (and the proceeds thereof) in favor of Laurus, subject to no other security interest. No filings, registrations or recordings are required in order to perfect (or maintain the perfection or priority of) the security interest created under the Stock Pledge Agreement in respect of such ownership interests.

EXHIBIT D

FORM OF ESCROW AGREEMENT

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. THIS WARRANT AND THE COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS WARRANT UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BIO-KEY INTERNATIONAL, INC. THAT SUCH REGISTRATION IS NOT REQUIRED.

Right to Purchase up to [ ] Shares of Common Stock of
BIO-Key International, Inc.
(subject to adjustment as provided herein)

FORM OF
COMMON STOCK PURCHASE WARRANT

No. 904- Issue Date: September 29, 2004

BIO-KEY INTERNATIONAL, INC., a corporation organized under the laws of the State of Minnesota ("BIO-Key International, Inc."), hereby certifies that, for value received, [ ], or assigns (the "Holder"), is entitled, subject to the terms set forth below, to purchase from the Company (as defined herein) from and after the Issue Date of this Warrant and at any time or from time to time before 5:00 p.m., New York time, through the close of business September 29, 2009 (the "Expiration Date"), up to [ ] fully paid and nonassessable shares of Common Stock (as hereinafter defined), $0.01 par value per share, at the applicable Exercise Price per share (as defined below). The number and character of such shares of Common Stock and the applicable Exercise Price per share are subject to adjustment as provided herein.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" shall include BIO-Key International, Inc. and any corporation which shall succeed, or assume the obligations of, BIO-Key International, Inc. hereunder.

(b) The term "Common Stock" includes (i) the Company's Common Stock, par value $0.01 per share; and (ii) any other securities into which or for which any of the securities described in (a) may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.

(c) The term "Other Securities" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) which the holder of the Warrant at any time shall be entitled to receive, or shall have received, on the exercise of the Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 4 or otherwise.

(d) The "Exercise Price" applicable under this Warrant shall be $1.55.

1. Exercise of Warrant.

1.1 Number of Shares Issuable upon Exercise. From and after the date hereof through and including the Expiration Date, the Holder shall be entitled to receive, upon exercise of this Warrant in whole or in part, by delivery of an original or fax copy of an exercise notice in the form attached hereto as Exhibit A (the "Exercise Notice"), shares of Common Stock of the Company, subject to adjustment pursuant to Section 4.

1.2 Fair Market Value. For purposes hereof, the "Fair Market Value" of a share of Common Stock as of a particular date (the "Determination Date") shall mean:

(a) If the Company's Common Stock is traded on the American Stock Exchange or another national exchange or is quoted on the National or SmallCap Market of The Nasdaq Stock Market, Inc.("Nasdaq"), then the closing or last sale price, respectively, reported for the last business day immediately preceding the Determination Date.

(b) If the Company's Common Stock is not traded on the American Stock Exchange or another national exchange or on the Nasdaq but is traded on the NASD OTC Bulletin Board, then the mean of the average of the closing bid and asked prices reported for the last business day immediately preceding the Determination Date.

(c) Except as provided in clause (d) below, if the Company's Common Stock is not publicly traded, then as the Holder and the Company agree or in the absence of agreement by arbitration in accordance with the rules then in effect of the American Arbitration Association, before a single arbitrator to be chosen from a panel of persons qualified by education and training to pass on the matter to be decided.

(d) If the Determination Date is the date of a liquidation, dissolution or winding up, or any event deemed to be a liquidation, dissolution or winding up pursuant to the Company's charter, then all amounts to be payable per share to holders of the Common Stock pursuant to the charter in the event of such liquidation, dissolution or winding up, plus all other amounts to be payable per share in respect of the Common Stock in liquidation under the charter, assuming for the purposes of this clause (d) that all of the shares of Common Stock then issuable upon exercise of the Warrant are outstanding at the Determination Date.

1.3 Company Acknowledgment. The Company will, at the time of the exercise of the Warrant, upon the request of the holder hereof acknowledge in writing its

continuing obligation to afford to such holder any rights to which such holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant. If the holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to such holder any such rights.

1.4 Trustee for Warrant Holders. In the event that a bank or trust company shall have been appointed as trustee for the holders of the Warrant pursuant to Subsection 3.2, such bank or trust company shall have all the powers and duties of a warrant agent (as hereinafter described) and shall accept, in its own name for the account of the Company or such successor person as may be entitled thereto, all amounts otherwise payable to the Company or such successor, as the case may be, on exercise of this Warrant pursuant to this Section 1.

2. Procedure for Exercise.

2.1 Delivery of Stock Certificates, Etc., on Exercise. The Company agrees that the shares of Common Stock purchased upon exercise of this Warrant shall be deemed to be issued to the Holder as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made for such shares in accordance herewith. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within three (3) business days thereafter, the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the Holder, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct in compliance with applicable securities laws, a certificate or certificates for the number of duly and validly issued, fully paid and nonassessable shares of Common Stock (or Other Securities) to which such Holder shall be entitled on such exercise, plus, in lieu of any fractional share to which such holder would otherwise be entitled, cash equal to such fraction multiplied by the then Fair Market Value of one full share, together with any other stock or other securities and property (including cash, where applicable) to which such Holder is entitled upon such exercise pursuant to Section 1 or otherwise.

2.2 Exercise. Payment may be made either (i) in cash or by certified or official bank check payable to the order of the Company equal to the applicable aggregate Exercise Price, (ii) by delivery of the Warrant, or shares of Common Stock and/or Common Stock receivable upon exercise of the Warrant in accordance with the formula set forth below, (iii) by application of amounts due to the Holder under and in accordance with the terms of the Convertible Term Note dated the date hereof issued by the Company to the Holder (the "Note"), or (iv) by a combination of any of the foregoing methods, for the number of Common Shares specified in such Exercise Notice (as such exercise number shall be adjusted to reflect any adjustment in the total number of shares of Common Stock issuable to the Holder per the terms of this Warrant) and the Holder shall thereupon be entitled to receive the number of duly authorized, validly issued, fully-paid and non-assessable shares of Common Stock (or Other Securities) determined as provided herein. Notwithstanding any provisions herein to the contrary, if the Fair Market Value of one share of Common Stock is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being exercised) by surrender of this Warrant at the principal office of the

Company together with the properly endorsed Exercise Notice in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = Y \frac{(A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued to the Holder

Y = the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being exercised (at the date of such calculation)

A = the Fair Market Value of one share of the Company's Common Stock (at the date of such calculation)

B = Exercise Price (as adjusted to the date of such calculation)

3. Effect of Reorganization, Etc.; Adjustment of Exercise Price.

3.1 Reorganization, Consolidation, Merger, Etc. In case at any time or from time to time, the Company shall (a) effect a reorganization, (b) consolidate with or merge into any other person, or (c) transfer all or substantially all of its properties or assets to any other person under any plan or arrangement contemplating the dissolution of the Company, then, in each such case, as a condition to the consummation of such a transaction, the Company shall have delivered the Holder written notice thereof not less than 10 days' prior thereto (except that the Company may effect a "reincorporation merger" into a Delaware corporation upon 5 days' prior written notice), and proper and adequate provision shall be made by the Company whereby the Holder of this Warrant, on the exercise hereof as provided in Section 1 at any time after the consummation of such reorganization, consolidation or merger or the effective date of such dissolution, as the case may be, shall receive, in lieu of the Common Stock (or Other Securities) issuable on such exercise prior to such consummation or such effective date, the stock and other securities and property (including cash) to which such Holder would have been entitled upon such consummation or in connection with such dissolution, as the case may be, if such Holder had so exercised this Warrant, immediately prior thereto, all subject to further adjustment thereafter as provided in Section 4.

3.2 Dissolution. In the event of any dissolution of the Company following the transfer of all or substantially all of its properties or assets, the Company, concurrently with any distributions made to holders of its Common Stock, shall at its expense deliver or cause to be delivered to the Holder the stock and other securities and property (including cash, where applicable) receivable by the Holder of the Warrant pursuant to Section 3.1, or, if the Holder shall so instruct the Company, to a bank or trust company specified by the Holder and having its principal office in New York, NY as trustee for the Holder of the Warrant (the "Trustee").

3.3 Continuation of Terms. Upon any reorganization, consolidation, merger or transfer (and any dissolution following any transfer) referred to in this Section 3, this Warrant shall continue in full force and effect and the terms hereof shall be applicable to the shares of

stock and other securities and property receivable on the exercise of this Warrant after the consummation of such reorganization, consolidation or merger or the effective date of dissolution following any such transfer, as the case may be, and shall be binding upon the issuer of any such stock or other securities, including, in the case of any such transfer, the person acquiring all or substantially all of the properties or assets of the Company, whether or not such person shall have expressly assumed the terms of this Warrant as provided in Section 4. In the event this Warrant does not continue in full force and effect after the consummation of the transactions described in this Section 3, then the Company's securities and property (including cash, where applicable) receivable by the Holders of the Warrant will be delivered to Holder or the Trustee as contemplated by Section 3.2.

4. Extraordinary Events Regarding Common Stock. In the event that the Company shall (a) issue additional shares of the Common Stock as a dividend or other distribution on outstanding Common Stock, (b) subdivide its outstanding shares of Common Stock, or (c) combine its outstanding shares of the Common Stock into a smaller number of shares of the Common Stock, then, in each such event, the Exercise Price shall, simultaneously with the happening of such event, be adjusted by multiplying the then Exercise Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such event and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such event, and the product so obtained shall thereafter be the Exercise Price then in effect. The Exercise Price, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described herein in this Section 4. The number of shares of Common Stock that the holder of this Warrant shall thereafter, on the exercise hereof as provided in Section 1, be entitled to receive shall be increased to a number determined by multiplying the number of shares of Common Stock that would otherwise (but for the provisions of this Section 4) be issuable on such exercise by a fraction of which (a) the numerator is the Exercise Price that would otherwise (but for the provisions of this Section 4) be in effect, and (b) the denominator is the Exercise Price in effect on the date of such exercise.

5. Certificate as to Adjustments. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable on the exercise of the Warrant, the Company at its expense will promptly cause its Chief Financial Officer or other appropriate designee to compute such adjustment or readjustment in accordance with the terms of the Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Company for any additional shares of Common Stock (or Other Securities) issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock (or Other Securities) outstanding or deemed to be outstanding, and (c) the Exercise Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such adjustment or readjustment and as adjusted or readjusted as provided in this Warrant. The Company will forthwith mail a copy of each such certificate to the holder of the Warrant and any Warrant agent of the Company (appointed pursuant to Section 11 hereof).

6. Reservation of Stock, Etc., Issuable on Exercise of Warrant. The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of the

Warrant, shares of Common Stock (or Other Securities) from time to time issuable on the exercise of the Warrant.

7. Assignment; Exchange of Warrant. Subject to compliance with applicable securities laws, this Warrant, and the rights evidenced hereby, may be transferred by any registered holder hereof (a "Transferor") in whole or in part. On the surrender for exchange of this Warrant, with the Transferor's endorsement in the form of Exhibit B attached hereto (the "Transferor Endorsement Form") and together with evidence reasonably satisfactory to the Company demonstrating compliance with applicable securities laws (at the Company's expense) that such transfer is exempt from the registration requirements of applicable securities laws, and with payment by the Transferor of any applicable transfer taxes) will issue and deliver to or on the order of the Transferor thereof a new Warrant of like tenor, in the name of the Transferor and/or the transferee(s) specified in such Transferor Endorsement Form (each a "Transferee"), calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant so surrendered by the Transferor.

8. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of this Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

9. Registration Rights. The Holder of this Warrant has been granted certain registration rights by the Company. These registration rights are set forth in a Registration Rights Agreement entered into by the Company and Purchaser dated as of even date of this Warrant.

10. Maximum Exercise. In no event shall the Holder be entitled to exercise this Warrant with respect to any shares of Common Stock or shall the Company have the obligation to issue any such shares to the extent that, after such exercise and issuance, the Holder would be deemed to be the beneficial owner of more than 4.99% of the outstanding shares of Common Stock. For purposes of this section , beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. Notwithstanding the foregoing, the restriction described in this paragraph may be revoked upon 75 days prior notice from the Holder to the Company and is automatically null and void upon an Event of Default under the Note.

11. Warrant Agent. The Company may, by written notice to the each Holder of the Warrant, appoint an agent for the purpose of issuing Common Stock (or Other Securities) on the exercise of this Warrant pursuant to Section 1, exchanging this Warrant pursuant to Section 7, and replacing this Warrant pursuant to Section 8, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such agent.

12. Transfer on the Company's Books. Until this Warrant is transferred on the books of the Company, the Company may treat the registered holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

13. Notices, Etc. All notices and other communications from the Company to the Holder of this Warrant shall be delivered by facsimile or by first class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company in writing by such Holder or, until any such Holder furnishes to the Company an address, then to, and at the address of, the last Holder of this Warrant who has so furnished an address to the Company.

14. Governing Law. THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS. ANY ACTION BROUGHT BY S ANY PARTY AGAINST ANOTHER CONCERNING THE TRANSACTIONS CONTEMPLATED BY THIS WARRANT SHALL BE BROUGHT ONLY IN THE STATE COURTS OF NEW YORK OR IN THE FEDERAL COURTS LOCATED IN THE STATE OF NEW YORK IN EACH CASE SITTING IN THE CITY OF NEW YORK, BOROUGH OF MANHATTAN. ALL PARTIES AND THE INDIVIDUALS EXECUTING THIS WARRANT ON BEHALF OF THE COMPANY AGREE TO SUBMIT TO THE JURISDICTION OF SUCH COURTS AND WAIVE TRIAL BY JURY. IN THE EVENT THAT ANY PROVISION OF THIS WARRANT DELIVERED IN CONNECTION HEREWITH IS INVALID OR UNENFORCEABLE UNDER ANY APPLICABLE STATUTE OR RULE OF LAW, THEN SUCH PROVISION SHALL BE DEEMED INOPERATIVE TO THE EXTENT THAT IT MAY CONFLICT THEREWITH AND SHALL BE DEEMED MODIFIED TO CONFORM WITH SUCH STATUTE OR RULE OF LAW. ANY SUCH PROVISION WHICH MAY PROVE INVALID OR UNENFORCEABLE UNDER ANY LAW SHALL NOT AFFECT THE VALIDITY OR ENFORCEABILITY OF ANY OTHER PROVISION OF THIS WARRANT.

15. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision hereof. The Company acknowledges that legal counsel participated in the preparation of this Warrant and, therefore, stipulates that the rule of construction that ambiguities are to be resolved against the drafting party shall not be applied in the interpretation of this Warrant to favor any party against the other party.

(Balance of page intentionally left blank; signature page follows.)

IN WITNESS WHEREOF, the Company has executed this Warrant as of the date first written above.

BIO-KEY INTERNATIONAL, INC.

By: _____
Michael W. DePasquale
Chief Executive Officer

WITNESS:

_____

Signature page to Shaar Warrant

EXHIBIT A

FORM OF SUBSCRIPTION
(To Be Signed Only On Exercise Of Warrant)

TO: BIO-Key International, Inc.
1285 Corporate Center Drive
Suite 175
Eagan, MN 55121
Attention: Chief Financial Officer

The undersigned, pursuant to the provisions set forth in the attached Warrant (No.), hereby irrevocably elects to purchase (check applicable box):

☐ shares of the Common Stock covered by such Warrant; or

❑ the maximum number of shares of Common Stock covered by such Warrant pursuant to the cashless exercise procedure set forth in Section 2.

The undersigned herewith makes payment of the full Exercise Price for such shares at the price per share provided for in such Warrant, which is $. Such payment takes the form of (check applicable box or boxes):

❑ $ in lawful money of the United States; and/or

❑ the cancellation of such portion of the attached Warrant as is exercisable for a total of shares of Common Stock (using a Fair Market Value of $ per share for purposes of this calculation); and/or

❑ the cancellation of such number of shares of Common Stock as is necessary, in accordance with the formula set forth in Section 2.2, to exercise this Warrant with respect to the maximum number of shares of Common Stock purchasable pursuant to the cashless exercise procedure set forth in Section 2; and/or

❑ the application of $ in respect of the Monthly Amount (as defined in the Note) owing under the Note.

The undersigned requests that the certificates for such shares be issued in the name of, and delivered to whose address is .

The undersigned represents and warrants that all offers and sales by the undersigned of the securities issuable upon exercise of the within Warrant shall be made pursuant to registration of the Common Stock under the Securities Act of 1933, as amended (the "Securities Act") or pursuant to an exemption from registration under the Securities Act.

Dated: _____

_____
(Signature must conform to name of holder as specified on the face of the Warrant)
Address: _____
_____

EXHIBIT B

FORM OF TRANSFEROR ENDORSEMENT
(To Be Signed Only On Transfer Of Warrant)

For value received, the undersigned hereby sells, assigns, and transfers unto the person(s) named below under the heading "Transferees" the right represented by the within Warrant to purchase the percentage and number of shares of Common Stock of BIO-Key International, Inc. into which the within Warrant relates specified under the headings "Percentage Transferred" and "Number Transferred," respectively, opposite the name(s) of such person(s) and appoints each such person Attorney to transfer its respective right on the books of BIO-Key International, Inc. with full power of substitution in the premises.

Transferees	Address	Percentage Transferred	Number Transferred

Dated: _____

_____
(Signature must conform to name of holder as specified on the face of the Warrant)

Address: _____

_____

SIGNED IN THE PRESENCE OF:

_____
(Name)

ACCEPTED AND AGREED:
[TRANSFEREE]

_____
(Name)

THIS NOTE AND THE INDEBTEDNESS EVIDENCED HEREBY ARE SUBJECT TO THE PROVISIONS OF THAT CERTAIN INTERCREDITOR AND SUBORDINATION AGREEMENT (THE "SUBORDINATION AGREEMENT") DATED AS OF SEPTEMBER 29, 2004 AMONG SHAAR FUND, LTD., AS PURCHASER AGENT, LAURUS MASTER FUND, LTD., AS COLLATERAL AGENT, AETHER SYSTEMS, INC., BIO-KEY INTERNATIONAL, INC. AND PUBLIC SAFETY GROUP, INC.; AND EACH HOLDER OF THIS NOTE, BY ITS ACCEPTANCE HEREOF, SHALL BE BOUND BY THE PROVISIONS OF THE SUBORDINATION AGREEMENT.

THIS NOTE AND THE COMMON SHARES ISSUABLE UPON CONVERSION OF THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. THIS NOTE AND THE COMMON SHARES ISSUABLE UPON CONVERSION OF THIS NOTE MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS NOTE UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BIO-KEY INTERNATIONAL, INC. THAT SUCH REGISTRATION IS NOT REQUIRED.

FORM OF
SECURED CONVERTIBLE TERM NOTE

FOR VALUE RECEIVED, BIO-KEY INTERNATIONAL, INC., a Minnesota corporation (the "**Borrower**"), hereby promises to pay to [ ](the "**Holder**") or its registered assigns or successors in interest, on order, the sum of Dollars ($), together with any accrued and unpaid interest hereon, on September 29, 2007 (the "**Maturity Date**") if not sooner paid.

Capitalized terms used herein without definition shall have the meanings ascribed to such terms in that certain Securities Purchase Agreement dated as of the date hereof between the Borrower and the Holder (as amended, modified or supplemented from time to time, the "**Purchase Agreement**").

The following terms shall apply to this Note:

ARTICLE I
INTEREST & AMORTIZATION

1.1(a) Interest Rate. Subject to Sections 4.11 and 5.6 hereof, interest payable on this Note shall accrue at a rate per annum (the "Interest Rate") equal to the "prime rate" published in The Wall Street Journal from time to time, plus two percent (2.0%). The prime rate shall be increased or decreased as the case may be for each increase or decrease in the prime rate in an amount equal to such increase or decrease in the prime rate; each change to be effective as of the day of the change in

such rate. Subject to Section 1.1(b) hereof, the Interest Rate shall not be less than six percent (6.0%) per annum. Interest shall be (i) calculated on the basis of a 360 day year, and (ii) payable monthly, in arrears, commencing on November 1, 2004 and on the first business day of each consecutive calendar month thereafter until the Maturity Date (and on the Maturity Date), whether by acceleration or otherwise (each, a "**Repayment Date**").

1.1 (b) Interest Rate Adjustment. The Interest Rate shall be calculated on the last business day of each month hereafter until the Maturity Date (each a "Determination Date") and shall be subject to adjustment as set forth herein. If (i) the Borrower shall have registered the shares of the Borrower's common stock underlying each of the conversion of the Note and that certain warrant issued to Holder on a registration statement declared effective by the Securities and Exchange Commission (the "SEC"), and (ii) the market price (the "Market Price") of the Common Stock as reported by Bloomberg, L.P. on the Principal Market (as defined below) for the five (5) trading days immediately preceding a Determination Date exceeds the then applicable Fixed Conversion Price by at least twenty five percent (25%), the Interest Rate for the succeeding calendar month shall automatically be reduced by 200 basis points (200 b.p.) (2.0%) per annum for each incremental twenty five percent (25%) increase in the Market Price of the Common Stock above the then applicable Fixed Conversion Price. If (i) the Borrower shall not have registered the shares of the Borrower's common stock underlying the conversion of the Note and that certain warrant issued to Holder on a registration statement declared effective by the SEC and which remains effective, and (ii) the Market Price of the Common Stock as reported by Bloomberg, L.P. on the principal market for the five (5) trading days immediately preceding a Determination Date exceeds the then applicable Fixed Conversion Price by at least twenty five percent (25%), the Interest Rate for the succeeding calendar month shall automatically be decreased by 100 basis points (100 b.p.) (1.0%) per annum for each incremental twenty five percent (25%) increase in the Market Price of the Common Stock above the then applicable Fixed Conversion Price. Notwithstanding the foregoing (and anything to the contrary contained in herein), in no event shall the Interest Rate be less than zero percent (0%).

1.2 Minimum Monthly Principal Payments. Amortizing payments of the aggregate principal amount outstanding under this Note at any time (the "**Principal Amount**") shall begin on December 1, 2004 and shall recur on the first business day of each succeeding month thereafter until the Maturity Date (each, an "**Amortization Date**"). Subject to Article 3 below, beginning on the first Amortization Date, the Borrower shall make monthly payments to the Holder on each Repayment Date, each in the amount of $, together with any accrued and unpaid interest to date on such portion of the Principal Amount plus any and all other amounts which are then owing under this Note, the Purchase Agreement or any other Related Agreement but have not been paid (collectively, the "**Monthly Amount**"). Any Principal Amount that remains outstanding on the Maturity Date shall be due and payable on the Maturity Date.

ARTICLE II
CONVERSION REPAYMENT

2.1 (a) Payment of Monthly Amount in Cash or Common Stock Each month by the fifth

(5^{th}) business day prior to each Repayment Date (the **Notice Date**"), the Holder shall deliver to Borrower a written notice in the form of Exhibit B attached hereto (each, a "**Repayment Notice**") stating whether, according to the Conversion Criteria (as defined below), the Monthly Amount payable on the next Repayment Date shall be paid in cash or Common Stock, or a combination of both. If a Repayment Notice is not delivered by the Holder on or before the applicable Notice Date for such Repayment Date, then the Borrower shall pay the Monthly Amount due on such Repayment Date in cash. Any portion of the Monthly Amount paid in cash on a Repayment Date, shall be paid to the Holder in an amount equal to 102% of such amount. The number of such shares to be issued by the Borrower to the Holder on such Repayment Date (in respect of such portion of the Monthly Amount converted into in shares of Common Stock pursuant to Section 2.1(b)), shall be the number determined by dividing (x) the portion of the Monthly Amount converted into shares of Common Stock, by (y) the then applicable Fixed Conversion Price. For purposes hereof, the initial "**Fixed Conversion Price**" means $1.35 .

(b) Monthly Amount Conversion Guidelines. Subject to Sections 2.1(a), 2.2, and 3.2 hereof, the Holder shall convert into shares of Common Stock all or a portion of the Monthly Amount due on each Repayment Date according to the following guidelines (the "**Conversion Criteria**"): (i) the average closing price of the Common Stock as reported by Bloomberg, L.P. on the Principal Market for the five (5) trading days immediately preceding such Repayment Date shall be greater than or equal to 110% of the Fixed Conversion Price and (ii) the amount of such conversion does not exceed twenty five percent (25%) of the aggregate dollar trading volume of the Common Stock for the twenty two (22) day trading period immediately preceding delivery of a Repayment Notice. If the Conversion Criteria are not met, the Holder shall convert only such part of the Monthly Amount that meets the Conversion Criteria. Any part of the Monthly Amount due on a Repayment Date that the Holder has not been able to convert into shares of Common Stock due to failure to meet the Conversion Criteria, shall be paid by the Borrower in cash at the rate of 102% of the Monthly Amount otherwise due on such Repayment Date, within three (3) business days of the applicable Repayment Date.

2.2 No Effective Registration. Notwithstanding anything to the contrary herein, none of the Borrower's obligations to the Holder may be converted into Common Stock unless (i) either (x) an effective current Registration Statement (as defined in the Registration Rights Agreement) covering the shares of Common Stock to be issued in connection with satisfaction of such obligations exists or (y) an exemption from registration of the Common Stock is available to pursuant to Rule 144 of the Securities Act and (ii) no Event of Default hereunder exists and is continuing, unless such Event of Default is cured within any applicable cure period or is otherwise waived in writing by the Holder in whole or in part at the Holder's option.

2.3 Optional Redemption in Cash. The Borrower will have the option of prepaying this Note ("**Optional Redemption**") by paying to the Holder a sum of money equal to one hundred ten percent (110%) of the principal amount of this Note together with accrued but unpaid interest thereon and any and all other sums due, accrued or payable to the Holder arising under this Note, the Purchase Agreement, or any Related Agreement (the "**Redemption Amount**") outstanding on the

Redemption Payment Date (defined below). The Borrower shall deliver to the Holder a written notice of redemption (the "**Notice of Redemption**") specifying the date for such Optional Redemption (the "**Redemption Payment Date**") which date shall be seven (7) business days after the date of the Notice of Redemption (the "**Redemption Period**"); provided, however, that in no event may the Borrower pay the Holder any amount in respect of the exercise of any such Optional Redemption (of all or any portion of this Note) unless the Borrower shall concurrently (i) deposit additional cash collateral with Aether in an amount equal to the aggregate amount to be paid to the Holder and all other Purchasers in connection with such Optional Redemption (the **"Prepayment Amount"**) and (ii) prepay the Shaar Notes collectively by an aggregate amount equal to the Prepayment Amount. A Notice of Redemption shall not be effective with respect to any portion of this Note for which the Holder has a pending election to convert pursuant to Section 3.1, or for

conversions initiated or made by the Holder pursuant to Section 3.1 during the Redemption Period. The Redemption Amount shall be determined as if such Holder's conversion elections had been completed immediately prior to the date of the Notice of Redemption. On the Redemption Payment Date, the Redemption Amount must be paid in good funds to the Holder. In the event the Borrower fails to pay the Redemption Amount on the Redemption Payment Date as set forth herein, then (i) such Redemption Notice will be null and void and (ii) the Borrower shall no longer have the right to exercise the Optional Redemption as set forth herein. Each of the terms "Aether", "Aether Note", "Shaar Note" has the meaning given to such term in the Subordination Agreement.

ARTICLE III
CONVERSION RIGHTS

3.1. Holder's Conversion Rights. The Holder shall have the right, but not the obligation, to convert all or any portion of the then aggregate outstanding principal amount of this Note, together with interest and fees due hereon, into shares of Common Stock subject to the terms and conditions set forth in this Article III. The Holder may exercise such right by delivery to the Borrower of a written notice of conversion not less than one (1) business day prior to the date upon which such conversion shall occur.

3.2 Conversion Limitation. Notwithstanding anything contained herein to the contrary, the Holder shall not be entitled to convert pursuant to the terms of this Note an amount that would be convertible into that number of Conversion Shares which would exceed the difference between the number of shares of Common Stock beneficially owned by such Holder or issuable upon exercise of warrants held by such Holder and 4.99% of the outstanding shares of Common Stock of the Borrower. For the purposes of the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and Regulation 13d-3 thereunder. The Holder may void the Conversion Share limitation described in this Section 3.2 upon 75 days prior notice to the Borrower or without any notice requirement upon an Event of Default.

3.3 Mechanics of Holder's Conversion. (a) In the event that the Holder elects to convert all or a portion of the outstanding balance of this Note into Common Stock, the Holder shall give

notice of such election by delivering an executed and completed notice of conversion (**"Notice of Conversion**") to the Borrower and such Notice of Conversion shall provide a breakdown in reasonable detail of the Principal Amount, accrued interest and fees being converted. On each Conversion Date (as hereinafter defined) and in accordance with its Notice of Conversion, the Holder shall make the appropriate reduction to the Principal Amount, accrued interest and fees as entered in its records and shall provide written notice thereof to the Borrower within two (2) business days after the Conversion Date. Each date on which a Notice of Conversion is delivered or telecopied to the Borrower in accordance with the provisions hereof shall be deemed a Conversion Date (the "**Conversion Date**"). A form of Notice of Conversion to be employed by the Holder is annexed hereto as Exhibit A.

(b) Pursuant to the terms of the Notice of Conversion, the Borrower will issue instructions to the transfer agent accompanied by an opinion of counsel within one (1) business day of the date of the delivery to Borrower of the Notice of Conversion and shall cause the transfer agent to transmit the certificates representing the Conversion Shares to the Holder by crediting the account of the Holder's designated broker with the Depository Trust Corporation ("**DTC**") through its Deposit Withdrawal Agent Commission ("**DWAC**") system within three (3) business days after receipt by the Borrower of the Notice of Conversion (the **Delivery Date**"). In the case of the exercise of the conversion rights set forth herein the conversion privilege shall be deemed to have been exercised and the Conversion Shares issuable upon such conversion shall be deemed to have been issued upon the date of receipt by the Borrower of the Notice of Conversion. The Holder shall be treated for all purposes as the record holder of such Common Stock, unless the Holder provides the Borrower written instructions to the contrary.

3.4 Conversion Mechanics.

(a) The number of shares of Common Stock to be issued upon each conversion of this Note shall be determined by dividing that portion of the principal and interest and fees to be converted, if any, by the then applicable Fixed Conversion Price. In the event of any conversions of outstanding principal amount under this Note in part pursuant to this Article III, such conversions shall be deemed to constitute conversions of outstanding principal amount applying to Monthly Amounts for the remaining Repayment Dates in chronological order.

(b) The Fixed Conversion Price and number and kind of shares or other securities to be issued upon conversion is subject to adjustment from time to time upon the occurrence of certain events, as follows:

A. Stock Splits, Combinations and Dividends. If the shares of Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, or if a dividend is paid on the Common Stock in shares of Common Stock, the Fixed Conversion Price or the Conversion Price, as the case may be, shall be proportionately reduced in case of subdivision of shares or stock dividend or proportionately increased in the case of combination of shares, in each

such case by the ratio which the total number of shares of Common Stock outstanding immediately after such event bears to the total number of shares of Common Stock outstanding immediately prior to such event.

B. During the period the conversion right exists, the Borrower will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Common Stock upon the full conversion of this Note. The Borrower represents that upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. The Borrower agrees that its issuance of this Note shall constitute full authority to its officers, agents, and transfer agents who are charged with the duty of executing and issuing stock certificates to execute and issue the necessary certificates for shares of Common Stock upon the conversion of this Note.

C. Share Issuances. Subject to the provisions of this Section 3.4, if the Borrower shall at any time prior to the conversion or repayment in full of the Principal Amount issue any shares of Common Stock or securities convertible into Common Stock to a person other than the Holder (except (i) pursuant to Subsections A or B above; (ii) pursuant to options, warrants, or other obligations to issue shares outstanding on the date hereof as disclosed to Holder in writing; or (iii) pursuant to options that may be issued under any employee incentive stock option and/or any qualified stock option plan adopted by the Borrower) for a consideration per share (the "Offer Price") less than the Fixed Conversion Price in effect at the time of such issuance, then the Fixed Conversion Price shall be immediately reset to such lower Offer Price at the time of issuance of such securities.

D. Reclassification, etc. If the Borrower at any time shall, by reclassification or otherwise, change the Common Stock into the same or a different number of securities of any class or classes, this Note, as to the unpaid Principal Amount and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase an adjusted number of such securities and kind of securities as would have been issuable as the result of such change with respect to the Common Stock immediately prior to such reclassification or other change.

3.5 Issuance of New Note. Upon any partial conversion of this Note, a new Note containing the same date and provisions of this Note shall, at the request of the Holder, be issued by the Borrower to the Holder for the principal balance of this Note and interest which shall not have been converted or paid. Subject to the provisions of Article IV, the Borrower will pay no costs, fees or any other consideration to the Holder for the production and issuance of a new Note.

ARTICLE IV
EVENTS OF DEFAULT

Upon the occurrence and continuance of an Event of Default beyond any applicable grace period, the Holder may make all sums of principal, interest and other fees then remaining unpaid hereon and all other amounts payable hereunder immediately due and payable. In the event of such an acceleration, the amount due and owing to the Holder shall be 120% of the outstanding principal amount of the Note (plus accrued and unpaid interest and fees, if any) (the "**Default Payment**").

The Default Payment shall be applied first to any fees due and payable to Holder pursuant to the Note or the Related Agreements, then to accrued and unpaid interest due on the Note and then to outstanding principal balance of the Note.

The occurrence of any of the following events set forth in Sections 4.1 through 4.10, inclusive, is an "**Event of Default**":

4.1 Failure to Pay Principal, Interest or other Fees. The Borrower fails to pay when due any installment of principal, interest or other fees hereon in accordance herewith, or the Borrower fails to pay when due any amount due under any other promissory note issued by Borrower, and in any such case, such failure shall continue for a period of three (3) days following the date upon which any such payment was due.

4.2 Breach of Covenant. The Borrower breaches any covenant or any other term or condition of this Note or the Purchase Agreement in any material respect, or the Borrower or any of its Subsidiaries breaches any covenant or any other term or condition of any Related Agreement in any material respect and, in any such case, such breach, if subject to cure, continues for a period of fifteen (15) days after the occurrence thereof.

4.3 Breach of Representations and Warranties. Any representation or warranty made by the Borrower in this Note or the Purchase Agreement, or by the Borrower or any of its Subsidiaries in any Related Agreement, shall, in any such case, be false or misleading in any material respect on the date that such representation or warranty was made or deemed made.

4.4 Receiver or Trustee. The Borrower or any of its Subsidiaries shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business; or such a receiver or trustee shall otherwise be appointed.

4.5 Judgments. Any money judgment, writ or similar final process shall be entered or filed against the Borrower or any of its Subsidiaries or any of their respective property or other assets for more than $50,000, and shall remain unvacated, unbonded or unstayed for a period of thirty (30) days.

4.6 Bankruptcy. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings or relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against the Borrower or any of its Subsidiaries.

4.7 Stop Trade. An SEC stop trade order or Principal Market trading suspension of the Common Stock shall be in effect for five (5) consecutive days or five (5) days during a period of ten (10) consecutive days, excluding in all cases a suspension of all trading on a Principal Market, provided that the Borrower shall not have been able to cure such trading suspension within thirty (30) days of the notice thereof or list the Common Stock on another Principal Market within sixty (60) days of such notice. The "Principal Market" for the Common Stock shall include the NASD

OTC Bulletin Board, NASDAQ SmallCap Market, NASDAQ National Market System, American Stock Exchange, or New York Stock Exchange (whichever of the foregoing is at the time the principal trading exchange or market for the Common Stock, or any securities exchange or other securities market on which the Common Stock is then being listed or traded.

4.8 Failure to Deliver Common Stock or Replacement Note. The Borrower shall fail (i) to timely deliver Common Stock to the Holder pursuant to and in the form required by this Note, and Section 9 of the Purchase Agreement, if such failure to timely deliver Common Stock shall not be cured within two (2) business days or (ii) to deliver a replacement Note to Holder within seven (7) business days following the required date of such issuance pursuant to this Note, the Purchase Agreement or any Related Agreement (to the extent required under such agreements).

4.9 Default Under Related Agreements or Other Agreements. The occurrence and continuance of any Event of Default (as defined in the Purchase Agreement or any Related Agreement) or any event of default (or similar term) under any other indebtedness.

4.10 Change in Control. The occurrence of a change in the controlling ownership of the Borrower.

DEFAULT RELATED PROVISIONS

4.11 Default Interest Rate. Following the occurrence and during the continuance of an Event of Default, interest on this Note shall automatically be increased by one and one half percent (1.50%) per month, and all outstanding obligations under this Note, including unpaid interest, shall continue to accrue interest from the date of such Event of Default at such interest rate applicable to such obligations until such Event of Default is cured or waived.

4.12 Conversion Privileges. The conversion privileges set forth in Article III shall remain in full force and effect immediately from the date hereof and until this Note is paid in full.

4.13 Cumulative Remedies. The remedies under this Note shall be cumulative.

ARTICLE V
MISCELLANEOUS

5.1 Failure or Indulgence Not Waiver. No failure or delay on the part of the Holder hereof in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

5.2 Notices. Any notice herein required or permitted to be given shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient, if not, then on the

next business day, (c) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the Borrower at the address provided in the Purchase Agreement executed in connection herewith, and to the Holder at the address provided in the Purchase Agreement for such Holder, with a copy to John E. Tucker, Esq., 825 Third Avenue, 14th Floor, New York, New York 10022, facsimile number (212) 541-4434, or at such other address as the Borrower or the Holder may designate by ten days advance written notice to the other parties hereto. A Notice of Conversion shall be deemed given when made to the Borrower pursuant to the Purchase Agreement.

5.3 Amendment Provision. The term "Note" and all reference thereto, as used throughout this instrument, shall mean this instrument as originally executed, or if later amended or supplemented, then as so amended or supplemented, and any successor instrument issued pursuant to Section 3.5 hereof, as it may be amended or supplemented.

5.4 Assignability. This Note shall be binding upon the Borrower and its successors and assigns, and shall inure to the benefit of the Holder and its successors and assigns, and may be assigned by the Holder in accordance with the requirements of the Purchase Agreement. This Note shall not be assigned by the Borrower without the consent of the Holder.

5.5 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of New York or in the federal courts located in the state of New York. Both parties and the individual signing this Note on behalf of the Borrower agree to submit to the jurisdiction of such courts. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or unenforceability of any other provision of this Note. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Borrower in any other jurisdiction to collect on the Borrower's obligations to Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other court in favor of the Holder.

5.6 Maximum Payments. Nothing contained herein shall be deemed to establish or require the payment of a rate of interest or other charges in excess of the maximum permitted by applicable law. In the event that the rate of interest required to be paid or other charges hereunder exceed the maximum permitted by such law, any payments in excess of such maximum shall be credited against amounts owed by the Borrower to the Holder and thus refunded to the Borrower.

5.7 Security Interest and Guarantee. The Holder has been granted a security interest (i) in

certain assets of the Borrower and its Subsidiaries as more fully described in the Master Security Agreement dated as of the date hereof and (ii) pursuant to the Stock Pledge Agreement dated as of the date hereof. The obligations of the Borrower under this Note are guaranteed by certain Subsidiaries of the Borrower pursuant to the Subsidiary Guaranty dated as of the date hereof.

5.8 Construction. Each party acknowledges that its legal counsel participated in the preparation of this Note and, therefore, stipulates that the rule of construction that ambiguities are to be resolved against the drafting party shall not be applied in the interpretation of this Note to favor any party against the other.

5.9 Cost of Collection. If default is made in the payment of this Note, the Borrower shall pay to Holder reasonable costs of collection, including reasonable attorney's fees.

[Balance of page intentionally left blank; signature page follows.]

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its name effective as of this 29th day of September, 2004.

BIO-KEY INTERNATIONAL, INC.

By: _____

Name: _____

Title: _____

WITNESS:

_____

EXHIBIT A

NOTICE OF CONVERSION

(To be executed by the Holder in order to convert all or part of the Note into Common Stock

[Name and Address of Holder]

The Undersigned hereby converts $ of the principal due on [specify applicable Repayment Date] under the Convertible Term Note issued by BIO-KEY INTERNATIONAL, INC. dated August , 2004 by delivery of Shares of Common Stock of BIO-KEY INTERNATIONAL, INC. on and subject to the conditions set forth in Article III of such Note.

1. Date of Conversion

2. Shares To Be Delivered:

By: _____

Name: _____

Title: _____

EXHIBIT B

CONVERSION NOTICE

(To be executed by the Holder in order to convert all or part of a Monthly Amount into Common Stock)

[Name and Address of Holder]

Holder hereby converts $ of the Monthly Amount due on [specify applicable Repayment Date] under the Convertible Term Note issued by BIO-KEY INTERNATIONAL, INC. dated , 200 by delivery of Shares of Common Stock of BIO-KEY INTERNATIONAL, INC. on and subject to the conditions set forth in Article III of such Note.

1. Fixed Conversion Price: $

2. Amount to be paid: $

3. Shares To Be Delivered (2 divided by 1):

4. Cash payment to be made by Borrower : $

Date: _____

LAURUS MASTER FUND, LTD.

By: _____

Name: _____

Title: _____

BIO-KEY INTERNATIONAL, INC AND CERTAIN OF ITS SUBSIDIARIES
MASTER SECURITY AGREEMENT

To: Laurus Master Fund, Ltd., as Collateral Agent
c/o M&C Corporate Services, Ltd.
P.O. Box 1234 G.T
Queensgate House
South Church Street
Grand Cayman, Cayman Islands

Date: September 29, 2004

To Whom It May Concern:

1. To secure the payment of all Obligations (as hereafter defined) each of Bio-Key International, Inc., a Minnesota corporation (the "Company"), Public Safety Group, Inc., a Delaware corporation ("PSG"), and each other entity that is required to enter into this Master Security Agreement (collectively with the Company and PSG, the "Assignors" and each an "Assignor") hereby assigns and grants to Laurus Master Fund, Ltd., as Collateral Agent (in such capacity, the "Collateral Agent") for the Purchasers party to the Security Purchase Agreement referred to below (the "Purchasers"), for its own benefit and the ratable benefit of the Purchasers, a continuing security interest in all of the following property now owned or at any time hereafter acquired by any Assignor, or in which any Assignor now have or at any time in the future may acquire any right, title or interest (the "Collateral"): all cash, cash equivalents, accounts, accounts receivable, deposit accounts (including, without limitation, the Lockbox Deposit Accounts (as defined herein) , inventory, equipment, goods, documents, instruments (including, without limitation, promissory notes), contract rights, general intangibles), chattel paper, supporting obligations, investment property (including, without limitation, all equity interests owned by any Assignor), letter-of-credit rights, trademarks, trademark applications, tradestyles, patents, patent applications, copyrights, copyright applications and other intellectual property in which any Assignor now have or hereafter may acquire any right, title or interest, all proceeds and products thereof (including, without limitation, proceeds of insurance) and all additions, accessions and substitutions thereto or therefore. In the event any Assignor wishes to finance the acquisition in the ordinary course of business of any hereafter acquired equipment and have obtained a commitment from a financing source to finance such equipment from an unrelated third party, the Collateral Agent agrees to release its security interest on such hereafter acquired equipment so financed by such third party financing source. Except as otherwise defined herein, all capitalized terms used herein shall have the meaning provided such terms in the Securities Purchase Agreement referred to below. The Purchasers and the Collateral Agent are sometimes collectively referred to herein as the "Purchaser Parties".

2. The term "Obligations" as used herein shall mean and include all debts, liabilities and obligations owing by each Assignor to the Purchaser Parties arising under, out of, or in connection with: (i) that certain Securities Purchase Agreement dated as of the date hereof by and among the Company, Laurus Master Fund, Ltd. and the other Purchasers party thereto, and

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the Collateral Agent (the "Securities Purchase Agreement") and (ii) the Related Agreements referred to in the Securities Purchase Agreement (the Securities Purchase Agreement and each Related Agreement as each may be amended, modified, restated or supplemented from time to time, are collectively referred to herein as the "Documents"), and in connection with any documents, instruments or agreements relating to or executed in connection with the Documents or any documents, instruments or agreements referred to therein or otherwise, and in connection with any other indebtedness, obligations or liabilities of any Assignor to the Purchaser Parties, whether now existing or hereafter arising, direct or indirect, liquidated or unliquidated, absolute or contingent, due or not due and whether under, pursuant to or evidenced by a note, agreement, guaranty, instrument or otherwise, in each case, irrespective of the genuineness, validity, regularity or enforceability of such Obligations, or of any instrument evidencing any of the Obligations or of any collateral therefor or of the existence or extent of such collateral, and irrespective of the allowability, allowance or disallowance of any or all of the Obligations in any case commenced by or against any Assignor under Title 11, United States Code, including, without limitation, obligations or indebtedness of each Assignor for post-petition interest, fees, costs and charges that would have accrued or been added to the Obligations but for the commencement of such case.

3. Each Assignor hereby jointly and severally represents, warrants and covenants to the Collateral Agent that:

(a) it is a corporation, partnership or limited liability company, as the case may be, validly existing, in good standing and organized under the respective laws of its jurisdiction of organization set forth on Schedule A, and each Assignor will provide the Collateral Agent thirty (30) days' prior written notice of any change in any of its respective jurisdiction of organization, except that the Company may effect its contemplated reincorporation merger into a Delaware corporation (the "Reincorporation Merger") upon five (5) business days prior written notice to the Collateral Agent;

(b) its legal name is as set forth in its respective Certificate of Incorporation or other organizational document (as applicable) as amended through the date hereof and as set forth on Schedule A, and it will provide the Collateral Agent thirty (30) days' prior written notice of any change in its legal name;

(c) its organizational identification number (if applicable) is as set forth on Schedule A hereto, and it will provide the Collateral Agent thirty (30) days' prior written notice of any change in any of its organizational identification number;

(d) it is the lawful owner of the respective Collateral and it has the sole right to grant a security interest therein and will defend the Collateral against all claims and demands of all persons and entities;

(e) it will keep its respective Collateral free and clear of all attachments, levies, taxes, liens, security interests and encumbrances of every kind and nature ("Encumbrances"), except (i) Encumbrances securing the Obligations and (ii) the second priority security interest to be granted by the Company to Aether Systems, Inc. ("Aether") to secure the Company's obligations to Aether in connection with the letter of

credit posted by Aether to Hamilton County Ohio for the benefit of the Company and (iii) to the extent said Encumbrance does not secure indebtedness in excess of $50,000 at any one time outstanding, such Encumbrance is removed or otherwise released within ten (10) days of the creation thereof;

(f) it will, at its and the other Assignors joint and several cost and expense keep the Collateral in good state of repair (ordinary wear and tear excepted) and will not waste or destroy the same or any part thereof other than ordinary course discarding of items no longer used or useful in its or such other Assignors' business;

(g) it will not without the Collateral Agent's prior written consent, sell, exchange, lease or otherwise dispose of the Collateral, whether by sale, lease or otherwise, except for the sale of inventory in the ordinary course of business and for the disposition or transfer in the ordinary course of business during any fiscal year of obsolete and worn-out equipment or equipment no longer necessary for its ongoing needs, having an aggregate fair market value of not more than $25,000 and only to the extent that:

(i) the proceeds of any such disposition are used to acquire replacement Collateral which is subject to the Collateral Agent's first priority perfected security interest, or are used to repay Obligations or to pay general corporate expenses; and

(ii) following the occurrence of an Event of Default which continues to exist the proceeds of which are remitted to the Collateral Agent to pay down the Obligations;

(h) it will insure or cause the Collateral to be insured in the Collateral Agent's name against loss or damage by fire, theft, burglary, pilferage, loss in transit and such other hazards as the Collateral Agent shall specify in amounts and under policies by insurers acceptable to the Collateral Agent and all premiums thereon shall be paid by such Assignor and the policies delivered to the Collateral Agent. If any such Assignor fails to do so, the Collateral Agent may procure such insurance and the cost thereof shall be promptly reimbursed by the Assignors, jointly and severally, and shall constitute Obligations;

(i) upon two days prior notice from the Collateral Agent, it will at all reasonable times during normal business hours, allow the Collateral Agent or the Collateral Agent's representatives free access to and the right of inspection of the Collateral;

(j) such Assignor (jointly and severally with each other Assignor) hereby indemnifies and saves the Collateral Agent harmless from all loss, costs, damage, liability and/or expense, including reasonable attorneys' fees, that the Collateral Agent may sustain or incur to enforce payment, performance or fulfillment of any of the Obligations and/or in the enforcement of this Master Security Agreement or in the prosecution or defense of any action or proceeding either against the Collateral Agent or any Assignor

concerning any matter growing out of or in connection with this Master Security Agreement, and/or any of the Obligations and/or any of the Collateral except to the extent caused by the Collateral Agent's own gross negligence or willful misconduct

(as determined by a court of competent jurisdiction in a final and nonappealable decision).

(k) On or prior to the 30th day following the Closing Date, each Assignor will, and will cause each of their respective Subsidiaries to, (x) irrevocably direct all of its present and future Account Debtors (as defined below) and other persons obligated to make payments constituting Collateral to make such payments directly to the lockboxes maintained by the Assignors (the "Lockboxes") with Citibank West, with its principal place of business at [Insert Address] or such other financial institution accepted by the Collateral Agent in writing as may be selected by the Company (the "Lockbox Bank") (each such direction pursuant to this clause (x), a "Direction Notice") and (y) provide the Collateral Agent with copies of each Direction Notice, each of which shall be agreed to and acknowledged by the respective Account Debtor. Upon receipt of such payments, the Lockbox Bank has agreed to deposit the proceeds of such payments in that certain deposit account maintained at the Lockbox Bank and evidenced by the account name of Bio Key International, Inc. and the account number of 500232160, or such other deposit accepted by the Collateral Agent in writing (the "Lockbox Deposit Accounts"). On or prior to the Closing Date, the Company shall and shall cause the Lockbox Bank to enter into all such documentation acceptable to the Collateral Agent pursuant to which, among other things, the Lockbox Bank agrees to, following notification by the Collateral Agent (which notification the Collateral Agent shall only give following the occurrence and during the continuance of an Event of Default), comply only with the instructions or other directions of the Collateral Agent concerning the Lockbox and the Lockbox Deposit Account. All of each Assignor's and each of their respective Subsidiaries' invoices, account statements and other written or oral communications directing, instructing, demanding or requesting payment of any Account of any such person or any other amount constituting Collateral shall conspicuously direct that all payments be made to the Lockbox or such other address as the Collateral Agent may direct in writing. If, notwithstanding the instructions to Account Debtors, any Assignor or any of their respective Subsidiaries receives any payments, such person shall immediately remit such payments to the Lockbox Deposit Account in their original form with all necessary endorsements. Until so remitted, the Assignors and/or their Subsidiaries, as the case may be, shall hold all such payments in trust for and as the property of the Collateral Agent and shall not commingle such payments with any of its other funds or property. For the purpose of this Master Security Agreement, (x) "Accounts" shall mean all "accounts", as such term is defined in the Uniform Commercial Code as in effect in the State of New York on the date hereof, now owned or hereafter acquired by any Assignor or any of their respective Subsidiaries and (y) "Account Debtor" shall mean any person or entity who is or may be obligated with respect to, or on account of, an Account; and

4. The occurrence of any of the following events or conditions shall constitute an "Event of Default" under this Master Security Agreement:

(a) any covenant, warranty, representation or statement made or furnished to the Collateral Agent by the Assignor or on the Assignor's behalf was breached in any material respect or false in any material respect when made or furnished, as the case may be, and, in the case of a covenant, if subject to cure, shall not be cured for a period of fifteen (15) days;

(b) the loss, theft, substantial damage, destruction, sale or encumbrance to or of any of the Collateral or the making of any levy, seizure or attachment thereof or thereon except to the extent:

(i) such loss is covered by insurance proceeds which are used to replace the item or repay the Collateral Agent; or

(ii) said levy, seizure or attachment does not secure indebtedness in excess of $100,000 and such levy, seizure or attachment has not been removed or otherwise released within ten (10) days of the creation or the assertion thereof;

(b) any Assignor shall become insolvent, cease operations, dissolve, terminate our business existence, make an assignment for the benefit of creditors, suffer the appointment of a receiver, trustee, liquidator or custodian of all or any part of Assignors' property;

(c) any proceedings under any bankruptcy or insolvency law shall be commenced by or against any Assignor;

(d) the Company shall repudiate, purport to revoke or fail to perform any or all of its obligations under any Note (after passage of applicable cure period, if any); or

(e) an Event of Default shall have occurred under and as defined in any Document.

5. Upon the occurrence of any Event of Default and at any time thereafter, the Collateral Agent may declare all Obligations immediately due and payable and the Collateral Agent shall have the remedies of a secured party provided in the Uniform

Commercial Code as in effect in the State of New York, this Agreement and other applicable law. Upon the occurrence of any Event of Default and at any time thereafter, the Collateral Agent will have the right to take possession of the Collateral and to maintain such possession on our premises or to remove the Collateral or any part thereof to such other premises as the Collateral Agent may desire. Upon the Collateral Agent's request, each of the Assignors shall assemble or cause the Collateral to be assembled and make it available to the Collateral Agent at a place designated by the Collateral Agent. If any notification of intended disposition of any Collateral is required by law, such notification, if mailed, shall be deemed properly and reasonably given if mailed at least

ten (10) days before such disposition, postage prepaid, addressed to any Assignor either at such Assignor's address shown herein or at any address appearing on the Collateral Agent's records for such Assignor. Any proceeds of any disposition of any of the Collateral shall be applied by the Collateral Agent to the payment of all expenses in connection with the sale of the Collateral, including reasonable attorneys' fees and other legal expenses and disbursements and the reasonable expense of retaking, holding, preparing for sale, selling, and the like, and any balance of such proceeds may be applied by the Collateral Agent toward the payment of the Obligations in such order of application as the Collateral Agent may elect, and each Assignor shall be liable for any deficiency. For the avoidance of doubt, following the occurrence and during the continuance of an Event of Default, the Collateral Agent shall have the immediate right to withdraw any and all monies contained in the Restricted Account or any other deposit accounts in the name of the Assignor and controlled by the Collateral Agent and apply same to the repayment of the Obligations (in such order of application as the Collateral Agent may elect).

6. If any Assignor defaults in the performance or fulfillment of any of the terms, conditions, promises, covenants, provisions or warranties on such Assignor's part to be performed or fulfilled under or pursuant to this Master Security Agreement, the Collateral Agent may, at its option without waiving its right to enforce this Master Security Agreement according to its terms, immediately or at any time thereafter and without notice to any Assignor, perform or fulfill the same or cause the performance or fulfillment of the same for each Assignor's joint and several account and at each Assignor's joint and several cost and expense, and the cost and expense thereof (including reasonable attorneys' fees) shall be added to the Obligations and shall be payable on demand with interest thereon at the highest rate permitted by law, or, at the Collateral Agent's option, debited by the Collateral Agent from the Restricted Account or any other deposit accounts in the name of the Assignor and controlled by the Collateral Agent.

7. Each Assignor appoints the Collateral Agent, any of the Collateral Agent's officers, employees or any other person or entity whom the Collateral Agent may designate as our attorney, with power to execute such documents in each of our behalf and to supply any omitted information and correct patent errors in any documents executed by any Assignor or on any Assignor's behalf; to file financing statements against us covering the Collateral (and, in connection with the filing of any such financing statements, describe the Collateral as "all assets and all personal property, whether now owned and/or hereafter acquired" (or any substantially similar variation thereof)); to sign our name on public records; and to do all other things the Collateral Agent deem necessary to carry out this Master Security Agreement. Each Assignor hereby ratifies and approves all acts of the attorney and neither the Collateral Agent nor the attorney will be liable for any acts of commission or omission, nor for any error of judgment or mistake of fact or law other than gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final and nonappealable decision). This power being coupled with an interest, is irrevocable so long as any Obligations remains unpaid.

8. No delay or failure on the Collateral Agent's part in exercising any right, privilege or option hereunder shall operate as a waiver of such or of any other right, privilege, remedy or option, and no waiver whatever shall be valid unless in writing, signed by the Collateral Agent and then only to the extent therein set forth, and no waiver by the Collateral Agent of any default shall operate as a waiver of any other default or of the same default on a future occasion. the Collateral Agent's books and records containing entries with respect to the Obligations shall be

admissible in evidence in any action or proceeding, shall be binding upon each Assignor for the purpose of establishing the items therein set forth and shall constitute prima facie proof thereof. the Collateral Agent shall have the right to enforce any one or more of the remedies available to the Collateral Agent, successively, alternately or concurrently. Each Assignor agrees to join with the Collateral Agent in executing financing statements or other instruments to the extent required by the Uniform Commercial Code in form satisfactory to the Collateral Agent and in executing such other documents or instruments as may be required or deemed necessary by the Collateral Agent for purposes of affecting or continuing the Collateral Agent's security interest in the Collateral.

9. This Master Security Agreement shall be governed by and construed in accordance with the laws of the State of New York and cannot be terminated orally. All of the rights, remedies, options, privileges and elections given to the Collateral Agent hereunder shall inure to the benefit of the Collateral Agent's successors and assigns. The term "the Collateral Agent" as herein used shall include the Collateral Agent, any parent of the Collateral Agent's, any of the Collateral Agent's subsidiaries and any co-subsidiaries of the Collateral Agent's parent, whether now existing or hereafter created or acquired, and all of the terms, conditions,

promises, covenants, provisions and warranties of this Agreement shall inure to the benefit of each of the foregoing, and shall bind the representatives, successors and assigns of each Assignor. the Collateral Agent and each Assignor hereby (a) waive any and all right to trial by jury in litigation relating to this Agreement and the transactions contemplated hereby and each Assignor agrees not to assert any counterclaim in such litigation, (b) submit to the nonexclusive jurisdiction of any New York State court sitting in the borough of Manhattan, the city of New York and (c) waive any objection the Collateral Agent or each Assignor may have as to the bringing or maintaining of such action with any such court.

10. It is understood and agreed that any person or entity that desires to become an Assignor hereunder, or is required to execute a counterpart of this Master Security Agreement after the date hereof pursuant to the requirements of any Document, shall become an Assignor hereunder by (x) executing a Joinder Agreement in form and substance satisfactory to the Collateral Agent, (y) delivering supplements to such exhibits and annexes to such Documents as the Collateral Agent shall reasonably request and (z) taking all actions as specified in this Agreement as would have been taken by such Assignor had it been an original party to this Agreement, in each case with all documents required above to be delivered to the Collateral Agent and with all documents and actions required above to be taken to the reasonable satisfaction of the Collateral Agent.

11. All notices from the Collateral Agent to any Assignor shall be sufficiently given if mailed or delivered to such Assignor's address set forth below.

Very truly yours,

BIO-KEY INTERNATIONAL, INC.

By: /s/ Michael W. DePasquale

Name:

Title:

PUBLIC SAFETY GROUP, INC.

By: /s/ Michael W. DePasquale

Name:

Title:

ACKNOWLEDGED:

LAURUS MASTER FUND, LTD.,
as Collateral Agent

By: /s/ David Grin

Name:

Title:

SUBSIDIARY GUARANTY

New York, New York September 29, 2004

FOR VALUE RECEIVED, and in consideration of note purchases from, loans made or to be made or credit otherwise extended or to be extended by Laurus Master Fund, Ltd. ("Laurus"), the other Purchasers party to the Securities Purchase Agreement referenced below (collectively, with Laurus, the "Purchasers"), and Purchaser Group, as Collateral Agent for the Purchasers ("Agent" and collectively with the Purchasers, "Purchaser's Group") to or for the account of BIO-Key International, Inc., a Minnesota corporation ("Debtor"), from time to time and at any time and for other good and valuable consideration and to induce Purchaser Group, in its discretion, to purchase such notes, make such loans or extensions of credit and to make or grant such renewals, extensions, releases of collateral or relinquishments of legal rights as Purchaser Group may deem advisable, each of the undersigned (and each of them if more than one, the liability under this Guaranty being joint and several) (jointly and severally referred to as "Guarantors " or "the undersigned") unconditionally guaranties to Purchaser Group, its successors, endorsees and assigns the prompt payment when due (whether by acceleration or otherwise) of all present and future obligations and liabilities of any and all kinds of Debtor to Purchaser Group and of all instruments of any nature evidencing or relating to any such obligations and liabilities upon which Debtor or one or more parties and Debtor is or may become liable to Purchaser Group, whether incurred by Debtor as maker, endorser, drawer, acceptor, guarantors , accommodation party or otherwise, and whether due or to become due, secured or unsecured, absolute or contingent, joint or several, and however or whenever acquired by Purchaser Group, whether arising under, out of, or in connection with (i) that certain Securities Purchase Agreement dated as of the date hereof by and between the Debtor and Purchaser Group (the "Securities Purchase Agreement") and (ii) each Related Agreement referred to in the Securities Purchase Agreement(the Securities Purchase Agreement and each Related Agreement, as each may be amended, modified, restated or supplemented from time to time, are collectively referred to herein as the "Documents"), or any documents, instruments or agreements relating to or executed in connection with the Documents or any documents, instruments or agreements referred to therein or otherwise, or any other indebtedness, obligations or liabilities of the Debtor to Purchaser Group, whether now existing or hereafter arising, direct or indirect, liquidated or unliquidated, absolute or contingent, due or not due and whether under, pursuant to or evidenced by a note, agreement, guaranty, instrument or otherwise (all of which are herein collectively referred to as the "Obligations"), and irrespective of the genuineness, validity, regularity or enforceability of such Obligations, or of any instrument evidencing any of the Obligations or of any collateral therefor or of the existence or extent of such collateral, and irrespective of the allowability, allowance or disallowance of any or all of the Obligations in any case commenced by or against Debtor under Title 11, United States Code, including, without limitation, obligations or indebtedness of Debtor for post-petition interest, fees, costs and charges that would have accrued or been added to the Obligations but for the commencement of such case. Terms not otherwise defined herein shall have the meaning assigned such terms in the Securities Purchase Agreement. In furtherance of the foregoing, the undersigned hereby agrees as follows:

1. No Impairment. Purchaser Group may at any time and from time to time, either before or after the maturity thereof, without notice to or further consent of the undersigned, extend the time of payment of, exchange or surrender any collateral for, renew or extend any of the Obligations or increase or decrease the interest rate thereon, or any other agreement with

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Debtor or with any other party to or person liable on any of the Obligations, or interested therein, for the extension, renewal, payment, compromise, discharge or release thereof, in whole or in part, or for any modification of the terms thereof or of any agreement between Purchaser Group and Debtor or any such other party or person, or make any election of rights Purchaser Group may deem desirable under the United States Bankruptcy Code, as amended, or any other federal or state bankruptcy, reorganization, moratorium or insolvency law relating to or affecting the enforcement of creditors' rights generally (any of the foregoing, an "Insolvency Law") without in any way impairing or affecting this Guaranty. This instrument shall be effective regardless of the subsequent incorporation, merger or consolidation of Debtor, or any change in the composition, nature, personnel or location of Debtor and shall extend to any successor entity to Debtor, including a debtor in possession or the like under any Insolvency Law.

2. Guaranty Absolute. Subject to Section 5(c), each of the undersigned jointly and severally guarantees that the Obligations will be paid strictly in accordance with the terms of the Documents and/or any other document, instrument or agreement creating or evidencing the Obligations, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of Debtor with respect thereto. Guarantors hereby knowingly accept the full range of risk encompassed within a contract of "continuing guaranty" which risk includes the possibility that Debtor will contract additional indebtedness for which Guarantors may be liable hereunder after Debtor's financial condition or ability to pay its lawful debts when they fall due has deteriorated, whether or not Debtor has properly authorized incurring such additional indebtedness. The undersigned acknowledge that (i) no oral representations, including any representations to extend credit or provide other financial accommodations to Debtor, have been made by Purchaser Group to induce the undersigned to enter into this Guaranty and (ii) any extension of credit to the Debtor shall be governed solely by the provisions of the Documents. The liability of each of the undersigned under this Guaranty shall be absolute and unconditional, in accordance with its terms, and shall remain in full force and effect without regard to, and shall not be released, suspended, discharged, terminated or otherwise affected by, any circumstance or occurrence

whatsoever, including, without limitation: (a) any waiver, indulgence, renewal, extension, amendment or modification of or addition, consent or supplement to or deletion from or any other action or inaction under or in respect of the Documents or any other instruments or agreements relating to the Obligations or any assignment or transfer of any thereof, (b) any lack of validity or enforceability of any Document or other documents, instruments or agreements relating to the Obligations or any assignment or transfer of any thereof, (c) any furnishing of any additional security to Purchaser Group or its assignees or any acceptance thereof or any release of any security by Purchaser Group or its assignees, (d) any limitation on any party's liability or obligation under the Documents or any other documents, instruments or agreements relating to the Obligations or any assignment or transfer of any thereof or any invalidity or unenforceability, in whole or in part, of any such document, instrument or agreement or any term thereof, (e) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding relating to Debtor, or any action taken with respect to this Guaranty by any trustee or receiver, or by any court, in any such proceeding, whether or not the undersigned shall have notice or knowledge of any of the foregoing, (f) any exchange, release or nonperfection of any collateral, or any release, or amendment or waiver of or consent to departure from any guaranty or security, for all or any of the Obligations or (g) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the undersigned. Any amounts due from the undersigned to Purchaser Group shall bear interest until such amounts are paid in full at the highest rate then

applicable to the Obligations. Obligations include post-petition interest whether or not allowed or allowable.

3. Waivers.

(a) This Guaranty is a guaranty of payment and not of collection. Purchaser Group shall be under no obligation to institute suit, exercise rights or remedies or take any other action against Debtor or any other person liable with respect to any of the Obligations or resort to any collateral security held by it to secure any of the Obligations as a condition precedent to the undersigned being obligated to perform as agreed herein and each of the Guarantors hereby waives any and all rights which it may have by statute or otherwise which would require Purchaser Group to do any of the foregoing. Each of the Guarantors further consents and agrees that Purchaser Group shall be under no obligation to marshal any assets in favor of Guarantors, or against or in payment of any or all of the Obligations. The undersigned hereby waives all suretyship defenses and any rights to interpose any defense, counterclaim or offset of any nature and description which the undersigned may have or which may exist between and among Purchaser Group, Debtor and/or the undersigned with respect to the undersigned's obligations under this Guaranty, or which Debtor may assert on the underlying debt, including but not limited to failure of consideration, breach of warranty, fraud, payment (other than cash payment in full of the Obligations), statute of frauds, bankruptcy, infancy, statute of limitations, accord and satisfaction, and usury.

(b) Each of the undersigned further waives (i) notice of the acceptance of this Guaranty, of the making of any such loans or extensions of credit, and of all notices and demands of any kind to which the undersigned may be entitled, including, without limitation, notice of adverse change in Debtor's financial condition or of any other fact which might materially increase the risk of the undersigned and (ii) presentment to or demand of payment from anyone whomsoever liable upon any of the Obligations, protest, notices of presentment, non-payment or protest and notice of any sale of collateral security or any default of any sort.

(c) Notwithstanding any payment or payments made by the undersigned hereunder, or any setoff or application of funds of the undersigned by Purchaser Group, the undersigned shall not be entitled to be subrogated to any of the rights of Purchaser Group against Debtor or against any collateral or guarantee or right of offset held by Purchaser Group for the payment of the Obligations, nor shall the undersigned seek or be entitled to seek any contribution or reimbursement from Debtor in respect of payments made by the undersigned hereunder, until all amounts owing to Purchaser Group by Debtor on account of the Obligations are paid in full and Purchaser Group' obligation to extend credit pursuant to the Documents have been terminated. If, notwithstanding the foregoing, any amount shall be paid to the undersigned on account of such subrogation rights at any time when all of the Obligations shall not have been paid in full and Purchaser Group' obligation to extend credit pursuant to the Documents shall not have been terminated, such amount shall be held by the undersigned in trust for Purchaser Group, segregated from other funds of the undersigned, and shall forthwith upon, and in any event within two (2) business days of, receipt by the undersigned, be turned over to Purchaser Group in the exact form received by the undersigned (duly endorsed by the undersigned to Purchaser Group, if required), to be applied against the Obligations, whether matured or unmatured, in such order as Purchaser Group may determine, subject

to the provisions of the Documents. Any and all present and future debts and obligations of Debtor to any of the undersigned are hereby waived and postponed in favor of, and subordinated to the full payment and performance of, all present and future

debts and Obligations of Debtor to Purchaser Group.

4. Security. All sums at any time to the credit of the undersigned and any property of the undersigned in Purchaser Group' possession or in the possession of any bank, financial institution or other entity that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, Purchaser Group (each such entity, an "Affiliate") shall be deemed held by Purchaser Group or such Affiliate, as the case may be, as security for any and all of the undersigned's obligations to Purchaser Group and to any Affiliate of Purchaser Group, no matter how or when arising and whether under this or any other instrument, agreement or otherwise.

5. Representations and Warranties. Each of the undersigned respectively, hereby jointly and severally represents and warrants (all of which representations and warranties shall survive until all Obligations are indefeasibly satisfied in full and the Documents have been irrevocably terminated), that:

(a) Corporate Status. It is a corporation, partnership or limited liability company, as the case may be, duly organized, validly existing and in good standing under the laws of its jurisdiction of organization indicated on the signature page hereof and has full power, authority and legal right to own its property and assets and to transact the business in which it is engaged.

(b) Authority and Execution. It has full power, authority and legal right to execute and deliver, and to perform its obligations under, this Guaranty and has taken all necessary corporate, partnership or limited liability company, as the case may be, action to authorize the execution, delivery and performance of this Guaranty.

(c) Legal, Valid and Binding Character. This Guaranty constitutes its legal, valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting the enforcement of creditor's rights and general principles of equity that restrict the availability of equitable or legal remedies.

(d) Violations. The execution, delivery and performance of this Guaranty will not violate any requirement of law applicable to it or any contract, agreement or instrument to it is a party or by which it or any of its property is bound or result in the creation or imposition of any mortgage, lien or other encumbrance other than to Purchaser Group on any of its property or assets pursuant to the provisions of any of the foregoing, which, in any of the foregoing cases, could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

(e) Consents or Approvals. No consent of any other person or entity (including, without limitation, any creditor of the undersigned) and no consent, license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required in connection with the execution, delivery, performance, validity or enforceability of this Guaranty by it, except

to the extent that the failure to obtain any of the foregoing could not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

(f) Litigation. No litigation, arbitration, investigation or administrative proceeding of or before any court, arbitrator or governmental authority, bureau or agency is currently pending or, to the best of its knowledge, threatened (i) with respect to this Guaranty or any of the transactions contemplated by this Guaranty or (ii) against or affecting it, or any of its property or assets, which, in each of the foregoing cases, if adversely determined, could reasonably be expected to have a Material Adverse Effect.

(g) Financial Benefit. It has derived or expects to derive a financial or other advantage from each and every loan, advance or extension of credit made under the Documents or other Obligation incurred by the Debtor to Purchaser Group.

6. Acceleration.

(a) If any breach of any covenant or condition or other event of default shall occur and be continuing under any agreement made by Debtor or any of the undersigned to Purchaser Group, or either Debtor or any of the undersigned should at any time become insolvent, or make a general assignment, or if a proceeding in or under any Insolvency Law shall be filed or commenced by, or in respect of, any of the undersigned, or if a notice of any lien, levy, or assessment is filed of record with respect to any assets of any of the undersigned by the United States of America or any department, agency, or instrumentality thereof, or if any taxes or debts owing at any time or times hereafter to any one of them becomes a lien or encumbrance upon any assets of the undersigned in Purchaser Group' possession, or otherwise, any and all Obligations

shall for purposes hereof, at Purchaser Group' option, be deemed due and payable without notice notwithstanding that any such Obligation is not then due and payable by Debtor.

(b) Each of the undersigned will promptly notify Purchaser Group of any default by such undersigned in its respective performance or observance of any term or condition of any agreement to which the undersigned is a party if the effect of such default is to cause, or permit the holder of any obligation under such agreement to cause, such obligation to become due prior to its stated maturity and, if such an event occurs, Purchaser Group shall have the right to accelerate such undersigned's obligations hereunder.

7. Payments from Guarantors. Purchaser Group, in its sole and absolute discretion, with or without notice to the undersigned, may apply on account of the Obligations any payment from the undersigned or any other guarantors, or amounts realized from any security for the Obligations, or may deposit any and all such amounts realized in a non-interest bearing cash collateral deposit account to be maintained as security for the Obligations.

8. Costs. The undersigned shall pay on demand, all costs, fees and expenses (including expenses for legal services of every kind) relating or incidental to the enforcement or protection of the rights of Purchaser Group hereunder or under any of the Obligations.

9. No Termination. This is a continuing irrevocable guaranty and shall remain in full force and effect and be binding upon the undersigned, and each of the undersigned's successors and assigns, until all of the Obligations have been paid in full and Purchaser Group'

obligation to extend credit pursuant to the Documents has been irrevocably terminated. If any of the present or future Obligations are guarantied by persons, partnerships or corporations in addition to the undersigned, the death, release or discharge in whole or in part or the bankruptcy, merger, consolidation, incorporation, liquidation or dissolution of one or more of them shall not discharge or affect the liabilities of any undersigned under this Guaranty.

10. Recapture. Anything in this Guaranty to the contrary notwithstanding, if Purchaser Group receives any payment or payments on account of the liabilities guaranteed hereby, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver, or any other party under any Insolvency Law, common law or equitable doctrine, then to the extent of any sum not finally retained by Purchaser Group, the undersigned's obligations to Purchaser Group shall be reinstated and this Guaranty shall remain in full force and effect (or be reinstated) until payment shall have been made to Purchaser Group, which payment shall be due on demand.

11. Books and Records. The books and records of Purchaser Group showing the account between Purchaser Group and Debtor shall be admissible in evidence in any action or proceeding, shall be binding upon the undersigned for the purpose of establishing the items therein set forth and shall constitute prima facie proof thereof.

12. No Waiver. No failure on the part of Purchaser Group to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by Purchaser Group of any right, remedy or power hereunder preclude any other or future exercise of any other legal right, remedy or power. Each and every right, remedy and power hereby granted to Purchaser Group or allowed it by law or other agreement shall be cumulative and not exclusive of any other, and may be exercised by Purchaser Group at any time and from time to time.

13. Waiver of Jury Trial. EACH OF THE UNDERSIGNED DOES HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED ON OR WITH RESPECT TO THIS GUARANTY OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR RELATING OR INCIDENTAL HERETO. THE UNDERSIGNED DOES HEREBY CERTIFY THAT NO REPRESENTATIVE OR AGENT OF LENDER HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT LENDER WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THIS WAIVER OF RIGHT TO JURY TRIAL PROVISION.

14. Governing Law; Jurisdiction; Amendments. THIS INSTRUMENT CANNOT BE CHANGED OR TERMINATED ORALLY, AND SHALL BE GOVERNED, CONSTRUED AND INTERPRETED AS TO VALIDITY, ENFORCEMENT AND IN ALL OTHER RESPECTS IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT HAVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAWS. EACH OF THE UNDERSIGNED EXPRESSLY CONSENTS TO THE JURISDICTION AND VENUE OF THE SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK, AND OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK FOR ALL PURPOSES IN CONNECTION HEREWITH. ANY JUDICIAL PROCEEDING BY THE UNDERSIGNED AGAINST LENDER INVOLVING, DIRECTLY OR INDIRECTLY ANY MATTER OR CLAIM IN ANY WAY ARISING OUT OF, RELATED TO OR CONNECTED HEREWITH SHALL BE BROUGHT ONLY IN THE

SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK OR THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK. THE UNDERSIGNED FURTHER CONSENTS THAT ANY SUMMONS, SUBPOENA OR OTHER PROCESS OR PAPERS (INCLUDING, WITHOUT LIMITATION, ANY NOTICE OR MOTION OR OTHER APPLICATION TO EITHER OF THE AFOREMENTIONED COURTS OR A JUDGE THEREOF) OR ANY NOTICE IN CONNECTION WITH ANY PROCEEDINGS HEREUNDER, MAY BE SERVED INSIDE OR OUTSIDE OF THE STATE OF NEW YORK OR THE SOUTHERN DISTRICT OF NEW YORK BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, OR BY PERSONAL SERVICE PROVIDED A REASONABLE TIME FOR APPEARANCE IS PERMITTED, OR IN SUCH OTHER MANNER AS MAY BE PERMISSIBLE UNDER THE RULES OF SAID COURTS. EACH OF THE UNDERSIGNED WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED HEREON AND SHALL NOT ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE OR BASED UPON FORUM *NON CONVENIENS*.

15. Severability. To the extent permitted by applicable law, any provision of this Guaranty which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

16. Amendments, Waivers. No amendment or waiver of any provision of this Guaranty nor consent to any departure by the undersigned therefrom shall in any event be effective unless the same shall be in writing executed by each of the undersigned directly affected by such amendment and/or waiver and Purchaser Group.

17. Notice. All notices, requests and demands to or upon the undersigned, shall be in writing and shall be deemed to have been duly given or made (a) when delivered, if by hand, (b) three (3) days after being sent, postage prepaid, if by registered or certified mail, (c) when confirmed electronically, if by facsimile, or (d) when delivered, if by a recognized overnight delivery service in each event, to the numbers and/or address set forth beneath the signature of the undersigned.

18. Successors. Purchaser Group may, from time to time, without notice to the undersigned, sell, assign, transfer or otherwise dispose of all or any part of the Obligations and/or rights under this Guaranty. Without limiting the generality of the foregoing, Purchaser Group may assign, or grant participations to, one or more banks, financial institutions or other entities all or any part of any of the Obligations. In each such event, Purchaser Group, its Affiliates and each and every immediate and successive purchaser, assignee, transferee or holder of all or any part of the Obligations shall have the right to enforce this Guaranty, by legal action or otherwise, for its own benefit as fully as if such purchaser, assignee, transferee or holder were herein by name specifically given such right. Purchaser Group shall have an unimpaired right to enforce this Guaranty for its benefit with respect to that portion of the Obligations which Purchaser Group has not disposed of, sold, assigned, or otherwise transferred.

19. It is understood and agreed that any person or entity that desires to become a Guarantor hereunder, or is required to execute a counterpart of this Guaranty after the date hereof

pursuant to the requirements of any Document, shall become Guarantor hereunder by (x) executing a Joinder Agreement in form and substance satisfactory to Purchaser Group, (y) delivering supplements to such exhibits and annexes to such Documents as Purchaser Group shall reasonably request and (z) taking all actions as specified in this Guarnaty as would have been taken by such such Guarantor had it been an original party to this Guaranty, in each case with all documents required above to be delivered to Purchaser Group and with all documents and actions required above to be taken to the reasonable satisfaction of Purchaser Group.

20. Release. Nothing except cash payment in full of the Obligations shall release any of the undersigned from liability under this Guaranty.

[REMAINDER OF THIS PAGE IS BLANK.
SIGNATURE PAGE IMMEDIATELY FOLLOWS]

IN WITNESS WHEREOF, this Guaranty has been executed by the undersigned this 29th day of September 2004.

PUBLIC SAFETY GROUP, INC.

By: /s/ Michael W. DePasquale
Name:
Title:

STOCK PLEDGE AGREEMENT

This Stock Pledge Agreement (this "Agreement"), dated as of September 29, 2004, among Laurus Master Fund, Ltd., as Collateral Agent under the Securities Purchase Agreement referenced below (the "Pledgee"), Bio-Key International, Inc., a Minnesota corporation (the "Company"), and each of the other undersigned pledgors (the Company and each such other undersigned pledgor, a "Pledgor" and collectively, the "Pledgors").

BACKGROUND

The Company has entered into a Securities Purchase Agreement, dated as of September 23, 2004 (as amended, modified, restated or supplemented from time to time, the "Securities Purchase Agreement"), with the Purchasers party thereto (the "Purchasers") and collectively with the Pledgee, the Purchaser Parties and the Pledgee pursuant to which the Pledgee and the Purchaser provide or will provide certain financial accommodations to the Company.

In order to induce the Pledgee to provide or continue to provide the financial accommodations described in the Securities Purchase Agreement, each Pledgor has agreed to pledge and grant a security interest in the collateral described herein to the Pledgee on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. All capitalized terms used herein which are not defined shall have the meanings given to them in the Securities Purchase Agreement.

2. Pledge and Grant of Security Interest. To secure the full and punctual payment and performance of (the following clauses (a) and (b), collectively, the "Indebtedness") (a) the obligations of the Pledgee to the Purchaser Parties under the Securities Purchase Agreement and the Related Agreements referred to in the Securities Purchase Agreement (the Securities Purchase Agreement and the Related Agreements as each may be amended, restated, modified and/or supplemented from time to time, collectively, the "Documents") and (b) all other indebtedness, obligations and liabilities of each Pledgor to the Purchaser Parties whether now existing or hereafter arising, direct or indirect, liquidated or unliquidated, absolute or contingent, due or not due and whether under, pursuant to or evidenced by a note, agreement, guaranty, instrument or otherwise (in each case, irrespective of the genuineness, validity, regularity or enforceability of such Indebtedness, or of any instrument evidencing any of the Indebtedness or of any collateral therefor or of the existence or extent of such collateral,) and irrespective of the allowability, allowance or disallowance of any or all of such in any case commenced by or against any Pledgor under Title 11, United States Code, including, without limitation, obligations or indebtedness of each Pledgor for post-petition interest, fees, costs and charges that would have accrued or been added to the Indebtedness but for the commencement of such case), each Pledgor hereby pledges, assigns, hypothecates, transfers and grants a security interest to Pledgee,

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for its own benefit and the ratable benefit of the Purchasers, in all of the following (the "Collateral"):

(a) the shares of stock set forth on Schedule A annexed hereto and expressly made a part hereof (together with any additional shares of stock or other equity interests acquired by any Pledgor, the "Pledged Stock"), the certificates representing the Pledged Stock and all dividends, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Stock;

(b) all additional shares of stock of any issuer (each, an "Issuer") of the Pledged Stock from time to time acquired by any Pledgor in any manner, including, without limitation, stock dividends or a distribution in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spin-off or split-off (which shares shall be deemed to be part of the Collateral), and the certificates representing such additional shares, and all dividends, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares; and

(c) all options and rights, whether as an addition to, in substitution of or in exchange for any shares of any Pledged Stock and all dividends, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all such options and rights.

3. Delivery of Collateral. All certificates representing or evidencing the Pledged Stock shall be delivered to and held by or on behalf of Pledgee pursuant hereto and shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to Pledgee. Each Pledgor hereby authorizes any Issuer upon demand by the Pledgee

to deliver any certificates, instruments or other distributions issued in connection with the Collateral directly to the Pledgee, in each case to be held by the Pledgee, subject to the terms hereof. Upon an Event of Default (as defined below) that has occurred and is continuing beyond any applicable grace period, the Pledgee shall have the right, during such time in its discretion and without notice to the Pledgor, to transfer to or to register in the name of the Pledgee or any of its nominees any or all of the Pledged Stock. In addition, the Pledgee shall have the right at such time to exchange certificates or instruments representing or evidencing Pledged Stock for certificates or instruments of smaller or larger denominations.

4. Representations and Warranties of each Pledgor. Each Pledgor jointly and severally represents and warrants to the Pledgee (which representations and warranties shall be deemed to continue to be made until all of the Indebtedness has been paid in full and each Document and each agreement and instrument entered into in connection therewith has been irrevocably terminated) that:

(a) the execution, delivery and performance by each Pledgor of this Agreement and the pledge of the Collateral hereunder do not and will not result in any violation

of any agreement, indenture, instrument, license, judgment, decree, order, law, statute, ordinance or other governmental rule or regulation applicable to any Pledgor;

(b) this Agreement constitutes the legal, valid, and binding obligation of each Pledgor enforceable against each Pledgor in accordance with its terms;

(c) each Pledgor is the direct and beneficial owner of each share of the Pledged Stock;

(d) all of the shares of the Pledged Stock have been duly authorized, validly issued and are fully paid and nonassessable;

(e) no consent or approval of any person, corporation, governmental body, regulatory authority or other entity other than the filing of any financing statement, is or will be necessary for (i) the execution, delivery and performance of this Agreement, (ii) the exercise by the Pledgee of any rights with respect to the Collateral or (iii) the pledge and assignment of, and the grant of a security interest in, the Collateral hereunder;

(f) there are no pending or, to the best of Pledgor's knowledge, threatened actions or proceedings before any court, judicial body, administrative agency or arbitrator which may materially adversely affect the Collateral;

(g) each Pledgor has the requisite power and authority to enter into this Agreement and to pledge and assign the Collateral to the Pledgee in accordance with the terms of this Agreement.

(h) each Pledgor owns each item of the Collateral and, except for the pledge and security interest granted to Pledgee hereunder, the Collateral shall be, immediately following the closing of the transactions contemplated by the Documents, free and clear of any other security interest, pledge, claim, lien, charge, hypothecation, assignment, offset or encumbrance whatsoever (collectively, "Liens").

(i) there are no restrictions on transfer of the Pledged Stock contained in the certificate of incorporation or by-laws (or equivalent organizational documents) of any Issuer or otherwise which have not otherwise been enforceably and legally waived by the necessary parties.

(j) none of the Pledged Stock has been issued or transferred in violation of the securities registration, securities disclosure or similar laws of any jurisdiction to which such issuance or transfer may be subject.

(k) except for the Pledgor's rights in the Collateral retained in accordance with this Agreement the pledge and assignment of the Collateral and the grant of a security interest under this Agreement vest in the Pledgee all rights of each Pledgor in the Collateral as contemplated by this Agreement.

(l) The Pledged Stock constitutes one hundred percent (100%) of the issued and outstanding shares of capital stock of each Issuer.

5. Covenants. Each Pledgor jointly and severally covenants that, until the Indebtedness shall be satisfied in full and each Document and each agreement and instrument entered into in connection therewith is irrevocably terminated:

(a) No Pledgor will sell, assign, transfer, convey, or otherwise dispose of its rights in or to the Collateral or any interest therein; nor will any Pledgor create, incur or permit to exist any Lien whatsoever with respect to any of the Collateral or the proceeds thereof other than that created hereby.

(b) Each Pledgor will, at its expense, defend Pledgee's right, title and security interest in and to the Collateral against the claims of any other party.

(c) Each Pledgor shall at any time, and from time to time, upon the written request of Pledgee, execute and deliver such further documents and do such further acts and things as Pledgee may reasonably request in order to effect the purposes of this Agreement including, but without limitation, delivering to Pledgee upon the occurrence of an Event of Default irrevocable proxies in respect of the Collateral in form satisfactory to Pledgee. Until receipt thereof, upon an Event of Default that has occurred and is continuing beyond any applicable grace period, this Agreement shall constitute Pledgor's proxy to Pledgee or its nominee to vote all shares of Collateral then registered in each Pledgor's name.

(d) No Pledgor will consent to or approve the issuance of (i) any additional shares of any class of capital stock or other equity interests of the Issuer; or (ii) any securities convertible either voluntarily by the holder thereof or automatically upon the occurrence or nonoccurrence of any event or condition into, or any securities exchangeable for, any such shares, unless, in either case, such shares are pledged as Collateral pursuant to this Agreement.

6. Voting Rights and Dividends. In addition to the Pledgee's rights and remedies set forth in Section 8 hereof, in case an Event of Default shall have occurred and be continuing, beyond any applicable cure period, the Pledgee shall (i) be entitled to vote the Collateral, (ii) be entitled to give consents, waivers and ratifications in respect of the Collateral (each Pledgor hereby irrevocably constituting and appointing the Pledgee, with full power of substitution, the proxy and attorney-in-fact of each Pledgor for such purposes) and (iii) be entitled to collect and receive for its own use cash dividends paid on the Collateral. No Pledgor shall be permitted to exercise or refrain from exercising any voting rights or other powers if, in the reasonable judgment of the Pledgee, such action would have a material adverse effect on the value of the Collateral or any part thereof; and, provided, further, that each Pledgor shall give at least five (5) days' written notice of the manner in which such Pledgor intends to exercise, or the reasons for refraining from exercising, any voting rights or other powers other than with respect to any election of directors and voting with respect to any incidental matters. Following the occurrence and during the continuance of an Event of Default, all dividends and all other distributions in respect of any of the Collateral, shall be delivered to the Pledgee to hold as Collateral and shall, if received by any Pledgor, be received in trust for the benefit of the Pledgee, be segregated from

the other property or funds of any other Pledgor, and be forthwith delivered to the Pledgee as Collateral in the same form as so received (with any necessary endorsement).

7. Event of Default. An Event of Default shall be deemed to have occurred and may be declared by the Pledgee upon the happening of any of the following events:

(a) An "Event of Default" under any Document or any agreement or note related to any Document shall have occurred and be continuing beyond any applicable cure period;

(b) Any Pledgor shall default in the performance of any of its obligations under any agreement between any Pledgor and Pledgee, including, without limitation, this Agreement, and such default shall not be cured for a period of fifteen (15) days after the occurrence thereof;

(c) Any representation or warranty of any Pledgor made herein, in any Document or in any agreement, statement or certificate given in writing pursuant hereto or thereto or in connection herewith or therewith shall be false or misleading in any material respect;

(d) Any portion of the Collateral is subjected to levy of execution, attachment, distraint or other judicial process; or any portion of the Collateral is the subject of a claim (other than by the Pledgee and other than a claim that the applicable Pledgor is contesting in good faith) of a Lien or other right or interest in or to the Collateral and such levy or claim shall not be cured, disputed or stayed within a period of fifteen (15) business days after the occurrence thereof; or

(e) Any Pledgor shall (i) apply for, consent to, or suffer to exist the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or other fiduciary of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of creditors, (iii) commence a voluntary case under any state or federal bankruptcy laws (as now or

hereafter in effect), (iv) be adjudicated a bankrupt or insolvent, (v) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vi) acquiesce to, or fail to have dismissed, within sixty (60) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) take any action for the purpose of effecting any of the foregoing.

8. Remedies. In case an Event of Default shall have occurred and be declared by the Pledgee, the Pledgee may:

(a) Transfer any or all of the Collateral into its name, or into the name of its nominee or nominees;

(b) Exercise all corporate rights with respect to the Collateral including, without limitation, all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any shares of the Collateral as if it were the absolute owner thereof,

including, but without limitation, the right to exchange, at its discretion, any or all of the Collateral upon the merger, consolidation, reorganization, recapitalization or other readjustment of the Issuer thereof, or upon the exercise by the Issuer of any right, privilege or option pertaining to any of the Collateral, and, in connection therewith, to deposit and deliver any and all of the Collateral with any committee, depository, transfer agent, registrar or other designated agent upon such terms and conditions as it may determine, all without liability except to account for property actually received by it; and

(c) Subject to any requirement of applicable law, sell, assign and deliver the whole or, from time to time, any part of the Collateral at the time held by the Pledgee, at any private sale or at public auction, with or without demand, advertisement or notice of the time or place of sale or adjournment thereof or otherwise (all of which are hereby waived, except such notice as is required by applicable law and cannot be waived), for cash or credit or for other property for immediate or future delivery, and for such price or prices and on such terms as the Pledgee in its sole discretion may determine, or as may be required by applicable law.

Each Pledgor hereby waives and releases any and all right or equity of redemption, whether before or after sale hereunder. At any such sale, unless prohibited by applicable law, the Pledgee may bid for and purchase the whole or any part of the Collateral so sold free from any such right or equity of redemption. All moneys received by the Pledgee hereunder whether upon sale of the Collateral or any part thereof or otherwise shall be held by the Pledgee and applied by it as provided in Section 10 hereof. No failure or delay on the part of the Pledgee in exercising any rights hereunder shall operate as a waiver of any such rights nor shall any single or partial exercise of any such rights preclude any other or future exercise thereof or the exercise of any other rights hereunder. The Pledgee shall have no duty as to the collection or protection of the Collateral or any income thereon nor any duty as to preservation of any rights pertaining thereto, except to apply the funds in accordance with the requirements of Section 10 hereof. The Pledgee may exercise its rights with respect to property held hereunder without resort to other security for or sources of reimbursement for the Indebtedness. In addition to the foregoing, Pledgee shall have all of the rights, remedies and privileges of a secured party under the Uniform Commercial Code of New York regardless of the jurisdiction in which enforcement hereof is sought.

9. Private Sale. Each Pledgor recognizes that the Pledgee may be unable to effect (or to do so only after delay which would adversely affect the value that might be realized from the Collateral) a public sale of all or part of the Collateral by reason of certain prohibitions contained in the Securities Act, and may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Each Pledgor agrees that any such private sale may be at prices and on terms less favorable to the seller than if sold at public sales and that such private sales shall be deemed to have been made in a commercially reasonable manner. Each Pledgor agrees that the Pledgee has no obligation to delay sale of any Collateral for the period of time necessary to permit the Issuer to register the Collateral for public sale under the Securities Act.

10. Proceeds of Sale. The proceeds of any collection, recovery, receipt, appropriation, realization or sale of the Collateral shall be applied by the Pledgee as follows:

(a) First, to the payment of all costs, reasonable expenses and charges of the Pledgee and to the reimbursement of the Pledgee for the prior payment of such costs, reasonable expenses and charges incurred in connection with the care and safekeeping of the Collateral (including, without limitation, the reasonable expenses of any sale or any other disposition of any of the Collateral), the expenses of any taking, attorneys' fees and reasonable expenses, court costs, any other fees or expenses incurred or expenditures or advances made by Pledgee in the protection, enforcement or exercise of its rights, powers or remedies hereunder;

(b) Second, to the payment of the Indebtedness, in whole or in part, in such order as the Pledgee may elect,

whether or not such Indebtedness is then due;

(c) Third, to such persons, firms, corporations or other entities as required by applicable law including, without limitation, Section 9-608 of the UCC; and

(d) Fourth, to the extent of any surplus to the Pledgors or as a court of competent jurisdiction may direct.

In the event that the proceeds of any collection, recovery, receipt, appropriation, realization or sale are insufficient to satisfy the Indebtedness, each Pledgor shall be jointly and severally liable for the deficiency plus the costs and fees of any attorneys employed by Pledgee to collect such deficiency.

11. Waiver of Marshaling. Each Pledgor hereby waives any right to compel any marshaling of any of the Collateral.

12. No Waiver. Any and all of the Pledgee's rights with respect to the Liens granted under this Agreement shall continue unimpaired, and Pledgor shall be and remain obligated in accordance with the terms hereof, notwithstanding (a) the bankruptcy, insolvency or reorganization of any Pledgor, (b) the release or substitution of any item of the Collateral at any time, or of any rights or interests therein, or (c) any delay, extension of time, renewal, compromise or other indulgence granted by the Pledgee in reference to any of the Indebtedness. Each Pledgor hereby waives all notice of any such delay, extension, release, substitution, renewal, compromise or other indulgence, and hereby consents to be bound hereby as fully and effectively as if such Pledgor had expressly agreed thereto in advance. No delay or extension of time by the Pledgee in exercising any power of sale, option or other right or remedy hereunder, and no failure by the Pledgee to give notice or make demand, shall constitute a waiver thereof, or limit, impair or prejudice the Pledgee's right to take any action against any Pledgor or to exercise any other power of sale, option or any other right or remedy.

13. Expenses. The Collateral shall secure, and each Pledgor shall pay to Pledgee on demand, from time to time, all reasonable costs and expenses, (including but not limited to, reasonable attorneys' fees and costs, taxes, and all transfer, recording, filing and other charges) of, or incidental to, the custody, care, transfer, administration of the Collateral or any other

collateral, or in any way relating to the enforcement, protection or preservation of the rights or remedies of the Pledgee under this Agreement or with respect to any of the Indebtedness.

14. The Pledgee Appointed Attorney-In-Fact and Performance by the Pledgee. Upon the occurrence and during the continuance of an Event of Default, each Pledgor hereby irrevocably constitutes and appoints the Pledgee as such Pledgor's true and lawful attorney-in-fact, with full power of substitution, to execute, acknowledge and deliver any instruments and to do in such Pledgor's name, place and stead, all such acts, things and deeds for and on behalf of and in the name of such Pledgor, which such Pledgor could or might do or which the Pledgee may deem necessary, desirable or convenient to accomplish the purposes of this Agreement, including, without limitation, to execute such instruments of assignment or transfer or orders and to register, convey or otherwise transfer title to the Collateral into the Pledgee's name. Each Pledgor hereby ratifies and confirms all that said attorney-in-fact may so do and hereby declares this power of attorney to be coupled with an interest and irrevocable. If any Pledgor fails to perform any agreement herein contained, the Pledgee may itself perform or cause performance thereof, and any costs and expenses of the Pledgee incurred in connection therewith shall be paid by the Pledgors as provided in Section 10 hereof.

15. Waivers.

(a) EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OTHER AGREEMENT EXECUTED OR DELIVERED BY THEM IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HERETO HEREBY AGREES AND CONSENTS THAT ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

16. Recapture. Notwithstanding anything to the contrary in this Agreement, if the Pledgee receives any payment or payments on account of the Indebtedness, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver, or any other party under the United States Bankruptcy Code, as amended, or any other federal or state bankruptcy, reorganization, moratorium or insolvency law relating to or affecting the enforcement of creditors' rights generally, common law or equitable doctrine, then to the extent of any sum not finally

retained by the Pledgee, each Pledgor's obligations to the Pledgee shall be reinstated and this Agreement shall remain in full force and effect (or be reinstated) until payment shall have been made to Pledgee, which payment shall be due on demand.

17. Captions. All captions in this Agreement are included herein for convenience of reference only and shall not constitute part of this Agreement for any other purpose.

18. Miscellaneous.

(a) This Agreement constitutes the entire and final agreement among the parties with respect to the subject matter hereof and may not be changed, terminated or otherwise varied except by a writing duly executed by the parties hereto.

(b) No waiver of any term or condition of this Agreement, whether by delay, omission or otherwise, shall be effective unless in writing and signed by the party sought to be charged, and then such waiver shall be effective only in the specific instance and for the purpose for which given.

(c) In the event that any provision of this Agreement or the application thereof to any Pledgor or any circumstance in any jurisdiction governing this Agreement shall, to any extent, be invalid or unenforceable under any applicable statute, regulation, or rule of law, such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform to such statute, regulation or rule of law, and the remainder of this Agreement and the application of any such invalid or unenforceable provision to parties, jurisdictions, or circumstances other than to whom or to which it is held invalid or unenforceable shall not be affected thereby, nor shall same affect the validity or enforceability of any other provision of this Agreement.

(d) This Agreement shall be binding upon each Pledgor, and each Pledgor's successors and assigns, and shall inure to the benefit of the Pledgee and its successors and assigns.

(e) Any notice or other communication required or permitted pursuant to this Agreement shall be given in accordance with the Securities Purchase Agreement.

(f) This Agreement shall be governed by and construed and enforced in all respects in accordance with the laws of the State of New York applied to contracts to be performed wholly within the State of New York.

(g) EACH PLEDGOR EXPRESSLY CONSENTS TO THE JURISDICTION AND VENUE OF EACH COURT OF COMPETENT JURISDICTION LOCATED IN THE STATE OF NEW YORK FOR ALL PURPOSES IN CONNECTION WITH THIS AGREEMENT. ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY ANY MATTER OR CLAIM IN ANY WAY ARISING OUT OF, RELATED TO OR CONNECTED WITH THIS AGREEMENT SHALL BE BROUGHT ONLY IN A STATE COURT LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK. EACH PLEDGOR FURTHER CONSENTS THAT ANY SUMMONS, SUBPOENA OR OTHER PROCESS OR PAPERS (INCLUDING, WITHOUT LIMITATION, ANY NOTICE OR MOTION OR OTHER APPLICATION TO EITHER OF THE AFOREMENTIONED

COURTS OR A JUDGE THEREOF) OR ANY NOTICE IN CONNECTION WITH ANY PROCEEDINGS HEREUNDER, MAY BE SERVED INSIDE OR OUTSIDE OF THE STATE OF NEW YORK OR THE SOUTHERN DISTRICT OF NEW YORK BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, OR BY PERSONAL SERVICE PROVIDED A REASONABLE TIME FOR APPEARANCE IS PERMITTED, OR IN SUCH OTHER MANNER AS MAY BE PERMISSIBLE UNDER THE RULES OF SAID COURTS. EACH PLEDGOR WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED HEREON AND SHALL NOT ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE OR BASED UPON FORUM NON CONVENIENS.

(h) It is understood and agreed that any person or entity that desires to become a Pledgor hereunder, or is required to execute a counterpart of this Stock Pledge Agreement after the date hereof pursuant to the requirements of any Document, shall become a Pledgor hereunder by (x) executing a Joinder Agreement in form and substance satisfactory to the Pledgee, (y) delivering supplements to such exhibits and annexes to such Documents as the Pledgee shall reasonably request and (z) taking all actions as specified in this Agreement as would have been taken by such Pledgor had it been an original party to this Agreement, in each case with all documents required above to be delivered to the Pledgee and with all documents and actions required above to be taken to the reasonable satisfaction of the Pledgee.

(i) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission shall be deemed an original signature hereto.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first written above.

BIO-KEY INTERNATIONAL, INC.

By: /s/ Michael W. DePasquale
Name:
Title

LAURUS MASTER FUND, LTD.,
as Collateral Agent

By: /s/ David Grin
Name:
Title

SCHEDULE A to the Stock Pledge Agreement

Pledged Stock

Issuer	Class of Stock	Stock Certificate Number	Par Value	Number of Shares
Public Safety Group, Inc.	Common	1	$ .01	1,000

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of September 29, 2004, by and between BIO-Key International, Inc., a Minnesota corporation (the "Company"), and Laurus Master Fund, Ltd. and each of the other parties signatory hereto as Purchasers (collectively the "Purchasers" and each a "Purchaser").

This Agreement is made pursuant to the Securities Purchase Agreement, dated as of the date hereof, by and among the Purchasers and the Company (as amended, modified or supplemented from time to time, the "Securities Purchase Agreement"), and pursuant to the Note and the Warrant referred to therein.

The Company and the Purchaser hereby agree as follows:

1. Definitions. Capitalized terms used and not otherwise defined herein that are defined in the Securities Purchase Agreement shall have the meanings given such terms in the Securities Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"*Commission*" means the Securities and Exchange Commission.

"*Common Stock*" means shares of the Company's common stock, par value $0.01 per share.

"*Effectiveness Date*" means (i) with respect to the initial Registration Statement required to be filed hereunder, a date no later than ninety (90) days following the date hereof and (ii) with respect to each additional Registration Statement required to be filed hereunder, a date no later than thirty (30) days following the applicable Filing Date..

"*Effectiveness Period*" shall have the meaning set forth in Section 2(a).

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and any successor statute.

"*Filing Date*" means, with respect to (i) the initial Registration Statement required to be filed hereunder, a date no later than thirty (30) days following the date hereof and (ii) with respect to shares of Common Stock issuable to the Holder as a result of adjustments to the Fixed Conversion Price made pursuant to Section 3.4 of the Secured Convertible Term Note or Section 4 of the Warrant or otherwise, thirty (30) days after the occurrence such event or the date of the adjustment of the Fixed Conversion Price.

"*Holder*" or "*Holders*" means the Purchasers or any of their respective affiliates or transferees to the extent any of them hold Registrable Securities.

"*Indemnified Party*" shall have the meaning set forth in Section 5(c).

"*Indemnifying Party*" shall have the meaning set forth in Section 5(c).

"*Note*" has the meaning set forth in the Securities Purchase Agreement.

"*Proceeding*" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"*Prospectus*" means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"*Registrable Securities*" means the shares of Common Stock issued upon the conversion of the Note and issuable upon exercise of the Warrants.

"*Registration Statement*" means each registration statement required to be filed hereunder, including the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

"*Rule 144*" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"*Rule 415*" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"*Rule 424*" means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"*Securities Act*" means the Securities Act of 1933, as amended, and any successor statute.

"*Securities Purchase Agreement*" means the agreement between the parties hereto calling for the issuance by the Company of $5,050,000 convertible Note plus Warrants.

"*Trading Market*" means any of the NASD OTC Bulletin Board, NASDAQ SmallCap Market, the Nasdaq National Market, the American Stock Exchange or the New York Stock Exchange.

"*Warrants*" has the meaning set forth in the Securities Purchase Agreement.

2. Registration.

(a) On or prior to the Filing Date the Company shall prepare and file with the Commission a Registration Statement covering the Registrable Securities for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form SB-2 (except if the Company is not then eligible to register for resale the Registrable Securities on Form SB-2, in which case such registration shall be on another appropriate form in accordance herewith). The Company shall cause the Registration Statement to become effective and remain effective as provided herein. The Company shall use its reasonable commercial efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event no later than the Effectiveness Date. The Company shall use its reasonable commercial efforts to keep the Registration Statement continuously effective under the Securities Act until the date which is the earlier date of when (i) all Registrable Securities have been sold or (ii) all Registrable Securities may be sold immediately without registration under the Securities Act and without volume restrictions pursuant to Rule 144(k), as determined by the counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company's transfer agent and the affected Holders (the "Effectiveness Period").

(b) If: (i) the Registration Statement is not filed on or prior to the Filing Date; (ii) the Registration Statement is not declared effective by the Commission by the Effectiveness Date; (iii) after the Registration Statement is filed with and declared effective by the Commission, the Registration Statement ceases to be effective (by suspension or otherwise) as to all Registrable Securities to which it is required to relate at any time prior to the expiration of the Effectiveness Period (without being succeeded immediately by an additional registration statement filed and declared effective) for a period of time which shall exceed 30 days in the aggregate per year or more than 20 consecutive calendar days (defined as a period of 365 days commencing on the date the Registration Statement is declared effective); or (iv) the Common Stock is not listed or quoted, or is suspended from trading on any Trading Market for a period of three (3) consecutive Trading Days (provided the Company shall not have been able to cure such trading suspension within 30 days of the notice thereof or list the Common Stock on another Trading Market); (any such failure or breach being referred to as an "Event," and for purposes of clause (i) or (ii) the date on which such Event occurs, or for purposes of clause (iii) the date which such 30 day or 20 consecutive day period (as the case may be) is exceeded, or for purposes of clause (iv) the date on which such three (3) Trading Day period is exceeded, being referred

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to as "Event Date"), then until the applicable Event is cured, the Company shall pay to each Holder an amount in cash, as liquidated damages and not as a penalty, equal to 2.0% for each thirty (30) day period (prorated for partial periods) on a daily basis of the original principal amount of the Note. While such Event continues, such liquidated damages shall be paid not less often than each thirty (30) days. Any unpaid liquidated damages as of the date when an Event has been cured by the Company shall be paid within three (3) days following the date on which such Event has been cured by the Company.

(c) Within three business days of the Effectiveness Date, the Company shall cause its counsel to issue a

blanket opinion in the form attached hereto as Exhibit A, to the transfer agent stating that the shares are subject to an effective registration statement and can be reissued free of restrictive legend upon notice of a sale by such Purchaser and confirmation by such Purchaser that it has complied with the prospectus delivery requirements, provided that the Company has not advised the transfer agent orally or in writing that the opinion has been withdrawn. Copies of the blanket opinion required by this Section 2(c) shall be delivered to such Purchaser within the time frame set forth above.

3. Registration Procedures. If and whenever the Company is required by the provisions hereof to effect the registration of any Registrable Securities under the Securities Act, the Company will, as expeditiously as possible:

(a) prepare and file with the Commission the Registration Statement with respect to such Registrable Securities, respond as promptly as possible to any comments received from the Commission, and use its best efforts to cause the Registration Statement to become and remain effective for the Effectiveness Period with respect thereto, and promptly provide to the Purchasers copies of all filings and Commission letters of comment relating thereto;

(b) prepare and file with the Commission such amendments and supplements to the Registration Statement and the Prospectus used in connection therewith as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities covered by the Registration Statement and to keep such Registration Statement effective until the expiration of the Effectiveness Period;

(c) furnish or make available to the Purchasers such number of copies of the Registration Statement and the Prospectus included therein (including each preliminary Prospectus) as the Purchasers reasonably may request to facilitate the public sale or disposition of the Registrable Securities covered by the Registration Statement;

(d) use its commercially reasonable efforts to register or qualify the Purchasers' Registrable Securities covered by the Registration Statement under the

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securities or "blue sky" laws of such jurisdictions within the United States as the Purchasers may reasonably request, provided, however, that the Company shall not for any such purpose be required to qualify generally to transact business as a foreign corporation in any jurisdiction where it is not so qualified or to consent to general service of process in any such jurisdiction;

(e) list the Registrable Securities covered by the Registration Statement with any securities exchange on which the Common Stock of the Company is then listed;

(f) immediately notify the Purchasers at any time when a Prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event of which the Company has knowledge as a result of which the Prospectus contained in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing; and

(g) make available for inspection by the Purchasers and any attorney, accountant or other agent retained by the Purchasers, all publicly available, non-confidential financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all publicly available, non-confidential information reasonably requested by the attorneys, accountants or agents of the Purchasers.

4. Registration Expenses. All expenses relating to the Company's compliance with Sections 2 and 3 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel and independent public accountants for the Company, fees and expenses (including reasonable counsel fees) incurred in connection with complying with state securities or "blue sky" laws, fees of the NASD, transfer taxes, fees of transfer agents and registrars, fees of, and disbursements incurred by, one counsel for the Holders (to the extent such counsel is required due to Company's failure to meet any of its obligations hereunder), are called "Registration Expenses". All selling commissions applicable to the sale of Registrable Securities, including any fees and disbursements of any special counsel to the Holders beyond those included in Registration Expenses, are called "Selling Expenses." The Company shall only be responsible for all Registration Expenses and shall not be responsible for any Selling Expenses.

5. Indemnification.

(a) In the event of a registration of any Registrable Securities under the Securities Act pursuant to this Agreement, the Company will indemnify and hold harmless the Purchaser, and its officers, directors and each other person, if any, who controls the Purchaser within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which the Purchaser, or such persons may become subject under the Securities Act or otherwise, insofar

as such

losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement under which such Registrable Securities were registered under the Securities Act pursuant to this Agreement, any preliminary Prospectus or final Prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Purchaser, and each such person for any reasonable legal or other expenses incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case if and to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by or on behalf of the Purchaser or any such person in writing specifically for use in any such document.

(b) In the event of a registration of the Registrable Securities under the Securities Act pursuant to this Agreement, each Purchaser will indemnify and hold harmless the Company, and its officers, directors and each other person, if any, who controls the Company within the meaning of the Securities Act, against all losses, claims, damages or liabilities, joint or several, to which the Company or such persons may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact which was furnished in writing by such Purchaser to the Company expressly for use in (and such information is contained in) the Registration Statement under which such Registrable Securities were registered under the Securities Act pursuant to this Agreement, any preliminary Prospectus or final Prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and each such person for any reasonable legal or other expenses incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action, provided, however, that such Purchaser will be liable in any such case if and only to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished in writing to the Company by or on behalf of such Purchaser specifically for use in any such document. Notwithstanding the provisions of this paragraph, such Purchaser shall not be required to indemnify any person or entity in excess of the amount of the aggregate net proceeds received by such Purchaser in respect of Registrable Securities in connection with any such registration under the Securities Act.

(c) Promptly after receipt by a party entitled to claim indemnification hereunder (an “Indemnified Party”) of notice of the commencement of any action,

such Indemnified Party shall, if a claim for indemnification in respect thereof is to be made against a party hereto obligated to indemnify such Indemnified Party (an “Indemnifying Party”), notify the Indemnifying Party in writing thereof, but the omission so to notify the Indemnifying Party shall not relieve it from any liability which it may have to such Indemnified Party other than under this Section 5(c) and shall only relieve it from any liability which it may have to such Indemnified Party under this Section 5(c) if and to the extent the Indemnifying Party is prejudiced by such omission. In case any such action shall be brought against any Indemnified Party and it shall notify the Indemnifying Party of the commencement thereof, the Indemnifying Party shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel satisfactory to such Indemnified Party, and, after notice from the Indemnifying Party to such Indemnified Party of its election so to assume and undertake the defense thereof, the Indemnifying Party shall not be liable to such Indemnified Party under this Section 5(c) for any legal expenses subsequently incurred by such Indemnified Party in connection with the defense thereof; if the Indemnified Party retains its own counsel, then the Indemnified Party shall pay all fees, costs and expenses of such counsel, provided, however, that, if the defendants in any such action include both the indemnified party and the Indemnifying Party and the Indemnified Party shall have reasonably concluded that there may be reasonable defenses available to it which are different from or additional to those available to the Indemnifying Party or if the interests of the Indemnified Party reasonably may be deemed to conflict with the interests of the Indemnifying Party, the Indemnified Party shall have the right to select one separate counsel and to assume such legal defenses and otherwise to participate in the defense of such action, with the reasonable expenses and fees of such separate counsel and other expenses related to such participation to be reimbursed by the Indemnifying Party as incurred.

(d) In order to provide for just and equitable contribution in the event of joint liability under the Securities Act in any case in which either (i) a Purchaser, or any officer, director or controlling person of such Purchaser, makes a claim for indemnification pursuant to this Section 5 but it is judicially determined (by the entry of a final judgment or decree by a court of

competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 5 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of such Purchaser or such officer, director or controlling person of such Purchaser in circumstances for which indemnification is provided under this Section 5; then, and in each such case, the Company and such Purchaser will contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that such Purchaser is responsible only for the portion represented by the percentage that the public offering price of its securities offered by the Registration Statement bears to the public offering price of all securities offered by such Registration Statement, provided, however, that, in any such case, (A) such Purchaser will not be required to contribute

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any amount in excess of the public offering price of all such securities offered by it pursuant to such Registration Statement; and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 10(f) of the Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

6. Representations and Warranties.

(a) The Common Stock of the Company is registered pursuant to Section 12(b) or 12(g) of the Exchange Act and, except with respect to certain matters which the Company has disclosed to the Purchaser on Schedule 4.21 to the Securities Purchase Agreement, the Company has timely filed all proxy statements, reports, schedules, forms, statements and other documents required to be filed by it under the Exchange Act. The Company has filed (i) its Annual Report on Form 10-KSB for its fiscal year ended December 31, 2003 and (ii) its Quarterly Report on Form 10-QSB for the fiscal quarters ended March 31, 2004 and June 30, 2004 (collectively, the "SEC Reports"). Each SEC Report was, at the time of its filing, in substantial compliance with the requirements of its respective form and none of the SEC Reports, nor the financial statements (and the notes thereto) included in the SEC Reports, as of their respective filing dates, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the Commission or other applicable rules and regulations with respect thereto. Such financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed) and fairly present in all material respects the financial condition, the results of operations and the cash flows of the Company and its subsidiaries, on a consolidated basis, as of, and for, the periods presented in each such SEC Report.

(b) The Common Stock is traded on the Over the Counter Bulletin Board ("OTCBB") and satisfies all requirements for the continuation of such trading . The Company has not received any notice that its Common Stock will be ineligible to be traded on the OTCBB (except for prior notices which have been fully remedied) or that the Common Stock does not meet all requirements for the continuation of such trading.

(c) Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would cause the offering of the Securities pursuant to the Securities Purchase Agreement to

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be integrated with prior offerings by the Company for purposes of the Securities Act which would prevent the Company from selling the Common Stock pursuant to Rule 506 under the Securities Act, or any applicable exchange-related stockholder approval provisions, nor will the Company or any of its affiliates or subsidiaries take any action or steps that would cause the offering of the Securities to be integrated with other offerings.

(d) The Warrants, the Note and the shares of Common Stock which the Purchaser may acquire pursuant to the Warrants and the Note are all restricted securities under the Securities Act as of the date of this Agreement. The Company will not issue any stop transfer order or other order impeding the sale and delivery of any of the Registrable Securities at such time as such Registrable Securities are registered for public sale or an exemption from registration is available, except as required by federal or state securities laws.

(e) The Company understands the nature of the Registrable Securities issuable upon the conversion of the Note and the exercise of the Warrant and recognizes that the issuance of such Registrable Securities may have a potential dilutive effect. The Company specifically acknowledges that its obligation to issue the Registrable Securities is binding upon the Company and enforceable regardless of the dilution such issuance may have on the ownership interests of other

shareholders of the Company.

(f) Except for agreements made in the ordinary course of business, there is no agreement that has not been filed with the Commission as an exhibit to a registration statement or to a form required to be filed by the Company under the Exchange Act, the breach of which could reasonably be expected to have a material and adverse effect on the Company and its subsidiaries, or would prohibit or otherwise interfere with the ability of the Company to enter into and perform any of its obligations under this Agreement in any material respect.

(g) The Company will at all times have authorized and reserved a sufficient number of shares of Common Stock for the full conversion of the Note and exercise of the Warrants.

7. Miscellaneous.

(a) Remedies. In the event of a breach by the Company or by a Holder, of any of their respective obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement.

(b) No Piggyback on Registrations. Except as and to the extent specified in Schedule 7(b)(i) hereto, neither the Company nor any of its security holders (other than the Holders in such capacity pursuant hereto) may include securities of the

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Company in any Registration Statement other than the Registrable Securities, and the Company shall not after the date hereof enter into any agreement providing any such right for inclusion of shares in the Registration Statement to any of its security holders. Except as and to the extent specified in Schedule 7(b)(ii) hereto, the Company has not previously entered into any agreement granting any registration rights with respect to any of its securities to any Person that have not been fully satisfied.

(c) Compliance. Each Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

(d) Discontinued Disposition. Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of a Discontinuation Event (as defined below), such Holder will forthwith discontinue disposition of such Registrable Securities under the applicable Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide appropriate stop orders to enforce the provisions of this paragraph. For purposes of this Section 7(d), a "Discontinuation Event" shall mean (i) when the Commission notifies the Company whether there will be a "review" of such Registration Statement and whenever the Commission comments in writing on such Registration Statement (the Company shall provide true and complete copies thereof and all written responses thereto to each of the Holders); (ii) any request by the Commission or any other Federal or state governmental authority for amendments or supplements to such Registration Statement or Prospectus or for additional information; (iii) the issuance by the Commission of any stop order suspending the effectiveness of such Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and/or (v) the occurrence of any event or passage of time that makes the financial statements included in such Registration Statement ineligible for inclusion therein or any statement made in such Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to such Registration Statement, Prospectus or other documents so that, in the case of such Registration Statement or Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact

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required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(e) Piggy-Back Registrations. If at any time during the Effectiveness Period there is not an effective

Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send to each Holder written notice of such determination and, if within fifteen days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such holder requests to be registered to the extent the Company may do so without violating registration rights of others which exist as of the date of this Agreement, subject to customary underwriter cutbacks applicable to all holders of registration rights and subject to obtaining any required the consent of any selling stockholder(s) to such inclusion under such registration statement.

(f) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and Laurus. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of certain Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities to which such waiver or consent relates; provided, however, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(g) Notices. Any notice or request hereunder may be given to the Company or the Purchaser at the respective addresses set forth below or as may hereafter be specified in a notice designated as a change of address under this Section 7(g). Any notice or request hereunder shall be given by registered or certified mail, return receipt requested, hand delivery, overnight mail, Federal Express or other national overnight next day carrier (collectively, "Courier") or telecopy (confirmed by mail). Notices and requests shall be, in the case of those by hand delivery, deemed to have been given when delivered to any party to whom it is addressed, in the case of those by mail or overnight mail, deemed to have been given three (3) business days after the date when deposited in the mail or with the overnight mail carrier, in the case of a Courier, the next business day following timely delivery of the package with

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the Courier, and, in the case of a telecopy, when confirmed. The address for such notices and communications shall be as follows:

If to the Company:	BIO-Key International, Inc. 1285 Corporate Center Drive Suite 175 Eagan, MN 55121 Attention: Chief Financial Officer Facsimile: (651) 687-0515
	with a copy to:
	Choate, Hall & Stewart 53 State Street Boston, MA 02109
	Attention: Charles J. Johnson Facsimile:(617) 248-4000
If to a Purchaser:	To the address set forth under such Purchaser name on the signature pages hereto.
If to any other Person who is then the registered Holder:	To the address of such Holder as it appears in the stock transfer books of the Company

or such other address as may be designated in writing hereafter in accordance with this Section 7(g) by such Person.

(h) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its

rights or obligations hereunder without the prior written consent of each Holder. Each Holder may assign their respective rights hereunder in the manner and to the Persons as permitted under the Notes and the Securities Purchase Agreement with the prior written consent of the Company, which consent shall not be unreasonably withheld.

(i) Execution and Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(j) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all Proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement shall be commenced exclusively in the state and federal courts sitting in the City of New York, Borough of Manhattan. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any Proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such Proceeding is improper. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of a Transaction Document, then the prevailing party in such Proceeding shall be reimbursed by the other party for its reasonable attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

(k) Cumulative Remedies. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(l) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(m) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

COMPANY:

BIO-KEY INTERNATIONAL, INC.

By: /s/ Michael DePasquale
Name:
Title:

PURCHASER:

LAURUS MASTER FUND, LTD.

By: /s/ David Grin
Name:
Title:

PURCHASER

ALBERT FRIED, JR.

By: /s/ Albert Fried, Jr.
Name:
Title:

Counterpart Signature Page to Registration Rights Agreement

EXHIBIT A

[Month , 2003]

[Continental Stock Transfer
& Trust Company
Two Broadway
New York, NY 10004
Attn: William Seegraber]

Re: [Company Name]. Registration Statement on Form [S-3]

Ladies and Gentlemen:

As counsel to[company name] , a Delaware corporation (the "Company"), we have been requested to render our opinion to you in connection with the resale by the individuals or entitles listed on Schedule A attached hereto (the "Selling Stockholders"), of an aggregate of [amount]shares (the "Shares") of the Company's Common Stock.

A Registration Statement on Form [S-3] under the Securities Act of 1933, as amended (the "Act"), with respect to the resale of the Shares was declared effective by the Securities and Exchange Commission on [date]. Enclosed is the Prospectus dated [date]. We understand that the Shares are to be offered and sold in the manner described in the Prospectus.

Based upon the foregoing, upon request by the Selling Stockholders at any time while the registration statement remains effective, it is our opinion that the Shares have been registered for resale under the Act and new certificates evidencing the Shares upon their transfer or re-registration by the Selling Stockholders may be issued without restrictive legend. We will advise you if the registration statement is not available or effective at any point in the future.

Very truly yours,

[Company counsel]

Schedule A

Selling Stockholder	**Shares Being Offered**

Schedule 7(b)(i)

1. Warrant dated June 13, 2000 for 50,000 shares of Common Stock issued to Alliance Technology, Inc.

2. Warrant dated December 1, 2001 for 27,000 shares of Common Stock issued to Jefferson Government Relations

3. Warrant dated December 4, 2001 for 57,000 shares of Common Stock issued to Delta Logistics, Inc.

4. Warrant dated November 25, 2001 for 10,000 shares of Common Stock issued to Kreiger & Prager

5. Warrant dated December 3, 2001 for 5,682 shares of Common Stock issued to Protis

6. Warrant dated March 22, 2002 for 25,000 shares of Common Stock issued to Punk, Ziegel & Company, L.P.

7. Warrant July 15, 2004 for 100,000 shares of Common Stock issued to The November Group Ltd.

8. Shares of Common Stock and Warrants issuable pursuant to a Securities Purchase Agreement with Shaar Fund Ltd. and certain other purchasers of even date herewith.

9. Warrants dated March, 2004 issued Jesup & Lamont Securities and certain of its employees for an aggregate of 444,444 shares of Common Stock.

10. Warrants dated on or about the date hereof to be issued to Jesup & Lamont Securities for an aggregate of up to 741,000 shares of Common Stock.

Schedule 7(b)(ii)

1. Warrant dated March 17, 2000 for 67,500 shares of common stock issued to The Shaar Fund, Ltd.

2. Warrant dated November 25, 2001 for 4,000,000 shares of common stock issued to The Shaar Fund, Ltd.

3. The Shaar (and other purchasers) Registration Rights Agreement of even date herewith

4. Each of the warrants described in Schedule 7(b)(i) above.

BIO-KEY INTERNATIONAL, INC.

SECURITIES PURCHASE AGREEMENT

September 29, 2004

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LIST OF EXHIBITS

THIS AGREEMENT AND THE INDEBTEDNESS EVIDENCED HEREBY ARE SUBORDINATE IN THE MANNER AND TO THE EXTENT SET FORTH IN THAT CERTAIN INTERCREDITOR AND SUBORDINATION AGREEMENT (THE "SUBORDINATION AGREEMENT") DATED AS OF SEPTEMBER 29, 2004 AMONG SHAAR FUND, LTD., AS PURCHASER AGENT, LAURUS MASTER FUND, LTD., AS COLLATERAL AGENT, AETHER SYSTEMS, INC., BIO-KEY INTERNATIONAL, INC. AND PUBLIC SAFETY GROUP, INC. TO THE SENIOR INDEBTEDNESS (AS DEFINED IN THE SUBORDINATION AGREEMENT); AND EACH PARTY TO THIS AGREEMENT, BY ITS ACCEPTANCE HEREOF, SHALL BE BOUND BY THE PROVISIONS OF THE SUBORDINATION AGREEMENT.

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT (this "Agreement") is made and entered into as of September 29, 2004, by

and between (i) BIO-KEY INTERNATIONAL, INC., a Minnesota corporation (the "Company"), (ii) The Shaar Fund Ltd. ("Shaar") and each of the other parties signatory hereto as Purchasers (collectively, the "Purchasers" and each a "Purchaser") and (iii) Shaar, as agent for the Purchasers (in such capacity, the "Purchaser Agent").

RECITALS

WHEREAS, the Company has authorized the sale to the Purchasers of Convertible Term Notes in the form attached hereto as Exhibit A in the aggregate principal amount of $4,950,000 (as amended, modified or supplemented from time to time, the "Note"), which Notes shall be convertible into shares of the Company's common stock, $0.01 par value per share (the "Common Stock") at an initial fixed conversion price of $1.35 per share of Common Stock ("Fixed Conversion Price");

WHEREAS, the Company wishes to issue to the Purchasers warrants in the form attached hereto as Exhibit B (as amended, modified or supplemented from time to time, the "Warrants") to purchase up to an aggregate of 1,099,998 shares of the Company's Common Stock (subject to adjustment as set forth therein) in connection with Purchasers' purchase of the Notes;

WHEREAS, Purchasers desire to purchase the Notes and the Warrants on the terms and conditions set forth herein; and

WHEREAS, the Company desires to issue and sell the Notes and Warrants to Purchasers on the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises, representations, warranties and covenants hereinafter set forth and for other good and valuable

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consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Agreement to Sell and Purchase. Pursuant to the terms and conditions set forth in this Agreement, on the Closing Date (as defined in Section 3), the Company agrees to sell to each Purchaser, and each Purchaser hereby agrees to purchase from the Company, a Note in the aggregate principal amount set forth opposite such Purchaser's name on Schedule 1 convertible in accordance with the terms thereof into shares of the Company's Common Stock in accordance with the terms of such Note and this Agreement. The Notes purchased on the Closing Date shall be known as the "Offering." The Notes will mature on the Maturity Date (defined in the Notes). Collectively, the Notes and Warrants and Common Stock issuable in payment of the Note, upon conversion of the Note and upon exercise of the Warrant are referred to as the "Securities."

2. Warrant. On the Closing Date, the Company will issue and deliver to each Purchaser a Warrant to purchase up to that number of shares of Common Stock set forth opposite such Purchaser's name on Schedule 1 in connection with the Offering pursuant to Section 1 hereof. The Warrants must be delivered on the Closing Date. All the representations, covenants, warranties, undertakings, and indemnification, and other rights made or granted to or for the benefit of the Purchasers by the Company are hereby also made and granted in respect of the Warrants and shares of the Company's Common Stock issuable upon exercise of each Warrant (the "Warrant Shares").

3. Closing, Delivery and Payment

3.1 Closing. Subject to the terms and conditions herein, the closing of the transactions contemplated hereby (the "Closing"), shall take place on the date hereof, at such time or place as the Company and Purchasers may mutually agree (such date is hereinafter referred to as the "Closing Date").

3.2 Delivery. At the Closing on the Closing Date, the Company will deliver to the Purchasers, among other things, the Notes and the Warrants, and each Purchaser will deliver to the Company, among other things, the amount set forth on Schedule 1 opposite such Purchaser's name by certified funds or wire transfer.

4. Representations and Warranties of the Company. The Company hereby represents and warrants to the Purchasers as of immediately prior to the acquisition of the Mobile Government Division of Aether Systems, Inc. as follows (which representations and warranties are supplemented by the Company's filings under the Securities Exchange Act of 1934 (collectively, the "Exchange Act Filings"), public access to copies of such filings having been provided to the Purchasers):

4.1 Organization, Good Standing and Qualification. Each of the Company and each of its Subsidiaries is a corporation, partnership or limited liability company, as the case may be, duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. Each of the Company and each of its Subsidiaries has the corporate power and authority to own and operate its properties and assets, to execute and deliver (i) this Agreement, (ii) the Notes and the

Agreement relating to the Securities dated as of the date hereof between the Company and the Purchasers (as amended, modified or supplemented from time to time, the "Registration Rights Agreement"), (iv) the Subsidiary Guaranty dated as of the date hereof made by certain Subsidiaries of the Company (as amended, modified or supplemented from time to time, the "Subsidiary Guaranty") and (v) all other agreements related to this Agreement and the Note and referred to herein (the preceding clauses (ii) through (v), collectively, the "Related Agreements"), to issue and sell the Notes and the shares of Common Stock issuable upon conversion of the Note (the "Note Shares"), to issue and sell the Warrants and the Warrant Shares, and to carry out the provisions of this Agreement and the Related Agreements and to carry on its business as presently conducted. Each of the Company and each of its Subsidiaries is duly qualified and is authorized to do business and is in good standing as a foreign corporation, partnership or limited liability company, as the case may be, in all jurisdictions in which the nature of its activities and of its properties (both owned and leased) makes such qualification necessary, except for those jurisdictions in which failure to do so has not, or could not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, assets, liabilities, condition (financial or otherwise), properties, operations or prospects of the Company and it Subsidiaries, taken individually and as a whole (a "Material Adverse Effect").

4.2 Subsidiaries. Each direct and indirect Subsidiary of the Company, the direct owner of such Subsidiary and its percentage ownership thereof, is set forth on Schedule 4.2. For the purpose of this Agreement, a "Subsidiary" of any person or entity means (i) a corporation or other entity whose shares of stock or other ownership interests having ordinary voting power (other than stock or other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the directors of such corporation, or other persons or entities performing similar functions for such person or entity, are owned, directly or indirectly, by such person or entity or (ii) a corporation or other entity in which such person or entity owns, directly or indirectly, more than 50% of the equity interests at such time.

4.3 Capitalization; Voting Rights.

(a) The authorized capital stock of the Company, as of the date hereof consists of 90,000,000 shares, of which 85,000,000 are shares of Common Stock, par value $0.01 per share, 38,433,829 shares of which are issued and outstanding , and 5,000,000 are shares of preferred stock, par value $0.01 per share, 75,682 shares of which are issued and outstanding. The authorized capital stock of each Subsidiary of the Company is set forth on Schedule 4.3.

(b) Except as disclosed on Schedule 4.3 or as disclosed in any Exchange Act Filings, other than: (i) the shares reserved for issuance under the Company's stock option plans; and (ii) shares which may be granted pursuant to this Agreement and the Related Agreements, there are no outstanding options, warrants, rights (including conversion or preemptive rights and rights of first refusal), proxy or stockholder agreements, or arrangements or agreements of any kind for the purchase or acquisition from the Company of any of its securities.

Except as disclosed on Schedule 4.3 or as disclosed in any Exchange Act Filings, neither the offer, issuance or sale of any of the Notes or the Warrants, or the issuance of any of the Note Shares or Warrant Shares, nor the consummation of any transaction contemplated hereby will result in a change in the price or number of any securities of the Company outstanding, under anti-dilution or other similar provisions contained in or affecting any such securities.

(c) All issued and outstanding shares of the Company's Common Stock: (i) have been duly authorized and validly issued and are fully paid and nonassessable; and (ii) were issued in compliance with all applicable state and federal laws concerning the issuance of securities.

(d) The rights, preferences, privileges and restrictions of the shares of the Common Stock are as stated in the Company's Articles of Incorporation, including its Certificates of Designation (the "Charter"). The Note Shares and Warrant Shares have been duly and validly reserved for issuance. When issued in compliance with the provisions of this Agreement and the Company's Charter, the Securities will be validly issued, fully paid and nonassessable, and will be free of any liens or encumbrances; provided, however, that the Securities may be subject to restrictions on transfer under state and/or federal securities laws as set forth herein or as otherwise required by such laws at the time a transfer is proposed.

4.4 Authorization; Binding Obligations. All corporate, partnership or limited liability company, as the case may be, action on the part of the Company and each of its Subsidiaries (including the respective officers and directors) necessary for the authorization of this Agreement and the Related Agreements, the performance of all obligations of the Company and its Subsidiaries hereunder and under the other Related Agreements at the Closing and, the authorization, sale, issuance and delivery of the Notes and Warrants has been taken or will be taken prior to the Closing. This Agreement and the Related Agreements, when executed and delivered and to the extent it is a party thereto, will be valid and binding obligations of each of the Company and each of its Subsidiaries, enforceable against each such person in accordance with their terms, except:

(a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights; and

(b) general principles of equity that restrict the availability of equitable or legal remedies.

Except as set forth on Schedule 4.3, the sale of the Notes and the subsequent conversion of the Notes into Note Shares are not and will not be subject to any preemptive rights or rights of first refusal that have not been properly waived or complied with. Except as set forth on Schedule 4.3, the issuance of the Warrants and the subsequent exercise of the Warrants for Warrant Shares are not and will not be subject to any preemptive rights or rights of first refusal that have not been properly waived or complied with.

4.5 Liabilities. Neither the Company nor any of its Subsidiaries has any contingent liabilities, except current liabilities incurred in the ordinary course of business and liabilities disclosed in any Exchange Act Filings.

4.6 Agreements; Action. Except as set forth on Schedule 4.6 or as disclosed in any Exchange Act Filings:

(a) there are no agreements, understandings, instruments, contracts, proposed transactions, judgments, orders, writs or decrees to which the Company or any of its Subsidiaries is a party or by which it is bound which may involve: (i) obligations (contingent or otherwise) of, or payments to, the Company in excess of $50,000 (other than obligations of, or payments to, the Company arising from purchase or sale agreements entered into in the ordinary course of business); or (ii) the transfer or license of any patent, copyright, trade secret or other proprietary right to or from the Company (other than licenses arising from the purchase of "off the shelf" or other standard products); or (iii) provisions restricting the development, manufacture or distribution of the Company's products or services; or (iv) indemnification by the Company with respect to infringements of proprietary rights.

(b) Since June 30, 2004 , neither the Company nor any of its Subsidiaries has: (i) declared or paid any dividends, or authorized or made any distribution upon or with respect to any class or series of its capital stock other than dividends paid to the holders of the Company's Series C Preferred Stock; (ii) incurred any indebtedness for money borrowed or any other liabilities (other than ordinary course obligations) individually in excess of $50,000 or, in the case of indebtedness and/or liabilities individually less than $50,000, in excess of $100,000 in the aggregate; (iii) made any loans or advances to any person not in excess, individually or in the aggregate, of $100,000, other than ordinary course advances for travel expenses; or (iv) sold, exchanged or otherwise disposed of any of its assets or rights, other than the sale of its inventory in the ordinary course of business.

(c) For the purposes of subsections (a) and (b) above, all indebtedness, liabilities, agreements, understandings, instruments, contracts and proposed transactions involving the same person or entity (including persons or entities the Company has reason to believe are affiliated therewith) shall be aggregated for the purpose of meeting the individual minimum dollar amounts of such subsections.

4.7 Obligations to Related Parties. Except as set forth on Schedule 4.7 or as disclosed in any Exchange Act Filings, there are no obligations of the Company or any of its Subsidiaries to officers, directors, stockholders or employees of the Company or any of its Subsidiaries other than:

(a) for payment of salary for services rendered and for bonus payments;

(b) reimbursement for reasonable expenses incurred on behalf of the Company and its Subsidiaries;

(c) for other standard employee benefits made generally available to all employees (including stock option agreements outstanding under any stock option plan approved by the Board of Directors of the Company); and

(d) obligations listed in the Company's financial statements or disclosed in any of its Exchange Act Filings.

Except as described above, set forth on Schedule 4.7 or disclosed in any Exchange Act Filings, none of the officers, directors or, to the best of the Company's knowledge, key employees or stockholders of the Company or any members of their immediate families, are indebted to the Company, individually or in the aggregate, in excess of $50,000 or have any direct or indirect ownership interest in any firm or corporation with which the Company is affiliated or with which the Company has a business relationship, or any firm or corporation which competes with the Company, other than passive investments in publicly traded companies (representing less than one percent (1%) of such company) which may compete with the Company. Except as described above, no officer, director or stockholder, or any member of their immediate families, is, directly or indirectly, interested in any material contract with the Company and no agreements, understandings or proposed transactions are contemplated between the Company and any such person. Except as set forth on Schedule 4.7 or as disclosed in any Exchange Act Filings, the Company is not a guarantor or indemnitor of any indebtedness of any other person, firm or corporation.

4.8 Changes. Since June 30, 2004 , except as disclosed in any Exchange Act Filing or in any Schedule to this Agreement or to any of the Related Agreements, there has not been:

(a) any change in the business, assets, liabilities, condition (financial or otherwise), properties, operations or prospects of the Company or any of its Subsidiaries, which individually or in the aggregate has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(b) any resignation or termination of any officer, key employee or group of employees of the Company or any of its Subsidiaries;

(c) any material change, except in the ordinary course of business, in the contingent obligations of the Company or any of its Subsidiaries by way of guaranty, endorsement, indemnity, warranty or otherwise;

(d) any damage, destruction or loss, whether or not covered by insurance, has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(e) any waiver by the Company or any of its Subsidiaries of a valuable right or of a material debt owed to it;

(f) any direct or indirect loans made by the Company or any of its Subsidiaries to any stockholder, employee, officer or director of the Company or any of its Subsidiaries, other than advances made in the ordinary course of business;

(g) any material change in any compensation arrangement or agreement with any employee, officer, director or stockholder of the Company or any of its Subsidiaries;

(h) any declaration or payment of any dividend or other distribution of the assets of the Company or any of its Subsidiaries other than dividends paid to the holders of the Company's Series C Preferred Stock;

(i) any labor organization activity related to the Company or any of its Subsidiaries;

(j) any debt, obligation or liability incurred, assumed or guaranteed by the Company or any of its Subsidiaries, except those for immaterial amounts and for current liabilities incurred in the ordinary course of business;

(k) any sale, assignment or transfer of any patents, trademarks, copyrights, trade secrets or other intangible assets owned by the Company or any of its Subsidiaries;

(l) any change in any material agreement to which the Company or any of its Subsidiaries is a party or by which either the Company or any of its Subsidiaries is bound which either individually or in the aggregate has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(m) any other event or condition of any character that, either individually or in the aggregate, has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect; or

(n) any arrangement or commitment by the Company or any of its Subsidiaries to do any of the acts described in subsection (a) through (m) above.

4.9 Title to Properties and Assets; Liens, Etc. Except as set forth on Schedule 4.9, each of the Company and each of its Subsidiaries has good and marketable title to its properties and assets, and good title to its leasehold estates, in each case subject to no mortgage, pledge, lien, lease, encumbrance or charge, other than:

(a) those resulting from taxes which have not yet become delinquent;

(b) minor liens and encumbrances which do not materially detract from the value of the property subject thereto or materially impair the operations of the Company or any of its Subsidiaries; and

(c) those that have otherwise arisen in the ordinary course of business.

All facilities, machinery, equipment, fixtures, vehicles and other properties owned, leased or used by the Company and its Subsidiaries are in good operating condition and repair and are reasonably fit and usable for the purposes for which they are being used. Except as set forth on Schedule 4.9, the Company and its Subsidiaries are in compliance with all material terms of each lease to which it is a party or is otherwise bound.

4.10 Intellectual Property.

(a) Each of the Company and each of its Subsidiaries owns or possesses sufficient legal rights to all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes necessary for its business as now conducted and to the Company's knowledge, as presently proposed to be conducted (the "Intellectual Property"), without any known infringement of the rights of others. There are no outstanding options, licenses or agreements of any kind relating to the foregoing proprietary rights, nor is the Company or any of its Subsidiaries bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes of any other person or entity other than such licenses or agreements arising from the purchase of "off the shelf" or standard products.

(b) Neither the Company nor any of its Subsidiaries has received any communications alleging that the Company or any of its Subsidiaries has violated any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity, nor is the Company or any of its Subsidiaries aware of any basis therefor.

(c) The Company does not believe it is or will be necessary to utilize any inventions, trade secrets or proprietary information of any of its employees made prior to their employment by the Company or any of its Subsidiaries, except for inventions, trade secrets or proprietary information that have been rightfully assigned to the Company or any of its Subsidiaries.

4.11 Compliance with Other Instruments. Neither the Company nor any of its Subsidiaries is in violation or default of (x) any term of its Charter or Bylaws, or (y) of any provision of any indebtedness, mortgage, indenture, contract, agreement or instrument to which it is party or by which it is bound or of any judgment, decree, order or writ, which violation or default, in the case of this clause (y), has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. The execution, delivery and performance of and compliance with this Agreement and the Related Agreements to which it is a party, and the issuance and sale of the Note by the Company and the other Securities by the Company each pursuant hereto and thereto, will not, with or without the passage of time or giving of notice, result in any such material violation, or be in conflict with or constitute a default under any

such term or provision, or result in the creation of any mortgage, pledge, lien, encumbrance or charge upon any of the properties or assets of the Company or any of its Subsidiaries or the suspension, revocation, impairment, forfeiture or nonrenewal of any permit, license, authorization or approval applicable to the Company, its business or operations or any of its assets or properties.

4.12 Litigation. Except as set forth on Schedule 4.12 hereto or as disclosed in any Exchange Act Filings, there

is no action, suit, proceeding or investigation pending or, to the Company's knowledge, currently threatened against the Company or any of its Subsidiaries that prevents the Company or any of its Subsidiaries from entering into this Agreement or the other Related Agreements, or from consummating the transactions contemplated hereby or thereby, or which has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect or any change in the current equity ownership of the Company or any of its Subsidiaries, nor is the Company aware that there is any basis to assert any of the foregoing. Neither the Company nor any of its Subsidiaries is a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company or any of its Subsidiaries currently pending or which the Company or any of its Subsidiaries intends to initiate.

4.13 Tax Returns and Payments. Each of the Company and each of its Subsidiaries has timely filed all tax returns (federal, state and local) required to be filed by it. All taxes shown to be due and payable on such returns, any assessments imposed, and all other taxes due and payable by the Company or any of its Subsidiaries on or before the Closing, have been paid or will be paid prior to the time they become delinquent. Except as set forth on Schedule 4.13, neither the Company nor any of its Subsidiaries has been advised:

(a) that any of its returns, federal, state or other, have been or are being audited as of the date hereof; or

(b) of any deficiency in assessment or proposed judgment to its federal, state or other taxes.

The Company has no knowledge of any liability of any tax to be imposed upon its properties or assets as of the date of this Agreement that is not adequately provided for.

4.14 Employees. Except as set forth on Schedule 4.14, neither the Company nor any of its Subsidiaries has any collective bargaining agreements with any of its employees. There is no labor union organizing activity pending or, to the Company's knowledge, threatened with respect to the Company or any of its Subsidiaries. Except as disclosed in the Exchange Act Filings or on Schedule 4.14, neither the Company nor any of its Subsidiaries is a party to or bound by any currently effective employment contract, deferred compensation arrangement, bonus plan, incentive plan, profit sharing plan, retirement agreement or other employee compensation plan or agreement. To the Company's knowledge, no employee of the Company or any of its Subsidiaries, nor any

consultant with whom the Company or any of its Subsidiaries has contracted, is in violation of any term of any employment contract, proprietary information agreement or any other agreement relating to the right of any such individual to be employed by, or to contract with, the Company or any of its Subsidiaries because of the nature of the business to be conducted by the Company or any of its Subsidiaries; and to the Company's knowledge the continued employment by the Company or any of its Subsidiaries of its present employees, and the performance of the Company's and its Subsidiaries' contracts with its independent contractors, will not result in any such violation. Neither the Company nor any of its Subsidiaries is aware that any of its employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with their duties to the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries has received any notice alleging that any such violation has occurred. Except for employees who have a current effective employment agreement with the Company or any of its Subsidiaries, no employee of the Company or any of its Subsidiaries has been granted the right to continued employment by the Company or any of its Subsidiaries or to any material compensation following termination of employment with the Company or any of its Subsidiaries. Except as set forth on Schedule 4.14, the Company is not aware that any officer, key employee or group of employees intends to terminate his, her or their employment with the Company or any of its Subsidiaries, nor does the Company or any of its Subsidiaries have a present intention to terminate the employment of any officer, key employee or group of employees.

4.15 Registration Rights and Voting Rights. Except as set forth on Schedule 4.15 and except as disclosed in Exchange Act Filings, neither the Company nor any of its Subsidiaries is presently under any obligation, and neither the Company nor any of its Subsidiaries has granted any rights, to register any of the Company's or its Subsidiaries' presently outstanding securities or any of its securities that may hereafter be issued. Except as set forth on Schedule 4.15 and except as disclosed in Exchange Act Filings, to the Company's knowledge, no stockholder of the Company or any of its Subsidiaries has entered into any agreement with respect to the voting of equity securities of the Company or any of its Subsidiaries.

4.16 Compliance with Laws; Permits. Neither the Company nor any of its Subsidiaries is in violation of any applicable statute, rule, regulation, order or restriction of any domestic or foreign government or any instrumentality or agency thereof in respect of the conduct of its business or the ownership of its properties which has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. No governmental orders, permissions,

consents, approvals or authorizations are required to be obtained and no registrations or declarations are required to be filed in connection with the execution and delivery of this Agreement or any other Related Agreement and the issuance of any of the Securities, except such as has been duly and validly obtained or filed, or with respect to any filings that must be made after the Closing, as will be filed in a timely manner. Each of the Company and its Subsidiaries has all material franchises, permits, licenses and any similar authority necessary for the conduct of its business as now being conducted by it, the lack of which

could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

4.17 Environmental and Safety Laws. Neither the Company nor any of its Subsidiaries is in violation of any applicable statute, law or regulation relating to the environment or occupational health and safety, and to its knowledge, no material expenditures are or will be required in order to comply with any such existing statute, law or regulation. Except as set forth on Schedule 4.17, no Hazardous Materials (as defined below) are used or have been used, stored, or disposed of by the Company or any of its Subsidiaries or, to the Company's knowledge, by any other person or entity on any property owned, leased or used by the Company or any of its Subsidiaries. For the purposes of the preceding sentence, "Hazardous Materials" shall mean:

(a) materials which are listed or otherwise defined as "hazardous" or "toxic" under any applicable local, state, federal and/or foreign laws and regulations that govern the existence and/or remedy of contamination on property, the protection of the environment from contamination, the control of hazardous wastes, or other activities involving hazardous substances, including building materials; or

(b) any petroleum products or nuclear materials.

4.18 Valid Offering. Assuming the accuracy of the representations and warranties of the Purchasers contained in this Agreement, the offer, sale and issuance of the Securities will be exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), and will have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable state securities laws.

4.19 Full Disclosure. Each of the Company and each of its Subsidiaries has provided the Purchasers with all information requested by the Purchasers in connection with its decision to purchase the Notes and Warrants, including all information the Company and its Subsidiaries believe is reasonably necessary to make such investment decision. Neither this Agreement, the Related Agreements, the exhibits and schedules hereto and thereto nor any other document delivered by the Company or any of its Subsidiaries to Purchasers or their attorneys or agents in connection herewith or therewith or with the transactions contemplated hereby or thereby, contain any untrue statement of a material fact nor omit to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances in which they are made, not misleading. Any financial projections and other estimates provided to the Purchasers by the Company or any of its Subsidiaries were based on the Company's and its Subsidiaries' experience in the industry and on assumptions of fact and opinion as to future events which the Company or any of its Subsidiaries, at the date of the issuance of such projections or estimates, believed to be reasonable.

4.20 Insurance. Each of the Company and each of its Subsidiaries has general commercial, product liability, fire and casualty insurance policies with coverages which

the Company believes are customary for companies similarly situated to the Company and its Subsidiaries in the same or similar business.

4.21 SEC Reports. Except as set forth on Schedule 4.21, the Company has filed all proxy statements, reports and other documents required to be filed by it under the Securities Exchange Act 1934, as amended (the "Exchange Act"). The Company has furnished the Purchaser with copies of: (i) its Annual Reports on Form 10-KSB for its fiscal years ended December 31, 2003 ; and (ii) its Quarterly Reports on Form 10-QSB for its fiscal quarters ended March 31, 2004 and June 30, 2004, and the Form 8-K filings which it has made during the fiscal year 2004 to date (collectively, the "SEC Reports"). Except as set forth on Schedule 4.21, each SEC Report was, at the time of its filing, in substantial compliance with the requirements of its respective form and none of the SEC Reports, nor the financial statements (and the notes thereto) included in the SEC Reports, as of their respective filing dates, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they

were made, not misleading.

4.22 Listing. The Company's Common Stock is traded on the NASD Over the Counter Bulletin Board ("OTCBB") and satisfies all requirements for the continuation of such trading . The Company has not received any notice that its Common Stock will be ineligible to trade or that its Common Stock does not meet all requirements for such trading .

4.23 No Integrated Offering. Neither the Company, nor any of its Subsidiaries or affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would cause the offering of the Securities pursuant to this Agreement or any of the Related Agreements to be integrated with prior offerings by the Company for purposes of the Securities Act which would prevent the Company from selling the Securities pursuant to Rule 506 under the Securities Act, or any applicable exchange-related stockholder approval provisions, nor will the Company or any of its affiliates or Subsidiaries take any action or steps that would cause the offering of the Securities to be integrated with other offerings.

4.24 Stop Transfer. The Securities are restricted securities as of the date of this Agreement. Neither the Company nor any of its Subsidiaries will issue any stop transfer order or other order impeding the sale and delivery of any of the Securities at such time as the Securities are registered for public sale or an exemption from registration is available, except as required by state and federal securities laws.

4.25 Dilution. The Company specifically acknowledges that its obligation to issue the shares of Common Stock upon conversion of the Notes and exercise of the Warrants is binding upon the Company and enforceable regardless of the dilution such issuance may have on the ownership interests of other shareholders of the Company.

4.26 Patriot Act. The Company certifies that, to the best of Company's knowledge, neither the Company nor any of its Subsidiaries has been designated, and is not owned or controlled, by a "suspected terrorist" as defined in Executive Order 13224. The Company hereby acknowledges that each Purchaser seeks to comply with all applicable laws concerning money laundering and related activities. In furtherance of those efforts, the Company hereby represents, warrants and agrees that: (i) none of the cash or property that the Company or any of its Subsidiaries will pay or will contribute to such Purchaser has been or shall be derived from, or related to, any activity that is deemed criminal under United States law; and (ii) no contribution or payment by the Company or any of its Subsidiaries to such Purchaser, to the extent that they are within the Company's and/or its Subsidiaries' control shall cause Purchaser to be in violation of the United States Bank Secrecy Act, the United States International Money Laundering Control Act of 1986 or the United States International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001. The Company shall promptly notify the Purchasers if any of these representations ceases to be true and accurate regarding the Company or any of its Subsidiaries. The Company agrees to provide the Purchasers any additional information regarding the Company or any of its Subsidiaries that the Purchasers deem necessary or convenient to ensure compliance with all applicable laws concerning money laundering and similar activities. The Company understands and agrees that if at any time it is discovered that any of the foregoing representations are incorrect, or if otherwise required by applicable law or regulation related to money laundering similar activities, the Purchasers may undertake appropriate actions to ensure compliance with each applicable law or regulation, including but not limited to segregation and/or redemption of the Purchasers' investment in the Company. The Company further understands that each Purchaser may release confidential information about the Company and its Subsidiaries and, if applicable, any underlying beneficial owners, to proper authorities if such Purchaser, in its sole discretion, determines that it is in the best interests of such Purchaser in light of relevant rules and regulations under the laws set forth in subsection (ii) above.

5. Representations and Warranties of the Purchaser. Each Purchaser hereby represents and warrants to the Company as follows (such representations and warranties do not lessen or obviate the representations and warranties of the Company set forth in this Agreement):

5.1 No Shorting. Such Purchaser or any of its affiliates has not at any time prior to the date hereof engaged in, and will not and will not cause any person or entity, directly or indirectly, to engage in, "short sales" of the Company's Common Stock as long as the Notes shall be outstanding.

5.2 Requisite Power and Authority. The Purchaser has all necessary power and authority under all applicable provisions of law to execute and deliver this Agreement and the Related Agreements and to carry out their provisions. All corporate action on such Purchaser's part required for the lawful execution, if any, and delivery of this Agreement and the Related Agreements have been or will be effectively taken prior to the Closing. Upon their execution and delivery, this Agreement and the Related Agreements will be valid and binding obligations of such Purchaser, enforceable in accordance with their terms, except:

(a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights; and

(b) as limited by general principles of equity that restrict the availability of equitable and legal remedies.

5.3 Investment Representations. Such Purchaser understands that the Securities are being offered and sold pursuant to an exemption from registration contained in the Securities Act based in part upon such Purchaser's representations contained in the Agreement, including, without limitation, that such Purchaser is an "accredited investor" within the meaning of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). Such Purchaser confirms that it has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the Note and the Warrant to be purchased by it under this Agreement and the Note Shares and the Warrant Shares acquired by it upon the conversion of such Note and the exercise of such Warrant, respectively. Such Purchaser further confirms that it has had an opportunity to ask questions and receive answers from the Company regarding the Company's and its Subsidiaries' business, management and financial affairs and the terms and conditions of the Offering, the Notes, the Warrants and the Securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to such Purchaser or to which such Purchaser had access.

5.4 Purchaser Bears Economic Risk. Such Purchaser has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company so that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests. Such Purchaser must bear the economic risk of this investment until the Securities are sold pursuant to: (i) an effective registration statement under the Securities Act; or (ii) an exemption from registration is available with respect to such sale.

5.5 Acquisition for Own Account. Such Purchaser is acquiring its Note and Warrant and the Note Shares and the Warrant Shares for such Purchaser's own account for investment only, and not as a nominee or agent and not with a view towards or for resale in connection with their distribution.

5.6 Purchaser Can Protect Its Interest. Such Purchaser represents that by reason of its, or of its management's, business and financial experience, such Purchaser has the capacity to evaluate the merits and risks of its investment in the Note, the Warrant and the Securities and to protect its own interests in connection with the transactions contemplated in this Agreement and the Related Agreements. Further, such Purchaser is aware of no publication of any advertisement in connection with the transactions contemplated in the Agreement or the Related Agreements.

5.7 Accredited Investor. Such Purchaser represents that it is an accredited investor within the meaning of Regulation D under the Securities Act.

5.8 Legends.

(a) The Notes shall bear substantially the following legend:

"THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE, STATE SECURITIES LAWS. THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS NOTE OR SUCH SHARES UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BIO-KEY INTERNATIONAL, INC. THAT SUCH REGISTRATION IS NOT REQUIRED."

(b) The Note Shares and the Warrant Shares, if not issued by DWAC system (as hereinafter defined), shall bear a legend which shall be in substantially the following form until such shares are covered by an effective registration statement filed with the SEC:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH SECURITIES ACT AND APPLICABLE STATE LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BIO-KEY INTERNATIONAL, INC. THAT

SUCH REGISTRATION IS NOT REQUIRED."

(c) The Warrants shall bear substantially the following legend:

"THIS WARRANT AND THE COMMON SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THIS WARRANT AND THE COMMON SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR

HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS WARRANT OR THE UNDERLYING SHARES OF COMMON STOCK UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BIO-KEY INTERNATIONAL, INC. THAT SUCH REGISTRATION IS NOT REQUIRED."

6. Covenants of the Company. The Company covenants and agrees with the Purchaser as follows:

6.1 Stop-Orders. The Company will advise the Purchasers, promptly after it receives notice of issuance by the Securities and Exchange Commission (the "SEC"), any state securities commission or any other regulatory authority of any stop order or of any order preventing or suspending any offering of any securities of the Company, or of the suspension of the qualification of the Common Stock of the Company for offering or sale in any jurisdiction, or the initiation of any proceeding for any such purpose.

6.2 Trading. The Company shall promptly secure the trading of the shares of Common Stock issuable upon conversion of the Notes and upon the exercise of the Warrants on the OTCBB (the "Principal Market") upon which shares of Common Stock are traded (subject to official notice of issuance) and shall maintain such trading so long as any other shares of Common Stock shall be so traded. The Company will maintain the trading of its Common Stock on the Principal Market, and will comply in all material respects with the Company's reporting, filing and other obligations under the bylaws or rules of the National Association of Securities Dealers ("NASD") and such exchanges, as applicable.

6.3 Market Regulations. The Company shall notify the SEC, NASD and applicable state authorities, in accordance with their requirements, of the transactions contemplated by this Agreement, and shall take all other necessary action and proceedings as may be required and permitted by applicable law, rule and regulation, for the legal and valid issuance of the Securities to the Purchasers and promptly provide copies thereof to the Purchasers.

6.4 Reporting Requirements. The Company will timely file with the SEC all reports required to be filed pursuant to the Exchange Act and refrain from terminating its status as an issuer required by the Exchange Act to file reports thereunder even if the Exchange Act or the rules or regulations thereunder would permit such termination.

6.5 Use of Funds. The Company agrees that it will use the proceeds of the sale of the Note and the Warrant to acquire the Mobile Government Division of Aether Systems, Inc. and for general working capital purposes only.

6.6 Access to Facilities. Each of the Company and each of its Subsidiaries will permit any representatives designated by the Purchasers, upon reasonable notice and

during normal business hours, at such person's expense and accompanied by a representative of the Company, to:

(a) visit and inspect any of the properties of the Company or any of its Subsidiaries;

(b) examine the corporate and financial records of the Company or any of its Subsidiaries (unless such examination is not permitted by federal, state or local law or by contract) and make copies thereof or extracts therefrom; and

(c) discuss the affairs, finances and accounts of the Company or any of its Subsidiaries with the directors, officers and independent accountants of the Company or any of its Subsidiaries.

Notwithstanding the foregoing, neither the Company nor any of its Subsidiaries will provide any material, non-public information to

any Purchaser unless such Purchaser signs a confidentiality agreement and otherwise complies with Regulation FD, under the federal securities laws.

6.7 Taxes. Each of the Company and each of its Subsidiaries will promptly pay and discharge, or cause to be paid and discharged, when due and payable, all lawful taxes, assessments and governmental charges or levies imposed upon the income, profits, property or business of the Company and its Subsidiaries; provided, however, that any such tax, assessment, charge or levy need not be paid if the validity thereof shall currently be contested in good faith by appropriate proceedings and if the Company and/or such Subsidiary shall have set aside on its books adequate reserves with respect thereto, and provided, further, that the Company and its Subsidiaries will pay all such taxes, assessments, charges or levies forthwith upon the commencement of proceedings to foreclose any lien which may have attached as security therefor.

6.8 Insurance. Each of the Company and its Subsidiaries will keep its assets which are of an insurable character insured by financially sound and reputable insurers against loss or damage by fire, explosion and other risks customarily insured against by companies in similar business similarly situated as the Company and its Subsidiaries; and the Company and its Subsidiaries will maintain, with financially sound and reputable insurers, insurance against other hazards and risks and liability to persons and property to the extent and in the manner which the Company reasonably believes is customary for companies in similar business similarly situated as the Company and its Subsidiaries and to the extent available on commercially reasonable terms. At the Company's and each of its Subsidiaries' joint and several cost and expense in amounts and with carriers reasonably acceptable to Purchasers, the Company and each of its Subsidiaries shall (i) keep all its insurable properties and properties in which it has an interest insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts, as is customary in the case of companies engaged in businesses similar to the Company's or the respective Subsidiary's including business interruption insurance; (ii) maintain a bond in such amounts as is customary in the case of companies engaged in businesses similar to the Company's or the respective Subsidiary's insuring against larceny, embezzlement or other criminal

misappropriation of insured's officers and employees who may either singly or jointly with others at any time have access to the assets or funds of the Company or any of its Subsidiaries either directly or through governmental authority to draw upon such funds or to direct generally the disposition of such assets; (iii) maintain public and product liability insurance against claims for personal injury, death or property damage suffered by others; (iv) maintain all such worker's compensation or similar insurance as may be required under the laws of any state or jurisdiction in which the Company or the respective Subsidiary is engaged in business; and (v) if requested, furnish Purchasers with copies of all policies and evidence of the maintenance of such policies at least thirty (30) days before any expiration date.

6.9 Intellectual Property. Each of the Company and each of its Subsidiaries shall maintain in full force and effect its existence, rights and franchises and all licenses and other rights to use Intellectual Property owned or possessed by it and reasonably deemed to be necessary to the conduct of its business.

6.10 Properties. Each of the Company and each of its Subsidiaries will keep its properties in good repair, working order and condition, reasonable wear and tear excepted, and from time to time make all needful and proper repairs, renewals, replacements, additions and improvements thereto; and each of the Company and each of its Subsidiaries will at all times comply with each provision of all leases to which it is a party or under which it occupies property if the breach of such provision could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.11 Confidentiality. The Company agrees that it will not disclose, and will not include in any public announcement, the name of any Purchaser, unless expressly agreed to by such Purchaser or unless and until such disclosure is required by law or applicable regulation, and then only to the extent of such requirement. Notwithstanding the foregoing, the Company may disclose each Purchaser's identity and the terms of this Agreement to its current and prospective debt and equity financing sources.

6.12 Required Approvals. For so long as twenty-five percent (25%) of the principal amount of the Note is outstanding, the Company, without the prior written consent of the Purchaser, shall not, and shall not permit any of its Subsidiaries to:

(a)

(i) directly or indirectly declare or pay any dividends, other than dividends paid to the Parent or any of its wholly-owned Subsidiaries or to the holders of its Preferred Stock to the extent that it is required to do so,

(ii) issue any preferred stock that is mandatorily redeemable prior to one year anniversary of Maturity Date (as defined in the Note) or

(iii) redeem any of its preferred stock or other equity interests;

(b) liquidate, dissolve or effect a material reorganization (it being understood that in no event shall the Company dissolve, liquidate or merge with any other person or entity (unless the Company is the surviving entity);

(c) become subject to (including, without limitation, by way of amendment to or modification of) any agreement or instrument which by its terms would (under any circumstances) restrict the Company's or any of its Subsidiaries right to perform the provisions of this Agreement, any Related Agreement or any of the agreements contemplated hereby or thereby;

(d) materially alter or change the scope of the business of the Company and its Subsidiaries taken as a whole;

(e)

(i) create, incur, assume or suffer to exist any indebtedness (exclusive of trade debt and debt incurred to finance the purchase of equipment (not in excess of five percent (5%) of the fair market value of the Company's and its Subsidiaries' assets) whether secured or unsecured other than (x) the Company's indebtedness to the Purchasers, (y) indebtedness set forth on Schedule 6.12(e) attached hereto and made a part hereof and any refinancings or replacements thereof on terms no less favorable to the Purchaser than the indebtedness being refinanced or replaced, and (z) any debt incurred in connection with the purchase of assets in the ordinary course of business, or any refinancings or replacements thereof on terms no less favorable to the Purchaser than the indebtedness being refinanced or replaced;

(ii) cancel any debt owing to it in excess of $50,000 in the aggregate during any 12 month period;

(iii) assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any obligations of any other Person, except the endorsement of negotiable instruments by the Company for deposit or collection or similar transactions in the ordinary course of business or guarantees of indebtedness otherwise permitted to be outstanding pursuant to this clause (e); and

(f) create or acquire any Subsidiary after the date hereof unless (i) such Subsidiary is a wholly-owned Subsidiary of the Company and (ii) and, to the extent required by the Purchasers, satisfies each condition of this Agreement and the Related Agreements as if such Subsidiary were a Subsidiary on the Closing Date.

6.13 Reissuance of Securities. The Company agrees to reissue certificates representing the Securities without the legends set forth in Section 5.8 above at such time as:

(a) the holder thereof is permitted to dispose of such Securities pursuant to Rule 144(k) under the Securities Act; or

(b) upon resale subject to an effective registration statement after such Securities are registered under the Securities Act.

The Company agrees to cooperate with the Purchasers in connection with all resales pursuant to Rule 144(d) and Rule 144(k) and provide legal opinions necessary to allow such resales provided the Company and its counsel receive reasonably requested representations from the selling Purchaser and broker, if any.

6.14 Opinion. On the Closing Date, the Company will deliver to the Purchaser an opinion in the form attached hereto as Exhibit C. The Company will provide, at the Company's expense, such other legal opinions in the future as are deemed reasonably necessary by the Purchaser (and acceptable to the Purchaser) in connection with the conversion of the Notes and exercise of the Warrants.

6.15 Margin Stock. The Company will not permit any of the proceeds of the Note or the Warrant to be used directly or indirectly to "purchase" or "carry" "margin stock" or to repay indebtedness incurred to "purchase" or "carry" "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect.

7. Covenants of the Purchaser. Each Purchaser covenants and agrees with the Company as follows:

7.1 Confidentiality. Such Purchaser agrees that it will not disclose, and will not include in any public announcement, the name of the Company, unless expressly agreed to by the Company or unless and until such disclosure is required by law or applicable regulation, and then only to the extent of such requirement.

7.2 Non-Public Information. Such Purchaser agrees not to effect any sales in the shares of the Company's Common Stock while in possession of material, non-public information regarding the Company if such sales would violate applicable securities law.

7.3 Regulation M. Such Purchaser acknowledges and agrees that Regulation M promulgated under the Exchange Act will apply to any sales of the Company's Common Stock, and the Purchaser will, and will cause each of its affiliates and its investment partners to, comply with Regulation M in all respects during such time as they may be engaged in a distribution of shares of the Company's Common Stock.

8. Covenants of the Company and Purchaser Regarding Indemnification.

8.1 Company Indemnification. The Company agrees to indemnify, hold harmless, reimburse and defend each Purchaser, each of such Purchaser's officers, directors, agents, affiliates, control persons, and principal shareholders, against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of

any nature, incurred by or imposed upon the Purchaser which results, arises out of or is based upon: (i) any misrepresentation by the Company or any of its Subsidiaries or breach of any warranty by the Company or any of its Subsidiaries in this Agreement, any other Related Agreement or in any exhibits or schedules attached hereto or thereto; or (ii) any breach or default in performance by Company or any of its Subsidiaries of any covenant or undertaking to be performed by Company or any of its Subsidiaries hereunder, under any other Related Agreement or any other agreement entered into by the Company and/or any of its Subsidiaries and such Purchaser relating hereto or thereto.

8.2 Purchaser's Indemnification. Each Purchaser agrees to indemnify, hold harmless, reimburse and defend the Company and each of the Company's officers, directors, agents, affiliates, control persons and principal shareholders, at all times against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of any nature, incurred by or imposed upon the Company which results, arises out of or is based upon: (i) any misrepresentation by such Purchaser or breach of any warranty by such Purchaser in this Agreement or in any exhibits or schedules attached hereto or any Related Agreement; or (ii) any breach or default in performance by such Purchaser of any covenant or undertaking to be performed by such Purchaser hereunder, or any other agreement entered into by the Company and such Purchaser relating hereto.

9. Conversion of Convertible Note.

9.1 Mechanics of Conversion.

(a) Provided a Purchaser has notified the Company of such Purchaser's intention to sell the Note Shares and the Note Shares are included in an effective registration statement or are otherwise exempt from registration when sold: (i) upon the conversion of the Note or part thereof, the Company shall, at its own cost and expense, take all necessary action (including the issuance of an opinion of counsel reasonably acceptable to such Purchaser following a request by the Purchaser) to assure that the Company's transfer agent shall issue shares of the Company's Common Stock in the name of such Purchaser (or its nominee) or such other persons as designated by such Purchaser in accordance with Section 9.1(b) hereof and in such denominations to be specified representing the number of Note Shares issuable upon such conversion; and (ii) the Company warrants that no instructions other than these instructions have been or will be given to the transfer agent of the Company's Common Stock and that after the Effectiveness Date (as defined in the Registration Rights Agreement) the Note Shares issued will be freely transferable subject to the prospectus delivery requirements of the Securities Act and the provisions of this Agreement, and will not contain a legend restricting the resale or transferability of the Note Shares.

(b) A Purchaser will give notice of its decision to exercise its right to convert its Note or part thereof by telecopying or otherwise delivering an executed and completed notice of the number of shares to be converted to the Company (the "Notice of Conversion"). The Purchaser will not be required to surrender its Note until the Purchaser receives a credit to the account of the

Purchaser's prime broker through the DWAC system (as defined below), representing the Note Shares or until the Note has been fully satisfied. Each date on which a Notice of Conversion is telecopied or delivered to the Company in accordance with the provisions hereof shall be deemed a "Conversion Date." Pursuant to the terms of the Notice of Conversion, the Company will issue instructions to the transfer agent accompanied by an opinion of counsel within one (1) business day of the date of the delivery to the Company of the Notice of Conversion and shall cause the transfer agent to transmit the certificates representing the Conversion Shares to the Holder by crediting the account of the Purchaser's prime broker with the Depository Trust Company ("DTC") through its Deposit Withdrawal Agent Commission ("DWAC") system within three (3) business days after receipt by the Company of the Notice of Conversion (the "Delivery Date").

(c) The Company understands that a delay in the delivery of the Note Shares in the form required pursuant to Section 9 hereof beyond the applicable Delivery Date could result in economic loss to the applicable Purchaser. In the event that the Company fails to direct its transfer agent to deliver the Note Shares to such Purchaser via the DWAC system within the time frame set forth in Section 9.1(b) above and the Note Shares are not delivered to such Purchaser by the Delivery Date, as compensation to such Purchaser for such loss, the Company agrees to pay late payments to such Purchaser for late issuance of the Note Shares in the form required pursuant to Section 9 hereof upon conversion of the Note in the amount equal to the greater of: (i) $500 per business day after the Delivery Date; or (ii) the Purchaser's actual damages from such delayed delivery. Notwithstanding the foregoing, the Company will not owe such Purchaser any late payments if the delay in the delivery of the Note Shares beyond the Delivery Date is solely out of the control of the Company and the Company is actively trying to cure the cause of the delay. The Company shall pay any payments incurred under this Section in immediately available funds upon demand and, in the case of actual damages, accompanied by reasonable documentation of the amount of such damages. Such documentation shall show the number of shares of Common Stock such Purchaser is forced to purchase (in an open market transaction) which such Purchaser anticipated receiving upon such conversion, and shall be calculated as the amount by which (A) such Purchaser's total purchase price (including customary brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (B) the aggregate principal and/or interest amount of the Note, for which such Conversion Notice was not timely honored.

Nothing contained herein or in any document referred to herein or delivered in connection herewith shall be deemed to establish or require the payment of a rate of interest or other charges in excess of the maximum permitted by applicable law. In the event that the rate of interest or dividends required to be paid or other charges hereunder exceed the maximum amount permitted by such law, any payments in excess of such maximum shall be credited against amounts owed by the Company to a Purchaser and thus refunded to the Company.

10. Registration Rights.

10.1 Registration Rights Granted. The Company hereby grants registration rights to the Purchasers pursuant to a Registration Rights Agreement dated as of even date herewith between the Company and the Purchasers.

10.2 Offering Restrictions. Except as previously disclosed in the SEC Reports or in the Exchange Act Filings, or stock or stock options granted to employees or directors of the Company (these exceptions hereinafter referred to as the "Excepted Issuances"), neither the Company nor any of its Subsidiaries will issue any securities with a continuously variable/floating conversion feature which are or could be (by conversion or registration) free-trading securities (i.e. common stock subject to a registration statement) prior to the full repayment or conversion of the Note (together with all accrued and unpaid interest and fees related thereto) (the "Exclusion Period").

11. Miscellaneous.

11.1 Governing Law. THIS AGREEMENT AND EACH RELATED AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS. ANY ACTION BROUGHT BY ANY PARTY AGAINST ANOTHER CONCERNING

THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT AND EACH RELATED AGREEMENT SHALL BE BROUGHT ONLY IN THE STATE COURTS OF NEW YORK OR IN THE FEDERAL COURTS LOCATED IN THE STATE OF NEW YORK, IN EACH CASE SITTING IN THE CITY OF NEW YORK, BOROUGH OF MANHATTAN. ALL PARTIES AND THE INDIVIDUALS EXECUTING THIS AGREEMENT AND THE RELATED AGREEMENTS ON BEHALF OF THE COMPANY AGREE TO SUBMIT TO THE JURISDICTION OF SUCH COURTS AND WAIVE TRIAL BY JURY. IN THE EVENT THAT ANY PROVISION OF THIS AGREEMENT OR ANY RELATED AGREEMENT DELIVERED IN CONNECTION HEREWITH IS INVALID OR UNENFORCEABLE UNDER ANY APPLICABLE STATUTE OR RULE OF LAW, THEN SUCH PROVISION SHALL BE DEEMED INOPERATIVE TO THE EXTENT THAT IT MAY CONFLICT THEREWITH AND SHALL BE DEEMED MODIFIED TO CONFORM WITH SUCH STATUTE OR RULE OF LAW. ANY SUCH PROVISION WHICH MAY PROVE INVALID OR UNENFORCEABLE UNDER ANY LAW SHALL NOT AFFECT THE VALIDITY OR ENFORCEABILITY OF ANY OTHER PROVISION OF THIS AGREEMENT OR ANY RELATED AGREEMENT.

11.2 Survival. The representations, warranties, covenants and agreements made herein shall survive any investigation made by the Purchasers and for one year after the date of the closing of the transactions contemplated hereby to the extent provided therein. All statements as to factual matters contained in any certificate or other instrument delivered by or on behalf of the Company pursuant hereto in connection with the transactions contemplated hereby shall be deemed to be representations and

warranties by the Company hereunder solely as of the date of such certificate or instrument.

11.3 Successors. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, heirs, executors and administrators of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of the Securities from time to time, other than the holders of Common Stock which has been sold by a Purchaser pursuant to Rule 144 or an effective registration statement. No Purchaser may assign its rights hereunder to a competitor of the Company.

11.4 Entire Agreement. This Agreement, the Related Agreements, the exhibits and schedules hereto and thereto and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein.

11.5 Severability. In case any provision of the Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

11.6 Amendment and Waiver.

(a) This Agreement may be amended or modified only upon the written consent of (i) the Company, (ii) Shaar and (iii) the Purchasers holding at least 51% of the then aggregate outstanding balance of the Notes.

(b) The obligations of the Company and the rights of the Purchaser under this Agreement may be waived only with the written consent of(i) Shaar and (ii) the Purchasers holding at least 51% of the aggregate outstanding balance of the Notes.

(c) The obligations of the Purchasers and the rights of the Company under this Agreement may be waived only with the written consent of the Company.

11.7 Delays or Omissions. It is agreed that no delay or omission to exercise any right, power or remedy accruing to any party, upon any breach, default or noncompliance by another party under this Agreement or the Related Agreements, shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of or in any similar breach, default or noncompliance thereafter occurring. All remedies, either under this Agreement or the Related Agreements, by law or otherwise afforded to any party, shall be cumulative and not alternative.

11.8 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given:

(a) upon personal delivery to the party to be notified;

(b) when sent by confirmed facsimile if sent during normal business hours of the recipient, if not, then on the next business day;

(c) three (3) business days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or

(d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt.

All communications shall be sent as follows:

If to the Company, to:

Bio-Key International, Inc.
1285 Corporate Center Drive
Suite 175
Eagan, MN 55121
Attention: Chief Financial Officer
Facsimile: 651-687-0515

with a copy to:

Choate, Hall & Stewart
53 State Street
Boston, MA 02109
Attention: Charles J. Johnson, Esq.
Facsimile: 617-248-4000

If to the Purchasers, to the address of each Purchaser set forth on Schedule 2 hereto.

or at such other addresses as the Company or the Purchasers may designate by written notice to the other parties hereto given in accordance herewith.

11.9 Attorneys' Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including, without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

11.10 Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

11.11 Facsimile Signatures; Counterparts. This Agreement may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

11.12 Broker's Fees. Except as set forth on Schedule 11.12 hereof, each party hereto represents and warrants that no agent, broker, investment banker, person or firm acting on behalf of or under the authority of such party hereto is or will be entitled to any broker's or finder's fee or any other commission directly or indirectly in connection with the transactions contemplated herein. Each party hereto further agrees to indemnify each other party for any claims, losses or expenses incurred by such other party as a result of the representation in this Section 11.12 being untrue.

11.13 Construction. Each party acknowledges that its legal counsel participated in the preparation of this Agreement and the Related Agreements and, therefore, stipulates that the rule of construction that ambiguities are to be resolved against the drafting party shall not be applied in the interpretation of this Agreement to favor any party against the other.

12. Purchaser Agent.

12.1 Each Purchaser hereby appoints The Shaar Fund, Ltd. as Purchaser Agent for such Purchaser under this

Agreement, the Note and all other Related Agreements (in such capacity, the "Purchaser Agent") solely for purposes of (i) entering into and performing under the terms of an Intercreditor and Subordination Agreement by and among the Company, Public Safety Group, Inc., Laurus Master Fund, Ltd., Aether Systems, Inc. and (ii) enforcing the terms of (and exercising remedies) under this Agreement and all Related Agreements and for no other purpose whatsoever. The Purchaser Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and the Related Agreements. Each Purchaser hereby irrevocably authorizes the Purchaser Agent to take such action on its behalf under this Agreement and the Related Agreements and to exercise such powers and perform such duties hereunder and thereunder as are specifically delegated to or required of the Purchaser Agent by the terms hereof and thereof and such powers as are incidental thereto. Nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon the Purchaser Agent any obligations except as expressly set forth herein. The Purchaser Agent shall not have, nor shall it be deemed to have, any fiduciary relationship with any Purchaser, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Related Agreement or otherwise exist against the Purchaser Agent.

12.2 Each Purchaser holds harmless the Purchaser Agent for any costs, expenses, liability, damage, claim or losses in connection with or arising out of the transactions contemplated under this Agreement and the Related Agreements except to the extent such cost, expense, liability, damage, claim or loss arises from the Purchaser Agent's gross negligence or willful misconduct.

12.3 The Purchaser Agent may execute any of its duties under this Agreement, the Notes or any other Related Agreement by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel and other consultants or experts concerning all matters pertaining to such duties (including Meltzer, Lippe, Goldstein and Breitstone LLP, who has represented Shaar, individually and as a Purchaser Agent, in this transaction and in previous transactions between Shaar and the Company). The Purchaser Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects in the absence of gross negligence or willful misconduct.

12.4 No Agent-Related Person shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any Related Agreement or the transactions contemplated hereby (except for its own gross negligence or willful misconduct in connection with its duties expressly set forth herein), or (b) be responsible in any manner to any Purchaser or participant for any recital, statement, representation or warranty made by the Company or any officer thereof, contained in this Agreement or any Related Agreement, or in any certificate, report, statement or other document referred to or provided for in, or received by the Purchaser Agent under or in connection with, this Agreement or any Related Agreement, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any Related Agreement, or for any failure of the Company or any other party to any Related Agreement to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Purchaser or participant to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any Related Agreement, or to inspect the properties, books or records of the Company or any Affiliate thereof. As used herein, "Agent-Related Person" means the Purchaser Agent, together with any of its Affiliates, and the officers, directors, employees, counsel, agents and attorneys-in-fact of the Purchaser Agent and such Affiliates.

12.5 The Purchaser Agent, acting solely upon the written instructions of (i) Shaar and (ii) the Purchasers holding at least 51% of the outstanding balance of the Notes, shall have the sole right, power and authority to declare defaults and exercise remedies under this Agreement, any Note or any Related Agreements and to otherwise enforce the terms of this Agreement and the Related Agreements against the Company and its Affiliates, except in connection with claims arising with respect to the exercise of any Warrant in which case the holder of such Warrant shall have the right to enforce its rights thereunder.

12.6 By its signature hereto, each Purchaser expressly acknowledges that Shaar is both a Purchaser and the Purchaser Agent; as a result, Shaar may have a conflict of interest and that Shaar may exercise rights as a Purchaser that are not in the best interests of the other Purchasers.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, the parties hereto have executed the SECURITIES PURCHASE AGREEMENT as of the date set forth in the first paragraph hereof.

COMPANY

BIO-KEY INTERNATIONAL, INC.

By: _____
Michael W. DePasquale
Chief Executive Officer

Counterpart Signature Page to Securities Purchase Agreement

IN WITNESS WHEREOF, the parties hereto have executed the SECURITIES PURCHASE AGREEMENT as of the date set forth in the first paragraph hereof.

PURCHASER

THE SHAAR FUND, LTD., as Purchaser
and as Purchaser Agent

By: _____
Name: _____
Title: _____

EXHIBIT A
FORM OF CONVERTIBLE NOTE

A-1

EXHIBIT B
FORM OF WARRANT

B-1

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. THIS WARRANT AND THE COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS WARRANT UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BIO-KEY INTERNATIONAL, INC. THAT SUCH REGISTRATION IS NOT REQUIRED.

Right to Purchase up to [ ] Shares of Common Stock of
BIO-Key International, Inc.
(subject to adjustment as provided herein)

FORM OF
COMMON STOCK PURCHASE WARRANT

No. 904- Issue Date: September 29, 2004

BIO-KEY INTERNATIONAL, INC., a corporation organized under the laws of the State of Minnesota ("BIO-Key International, Inc."), hereby certifies that, for value received, LAURUS MASTER FUND, LTD., or assigns (the "Holder"), is entitled, subject to the terms set forth below, to purchase from the Company (as defined herein) from and after the Issue Date of this Warrant and at any time or from time to time before 5:00 p.m., New York time, through the close of business September 29, 2009 (the "Expiration Date"), up to [ ] fully paid and nonassessable shares of Common Stock (as hereinafter defined), $0.01 par value per share, at the applicable Exercise Price per share (as defined below). The number and character of such shares of Common Stock and the applicable Exercise Price per share are subject to adjustment as provided herein.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" shall include BIO-Key International, Inc. and any corporation which shall succeed, or assume the obligations of, BIO-Key International, Inc. hereunder.

(b) The term "Common Stock" includes (i) the Company's Common Stock, par value $0.01 per share; and (ii) any other securities into which or for which any of the securities described in (a) may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.

(c) The term "Other Securities" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) which the holder of the Warrant at any time shall be entitled to receive, or shall have

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received, on the exercise of the Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 4 or otherwise.

(d) The "Exercise Price" applicable under this Warrant shall be $1.55.

1. Exercise of Warrant.

1.1 Number of Shares Issuable upon Exercise. From and after the date hereof through and including the Expiration Date, the Holder shall be entitled to receive, upon exercise of this Warrant in whole or in part, by delivery of an original or fax copy of an exercise notice in the form attached hereto as Exhibit A (the "Exercise Notice"), shares of Common Stock of the Company, subject to adjustment pursuant to Section 4.

1.2 Fair Market Value. For purposes hereof, the "Fair Market Value" of a share of Common Stock as of a particular date (the "Determination Date") shall mean:

(a) If the Company's Common Stock is traded on the American Stock Exchange or another national exchange or is quoted on the National or SmallCap Market of The Nasdaq Stock Market, Inc.("Nasdaq"), then the closing or last sale price, respectively, reported for the last business day immediately preceding the Determination Date.

(b) If the Company's Common Stock is not traded on the American Stock Exchange or another national

exchange or on the Nasdaq but is traded on the NASD OTC Bulletin Board, then the mean of the average of the closing bid and asked prices reported for the last business day immediately preceding the Determination Date.

(c) Except as provided in clause (d) below, if the Company's Common Stock is not publicly traded, then as the Holder and the Company agree or in the absence of agreement by arbitration in accordance with the rules then in effect of the American Arbitration Association, before a single arbitrator to be chosen from a panel of persons qualified by education and training to pass on the matter to be decided.

(d) If the Determination Date is the date of a liquidation, dissolution or winding up, or any event deemed to be a liquidation, dissolution or winding up pursuant to the Company's charter, then all amounts to be payable per share to holders of the Common Stock pursuant to the charter in the event of such liquidation, dissolution or winding up, plus all other amounts to be payable per share in respect of the Common Stock in liquidation under the charter, assuming for the purposes of this clause (d) that all of the shares of Common Stock then issuable upon exercise of the Warrant are outstanding at the Determination Date.

1.3 Company Acknowledgment. The Company will, at the time of the exercise of the Warrant, upon the request of the holder hereof acknowledge in writing its continuing obligation to afford to such holder any rights to which such holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant. If the holder

shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to such holder any such rights.

1.4 Trustee for Warrant Holders. In the event that a bank or trust company shall have been appointed as trustee for the holders of the Warrant pursuant to Subsection 3.2, such bank or trust company shall have all the powers and duties of a warrant agent (as hereinafter described) and shall accept, in its own name for the account of the Company or such successor person as may be entitled thereto, all amounts otherwise payable to the Company or such successor, as the case may be, on exercise of this Warrant pursuant to this Section 1.

2. Procedure for Exercise.

2.1 Delivery of Stock Certificates, Etc., on Exercise The Company agrees that the shares of Common Stock purchased upon exercise of this Warrant shall be deemed to be issued to the Holder as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made for such shares in accordance herewith. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within three (3) business days thereafter, the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the Holder, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct in compliance with applicable securities laws, a certificate or certificates for the number of duly and validly issued, fully paid and nonassessable shares of Common Stock (or Other Securities) to which such Holder shall be entitled on such exercise, plus, in lieu of any fractional share to which such holder would otherwise be entitled, cash equal to such fraction multiplied by the then Fair Market Value of one full share, together with any other stock or other securities and property (including cash, where applicable) to which such Holder is entitled upon such exercise pursuant to Section 1 or otherwise.

2.2 Exercise. Payment may be made either (i) in cash or by certified or official bank check payable to the order of the Company equal to the applicable aggregate Exercise Price, (ii) by delivery of the Warrant, or shares of Common Stock and/or Common Stock receivable upon exercise of the Warrant in accordance with Section (b) below, or (iii) by a combination of any of the foregoing methods, for the number of Common Shares specified in such Exercise Notice (as such exercise number shall be adjusted to reflect any adjustment in the total number of shares of Common Stock issuable to the Holder per the terms of this Warrant) and the Holder shall thereupon be entitled to receive the number of duly authorized, validly issued, fully-paid and non-assessable shares of Common Stock (or Other Securities) determined as provided herein. Notwithstanding any provisions herein to the contrary, if the Fair Market Value of one share of Common Stock is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being exercised) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Exercise Notice in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = Y \frac{(A-B)}{}$$

A

Where X = the number of shares of Common Stock to be issued to the Holder

Y = the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being exercised (at the date of such calculation)

A = the Fair Market Value of one share of the Company's Common Stock (at the date of such calculation)

B = Exercise Price (as adjusted to the date of such calculation)

3. Effect of Reorganization, Etc.; Adjustment of Exercise Price.

3.1 Reorganization, Consolidation, Merger, Etc. In case at any time or from time to time, the Company shall (a) effect a reorganization, (b) consolidate with or merge into any other person, or (c) transfer all or substantially all of its properties or assets to any other person under any plan or arrangement contemplating the dissolution of the Company, then, in each such case, as a condition to the consummation of such a transaction, proper and adequate provision shall be made by the Company whereby the Holder of this Warrant, on the exercise hereof as provided in Section 1 at any time after the consummation of such reorganization, consolidation or merger or the effective date of such dissolution, as the case may be, shall receive, in lieu of the Common Stock (or Other Securities) issuable on such exercise prior to such consummation or such effective date, the stock and other securities and property (including cash) to which such Holder would have been entitled upon such consummation or in connection with such dissolution, as the case may be, if such Holder had so exercised this Warrant, immediately prior thereto, all subject to further adjustment thereafter as provided in Section 4.

3.2 Dissolution. In the event of any dissolution of the Company following the transfer of all or substantially all of its properties or assets, the Company, concurrently with any distributions made to holders of its Common Stock, shall at its expense deliver or cause to be delivered to the Holder the stock and other securities and property (including cash, where applicable) receivable by the Holder of the Warrant pursuant to Section 3.1, or, if the Holder shall so instruct the Company, to a bank or trust company specified by the Holder and having its principal office in New York, NY as trustee for the Holder of the Warrant (the "Trustee").

3.3 Continuation of Terms. Upon any reorganization, consolidation, merger or transfer (and any dissolution following any transfer) referred to in this Section 3, this Warrant shall continue in full force and effect and the terms hereof shall be applicable to the shares of stock and other securities and property receivable on the exercise of this Warrant after the consummation of such reorganization, consolidation or merger or the effective date of dissolution following any such transfer, as the case may be, and shall be binding upon the issuer of any such stock or other securities, including, in the case of any such transfer, the person acquiring all or substantially all of the properties or assets of the Company, whether or not such person shall have expressly assumed the terms of this Warrant as provided in Section 4. In the event this Warrant does not continue in full force and effect after the consummation of the

transactions described in this Section 3, then the Company's securities and property (including cash, where applicable) receivable by the Holders of the Warrant will be delivered to Holder or the Trustee as contemplated by Section 3.2.

4. Extraordinary Events Regarding Common Stock. In the event that the Company shall (a) issue additional shares of the Common Stock as a dividend or other distribution on outstanding Common Stock, (b) subdivide its outstanding shares of Common Stock, or (c) combine its outstanding shares of the Common Stock into a smaller number of shares of the Common Stock, then, in each such event, the Exercise Price shall, simultaneously with the happening of such event, be adjusted by multiplying the then Exercise Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such event and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such event, and the product so obtained shall thereafter be the Exercise Price then in effect. The Exercise Price, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described herein in this Section 4. The number of shares of Common Stock that the holder of this Warrant shall thereafter, on the exercise hereof as provided in Section 1, be entitled to receive shall be increased to a number determined by multiplying the number of shares of Common Stock that would otherwise (but for the provisions of this Section 4) be issuable on such exercise by a fraction of which (a) the numerator is the Exercise Price that would otherwise (but for the provisions of this Section 4) be in effect, and (b) the denominator is the Exercise Price in effect on the date of such exercise.

5. Certificate as to Adjustments. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable on the exercise of the Warrant, the Company at its expense will promptly cause its Chief Financial Officer

or other appropriate designee to compute such adjustment or readjustment in accordance with the terms of the Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Company for any additional shares of Common Stock (or Other Securities) issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock (or Other Securities) outstanding or deemed to be outstanding, and (c) the Exercise Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such adjustment or readjustment and as adjusted or readjusted as provided in this Warrant. The Company will forthwith mail a copy of each such certificate to the holder of the Warrant and any Warrant agent of the Company (appointed pursuant to Section 11 hereof).

6. Reservation of Stock, Etc., Issuable on Exercise of Warrant The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of the Warrant, shares of Common Stock (or Other Securities) from time to time issuable on the exercise of the Warrant.

7. Assignment; Exchange of Warrant. Subject to compliance with applicable securities laws, this Warrant, and the rights evidenced hereby, may be transferred by any registered holder hereof (a "Transferor") in whole or in part. On the surrender for exchange of this Warrant, with the Transferor's endorsement in the form of Exhibit B attached hereto (the

"Transferor Endorsement Form") and together with evidence reasonably satisfactory to the Company demonstrating compliance with applicable securities laws, which shall include, without limitation, the provision of a legal opinion from the Transferor's counsel (at the Company's expense) that such transfer is exempt from the registration requirements of applicable securities laws, and with payment by the Transferor of any applicable transfer taxes) will issue and deliver to or on the order of the Transferor thereof a new Warrant of like tenor, in the name of the Transferor and/or the transferee(s) specified in such Transferor Endorsement Form (each a "Transferee"), calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant so surrendered by the Transferor.

8. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of this Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

9. Registration Rights. The Holder of this Warrant has been granted certain registration rights by the Company. These registration rights are set forth in a Registration Rights Agreement entered into by the Company and Purchaser dated as of even date of this Warrant.

10. Maximum Exercise. The Holder shall not be entitled to exercise this Warrant on an exercise date, in connection with that number of shares of Common Stock which would be in excess of the sum of (i) the number of shares of Common Stock beneficially owned by the Holder and its affiliates on an exercise date, and (ii) the number of shares of Common Stock issuable upon the exercise of this Warrant with respect to which the determination of this proviso is being made on an exercise date, which would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock of the Company on such date. For the purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulation 13d-3 thereunder. Notwithstanding the foregoing, the restriction described in this paragraph may be revoked upon 75 days prior notice from the Holder to the Company and is automatically null and void upon an Event of Default under the Note.

11. Warrant Agent. The Company may, by written notice to the each Holder of the Warrant, appoint an agent for the purpose of issuing Common Stock (or Other Securities) on the exercise of this Warrant pursuant to Section 1, exchanging this Warrant pursuant to Section 7, and replacing this Warrant pursuant to Section 8, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such agent.

12. Transfer on the Company's Books. Until this Warrant is transferred on the books of the Company, the Company may treat the registered holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

13. Notices, Etc. All notices and other communications from the Company to the Holder of this Warrant shall be mailed by first class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company in writing by such Holder or, until any such Holder furnishes to the Company an address, then to, and at the address of, the last Holder

of this Warrant who has so furnished an address to the Company.

14. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant shall be governed by and construed in accordance with the laws of State of New York without regard to principles of conflicts of laws. Any action brought concerning the transactions contemplated by this Warrant shall be brought only in the state courts of New York or in the federal courts located in the state of New York; provided, however, that the Holder may choose to waive this provision and bring an action outside the state of New York. The individuals executing this Warrant on behalf of the Company agree to submit to the jurisdiction of such courts and waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Warrant is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Warrant. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision hereof. The Company acknowledges that legal counsel participated in the preparation of this Warrant and, therefore, stipulates that the rule of construction that ambiguities are to be resolved against the drafting party shall not be applied in the interpretation of this Warrant to favor any party against the other party.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK;
SIGNATURE PAGE FOLLOWS.]

IN WITNESS WHEREOF, the Company has executed this Warrant as of the date first written above.

BIO-KEY INTERNATIONAL, INC.

WITNESS:

By: _____
Name: _____
Title: _____

_____

EXHIBIT A

FORM OF SUBSCRIPTION
(To Be Signed Only On Exercise Of Warrant)

TO: BIO-Key International, Inc.

Attention: Chief Financial Officer

The undersigned, pursuant to the provisions set forth in the attached Warrant (No.), hereby irrevocably elects to purchase (check applicable box):

☐ shares of the Common Stock covered by such Warrant; or

☐ the maximum number of shares of Common Stock covered by such Warrant pursuant to the cashless exercise procedure set forth in Section 2.

The undersigned herewith makes payment of the full Exercise Price for such shares at the price per share provided for in such Warrant, which is $. Such payment takes the form of (check applicable box or boxes):

☐ $ in lawful money of the United States; and/or

☐ the cancellation of such portion of the attached Warrant as is exercisable for a total of shares of Common Stock (using a Fair Market Value of $ per share for purposes of this calculation); and/or

☐ the cancellation of such number of shares of Common Stock as is necessary, in accordance with the formula set forth in Section 2.2, to exercise this Warrant with respect to the maximum number of shares of Common Stock purchasable pursuant to the cashless exercise procedure set forth in Section 2.

The undersigned requests that the certificates for such shares be issued in the name of, and delivered to whose address is .

The undersigned represents and warrants that all offers and sales by the undersigned of the securities issuable upon exercise of the within Warrant shall be made pursuant to registration of the Common Stock under the Securities Act of 1933, as amended (the "Securities Act") or pursuant to an exemption from registration under the Securities Act.

Dated: _____

_____
(Signature must conform to name of holder as specified on the face of the Warrant)

Address: _____

_____

EXHIBIT B

FORM OF TRANSFEROR ENDORSEMENT
(To Be Signed Only On Transfer Of Warrant)

For value received, the undersigned hereby sells, assigns, and transfers unto the person(s) named below under the heading "Transferees" the right represented by the within Warrant to purchase the percentage and number of shares of Common Stock of BIO-Key International, Inc. into which the within Warrant relates specified under the headings "Percentage Transferred" and "Number Transferred," respectively, opposite the name(s) of such person(s) and appoints each such person Attorney to transfer its respective right on the books of BIO-Key International, Inc. with full power of substitution in the premises.

Transferees	Address	Percentage Transferred	Number Transferred

Dated: _____

_____
(Signature must conform to name of holder as specified on the face of the Warrant)

Address: _____

_____

SIGNED IN THE PRESENCE OF:

_____
(Name)

ACCEPTED AND AGREED:
[TRANSFEREE]

_____
(Name)

THIS NOTE AND THE INDEBTEDNESS EVIDENCED HEREBY ARE SUBORDINATE IN THE MANNER AND TO THE EXTENT SET FORTH IN THAT CERTAIN INTERCREDITOR AND SUBORDINATION AGREEMENT (THE "SUBORDINATION AGREEMENT") DATED AS OF SEPTEMBER 29, 2004 AMONG SHAAR FUND, LTD., AS PURCHASER AGENT, LAURUS MASTER FUND, LTD., AS COLLATERAL AGENT, AETHER SYSTEMS, INC., BIO-KEY INTERNATIONAL, INC. AND PUBLIC SAFETY GROUP, INC. TO THE SENIOR INDEBTEDNESS (AS DEFINED IN THE SUBORDINATION AGREEMENT); AND EACH HOLDER OF THIS NOTE, BY ITS ACCEPTANCE HEREOF, SHALL BE BOUND BY THE PROVISIONS OF THE SUBORDINATION AGREEMENT.

THIS NOTE AND THE COMMON SHARES ISSUABLE UPON CONVERSION OF THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. THIS NOTE AND THE COMMON SHARES ISSUABLE UPON CONVERSION OF THIS NOTE MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS NOTE UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BIO-KEY INTERNATIONAL, INC. THAT SUCH REGISTRATION IS NOT REQUIRED.

FORM OF
CONVERTIBLE TERM NOTE

FOR VALUE RECEIVED, BIO-KEY INTERNATIONAL, INC., a Minnesota corporation (the "Borrower"), hereby promises to pay to [ ] (the "Holder") or its registered assigns or successors in interest, on order, the sum of [Dollars ($)], together with any accrued and unpaid interest hereon, on September 29, 2007 (the "Maturity Date") if not sooner paid.

Capitalized terms used herein without definition shall have the meanings ascribed to such terms in that certain Securities Purchase Agreement dated as of the date hereof among the Borrower, the Holder and the other Purchasers party thereto (as amended, modified or supplemented from time to time, the "Purchase Agreement").

The following terms shall apply to this Note:

ARTICLE 1
INTEREST & AMORTIZATION

1.1 Interest Rate. Subject to Sections 4.11 and 5.6 hereof, interest payable on this Note shall accrue at a rate per annum (the "Interest Rate") equal to the "prime rate" published in The Wall Street Journal from time to time, plus seven and one-half percent (7.5%). The prime rate shall be increased or decreased as the case may be for each increase or decrease in the prime rate in an amount equal to such increase or decrease in the prime rate; each change to be effective as of the day of the change in such rate. The Interest Rate shall not be less than eleven percent (11.0%) per annum. Interest shall be (i) calculated on the basis of a 360 day year, and

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(ii) payable monthly, in arrears, commencing on November 1, 2004 and on the first business day of each consecutive calendar month thereafter until the Maturity Date (and on the Maturity Date), whether by acceleration or otherwise (each, a "Repayment Date").

1.2 Minimum Monthly Principal Payments. Amortizing payments of the aggregate principal amount outstanding under this Note at any time (the "Principal Amount") shall begin on February 1, 2005 and shall recur on the first business day of each succeeding month thereafter until the Maturity Date (each, an "Amortization Date"). Subject to Article 3 below, beginning on the first Amortization Date, the Borrower shall make monthly payments to the Holder on each Repayment Date, each in the amount of [$], together with any accrued and unpaid interest to date on such portion of the Principal Amount plus any and all other amounts which are then owing under this Note, the Purchase Agreement or any other Related Agreement but have not been paid (collectively, the "Monthly Amount"). Any Principal Amount that remains outstanding on the Maturity Date shall be due and payable on the Maturity Date.

ARTICLE 2
CONVERSION REPAYMENT

2.1 Payment of Monthly Amount in Cash or Common Stock Each month by the fifth (5th) business day prior to each Repayment Date (the "Notice Date"), the Holder shall deliver to Borrower a written notice in the form of Exhibit B attached hereto (each, an "Allocation Notice") stating whether, the Monthly Amount payable on the next Repayment Date shall be (i) paid in cash, (ii) paid in Common Stock, (iii) applied to the exercise price of any warrants or stock options held by the Purchaser that the Purchaser has elected to exercise, or (iv) paid and/or applied in a combination of some or all of the foregoing alternatives. If an Allocation Notice is not delivered by the Holder on or before the applicable Notice Date for such Repayment Date, then the Borrower shall pay

the Monthly Amount due on such Repayment Date in cash. The number of such shares to be issued by the Borrower to the Holder on such Repayment Date, shall be the number determined by dividing (x) the portion of the Monthly Amount converted into shares of Common Stock, by (y) the then applicable Fixed Conversion Price. For purposes hereof, the initial "Fixed Conversion Price" means $1.35.

2.2 Reserved.

2.3 Optional Redemption in Cash. The Borrower will have the option of prepaying this Note ("Optional Redemption") by paying to the Holder a sum of money equal to one hundred ten percent (110%) of the principal amount of this Note together with accrued but unpaid interest thereon and any and all other sums due, accrued or payable to the Holder arising under this Note, the Purchase Agreement, or any Related Agreement (the "Redemption Amount") outstanding on the Redemption Payment Date (defined below); provided, however, that in no event may the Borrower pay the Holder any amount in respect of the exercise of any such Optional Redemption (of all or any portion of this Note) unless the Borrower shall have first until the Discharge of the Senior Claims, (i) prepaid the Laurus Note by an amount equal to the aggregate amount to be paid to the Holder and all other Purchasers in connection with such Optional Redemption (the "Prepayment Amount") as provided in the Laurus Note and (ii) deposited additional cash collateral in an amount equal to the Prepayment Amount with Aether as provided in the Aether Note. The Borrower shall deliver to the Holder a written notice of

redemption (the "Notice of Redemption") specifying the date for such Optional Redemption (the "Redemption Payment Date") which date shall be ten (10) business days after the date of the Notice of Redemption (the "Redemption Period"). A Notice of Redemption shall not be effective with respect to any portion of this Note for which the Holder has a pending election to convert pursuant to Section 3.1, or for conversions initiated or made by the Holder pursuant to Section 3.1 during the Redemption Period. The Redemption Amount shall be determined as if such Holder's conversion elections had been completed immediately prior to the date of the Notice of Redemption. On the Redemption Payment Date, the Redemption Amount must be paid in good funds to the Holder. In the event the Borrower fails to pay the Redemption Amount on the Redemption Payment Date as set forth herein, then (i) such Redemption Notice will be null and void and (ii) the Borrower shall no longer have the Optional Redemption rights set forth herein. Each of the terms "Aether", "Aether Note", "Discharge of Senior Claims", "Laurus Note" has the meaning given to such term in the Subordination Agreement.

ARTICLE 3
CONVERSION RIGHTS

3.1 Holder's Conversion Rights. The Holder shall have the right, but not the obligation, to convert all or any portion of the then aggregate outstanding principal amount of this Note, together with interest and fees due hereon, into shares of Common Stock subject to the terms and conditions set forth in this Article III. The Holder may exercise such right by delivery to the Borrower of a written notice of conversion by facsimile or otherwise not less than one (1) business day prior to the date upon which such conversion shall occur.

3.2 Conversion Limitation. Notwithstanding anything contained herein to the contrary, in no event shall the Holder be entitled to convert any portion of this Note, or shall the Company have the obligation to convert such Note (and the Company shall not have the obligation to pay interest hereon in shares of Common Stock) to the extent that, after such conversion or issuance of stock in payment of interest, the Holder would be deemed to be the beneficial owner of more than 4.99% of the outstanding shares of Common Stock. For purposes of this section , beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended.

3.3 Mechanics of Holder's Conversion.

(a) In the event that the Holder elects to convert all or a portion of the outstanding balance of this Note into Common Stock, the Holder shall give notice of such election by delivering an executed and completed notice of conversion ("Notice of Conversion") by facsimile or otherwise to the Borrower and such Notice of Conversion shall provide a breakdown in reasonable detail of the Principal Amount, accrued interest and fees being converted. Each date on which a Notice of Conversion is delivered or telecopied to the Borrower in accordance with the provisions hereof shall be deemed a Conversion Date (the "Conversion Date"). A form of Notice of Conversion to be employed by the Holder is annexed hereto as Exhibit A. In addition to the provisions set forth herein with respect to any such conversion, the parties shall comply with the requirements of Section 9 of the Purchase Agreement.

(b) Pursuant to the terms of the Notice of Conversion, the Borrower will issue instructions to the transfer agent

accompanied by an opinion of counsel, if required under applicable securities laws, within one (1) business day of the date of the delivery to Borrower of the Notice of Conversion and shall cause the transfer agent to transmit the certificates representing the Conversion Shares to the Holder by crediting the account of the Holder's designated broker with the Depository Trust Corporation ("DTC") through its Deposit Withdrawal Agent Commission ("DWAC") system within three (3) business days after receipt by the Borrower of the Notice of Conversion (the "Delivery Date"). In the case of the exercise of the conversion rights set forth herein the conversion privilege shall be deemed to have been exercised and the Conversion Shares issuable upon such conversion shall be deemed to have been issued upon the date of receipt by the Borrower of the Notice of Conversion. The Holder shall be treated for all purposes as the record holder of such Common Stock, unless the Holder provides the Borrower written instructions to the contrary.

3.4 Conversion Mechanics.

(a) The number of shares of Common Stock to be issued upon each conversion of this Note shall be determined by dividing that portion of the principal and interest and fees to be converted, if any, by the then applicable Fixed Conversion Price. In the event of any conversions of outstanding principal amount under this Note in part pursuant to this Article III, such conversions shall be deemed to constitute conversions of outstanding principal amount applying to Monthly Amounts for the remaining Repayment Dates in chronological order.

(b) The Fixed Conversion Price and number and kind of shares or other securities to be issued upon conversion is subject to adjustment from time to time upon the occurrence of certain events, as follows:

A. Stock Splits, Combinations and Dividends. If the shares of Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, or if a dividend is paid on the Common Stock in shares of Common Stock, the Fixed Conversion Price or the Conversion Price, as the case may be, shall be proportionately reduced in case of subdivision of shares or stock dividend or proportionately increased in the case of combination of shares, in each such case by the ratio which the total number of shares of Common Stock outstanding immediately after such event bears to the total number of shares of Common Stock outstanding immediately prior to such event.

B. During the period the conversion right exists, the Borrower will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Common Stock upon the full conversion of this Note, including interest. The Borrower represents that upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. The Borrower agrees that its issuance of this Note shall constitute full authority to its officers, agents, and transfer agents who are charged with the duty of executing and issuing stock certificates to execute and issue the necessary certificates for shares of Common Stock upon the conversion of this Note.

C. Share Issuances. Subject to the provisions of this Section 3.4, if the Borrower shall at any time prior to the conversion or repayment in full of the Principal Amount issue any

shares of Common Stock or securities convertible into Common Stock to a person other than the Holder (except (i) pursuant to Subsections A or B above; (ii) pursuant to options, warrants, or other obligations to issue shares outstanding on the date hereof as disclosed to Holder in writing; or (iii) pursuant to options that may be issued under any employee incentive stock option and/or any qualified stock option plan adopted by the Borrower; provided, however that the Borrower may not amend any current options, warrants, or other obligations to issue shares set forth in clauses (ii) and (iii) without the prior written consent of The Shaar Fund, Ltd.) for a consideration per share (the "Offer Price") less than the Fixed Conversion Price in effect at the time of such issuance, then the Fixed Conversion Price shall be immediately reset to such lower Offer Price at the time of issuance of such securities.

D. Reclassification, etc. If the Borrower at any time shall, by reclassification or otherwise, change the Common Stock into the same or a different number of securities of any class or classes, this Note, as to the unpaid Principal Amount and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase an adjusted number of such securities and kind of securities as would have been issuable as the result of such change with respect to the Common Stock immediately prior to such reclassification or other change.

3.5 Issuance of New Note. Upon any partial conversion of this Note, a new Note containing the same date and provisions of this Note shall, at the request of the Holder, be issued by the Borrower to the Holder for the principal balance of this Note and interest which shall not have been converted or paid. Subject to the provisions of Article IV, the Borrower will pay no costs, fees or any other consideration to the Holder for the production and issuance of a new Note.

ARTICLE 4
EVENTS OF DEFAULT

Upon the occurrence and continuance of an Event of Default beyond any applicable grace period, the Holder may make all

sums of principal, interest and other fees then remaining unpaid hereon and all other amounts payable hereunder immediately due and payable. In the event of such an acceleration, the amount due and owing to the Holder shall be applied first to any fees due and payable to Holder pursuant to the Note or the Related Agreements, then to accrued and unpaid interest due on the Note and then to outstanding principal balance of the Note.

The occurrence of any of the following events set forth in Sections 4.1 through 4.10, inclusive, is an "Event of Default":

4.1 Failure to Pay Principal, Interest or other Fees. The Borrower fails to pay when due any installment of principal, interest or other fees hereon in accordance herewith, or the Borrower fails to pay when due any amount due under any other promissory note issued by Borrower, and in any such case, such failure shall continue for a period of three (3) days following the date upon which any such payment was due.

4.2 Breach of Covenant. The Borrower breaches any covenant or any other term or condition of this Note or the Purchase Agreement in any material respect, or the Borrower or any of its Subsidiaries breaches any covenant or any other term or condition of any Related

Agreement in any material respect and, in any such case, such breach, if subject to cure, continues for a period of fifteen (15) days after the occurrence thereof.

4.3 Breach of Representations and Warranties. Any representation or warranty made by the Borrower in this Note or the Purchase Agreement, or by the Borrower or any of its Subsidiaries in any Related Agreement, shall, in any such case, be false or misleading in any material respect on the date that such representation or warranty was made or deemed made.

4.4 Receiver or Trustee. The Borrower or any of its Subsidiaries shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business; or such a receiver or trustee shall otherwise be appointed.

4.5 Judgments. Any money judgment, writ or similar final process shall be entered or filed against the Borrower or any of its Subsidiaries or any of their respective property or other assets for more than $50,000, and shall remain unvacated, unbonded or unstayed for a period of thirty (30) days.

4.6 Bankruptcy. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings or relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against the Borrower or any of its Subsidiaries.

4.7 Stop Trade. An SEC stop trade order or Principal Market trading suspension of the Common Stock shall be in effect for five (5) consecutive days or five (5) days during a period of ten (10) consecutive days, excluding in all cases a suspension of all trading on a Principal Market, provided that the Borrower shall not have been able to cure such trading suspension within thirty (30) days of the notice thereof or list the Common Stock on another Principal Market within sixty (60) days of such notice. The "Principal Market" for the Common Stock shall include the NASD OTC Bulletin Board, NASDAQ SmallCap Market, NASDAQ National Market System, American Stock Exchange, or New York Stock Exchange (whichever of the foregoing is at the time the principal trading exchange or market for the Common Stock, or any securities exchange or other securities market on which the Common Stock is then being listed or traded.

4.8 Failure to Deliver Common Stock or Replacement Note. The Borrower shall fail (i) to timely deliver Common Stock to the Holder pursuant to and in the form required by this Note, and Section 9 of the Purchase Agreement, if such failure to timely deliver Common Stock shall not be cured within two (2) business days or (ii) to deliver a replacement Note to Holder within seven (7) business days following the required date of such issuance pursuant to this Note, the Purchase Agreement or any Related Agreement (to the extent required under such agreements).

4.9 Default Under Related Agreements or Other Agreements. The occurrence and continuance of any Event of Default (as defined in the Purchase Agreement or any Related Agreement) or any event of default (or similar term) under any other indebtedness.

4.10 Change in Control. The occurrence of a change in the controlling ownership of the Borrower.

DEFAULT RELATED PROVISIONS

4.11 Default Interest Rate. Following the occurrence and during the continuance of an Event of Default, interest on this Note shall automatically accrue at a rate per annum that is 200 basis points higher than the then applicable Interest Rate and all outstanding obligations under this Note, including unpaid interest, shall continue to accrue interest from the date of such Event of Default at such interest rate applicable to such obligations until such Event of Default is cured or waived.

4.12 Conversion Privileges. The conversion privileges set forth in Article III shall remain in full force and effect immediately from the date hereof and until this Note is paid in full.

4.13 Cumulative Remedies. The remedies under this Note shall be cumulative.

ARTICLE 5
MISCELLANEOUS

5.1 Failure or Indulgence Not Waiver. No failure or delay on the part of the Holder hereof in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

5.2 Notices. Any notice herein required or permitted to be given shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient, if not, then on the next business day, (c) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the Borrower at the address provided in the Purchase Agreement executed in connection herewith, and to the Holder at the address provided in the Purchase Agreement for such Holder, or at such other address as the Borrower or the Holder may designate by ten days advance written notice to the other parties hereto. A Notice of Conversion shall be deemed given when made to the Borrower pursuant to the Purchase Agreement.

5.3 Amendment Provision. This Note may be amended or modified only upon the written consent of (i) the Borrower, (ii) The Shaar Fund, Ltd., and (iii) the other Purchasers holding at least 51% of the aggregate outstanding balance of the Notes. The term “Note” and all reference thereto, as used throughout this instrument, shall mean this instrument as originally executed, or if later amended or supplemented, then as so amended or supplemented, and any successor instrument issued pursuant to Section 3.5 hereof, as it may be amended or supplemented.

5.4 Assignability. This Note shall be binding upon the Borrower and its successors and assigns, and shall inure to the benefit of the Holder and its successors and assigns, and may be assigned by the Holder in accordance with the requirements of the Purchase Agreement. This Note shall not be assigned by the Borrower without the consent of the Holder.

5.5 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of New York or in the federal courts located in the state of New York in each case, sitting in the City of New York, Borough of Manhattan. Both parties and the individual signing this Note on behalf of the Borrower agree to submit to the jurisdiction of such courts and waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney’s fees and costs. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or unenforceability of any other provision of this Note. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Borrower in any other jurisdiction to collect on the Borrower’s obligations to Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other court in favor of the Holder.

5.6 Maximum Payments. Nothing contained herein shall be deemed to establish or require the payment of a rate of interest or other charges in excess of the maximum permitted by applicable law. In the event that the rate of interest required to be paid or other charges hereunder exceed the maximum permitted by such law, any payments in excess of such maximum shall be credited against amounts owed by the Borrower to the Holder and thus refunded to the Borrower.

5.7 Reserved.

5.8 Construction. Each party acknowledges that its legal counsel participated in the preparation of this Note and, therefore, stipulates that the rule of construction that ambiguities are to be resolved against the drafting party shall not be applied in

the interpretation of this Note to favor any party against the other.

5.9 Cost of Collection. If default is made in the payment of this Note, the Borrower shall pay to Holder reasonable costs of collection, including reasonable attorney's fees.

(Balance of page intentionally left blank; signature page follows.)

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its name effective as of this 29th day of September, 2004.

BIO-KEY INTERNATIONAL, INC.

By: _____
Michael W. DePasquale
Chief Executive Officer

WITNESS:

_____

EXHIBIT A
NOTICE OF CONVERSION

(To be executed by the Holder in order to convert all or part of the Note into Common Stock)

[Name and Address of Holder]

The Undersigned hereby converts $ (the "Conversion Amount") on [specify applicable Repayment Date] under the Convertible Term Note issued by BIO-KEY INTERNATIONAL, INC. dated September , 2004 by delivery of Shares of Common Stock of BIO-KEY INTERNATIONAL, INC. on and subject to the conditions set forth in Article III of such Note.

The Conversion Amount comprises:

$ in respect of principal;

$ in respect of accrued interest; and

$ in respect of accrued fees.

1. Date of Conversion:

2. Shares To Be Delivered:

[HOLDER]

By: _____
Name: _____
Title: _____

EXHIBIT B
ALLOCATION NOTICE

(To be executed by the Holder in order to (a) convert all or part of a Monthly Amount into Common Stock and/ or (b) apply all or part of a Monthly Amount toward the exercise of warrants or stock options)

[Name and Address of Holder]

[Holder hereby converts $ of the Monthly Amount due on [specify applicable Repayment Date] under the Convertible Term Note issued by BIO-KEY INTERNATIONAL, INC. dated , 200 by delivery of Shares of Common Stock of BIO-KEY INTERNATIONAL, INC. on and subject to the conditions set forth in Article III of such Note.]

[Holder hereby converts $ of the Monthly Amount due on [specify applicable Repayment Date] under the Convertible Term Note issued by BIO-KEY INTERNATIONAL, INC. dated , 200 by applying such amount to the exercise of [warrant/ option information], as further specified in the [warrant/ option] exercise documents delivered herewith.

1. Fixed Conversion Price: $

2. Amount to be paid: $

3. Shares To Be Delivered (2 divided by 1):

4. Amount to be applied to the exercise of options or warrants: $

5. Cash payment to be made by Borrower $

Date: _____

[HOLDER]

By: _____
Name: _____
Title: _____

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of September 29, 2004, by and between BIO-Key International, Inc., a Minnesota corporation (the "Company"), and The Shaar Fund Ltd. ("Shaar") and each of the other parties signatory hereto as Purchasers (collectively with Shaar, the "Purchasers" and each a "Purchaser").

This Agreement is made pursuant to the Securities Purchase Agreement, dated as of the date hereof, by and among the Purchasers and the Company (as amended, modified or supplemented from time to time, the "Securities Purchase Agreement"), and pursuant to the Notes and the Warrants referred to therein.

The Company and the Purchasers hereby agree as follows:

1. Definitions. Capitalized terms used and not otherwise defined herein that are defined in the Securities Purchase Agreement shall have the meanings given such terms in the Securities Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Commission" means the Securities and Exchange Commission.

"Common Stock" means shares of the Company's common stock, par value $0.01 per share.

"Effectiveness Date" means (i) with respect to the initial Registration Statement required to be filed hereunder, a date no later than ninety (90) days following the date hereof and (ii) with respect to each additional Registration Statement required to be filed hereunder, a date no later than thirty (30) days following the applicable Filing Date.

"Effectiveness Period" shall have the meaning set forth in Section 2(a).

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and any successor statute.

"Filing Date" means, with respect to (i) the initial Registration Statement required to be filed hereunder, a date no later than thirty (30) days following the date hereof and (ii) with respect to shares of Common Stock issuable to a Holder as a result of adjustments to the Fixed Conversion Price made pursuant to Section 3.4 of the Notes or Section 4 of the Warrants or otherwise, thirty (30) days after the occurrence such event or the date of the adjustment of the Fixed Conversion Price.

"Holder" or "Holders" means the Purchasers or any of their respective affiliates or transferees to the extent any of them hold Registrable Securities.

"Indemnified Party" shall have the meaning set forth in Section 5(c).

"Indemnifying Party" shall have the meaning set forth in Section 5(c).

"Notes" has the meaning set forth in the Securities Purchase Agreement.

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Prospectus" means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"Registrable Securities" means the shares of Common Stock issued or issuable upon the conversion of the Notes and issuable upon exercise of the Warrants.

"Registration Statement" means each registration statement required to be filed hereunder, including the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

"Rule 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 424" means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Securities Act" means the Securities Act of 1933, as amended, and any successor statute.

"Securities Purchase Agreement" means the agreement dated as of the date hereof between the parties hereto calling for the issuance by the Company of up to $5,000,000 of Convertible term note and the Warrants.

"Trading Market" means any of the NASD OTC Bulletin Board, NASDAQ SmallCap Market, the Nasdaq National Market, the American Stock Exchange or the New York Stock Exchange.

"Warrants" has the meaning set forth in the Securities Purchase Agreement.

2. Registration.

(a) On or prior to the Filing Date the Company shall prepare and file with the Commission a Registration Statement covering the Registrable Securities for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form SB-2 (except if the Company is not then eligible to register for resale the Registrable Securities on Form SB-2, in which case such registration shall be on another appropriate form in accordance herewith). The Company shall cause the Registration Statement to become effective and remain effective as provided herein. The Company shall use its reasonable commercial efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event no later than the Effectiveness Date. The Company shall use its reasonable commercial efforts to keep the Registration Statement continuously effective under the Securities Act until the date which is the earlier date of when (i) all Registrable Securities have been sold or (ii) all Registrable Securities may be sold immediately without registration under the Securities Act and without volume restrictions pursuant to Rule 144(k), as determined by the counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company's transfer agent and the affected Holders (the "Effectiveness Period").

(b) If: (i) the Registration Statement is not filed on or prior to the Filing Date; (ii) the Registration Statement is not declared effective by the Commission by the Effectiveness Date; (iii) after the Registration Statement is filed with and declared effective by the Commission, the Registration Statement ceases to be effective (by suspension or otherwise) as to all Registrable Securities to which it is required to relate at any time prior to the expiration of the Effectiveness Period (without being succeeded immediately by an additional registration statement filed and declared effective) for a period of time which shall exceed 30 days in the aggregate per year or more than 20 consecutive calendar days (defined as a period of 365 days commencing on the date the Registration Statement is declared effective); or (iv) the Common Stock is not listed or quoted, or is suspended from trading on any Trading Market for a period of three (3) consecutive Trading Days (provided the Company shall not have been able to cure such trading suspension within 30 days of the notice thereof or list the Common Stock on another Trading Market); (any such failure or breach being referred to as an "Event," and for purposes of clause (i) or (ii) the date on which such Event occurs, or for purposes of clause (iii) the date which such 30 day or 20 consecutive day period (as the case may be) is exceeded, or for purposes of clause (iv) the date on which such three (3) Trading Day period is exceeded, being referred to as "Event Date"), then until the applicable Event is cured, the Company shall pay to each Holder an amount in cash, as liquidated damages and not as a penalty, equal to 2.0% for each thirty (30) day period (prorated for partial periods) on a daily basis of the original principal amount of the Note. While such Event continues, such liquidated damages shall be paid not less often than each thirty (30) days. Any unpaid liquidated damages as of the date when an Event has been cured by the Company shall be paid within three (3) days following the date on which such Event has been cured by the Company.

(c) Within three business days of the Effectiveness Date, the Company shall cause its counsel to issue a blanket opinion in the form attached hereto as Exhibit A, to the transfer agent stating that the shares are subject to an effective registration statement and can be reissued free of restrictive legend upon notice of a sale by a Purchaser and confirmation by such Purchaser that it has complied with the prospectus delivery requirements, provided that the Company has not advised the transfer agent orally or in writing that the opinion has been withdrawn. Copies of the blanket opinion required by this Section 2(c) shall be delivered to such Purchaser within the time frame set forth above.

3. Registration Procedures. If and whenever the Company is required by the provisions hereof to effect the registration of any Registrable Securities under the Securities Act, the Company will, as expeditiously as possible:

(a) prepare and file with the Commission the Registration Statement with respect to such Registrable Securities, respond as promptly as possible to any comments received from the Commission, and use its best efforts to cause the Registration Statement to become and remain effective for the Effectiveness Period with respect thereto, and promptly provide to the Purchaser copies of all filings and Commission letters of comment relating thereto;

(b) Prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to keep the Registration Statement effective at all times during the Effectiveness Period, and, during the Effectiveness Period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statement until such time as all of such Registrable Securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in the Registration Statement;

(c) The Company shall permit a single firm of counsel designated by the Purchasers to review the Registration Statement and all amendments and supplements thereto a reasonable period of time (but not less than five (5) business days) prior to their filing with the SEC, and not file any document in a form to which such counsel reasonably objects. If such counsel objects, the Filing Date shall be extended by the number of days from the date the Registration Statement was delivered to such counsel to the date such counsel no longer objects;

(d) Notify each Purchaser, such Purchaser's legal counsel identified to the Company (which, until further notice, shall be deemed to be Meltzer, Lippe & Goldstein, LLP, Attn: Ira R. Halperin, Esq. (the "Purchaser's Counsel")), and any managing underwriter immediately (and, in the case of (i)(A) below, not less than five (5) days prior to such filing) and (if requested by any such Person) confirm such notice in writing no later than one (1) business day following the day (i)(A) when a Prospectus or any Prospectus supplement or post-effective amendment to the Registration Statement is proposed to be filed; (B) whenever the SEC notifies the Company whether there will be a

"review" of such Registration Statement; (C) whenever the Company receives (or a representative of the Company receives on its behalf) any oral or written comments from the SEC relating to a Registration Statement (copies or, in the case of oral comments, summaries of such comments shall be promptly furnished by the Company to the Purchasers); and (D) with respect to the Registration Statement or any post-effective amendment, when the same has become effective; (ii) of any request by the SEC or any other Federal or state governmental authority for amendments or supplements to the Registration Statement or Prospectus or for additional information; (iii) of the issuance by the SEC of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) if at any time any of the representations or warranties of the Company contained in any agreement (including any underwriting agreement) contemplated hereby ceases to be true and correct in all material respects; (v) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (vi) of the occurrence of any event that to the best knowledge of the Company makes any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. In addition, the Company shall furnish the Purchasers with copies of all intended written responses to the comments contemplated in clause (C) of this Section 3(d) not later than three (3) business days in advance of the filing of such responses with the SEC so that the Purchasers shall have the opportunity to comment thereon;

(e) Furnish to each Purchaser and such Purchaser's Counsel (i) promptly after the same is prepared and publicly distributed, filed with the SEC, or received by the Company, one (1) copy of the Registration Statement, each preliminary prospectus and prospectus, and each amendment or supplement thereto, and (ii) such number of copies of a prospectus, and all amendments and supplements thereto and such other documents, as such Purchaser may reasonably

request in order to facilitate the disposition of the Registrable Securities owned by such Purchaser;

(f) As promptly as practicable after becoming aware thereof, notify each Purchaser of the happening of any event of which the Company has knowledge, as a result of which the prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and use its best efforts promptly to prepare a supplement or amendment to the Registration Statement or other appropriate filing with the SEC to correct such untrue statement or omission, and deliver a number of copies of such supplement or amendment to each Purchaser as such Purchaser may reasonably request;

(g) As promptly as practicable after becoming aware thereof, notify each Purchaser who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance by the SEC of a Notice of Effectiveness or any notice of effectiveness or any stop order or other suspension of the effectiveness of the Registration Statement at the earliest possible time;

(h) Use its reasonable efforts to secure and maintain the designation of all the Registrable Securities covered by the Registration Statement on the "OTC Bulletin Board Market" of the National Association of Securities Dealers Automated Quotations System ("NASDAQ") within the meaning of Rule 11Aa2-1 of the SEC under the Exchange Act, and the quotation of the Registrable Securities on the OTC Bulletin Board Market;

(i) use its commercially reasonable efforts to register or qualify the Purchaser's Registrable Securities covered by the Registration Statement under the securities or "blue sky" laws of such jurisdictions within the United States as the Purchaser may reasonably request, provided, however, that the Company shall not for any such purpose be required to qualify generally to transact business as a foreign corporation in any jurisdiction where it is not so qualified or to consent to general service of process in any such jurisdiction;

(j) Provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than three (3) days after the effective date of the Registration Statement; and

(k) Cooperate with the Purchasers to facilitate the timely preparation and delivery of certificates for the Registrable Securities to be offered pursuant to the Registration Statement and enable such certificates for the Registrable Securities to be in such denominations or amounts as the case may be, as the Purchasers may reasonably request, and, within three (3) business days after a Registration Statement which includes Registrable Securities is ordered effective by the SEC, the Company shall deliver, and shall cause legal counsel selected by the Company to deliver, to the transfer agent for the Registrable Securities (with copies to the Purchasers whose Registrable Securities are included in such Registration Statement) an appropriate instruction and opinion of such counsel.

4. Registration Expenses. All expenses relating to the Company's compliance with Sections 2 and 3 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel and independent public accountants for the Company, fees and expenses (including reasonable counsel fees) incurred in connection with complying with state securities or "blue sky" laws, fees of the NASD, transfer taxes, fees of transfer agents and registrars, fees of, and disbursements incurred by, one counsel for the Holders (to the extent such counsel is required due to Company's failure to meet any of its obligations hereunder), are called "Registration Expenses". All selling commissions applicable to the sale of Registrable Securities, including any fees and disbursements of any special counsel to the Holders beyond those included in Registration Expenses, are called "Selling Expenses." The Company shall only be responsible for all Registration Expenses and shall not be responsible for any Selling Expenses.

5. Indemnification.

(a) In the event of a registration of any Registrable Securities under the Securities Act pursuant to this Agreement, the Company will indemnify and hold harmless the Purchaser, and its officers, directors and each other person, if any, who controls the Purchaser within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which the Purchaser, or such persons may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement under which such Registrable Securities were registered under the Securities Act pursuant to this Agreement, any preliminary Prospectus or

final Prospectus contained therein, or any amendment or supplement thereof, arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or arise out of the Company's violation of any federal or state securities laws, and will reimburse the Purchaser, and each such person for any reasonable legal or other expenses incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case if and to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by or on behalf of the Purchasers or any such person in writing specifically for use in any such document.

(b) In the event of a registration of the Registrable Securities under the Securities Act pursuant to this Agreement, each Purchaser will indemnify and hold harmless the Company, and its officers, directors and each other person, if any, who controls the Company within the meaning of the Securities Act, against all losses, claims, damages or liabilities, joint or several, to which the Company or such persons may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact which was furnished in writing by such Purchaser to the Company expressly for use in (and such information is contained in) the Registration Statement under which such Registrable Securities were registered under the Securities Act pursuant to this Agreement, any preliminary Prospectus or final Prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and each such person for any reasonable legal or other expenses incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action, provided, however, that such Purchaser will be liable in any such case if and only to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished in writing to the Company by or on behalf of such Purchaser specifically for use in any such document. Notwithstanding the provisions of this paragraph, such Purchaser shall not be required to indemnify any person or entity in excess of the amount of the aggregate net

proceeds received by such Purchaser in respect of Registrable Securities in connection with any such registration under the Securities Act.

(c) Promptly after receipt by a party entitled to claim indemnification hereunder (an "Indemnified Party") of notice of the commencement of any action, such Indemnified Party shall, if a claim for indemnification in respect thereof is to be made against a party hereto obligated to indemnify such Indemnified Party (an "Indemnifying Party"), notify the Indemnifying Party in writing thereof, but the omission so to notify the Indemnifying Party shall not relieve it from any liability which it may have to such Indemnified Party other than under this Section 5(c) and shall only relieve it from any liability which it may have to such Indemnified Party under this Section 5(c) if and to the extent the Indemnifying Party is prejudiced by such omission. In case any such action shall be brought against any Indemnified Party and it shall notify the Indemnifying Party of the commencement thereof, the Indemnifying Party shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel satisfactory to such Indemnified Party, and, after notice from the Indemnifying Party to such Indemnified Party of its election so to assume and undertake the defense thereof, the Indemnifying Party shall not be liable to such Indemnified Party under this Section 5(c) for any legal expenses subsequently incurred by such Indemnified Party in connection with the defense thereof; if the Indemnified Party retains its own counsel, then the Indemnified Party shall pay all fees, costs and expenses of such counsel, provided, however, that, if the defendants in any such action include both the indemnified party and the Indemnifying Party and the Indemnified Party shall have reasonably concluded that there may be reasonable defenses available to it which are different from or additional to those available to the Indemnifying Party or if the interests of the Indemnified Party reasonably may be deemed to conflict with the interests of the Indemnifying Party, the Indemnified Party shall have the right to select one separate counsel and to assume such legal defenses and otherwise to participate in the defense of such action, with the reasonable expenses and fees of such separate counsel and other expenses related to such participation to be reimbursed by the Indemnifying Party as incurred.

(d) In order to provide for just and equitable contribution in the event of joint liability under the Securities Act in any case in which either (i) a Purchaser, or any officer, director or controlling person of such Purchaser, makes a claim for indemnification pursuant to this Section 5 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 5 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of such Purchaser or such officer, director or controlling person of such Purchaser in circumstances for which indemnification is provided under this Section 5; then, and in each such case, the Company and such Purchaser will contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that such Purchaser is responsible only for the portion represented by the percentage that the public offering price of its securities offered by the Registration Statement bears to the

public offering price of all securities offered by such Registration Statement, provided, however, that, in any such case, (A)

such Purchaser will not be required to contribute any amount in excess of the public offering price of all such securities offered by it pursuant to such Registration Statement; and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 10(f) of the Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

6. Representations and Warranties.

(a) The Common Stock of the Company is registered pursuant to Section 12(b) or 12(g) of the Exchange Act and, except with respect to certain matters which the Company has disclosed to the Purchaser on Schedule 4.21 to the Securities Purchase Agreement, the Company has timely filed all proxy statements, reports, schedules, forms, statements and other documents required to be filed by it under the Exchange Act. The Company has filed (i) its Annual Report on Form 10-KSB for its fiscal year ended December 31, 2003 and (ii) its Quarterly Report on Form 10-QSB for the fiscal quarters ended March 31, 2004 and June 30, 2004 (collectively, the "SEC Reports"). Each SEC Report was, at the time of its filing, in substantial compliance with the requirements of its respective form and none of the SEC Reports, nor the financial statements (and the notes thereto) included in the SEC Reports, as of their respective filing dates, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the Commission or other applicable rules and regulations with respect thereto. Such financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed) and fairly present in all material respects the financial condition, the results of operations and the cash flows of the Company and its subsidiaries, on a consolidated basis, as of, and for, the periods presented in each such SEC Report.

(b) The Company's Common Stock is traded on the NASD Over the Counter Bulletin Board and satisfies all requirements for the continuation of such trading. The Company has not received any notice that its Common Stock will be ineligible to trade or that its Common Stock does not meet all requirements for such trading.

(c) Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would cause the offering of the Securities pursuant to the Securities Purchase Agreement to be integrated with prior offerings by the Company for purposes of the Securities Act which would prevent the Company from selling the Common Stock pursuant to Rule 506 under the Securities Act, or any applicable exchange-related stockholder approval provisions, nor will the Company or any of its affiliates or subsidiaries take any action or steps that would cause the offering of the Securities to be integrated with other offerings.

(d) The Warrants, the Notes and the shares of Common Stock which the Purchaser may acquire pursuant to the Warrants and the Notes are all restricted securities under the Securities Act as of the date of this Agreement. The Company will not issue any stop transfer order or other order impeding the sale and delivery of any of the Registrable Securities at such time as such Registrable Securities are registered for public sale or an exemption from registration is available, except as required by federal or state securities laws.

(e) The Company understands the nature of the Registrable Securities issuable upon the conversion of the Notes and the exercise of the Warrants and recognizes that the issuance of such Registrable Securities may have a potential dilutive effect. The Company specifically acknowledges that its obligation to issue the Registrable Securities is binding upon the Company and enforceable regardless of the dilution such issuance may have on the ownership interests of other shareholders of the Company.

(f) Except for agreements made in the ordinary course of business, there is no agreement that has not been filed with the Commission as an exhibit to a registration statement or to a form required to be filed by the Company under the Exchange Act, the breach of which could reasonably be expected to have a material and adverse effect on the Company and its subsidiaries, or would prohibit or otherwise interfere with the ability of the Company to enter into and perform any of its obligations under this Agreement in any material respect.

(g) The Company will at all times have authorized and reserved a sufficient number of shares of Common Stock for the full conversion of the Note and exercise of the Warrants.

(h) A true, correct and complete copy of the Registration Rights Agreement dated as of the date hereof by and among the Company, Laurus Master Fund, Ltd. and the other parties thereto is attached hereto as Exhibit B (the "Laurus Registration Agreement").

7. Miscellaneous.

(a) Remedies. In the event of a breach by the Company or by a Holder, of any of their respective obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement.

(b) No Piggyback on Registrations. Except as and to the extent specified in Schedule 7(b)(i) hereto, neither the Company nor any of its security holders (other than the Holders in such capacity pursuant hereto) may include securities of the Company in any Registration Statement other than the Registrable Securities, and the Company shall not after the date hereof enter into any agreement providing any such right for inclusion of shares in the Registration Statement to any of its security holders. Except as and to the extent set forth on Schedule 7(b)(ii) and as set forth in the Company's public filings

pursuant to the Exchange Act, the Company has not previously entered into any agreement granting any registration rights with respect to any of its securities to any Person that have not been fully satisfied.

(c) Compliance. Each Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

(d) Discontinued Disposition. Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of a Discontinuation Event (as defined below), such Holder will forthwith discontinue disposition of such Registrable Securities under the applicable Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide appropriate stop orders to enforce the provisions of this paragraph. For purposes of this Section 7(d), a "Discontinuation Event" shall mean (i) when the Commission notifies the Company whether there will be a "review" of such Registration Statement and whenever the Commission comments in writing on such Registration Statement (the Company shall provide true and complete copies thereof and all written responses thereto to each of the Holders); (ii) any request by the Commission or any other Federal or state governmental authority for amendments or supplements to such Registration Statement or Prospectus or for additional information; (iii) the issuance by the Commission of any stop order suspending the effectiveness of such Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and/or (v) the occurrence of any event or passage of time that makes the financial statements included in such Registration Statement ineligible for inclusion therein or any statement made in such Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to such Registration Statement, Prospectus or other documents so that, in the case of such Registration Statement or Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(e) Reserved.

(f) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the (i) Company, (ii) Shaar and (iii) the Holders of

at least 51% in interest of the then outstanding Registrable Securities. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of certain Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities to which such waiver or consent relates; provided, however, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(g) Notices. Any notice or request hereunder may be given to the Company or the Purchaser at the respective addresses set forth below or as may hereafter be specified in a notice designated as a change of address under this Section 7(g) in accordance with the procedures set forth in the Securities Purchase Agreement.

If to the Company:

BIO-Key International, Inc.
1285 Corporate Center Drive
Suite 175
Eagan, MN 55121
Attention: Chief Financial Officer
Facsimile: (651) 687-0515

with a copy to:

Choate, Hall & Stewart
53 State Street
Boston, MA 02109
Attention: Charles J. Johnson, Esq.
Facsimile: 617-248-4000

If to a Purchaser:

To the address set forth under such Purchaser name on Schedule 2 to the Securities Purchase Agreement.

If to any other Person who is then the registered Holder:

To the address of such Holder as it appears in the stock transfer books of the Company

or such other address as may be designated in writing hereafter in accordance with this Section 7(g) by such Person.

(h) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of each Holder. Each Holder may assign

their respective rights hereunder in the manner and to the Persons as permitted under the Notes and the Securities Purchase Agreement with the prior written consent of the Company, which consent shall not be unreasonably withheld.

(i) Execution and Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(j) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS. ANY ACTION BROUGHT BY S ANY PARTY AGAINST ANOTHER CONCERNING THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT SHALL BE BROUGHT ONLY IN THE STATE COURTS OF NEW YORK OR IN THE FEDERAL COURTS LOCATED IN THE STATE OF NEW YORK IN EACH CASE SITTING IN THE CITY OF NEW YORK, BOROUGH OF MANHATTAN. ALL PARTIES AND THE INDIVIDUALS EXECUTING THIS AGREEMENT ON BEHALF OF THE COMPANY AGREE TO SUBMIT TO THE JURISDICTION OF SUCH COURTS AND WAIVE TRIAL BY JURY. IN THE EVENT THAT ANY PROVISION OF THIS AGREEMENT DELIVERED IN CONNECTION HEREWITH IS

INVALID OR UNENFORCEABLE UNDER ANY APPLICABLE STATUTE OR RULE OF LAW, THEN SUCH PROVISION SHALL BE DEEMED INOPERATIVE TO THE EXTENT THAT IT MAY CONFLICT THEREWITH AND SHALL BE DEEMED MODIFIED TO CONFORM WITH SUCH STATUTE OR RULE OF LAW. ANY SUCH PROVISION WHICH MAY PROVE INVALID OR UNENFORCEABLE UNDER ANY LAW SHALL NOT AFFECT THE VALIDITY OR ENFORCEABILITY OF ANY OTHER PROVISION OF THIS AGREEMENT.

(k) Cumulative Remedies. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(l) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(m) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(Balance of page intentionally left blank; signature page follows.)

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

BIO-KEY INTERNATIONAL, INC.

By: /s/ Michael DePasquale
Michael W. DePasquale
Chief Executive Officer

THE SHAAR FUND, LTD.

By: InterCaribbean Services Ltd.

By: /s/ .
Director

LONGVIEW EQUITY FUND, LP

By: Redwood Grove Capital Management,
LLC, as Investment Manager

By: /s/ Wayne H. Coleson
Name:
Title:

LONGVIEW FUND, LP

By: Viking Asset Management, LLC,
as General Partner

By: / s/ S. Michael Rudolph

Name:

Title:

ETIENNE DES ROYS

By: /s/ Etienne Des Roys

ERIC HABER

By: /s/ Eric Haber

ALBERT FRIED, JR.

By: /s/ Albert Fried, Jr.
Name:
Title:

CORDILLERA FUND, L.P.

By: ACCF Gen Pat L.P.

By: Andrew Carter Capital , Inc.

By: /s/ James P. Andrew
Name:
Title:

INVESTORS MANAGEMENT CORPORATION

By: /s/ Richard A. Urquhart, III
Name:
Title:

THE TOCQUEVILLE FUND

By: /s/ Robert W. Kleinschmidt
Name:
Title:

TOCQUEVILLE AMERIQUE VALUE FUND

By: /s/ Robert W. Kleinschmidt
Name:
Title:

LONGVIEW INTERNATIONAL EQUITY
FUND, LP

By: InterCaribbean Services Ltd.

By: /s/ Wayne H. Coleson
Name: _____
Title: _____

Signature Page to Shaar Registration Rights Agreement

Schedule 7(b)(i)

1. Warrant dated June 13, 2000 for 50,000 shares of Common Stock issued to Alliance Technology, Inc.

2. Warrant dated December 1, 2001 for 27,000 shares of Common Stock issued to Jefferson Government Relations

3. Warrant dated December 4, 2001 for 57,000 shares of Common Stock issued to Delta Logistics, Inc.

4. Warrant dated November 25, 2001 for 10,000 shares of Common Stock issued to Kreiger & Prager

5. Warrant dated December 3, 2001 for 5,682 shares of Common Stock issued to Protis

6. Warrant dated March 22, 2002 for 25,000 shares of Common Stock issued to Punk, Ziegel & Company, L.P.

7. Warrant dated July 15, 2004 for 100,000 shares of Common Stock issued to The November Group Ltd.

8. Shares of common stock and warrants issuable pursuant to the Securities Purchase Agreement with Laurus Master Fund and other purchasers of even date herewith.

9. Warrants dated March, 2004 issued Jesup & Lamont Securities and certain of its employees for an aggregate of 444,444 shares of Common Stock.

10. Warrants dated on or about the date hereof to be issued to Jesup & Lamont Securities for an aggregate of up to 741,000 shares of Common Stock.

Schedule 7(b)(ii)

1. Warrant dated March 17, 2000 for 67,500 shares of common stock issued to The Shaar Fund, Ltd.

2. Warrant dated November 25, 2001 for 4,000,000 shares of common stock issued to The Shaar Fund, Ltd.

3. The Laurus Registration Rights Agreement

4. Each of the warrants described in Schedule 7(b)(i) above.

EXHIBIT A
[Month , 2004]

[Continental Stock Transfer
& Trust Company
Two Broadway
New York, NY 10004
Attn: William Seegraber]

Re: [Company Name]. Registration Statement on Form SB-2

Ladies and Gentlemen:

As counsel to[company name] , a Delaware corporation (the “Company”), we have been requested to render our opinion to you in connection with the resale by the individuals or entitles listed on Schedule A attached hereto (the “Selling Stockholders”), of an aggregate of [amount]shares (the “Shares”) of the Company’s Common Stock.

A Registration Statement on Form SB-2 under the Securities Act of 1933, as amended (the “Act”), with respect to the resale of the Shares was declared effective by the Securities and Exchange Commission on [date]. Enclosed is the Prospectus dated [date]. We understand that the Shares are to be offered and sold in the manner described in the Prospectus.

Based upon the foregoing, upon request by the Selling Stockholders at any time while the registration statement remains effective, it is our opinion that the Shares have been registered for resale under the Act and new certificates evidencing the Shares upon their transfer or re-registration by the Selling Stockholders may be issued without restrictive legend. We will advise you if the registration statement is not available or effective at any point in the future.

Very truly yours,

[Company counsel]

Schedule A

Selling Stockholder	Shares Being Offered

INTERCREDITOR AGREEMENT

THIS INTERCREDITOR AGREEMENT (this "Agreement"), is made and entered into as of September 30, 2004, among Laurus Master Fund, Ltd., a Cayman Islands company, individually and as Collateral Agent (as defined below), Aether Systems, Inc., a Delaware corporation ("Seller"), and BIO-key International, Inc, a Minnesota corporation ("BIO-key"), and Public Safety Group, Inc., a Delaware corporation (together with BIO-key, the "Makers").

W I T N E S S E T H

WHEREAS, the Senior Lender has made a secured loan to the Makers pursuant to Senior Lender Documents (as defined below);

WHEREAS, BIO-key and the Seller have entered into that certain Asset Purchase Agreement by and among Seller, Cerulean Technologies, Inc., SunPro, Inc. and BIO-key, dated as of August 16, 2004 (the "Asset Purchase Agreement");

WHEREAS, the Asset Purchase Agreement requires BIO-key to deliver to Seller a subordinated secured promissory note in the original principal amount of $7,884,588 (the "Subordinated Note") pursuant to which the Makers grant Seller a lien and security interest in all of the assets of the Makers;

WHEREAS, the Seller has agreed to subordinate its claims any rights it may have against the Makers and the Makers' assets pursuant to the Subordinated Note in accordance with the terms and conditions hereof.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and obligations herein set forth and for other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows.

SECTION 1. DEFINITIONS. As used in this Agreement, the following terms have the meanings specified below.

"Bankruptcy Law" means Title 11 of the United States Code and any similar Federal, state or foreign law for the relief of debtors.

"Business Day" means any day other than a Saturday, a Sunday or a day that is a legal holiday under the laws of the State of New York or on which banking institutions in the State of New York are required or authorized by law or other governmental action to close.

"Collateral Agent" means Laurus Master Fund, Ltd., a Cayman Islands company, as collateral agent under the Securities Purchase Agreement.

"Common Collateral" means all of the assets of each Maker, whether real, personal or mixed, constituting both Senior Lender Collateral and Seller Collateral.

"Comparable Seller Collateral Document" means, in relation to any Common Collateral subject to any Lien created under any Senior Collateral Document, that Seller Collateral Document which creates a Lien on the same Common Collateral, granted by the Makers.

"Copyright Security Agreement" means the Copyright Assignment, dated the date hereof, among the Makers and Seller.

"Discharge of the Senior Lender Claims" means (a) payment in full in cash of the principal of and interest and premium, if any, on all Senior Indebtedness or (b) conversion of the total aggregate principal amount of the Senior Indebtedness into common stock of Borrower in accordance with the terms of the secured convertible term note issued pursuant to the Securities Purchase Agreement.

"Hamilton County" has the meaning given such term in the Asset Purchase Agreement.

"Hamilton LC" has the meaning given such term in the Asset Purchase Agreement.

"Hamilton Sale Agreement" has the meaning given such term in the Asset Purchase Agreement.

"Indebtedness" means and includes all Obligations that constitute indebtedness under the Subordinated Note or the Senior Lender Documents.

"Insolvency or Liquidation Proceeding" means (a) any voluntary or involuntary case or proceeding under any Bankruptcy Law with respect to each Maker, (b) any other voluntary or involuntary insolvency, reorganization or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding with respect to each Maker or with respect to any of their respective assets, (c) any liquidation, dissolution, reorganization or winding up of each Maker whether voluntary or involuntary and whether or not involving insolvency or bankruptcy or (d) any assignment for the benefit of creditors or any other marshalling of assets and liabilities of each Maker.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Makers" has the meaning given such term in the initial paragraph hereof.

"Obligations" means any and all obligations with respect to the payment of (a) any principal of or interest (including interest accruing on or after the commencement of any Insolvency or Liquidation Proceeding, whether or not a claim for post-filing interest is allowed in such proceeding) or premium on any Indebtedness, including any reimbursement obligation in

respect of any letter of credit, (b) any fees, indemnification obligations, expense reimbursement obligations or other liabilities payable under the documentation governing any Indebtedness and (c) any obligation to post cash collateral in respect of letters of credit and any other obligations.

"Patent Security Agreement" means the Patent Assignment, dated the date hereof, among the Makers and Seller.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, entity or other party, including any government and any political subdivision, agency or instrumentality thereof.

"Pledged Collateral" means (a) the "Pledged Securities" under, and as defined in, the Subordinated Note and (b) any other Common Collateral in the possession of the Senior Lender (or its agents or bailees), to the extent that possession thereof is necessary to perfect a Lien thereon under the Uniform Commercial Code.

"Securities Purchase Agreement" means the Securities Purchase Agreement between BIO-key and the Senior Lender, dated the date hereof, as the same may be amended, supplemented and restated from time to time.

"Seller Claims" means all Obligations in respect of the Subordinated Note or arising under the Seller Documents or any of them.

"Seller Collateral" means all of the assets of any Maker, whether real, personal or mixed, with respect to which a Lien is granted as security for any Seller Claim.

"Seller Collateral Documents" means the Subordinated Note, Copyright Security Agreement, Patent Security Agreement, Trademark Security Agreement and any other document or instrument pursuant to which a Lien is granted each Maker to secure any Seller Claims or under which rights or remedies with respect to any such Lien are governed.

"Seller Documents" means the Subordinated Note, the Seller Collateral Documents and other related document or instrument executed and delivered pursuant to any Seller Document described above evidencing or governing any Obligations thereunder.

"Senior Indebtedness" means any and all amounts payable under or in respect of the Securities Purchase Agreement, including principal, premium (if any), interest, fees, charges, expenses, reimbursement obligations, guarantees and all other amounts payable thereunder or in respect thereof.

"Senior Collateral Documents" means the Master Security Agreement, dated the date hereof, among the Makers and

its subsidiaries and the Senior Lender, the Stock Pledge Agreement, dated the date hereof, among the Senior Lender and BIO-key and any other agreement, document or instrument pursuant to which a Lien is granted securing any Senior Lender Claims or under which rights or remedies with respect to such Liens are governed.

"Senior Default" means an event of default under any of the Senior Lender Documents.

"Senior Lender" means the Persons holding Senior Lender Claims.

"Senior Lender Claims" means (a) all Indebtedness outstanding under one or more of the Senior Lender Documents, (b) all other Obligations (not constituting Indebtedness) of the Makers under the Senior Lender Documents. Senior Lender Claims shall include all interest accrued or accruing (or which would, absent the commencement of an Insolvency or Liquidation Proceeding, accrue) after the commencement of an Insolvency or Liquidation Proceeding in accordance with and at the rate specified in the relevant Senior Lender Document whether or not the claim for such interest is allowed as a claim in such Insolvency or Liquidation Proceeding.

"Senior Lender Collateral" means all of the assets of each Maker, whether real, personal or mixed, with respect to which a Lien is granted as security for any Senior Lender Claim.

"Senior Lender Documents" means the Securities Purchase Agreement, the Senior Collateral Documents, and each of the other agreements, documents and instruments providing for or evidencing any other Obligation under the Securities Purchase Agreement and any other related document or instrument executed or delivered pursuant to any Senior Lender Document at any time or otherwise evidencing any Senior Lender Claims.

"Subordinated Note" has the meaning given such term in the recitals hereof.

"Trademark Security Agreement" means the Trademark Security Agreement, dated the date hereof, among the Makers and Seller.

"Uniform Commercial Code" or "UCC" means the Uniform Commercial Code as from time to time in effect in the State of New York.

(a) Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise (i) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified, (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns, (iii) the words "herein," "hereof" and "hereunder," and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (iv) all references herein to Sections shall be construed to refer to Sections of this Agreement and (v) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 2. LIEN PRIORITIES.

2.1 Subordination. Notwithstanding the date, manner or order of grant, attachment or perfection of any Liens granted to the Senior Lender or the Seller on the Common Collateral and notwithstanding any provision of the UCC, or any applicable law or the Seller Documents or the Senior Lender Documents or any other circumstance whatsoever, the Seller hereby agrees that until Discharge of the Senior Lender Claims: (a) any Lien on the Common Collateral securing any Senior Lender Claims now or hereafter held by the Senior Lender shall be senior in all respects and prior to any Lien on the Common Collateral securing any of the Seller Claims and (b) any Lien on the Common Collateral now or hereafter held by Seller regardless of how acquired, whether by grant, statute, operation of law, subrogation or otherwise, shall be junior and subordinate in all respects to all Liens on the Common Collateral securing any and all Senior Lender Claims. Until Discharge of the Senior Lender Claims, all Liens on the Common Collateral securing any Senior Lender Claims shall be and remain senior in all respects and prior to all Liens on the Common Collateral securing any Seller Claims for all purposes, whether or not such Liens securing any Senior Lender Claims are subordinated to any Lien securing any other obligation of each Maker or any other Person.

2.2 Prohibition on Contesting Liens. Seller agrees that it shall not (and hereby waives any right to) contest, or support any other Person in contesting, in any proceeding (including any Insolvency or Liquidation Proceeding), the priority, validity or enforceability of a Lien held by or on behalf of the Senior Lender in the Senior Lender Collateral or by or on behalf of the Seller in the Common Collateral, as the case may be; *provided, however*, that nothing in this Agreement shall be construed to prevent or impair the rights of the Senior Lender to enforce this Agreement, including the priority of the Liens securing the Senior Lender Claims as provided in Section 2.1.

2.3 No New Liens. So long as the Discharge of the Senior Lender Claims has not occurred, the parties hereto agree that, after the date hereof, if Seller shall hold any Lien on any assets of the Makers securing any Seller Claims that are not also subject to the first-priority Lien under the Senior Lender Documents, the Seller, upon demand by the Senior Lender, will either release such Lien or assign it to the Senior Lender as security for the Senior Lender Claims.

2.4 Discharge of Senior Lender Claims. Upon the Discharge of the Senior Lender Claims, the Senior Lender shall take all action and cooperate with the Makers and Seller in taking all actions necessary to terminate and release all of the Liens granted by the Makers and its subsidiaries as security for any Senior Lender Claims so that the Seller Claims shall be senior in all respects and prior to all Liens on the Seller Collateral.

SECTION 3. ENFORCEMENT.

3.1 Exercise of Remedies.

(a) So long as the Discharge of the Senior Lender Claims has not occurred, whether or not any Insolvency or Liquidation Proceeding has been commenced by or against any Maker, (i) the Seller will not exercise or seek to exercise any rights or remedies (including set-

off) with respect to any Common Collateral, institute any action or proceeding with respect to such rights or remedies (including any action of foreclosure), contest, protest or object to any foreclosure proceeding or action brought by the Senior Lender, the exercise of any right under any lockbox agreement, landlord waiver or bailee's letter or similar agreement or arrangement to which the Seller is a party, or any other exercise by any such party, of any rights and remedies relating to the Common Collateral under the Senior Lender Documents or otherwise, or object to the forbearance by the Senior Lender from bringing or pursuing any foreclosure proceeding or action or any other exercise of any rights or remedies relating to the Common Collateral and (ii) the Senior Lender shall have the exclusive right to enforce rights, exercise remedies (including set-off and the right to credit bid their debt) and make determinations regarding the release, disposition, or restrictions with respect to the Common Collateral without any consultation with or the consent of the Seller; *provided, however*, that (i) the Seller shall be permitted to declare the occurrence of an event of default under the Subordinated Note, (ii) in any Insolvency or Liquidation Proceeding commenced by or against any Maker, the Seller may file a claim or statement of interest with respect to the Seller Claims, (iii) the Seller may take any action (not adverse to the prior Liens on the Common Collateral securing the Senior Lender Claims, or the rights of the Senior Lender to exercise remedies in respect thereof) in order to preserve or protect its Lien on the Common Collateral, (iv) the Seller shall be permitted to take any action or cause any action to be taken with respect to Hamilton County, the Hamilton Sale Agreement or the Hamilton LC or (v) exercise any rights with respect to common stock of BIO-key pledged by BIO-key which Seller elects to accept in lieu of the Collateral (as defined in the Subordinated Note). In exercising rights and remedies with respect to the Common Collateral, the Senior Lender may enforce the provisions of the Senior Lender Documents and exercise remedies thereunder, all in such order and in such manner as they may determine in the exercise of their sole discretion. Such exercise and enforcement shall include the rights of an agent appointed to sell or otherwise dispose of Common Collateral upon foreclosure, to incur expenses in connection with such sale or disposition, and to exercise all the rights and remedies of a secured lender under the Uniform Commercial Code of any applicable jurisdiction and of a secured creditor under Bankruptcy Laws of any applicable jurisdiction.

(b) The Seller agrees that it will not take or receive any Common Collateral or any proceeds of Common Collateral in connection with the exercise of any right or remedy (including set-off) with respect to any Common Collateral, unless and until the Discharge of the Senior Lender Claims has occurred. Without limiting the generality of the foregoing, unless and until the Discharge of the Senior Lender Claims has occurred, except as expressly provided in Section 3.1(a)(ii), the sole right of the Seller with respect to the Common Collateral is to hold a Lien on the Common Collateral pursuant to the Seller Documents for the period and to the extent granted therein and to receive a share of the proceeds thereof, if any, after the Discharge of the Senior Lender Claims has occurred.

(c) Subject to Section 3.1(a)(ii), the Seller agrees not take any action that would hinder any exercise of remedies undertaken by the Senior Lender pursuant to the Senior Lender Documents, including any sale, lease, exchange, transfer or other disposition of the Common Collateral, whether by foreclosure or otherwise.

(d) The Seller hereby acknowledges and agrees that no covenant, agreement or restriction contained in any Seller Document shall be deemed to restrict in any way the rights

and remedies of the Senior Lender with respect to the Common Collateral as set forth in this Agreement and the Senior Lender Documents.

SECTION 4. PAYMENTS.

4.1 Application of Proceeds. As long as the Discharge of the Senior Lender Claims has not occurred, the Common Collateral or proceeds thereof received in connection with the sale or other disposition of, or collection on, such Common Collateral upon the exercise of remedies, shall be applied to the Senior Lender Claims in such order as specified in the relevant Senior Lender Documents until the Discharge of the Senior Lender Claims has occurred. Upon the Discharge of the Senior Lender Claims, the Senior Lender shall deliver to the Seller any proceeds of Common Collateral held by it in the same form as received, with any necessary endorsements or as a court of competent jurisdiction may otherwise direct to be applied by the Seller to the Seller Claims in such order as specified in the relevant Seller Documents.

4.2 Payments Over. Any Common Collateral or proceeds thereof received by the Seller in connection with the exercise of any right or remedy (including set-off) relating to the Common Collateral in contravention of this Agreement shall be segregated and held in trust and promptly paid over to the Senior Lender in the same form as received, with any necessary endorsements or as a court of competent jurisdiction may otherwise direct. Notwithstanding anything to the contrary herein, it is agreed and understood that, unless and until a Senior Default occurs, Seller shall be permitted to collect and receive interest payments, fees and permitted prepayments in accordance with the terms of the Subordinated Note.

SECTION 5. OTHER AGREEMENTS.

5.1 Releases.

(a) If in connection with:

(i) the exercise of the Senior Lender's remedies in respect of the Common Collateral provided for in Section 3.1, including any sale, lease, exchange, transfer or other disposition of any such Common Collateral;

(ii) any sale, lease, exchange, transfer or other disposition of any Common Collateral permitted under the terms of the Senior Lender Documents; or

(iii) any agreement between the Senior Lender and the Makers to release the Senior Lender's Lien on any portion of the Common Collateral, *provided* that after giving effect to the release, Obligations secured by the first priority Liens on the remaining Common Collateral remain outstanding,

the Senior Lender releases any of its Liens on any part of the Common Collateral, then the Liens, if any, of the Seller on such Common Collateral shall be automatically, unconditionally and simultaneously released and the Seller promptly shall execute and deliver to the Senior Lender such termination statements, releases and other documents as the Senior Lender may request to effectively confirm such release.

5.2 Insurance. Unless and until the Discharge of the Senior Lender Claims has occurred, the Senior Lender shall have the sole and exclusive right to adjust settlement for any insurance policy covering the Common Collateral in the event of any loss thereunder and to approve any award granted in any condemnation or similar proceeding affecting the Common Collateral. Unless and until the Discharge of the Senior Lender Claims has occurred, all proceeds of any such policy and any such award if in respect to the Common Collateral shall be paid to the Senior Lender to the extent required under the Senior Lender Documents and thereafter to the Seller and then to the owner of the subject property or as a court of competent jurisdiction may otherwise direct. If the Seller shall, at any time, receive any proceeds of any such insurance policy or any such award in contravention of this Agreement, it shall pay such proceeds over to the Senior Lender in accordance with the terms of Section 4.2.

5.3 Amendments to Seller Collateral Documents.

(a) Without the prior written consent of the Senior Lender, no Seller Collateral Document may be amended,

supplemented or otherwise modified or entered into to the extent such amendment, supplement or modification, or the terms of any new Seller Collateral Document, would be prohibited by or inconsistent with any of the terms of the Senior Lender Documents. The Seller agrees that each Seller Collateral Document shall include the following language (or language to similar effect approved by the Senior Lender):

> "Notwithstanding anything herein to the contrary, the lien and security interest granted to the Seller pursuant to this Agreement and the exercise of any right or remedy by the Seller hereunder are subject to the provisions of the Intercreditor Agreement, dated as of September •, 2004 (as amended, supplemented or otherwise modified from time to time, the "Intercreditor Agreement"), among Aether Systems, Inc., Laurus Master Fund, Ltd., BIO-key International, Inc. and Public Safety Group, Inc. In the event of any conflict between the terms of the Intercreditor Agreement and this Agreement, the terms of the Intercreditor Agreement shall govern."

(b) In the event the Senior Lender enters into any amendment, waiver or consent in respect of any of the Senior Collateral Documents for the purpose of adding to, or deleting from, or waiving or consenting to any departures from any provisions of, any Senior Collateral Document or changing in any manner the rights of the Senior Lender or any Maker, then such amendment, waiver or consent shall apply automatically to any comparable provision of the Subordinated Note and the Comparable Seller Collateral Document without the consent of the Seller and without any action by the Seller or the Makers, *provided, however*, that (i) no such amendment, waiver or consent shall have the effect of removing assets subject to the Lien of the Seller Collateral Documents, except to the extent that a release of such Lien is permitted by Section 5.1 and (ii) prior notice of such amendment, waiver or consent shall have been given to the Seller.

5.4 Rights As Unsecured Creditors. Notwithstanding anything to the contrary in this Agreement, the Seller may exercise rights and remedies as an unsecured creditor against each Maker in accordance with the terms of the Seller Documents and applicable law. The Seller may receive the required payments of interest, principal, fees and permitted prepayments

under the Subordinated Note so long as (a) no Senior Default has occurred and is continuing and (b) such receipt is not the direct or indirect result of the exercise by the Seller of rights or remedies as a secured creditor or enforcement in contravention of this Agreement of any Lien held by any of them. In the event the Seller becomes a judgment lien creditor in respect of Common Collateral as a result of its enforcement of its rights as an unsecured creditor, such judgment lien shall be subordinated to the Liens securing Senior Lender Claims on the same basis as the other Liens securing the Seller Claims are so subordinated to such Senior Lender Claims under this Agreement. Nothing in this Agreement impairs or otherwise adversely affects any rights or remedies the Senior Lenders may have with respect to the Senior Lender Collateral.

5.5 Bailee for Perfection.

(a) The Senior Lender agrees to hold the Pledged Collateral that is part of the Common Collateral in its possession or control (or in the possession or control of its agents or bailees) as bailee for the Seller and any assignee solely for the purpose of perfecting the security interest granted in such Pledged Collateral pursuant to the Seller Pledge Agreement, subject to the terms and conditions of this Section 5.5.

(b) Until the Discharge of the Senior Lender Claims has occurred, the Senior Lender shall be entitled to deal with the Pledged Collateral in accordance with the terms of the Senior Lender Documents as if the Liens of the Seller under the Seller Collateral Documents did not exist.

(c) The Senior Lender shall have no obligation whatsoever to the Seller to assure that the Pledged Collateral is genuine or owned by the Makers or to preserve rights or benefits of any Person except as expressly set forth in this Section 5.5. The duties or responsibilities of the Senior Lender under this Section 5.5 shall be limited solely to holding the Pledged Collateral as bailee for the Seller for purposes of perfecting the Lien held by the Seller.

(d) The Senior Lender shall not have by reason of the Seller Collateral Documents or this Agreement or any other document a fiduciary relationship in respect of the Seller.

5.6 Upon the Discharge of the Senior Lender Claims, the Senior Lender shall deliver to the Seller the remaining Pledged Collateral (if any) together with any necessary endorsements (or otherwise allow the Seller to obtain control of such Pledged Collateral) or as a court of competent jurisdiction may otherwise direct.

5.7 Notices. The Senior Lender shall promptly give Seller written notice in the event or upon the occurrence of a Senior Default, which notice shall describe such Senior Default in reasonable detail; *provided, however,* that failure to deliver such notice to Seller shall not affect the validity or binding nature of the terms and conditions hereof.

SECTION 6. INSOLVENCY OR LIQUIDATION PROCEEDINGS.

6.1 Financing Issues. If any Maker shall be subject to any Insolvency or Liquidation Proceeding and the Senior Lender shall desire to permit the use of cash collateral or to permit any Maker to obtain financing under Section 363 or Section 364 of Title 11 of the

United States Code or any similar Bankruptcy Law ("DIP Financing"), then the Seller agrees that it will raise no objection to such use of cash collateral or DIP Financing and will not request adequate protection or any other relief in connection therewith (except to the extent permitted by Section 6.3) and, to the extent the Liens securing the Senior Lender Claims are subordinated or pari passu with such DIP Financing, will subordinate its Liens in the Common Collateral to such DIP Financing (and all Obligations relating thereto) on the same basis as the other Liens securing the Seller Claims are so subordinated to Senior Lender Claims under this Agreement.

6.2 Relief from the Automatic. Stay. Until the Discharge of the Senior Lender Claims has occurred, the Seller agrees that none of them shall seek relief from the automatic stay or any other stay in any Insolvency or Liquidation Proceeding in respect of the Common Collateral, without the prior written consent of the Senior Lender.

6.3 Adequate Protection. The Seller agrees it shall not contest (or support any other Person contesting) (a) any request by the Senior Lender for adequate protection or (b) any objection by the Senior Lender to any motion, relief, action or proceeding based on the Senior Lender claiming a lack of adequate protection. Notwithstanding the foregoing contained in this Section 6.3, in any Insolvency or Liquidation Proceeding, (i) if the Senior Lender is granted adequate protection in the form of additional collateral in connection with any DIP Financing or use of cash collateral under Section 363 or Section 364 of Title 11 of the United States Code or any similar Bankruptcy Law, then the Seller may seek or request adequate protection in the form of a replacement Lien on such additional collateral, which Lien is subordinated to the Liens securing the Senior Lender Claims and such DIP Financing (and all Obligations relating thereto) on the same basis as the other Liens securing the Seller Claims are so subordinated to the Senior Lender Claims under this Agreement, and (ii) in the event the Seller seeks or requests adequate protection and such adequate protection is granted in the form of additional collateral, then the Seller agrees that the Senior Lender shall also be granted a senior Lien on such additional collateral as security for the Senior Lender Claims and any such DIP Financing and that any Lien on such additional collateral securing the Seller Claims shall be subordinated to the Liens on such collateral securing the Senior Lender Claims and any such DIP Financing (and all Obligations relating thereto) and any other Liens granted to the Senior Lenders as adequate protection on the same basis as the other Liens securing the Seller Claims are so subordinated to such Senior Lender Claims under this Agreement.

6.4 No Waiver. Nothing contained herein shall prohibit or in any way limit the Senior Lender from objecting in any Insolvency or Liquidation Proceeding or otherwise to any action taken by the Seller, including the seeking by the Seller of adequate protection or the assertion by the Seller of any of its rights and remedies under the Seller Documents or otherwise.

SECTION 7. RELIANCE; WAIVERS; ETC.

7.1 Reliance. The consent by the Senior Lender to the execution and delivery of the Seller Documents and the grant to the Seller of a Lien on the Common Collateral and all loans and other extensions of credit made or deemed made on and after the date hereof by the Senior Lender to the Makers shall be deemed to have been given and made in reliance upon this Agreement.

7.2 Management. The Senior Lender will be entitled to manage and supervise its respective loans and extensions of credit under the Senior Lender Documents in accordance with law and as it may otherwise, in its sole discretion, deem appropriate, and the Senior Lender may manage its loans and extensions of credit without regard to any rights or interests that the Seller has in the Common Collateral or otherwise, except as otherwise provided in this Agreement. The Senior Lender shall have no duty to the Seller to act or refrain from acting in a manner which allows, or results in, the occurrence or continuance of a Senior Default, regardless of any knowledge thereof which it may have or be charged with.

7.3 No Waiver of Lien Priorities.

(a) No right of the Senior Lender to enforce any provision of this Agreement or any Senior Lender Document shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Makers or by any act or failure to act by the Senior Lender, or by any noncompliance by any Person with the terms, provisions and covenants of this Agreement, any of the Senior Lender Documents or any of the Seller Documents, regardless of any knowledge thereof which the Senior Lender may

have or be otherwise charged with.

(b) Without in any way limiting the generality of the foregoing paragraph, the Senior Lender may, at any time and from time to time, without the consent of, or notice to, the Seller without incurring any liabilities to the Seller and without impairing or releasing the Lien priorities and other benefits provided in this Agreement (so long as any right of subrogation or other right or remedy of the Seller is not affected, impaired or extinguished thereby) do any one or more of the following:

(i) change the manner, place or terms of payment or change or extend the time of payment of, or amend, renew, exchange, increase or alter, the terms of any of the Senior Lender Claims or any Lien on any Senior Lender Collateral or guaranty thereof or any liability of the Makers, or any liability incurred directly or indirectly in respect thereof (including any increase in or extension of the Senior Lender Claims, without any restriction as to the amount, tenor or terms of any such increase or extension) or otherwise amend, renew, exchange, extend, modify or supplement in any manner any Liens held by the Senior Lender, the Senior Lender Claims or any of the Senior Lender Documents;

(ii) sell, exchange, release, surrender, realize upon, enforce or otherwise deal with in any manner and in any order any part of the Senior Lender Collateral or any liability of the Makers to the Senior Lender, or any liability incurred directly or indirectly in respect thereof;

(iii) settle or compromise any Senior Lender Claim or any other liability of the Makers or any security therefor or any liability incurred directly or indirectly in respect thereof and apply any sums by whomsoever paid and however realized to any liability (including the Senior Lender Claims) in any manner or order; and

(iv) exercise or delay in or refrain from exercising any right or remedy against the Makers or any security of the Makers, elect any remedy and otherwise deal freely with the Makers or any Senior Lender Collateral and any security and any guarantor or any liability of the Makers to the Senior Lender or any liability incurred directly or indirectly in respect thereof.

(c) The Seller also agrees that the Senior Lender shall have no liability to the Seller, and the Seller, hereby waives any claim against the Senior Lender arising out of any and all actions which the Senior Lender may take or permit or omit to take with respect to: (i) the Senior Lender Documents, (ii) the collection of the Senior Lender Claims or (iii) the foreclosure upon, or sale, liquidation or other disposition of, any Senior Lender Collateral. The Seller agrees that the Senior Lender shall have no duty in respect of the maintenance or preservation of the Senior Lender Collateral, the Senior Lender Claims or otherwise.

(d) The Seller agrees not to assert and hereby waives, to the fullest extent permitted by law, any right to demand, request, plead or otherwise assert or otherwise claim the benefit of, any marshalling, appraisal, valuation or other similar right that may otherwise be available under applicable law or any other similar rights a junior secured creditor may have under applicable law.

7.4 Obligations Unconditional. All rights, interests, agreements and obligations of the Senior Lender and the Seller, respectively, hereunder shall remain in full force and effect irrespective of:

(a) any lack of validity or enforceability of any Senior Lender Documents or any Seller Documents;

(b) any change in the time, manner or place of payment of, or in any other terms of, all or any of the Senior Lender Claims or Seller Claims, or any amendment or waiver or other modification, including any increase in the amount thereof, whether by course of conduct or otherwise, of the terms of any Senior Lender Document or of the terms of any Seller Document;

(c) any exchange of any security interest in any Common Collateral or any other collateral, or any amendment, waiver or other modification, whether in writing or by course of conduct or otherwise, of all or any of the Senior Lender Claims or Seller Claims or any guarantee thereof;

(d) the commencement of any Insolvency or Liquidation Proceeding in respect of the Makers; or

(e) any other circumstances which otherwise might constitute a defense available to, or a discharge of, the Makers in respect of the Senior Lender Claims, or of the Seller in respect of this Agreement.

SECTION 8. MISCELLANEOUS.

8.1 Conflicts. In the event of any conflict between the provisions of this Agreement and the provisions of the Senior Lender Documents or the Seller Documents, the provisions of this Agreement shall govern.

8.2 Continuing Nature of this Agreement; Severability. This Agreement shall continue to be effective until the Discharge of the Senior Lender Claims shall have occurred. This is a continuing agreement of lien subordination and the Senior Lender may continue, at any time and without notice to the Seller, to extend credit and other financial accommodations and lend monies to or for the benefit of the Makers constituting Senior Lender Claims on reliance hereof. The Seller hereby waives any right it may have under applicable law to revoke this Agreement or any of the provisions of this Agreement. The terms of this Agreement shall survive, and shall continue in full force and effect, in any Insolvency or Liquidation Proceeding. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall not invalidate the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8.3 Amendments; Waivers. No amendment, modification or waiver of any of the provisions of this Agreement by the Seller or the Senior Lender shall be deemed to be made unless the same shall be in writing signed on behalf of the party making the same or its authorized agent and each waiver, if any, shall be a waiver only with respect to the specific instance involved and shall in no way impair the rights of the parties making such waiver or the obligations of the other parties to such party in any other respect or at any other time. The Makers shall not have any right to consent to or approve any amendment, modification or waiver of any provision of this Agreement except to the extent their rights are directly affected.

8.4 Information Concerning Financial Condition of the Makers. The Senior Lender, on the one hand, and the Seller, on the other hand, shall each be responsible for keeping themselves informed of (a) the financial condition of the Makers and (b) all other circumstances bearing upon the risk of nonpayment of the Seller Claims or the Senior Lender Claims. The Senior Lender shall have no duty to advise the Seller of information known to it or them regarding such condition or any such circumstances or otherwise. In the event the Senior Lender, in its or their sole discretion, undertakes at any time or from time to time to provide any such information to the Seller, it shall be under no obligation (w) to make, and the Senior Lender shall not make, any express or implied representation or warranty, including with respect to the accuracy, completeness, truthfulness or validity of any such information so provided, (x) to provide any additional information or to provide any such information on any subsequent occasion, (y) to undertake any investigation or (z) to disclose any information which, pursuant to accepted or reasonable commercial finance practices, such party wishes to maintain confidential or is otherwise required to maintain confidential.

8.5 Subrogation. The Seller hereby waives any rights of subrogation it may acquire as a result of any payment hereunder until the Discharge of the Senior Lender Claims has occurred.

8.6 Application of Payments. All payments received by the Senior Lender may be applied, reversed and reapplied, in whole or in part, to such part of the Senior Lender Claims as the Senior Lender, in its sole discretion, deems appropriate. The Seller assents to any extension or postponement of the time of payment of the Senior Lender Claims or any part thereof and to any other indulgence with respect thereto, to any substitution, exchange or release of any security which may at any time secure any part of the Senior Lender Claims and to the addition or release of any other Person primarily or secondarily liable therefor.

8.7 Consent to Jurisdiction; Waivers. The parties hereto consent to the jurisdiction of any state or federal court located in New York, New York, and consent that all service of process may be made by registered mail directed to such party as provided in Section 8.8 below for such party. Service so made shall be deemed to be completed three days after the same shall be posted as aforesaid. The parties hereto waive any objection to any action instituted hereunder based on forum non-conveniens, and any objection to the venue of any action instituted hereunder. Each of the parties hereto waives any right it may have to trial by jury in respect of any litigation based on, or arising out of, under or in connection with this Agreement or any other document described herein, or any course of conduct, course of dealing, verbal or written statement or action of any party hereto.

8.8 Notices. All notices to the Seller and the Senior Lender permitted or required under this Agreement may be sent to the Seller and the Senior Lender, respectively. Unless otherwise specifically provided herein, any notice or other communication herein required or permitted to be given shall be in writing and may be personally served, telecopied or sent by courier service or U.S. mail and shall be deemed to have been given when delivered in person or by courier service, upon receipt of a telecopy or four (4) Business Days after deposit in the U.S. mail (registered or certified, with postage prepaid and properly addressed). For the purposes hereof, the addresses of the parties hereto shall be as set forth below each party's name on the signature pages hereto, or, as to each party, at such other address as may be designated by such party in a written notice to all of the other parties.

8.9 Further Assurances. The Seller agrees that it shall take such further action and shall execute and deliver to the Senior Lender such additional documents and instruments (in recordable form, if requested) as the Senior Lender may reasonably request to effectuate the terms of and the lien priorities contemplated by this Agreement.

8.10 Governing Law. This Agreement has been delivered and accepted at and shall be deemed to have been made at New York, New York and shall be interpreted, and the rights and liabilities of the parties bound hereby determined, in accordance with the laws of the State of New York.

8.11 Binding on Successors and Assigns. This Agreement shall be binding upon the Senior Lender, the Seller, the Makers and their respective permitted successors and assigns.

8.12 Section Titles. The section titles contained in this Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not a part of this Agreement.

8.13 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be an original and all of which shall together constitute one and the same document.

8.14 Authorization. By its signature, each Person executing this Agreement on behalf of a party hereto represents and warrants to the other parties hereto that it is duly authorized to execute this Agreement.

8.15 No Third Party Beneficiaries. This Agreement and the rights and benefits hereof shall inure to the benefit of each of the parties hereto and their respective successors and assigns and shall inure to the benefit of each of the holders of Senior Lender Claims and Seller Claims. No other Person shall have or be entitled to assert rights or benefits hereunder.

8.16 Effectiveness. This Agreement shall become effective when executed and delivered by the parties hereto. This Agreement shall be effective both before and after the commencement of any Insolvency or Liquidation Proceeding. All references to each Maker shall include any Maker as debtor and debtor-in-possession and any receiver or trustee for the Makers in any Insolvency or Liquidation Proceeding.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

LAURUS MASTER FUND, LTD., individually and as Collateral Agent

By: /s/ David Grin
Name:
Title:

Address:

825 3rd Avenue, #14
New York, New York 10022
Attention: John Tucker, Esq.
Telecopy No.: (212) 541-4434

Seller:

AETHER SYSTEMS, INC.

By: /s/ David S. Reymann
Name:
Title:

Address:

11500 Cronridge Dr., Suite 110
Owings Mills, Maryland 21117
Attn: David S. Oros
Telecopy: (410) 356-8699

Makers:

BIO-KEY INTERNATIONAL, INC.

By: /s/ Michael W. DePasquale
Name:
Title:

Address:

1285 Corporate Center Drive
Suite 175
Eagan, MN 55121
Attn: Chief Executive Officer
Telecopy: (651) 687-0515

PUBLIC SAFETY GROUP, INC.

By: /s/ Michael W. DePasquale
Name:
Title:

Address:

Exhibit 99.13

Execution Version

SUBORDINATION AND INTERCREDITOR AGREEMENT

THIS SUBORDINATION AND INTERCREDITOR AGREEMENT is made and entered into as of the 30th day of September, 2004, by and among The Shaar Fund, Ltd., a British Virgin Islands company ("Shaar"), as purchaser agent under the Shaar Purchase Agreement (as defined below) (in such capacity, the "Purchaser Agent"), on its own behalf and on behalf of the Shaar Purchasers (defined below), Laurus Master Fund, Ltd., a Cayman Islands company, as collateral agent under the Laurus Purchase Agreement (as defined below), on its own behalf and on behalf of the Laurus Purchasers (as defined below) ("Laurus"), Aether Systems, Inc., a Delaware corporation ("Aether"), BIO-key International, Inc., a Minnesota corporation ("BIO-key"), and Public Safety Group, Inc., a Delaware corporation (together with BIO-key, the "Obligors").

W I T N E S S E T H :

WHEREAS, BIO-key has entered into an asset purchase agreement with Aether and certain of its subsidiaries pursuant to which BIO-key as agreed to purchase Aether's Mobile Government division (the "Acquisition");

WHEREAS, in connection with the Acquisition, BIO-key will issue to Aether a subordinated secured promissory note in the aggregate principal amount of $6,884,588 in support of Aether's continuing credit support arrangements (the "Aether Note," and all of the obligations thereunder together with all of the obligations under the Senior Lender Documents (as defined below), the "Senior Indebtedness");

WHEREAS, in connection with the Acquisition, BIO-key will issue to Laurus, as collateral agent, a secured convertible term note in the principal amount of $5,000,000 (the "Laurus Note") pursuant to that certain Securities Purchase Agreement of even date herewith, among Laurus, individually and as collateral agent, certain other parties thereto (the "Laurus Purchasers") and BIO-key (the "Laurus Purchase Agreement," and together with the Laurus Note and each of the other agreements, documents and instruments providing for or evidencing any other obligation under the Laurus Purchase Agreement and any other related document or instrument executed or delivered pursuant to thereto at any time or otherwise evidencing any indebtedness or obligations under any of the foregoing, the "Senior Lender Documents"); and

WHEREAS, in connection with the Acquisition, BIO-key has issued to the Shaar Purchasers (as defined below) convertible term notes of even date herewith in the aggregate principal amount of $4.95 million (the "Shaar Notes") pursuant to that certain Securities Purchase Agreement of even date herewith among Shaar, individually and as purchaser agent, certain other parties thereto (collectively with Shaar, the "Shaar Purchasers") and BIO-key (the "Shaar Purchase Agreement" and, together with the Shaar Notes and each of the other agreements, documents and instruments providing for or evidencing any other obligation under the Shaar Purchase Agreement and any other related document or instrument executed or delivered pursuant thereto at any time or otherwise evidencing any indebtedness or obligations under any of the foregoing, the "Junior Lender Documents").

NOW, THEREFORE, in order to induce the parties hereto to consummate the Acquisition and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Default Buyout.

1.1. Laurus Buyout. Until the Discharge of the Senior Claims under the Senior Lender Documents, Laurus or any holder of the Laurus Note may exercise its rights under the Senior Lender Documents only upon 30 days' prior written notice (the "Notice Period") to Aether and Shaar of (i) the occurrence of a default permitting acceleration of the Laurus Note or the exercise of any other remedy under the Senior Lender Documents or (ii) its intention to exercise any of its rights under the Senior Lender Documents. Prior to the expiration of the Notice Period, Shaar shall have the right (but shall not be obligated) to make payment in full to Laurus or any holder of the Laurus Note of the principal and accrued and unpaid interest on the Laurus Note together with default interest, additional penalties or fees that may have accrued under Senior Lender Documents. It shall be a condition to the payment of such amounts, that upon such payment, Laurus and any holder of the Laurus Note immediately assign all of its right, title and interest in and to the Senior Lender Documents to Shaar.

1.2. Aether Buyout. Until the Discharge of the Senior Claims under the Aether Note, Aether or any holder of the Aether Note may exercise its rights under the Aether Note only upon 30 days' prior written notice (the "Aether Notice Period") to Shaar of the occurrence of a default permitting acceleration of the Aether Note or the exercise of any other remedy under the Aether Note. Prior to the expiration of the Aether Notice Period, Shaar shall have the right (but shall not be obligated) to make payment in full to Aether or any holder of the Aether Note of the principal and accrued and unpaid interest on the Aether Note together with default interest or fees that may have accrued under the Aether Note. It shall be a condition

to the payment of such principal and accrued and unpaid interest, that upon such payment, Aether or any holder of the Aether Note immediately assign all of its right, title and interest in and to the Aether Note to Shaar.

Section 2. Subordination of Subordinated Indebtedness to Senior Indebtedness

2.1. Subordination. The payment of any and all of the obligations to the Shaar Purchasers evidenced by the Junior Lender Documents and all other amounts now or hereafter owed by Obligors to the Shaar Purchasers hereby expressly is subordinated to the extent and in the manner set forth herein, to the Discharge of the Senior Claims. Each holder of Senior Indebtedness, whether now outstanding or hereafter arising, shall be deemed to have acquired Senior Indebtedness in reliance upon the provisions contained herein. The "Discharge of the Senior Claims" means the last to occur of (a) with respect to the obligations under the Senior Lender Documents, the payment in full in cash of the principal of, premium, accrued interest (including interest in the event of default), if any, on the Senior Lending Documents or conversion of the total aggregate principal amount under the Laurus Note into common stock of BIO-key in

accordance with the Laurus Note and (b) with respect to the Aether Note, the Maturity Date (as defined in the Aether Note).

2.2. Restriction on Payments. Notwithstanding any provision of the Junior Lender Documents to the contrary and in addition to any other limitations set forth herein or therein, no payment of principal, interest or any other amount due with respect to the Shaar Notes shall be made or received, and the Shaar Purchasers shall not exercise any right of set-off or recoupment with respect to the Junior Lender Documents, until the Discharge of the Senior Claims; provided, however, except as provided in the immediately succeeding sentence, BIO-key may make, and the Shaar Purchasers may accept and retain, regularly scheduled payments of principal, interest and permitted prepayments in accordance with the terms of the Shaar Notes. Notwithstanding the foregoing, no Obligor may make, and the Shaar Purchasers may not receive, any payment of principal, interest or any other amount with respect to Shaar Notes if, at the time of such payment or immediately after giving effect thereto, there exists an event of default under the Senior Lender Documents or the Aether Note.

2.3. Proceedings. In the event of any insolvency, bankruptcy, receivership, custodianship, liquidation, reorganization, assignment for the benefit of creditors or other proceeding for the liquidation, dissolution or other winding up of any Obligor or any of its subsidiaries or any of their respective properties (a "Proceeding"), (i) the Discharge of the Senior Claims shall occur before any payment of, or with respect to, the Shaar Notes shall be made; (ii) any payment which, but for the terms hereof, otherwise would be payable or deliverable in respect of the Shaar Notes shall be paid or delivered directly to Laurus, so long as the Laurus Note has not been paid in full in cash or the aggregate principal amount of the Laurus Note has not been converted into common stock of BIO-key and thereafter, to Aether (in each case in such capacity, as applicable the "Agent") until the Discharge of the Senior Claims, and the Shaar Purchasers irrevocably authorize, empower and direct all receivers, trustees, liquidators, custodians, conservators and others having authority in the premises to effect all such payments and deliveries, and the Purchaser Agent also irrevocably authorizes, empowers and directs Agent to demand, sue for, collect and receive every such payment or distribution; (iii) the Purchaser Agent agrees to execute and deliver to Agent or its representative all such further instruments confirming the authorization referred to in the foregoing clause (ii); and (iv) the Purchasers Agent agrees to execute, verify, deliver and file any proofs of claim in respect of the Shaar Notes requested by Agent in connection with any such Proceeding and hereby irrevocably authorizes, empowers and appoints Agent its agent and attorney-in-fact to (A) execute, verify, deliver and file such proofs of claim upon the failure of the Shaar Purchasers promptly to do so (and in any event prior to 30 days before the expiration of the time to file any such proof) and (B) vote such claim in any such Proceeding upon the failure of the Shaar Purchasers to do so prior to 15 days before the expiration of time to vote any such claim; provided Agent shall have no obligation to execute, verify, deliver, and/or file any such proof of claim and/or vote any such claim. In the event that Agent votes any claim in accordance with the authority granted hereby, the Shaar Purchasers shall not be entitled to change or withdraw such vote. The Senior Indebtedness shall continue to be treated as Senior Indebtedness and the provisions of this Agreement shall continue to govern the relative rights and priorities of

the Shaar Purchasers even if all or part of the Senior Indebtedness or the security interests securing the Senior Indebtedness are subordinated, set aside, avoided or disallowed in connection with any such Proceeding, except in the case of a final, non-appealable determination subordinating, setting aside, avoiding or disallowing all of the Senior Indebtedness. This Agreement shall be reinstated if at any time any payment of any of the Senior Indebtedness is rescinded or must otherwise be returned by any holder of the Senior Indebtedness or any representative of such holder.

2.4. Incorrect Payments. If any payment not permitted under this Agreement is received by the Shaar Purchasers on account of the Shaar Notes before Discharge of the Senior Claims, from and after the date the Purchaser Agent and the Shaar Purchasers have received notice of such impermissible payment, such payment shall not be commingled with any asset of the Shaar Purchasers, but at all times such payment shall be held in trust by each of the Shaar Purchasers for the benefit of Laurus and Aether and shall be paid over to Agent, or its designated representative, for application to the payment of the Senior Indebtedness then remaining unpaid, until Discharge of the Senior Claims. The Purchaser Agent shall promptly deliver to the Shaar Purchasers any notice received under this Section 2.4.

2.5. Sale; Transfer. No holder of the Shaar Notes shall sell, assign, dispose of or otherwise transfer all or any portion of the Shaar Notes (a) without giving prior written notice of such action to Laurus and Aether, (b) unless prior to the consummation of any such action, the transferee thereof shall execute and deliver to Laurus and Aether a joinder to this Agreement, or an agreement substantially identical to this Agreement (pursuant to which Aether and Laurus shall agree to be bound), in either case providing for the continued subordination and forbearance of the Shaar Notes to the Senior Indebtedness as provided herein and for the continued effectiveness of all of the rights and obligations of Laurus and Aether arising under this Agreement and (c) unless following such sale, assignment, pledge, disposition or other transfer, the Purchaser Agent or a replacement agent shall be appointed as agent for the holders of the Shaar Notes. In the event of a permitted sale, assignment, disposition or other transfer, the Shaar Purchasers shall cause the transferee thereof to execute and deliver to Laurus and Aether a joinder to this Agreement, or an agreement substantially identical to this Agreement (pursuant to which Aether and Laurus shall agree to be bound), in either case providing for the continued subordination and forbearance of the Shaar Notes to the Senior Indebtedness as provided herein and for the continued effectiveness of all of the rights and obligations of Laurus and Aether arising under this Agreement. Notwithstanding the failure to execute or deliver any such agreement, the subordination effected hereby shall survive any sale, assignment, disposition or other transfer of all or any portion of the Shaar Notes, and the terms of this Agreement shall be binding upon the successors and assigns of the Shaar Purchasers, as provided in Section 16 below.

2.6. Legends.

(a) Until Discharge of the Senior Claims, the Junior Lender Documents at all times shall contain in a conspicuous manner the following legend:

"This Note and the indebtedness evidenced hereby are subordinate in the manner and to the extent set forth in that certain Intercreditor and Subordination Agreement (the "Subordination Agreement") dated as of September 29, 2004 among Shaar Fund, Ltd., as purchaser agent, Laurus Master Fund, Ltd., as collateral agent, Aether Systems, Inc., BIO-key International, Inc. and Public Safety Group, Inc. to the Senior Indebtedness (as defined in the Subordination Agreement); and each holder of this Note, by its acceptance hereof, shall be bound by the provisions of the Subordination Agreement."

(b) Until the Notice Period and Aether Notice Period have terminated, the Senior Lender Documents and the Aether Note at all times shall contain in a conspicuous manner the following legend:

"This Note and the indebtedness evidenced hereby are subject to the provisions set forth in that certain Intercreditor and Subordination Agreement (the "Subordination Agreement") dated as of September 29, 2004 among Shaar Fund, Ltd., as purchaser agent, Laurus Master Fund, Ltd., as collateral agent, Aether Systems, Inc., BIO-key International, Inc. and Public Safety Group, Inc. to the Senior Indebtedness (as defined in the Subordination Agreement); and each holder of this Note, by its acceptance hereof, shall be bound by such provisions of the Subordination Agreement."

2.7. Restriction on Action by Subordinated Creditors.

(a) Until Discharge of the Senior Claims and notwithstanding anything contained in the Shaar Notes, the Senior Lender Documents or the Aether Note to the contrary, the Shaar Purchasers shall not, without the prior written consent of Laurus and Aether, agree to any amendment, modification or supplement to the Junior Lending Documents, the effect of which is to (i) increase the maximum principal amount of the indebtedness or rate of interest, (ii) shorten the dates upon which payments of principal or interest are due, (iii) change in a manner adverse to any Obligor or add any event of default or add or make more restrictive any covenant, (iv) change the redemption, prepayment or put provisions, (v) alter the subordination provisions, including, without limitation, subordinating the Shaar Notes to any other debt, (vi) shorten the maturity date or otherwise alter the repayment terms in a manner adverse to any Obligor, (vii) take any liens or security interests in any assets of any Obligor or any of its subsidiaries or any other assets securing the Senior Indebtedness or (viii) change or amend any other term of the Junior Lender Documents or any document or instrument related thereto if such change or amendment would increase the obligations of any Obligor or confer additional material rights on the Shaar Purchasers in a manner adverse to any Obligor, Laurus or Aether.

(b) Until Discharge of the Senior Claims, the Shaar Purchasers shall not, without the prior written consent of each holder of outstanding Senior Indebtedness, take any action to collect, enforce payment or accelerate the Shaar Notes, exercise any of the remedies with respect to the Shaar Notes or that otherwise may be available to the Shaar Purchasers, either at law or in equity by judicial proceedings or otherwise.

Section 3. Continued Effectiveness of this Agreement; Modification to Senior Debt

3.1. The terms of this Agreement, the subordination effected hereby, and the rights and the obligations of the Shaar Purchasers, Laurus and Aether arising hereunder, shall not be affected, modified or impaired in any manner or to any extent by: (a) any amendment or modification of or supplement to the Senior Lending Documents, the Aether Note or the Junior Lending Documents; (b) the validity or enforceability of any of such documents, except as otherwise provided in Section 2.3; or (c) any exercise or non-exercise of any right, power or remedy under or in respect of the Senior Indebtedness or the Junior Lending Documents or any of the instruments or documents referred to in clause (a) above.

3.2. Laurus and Aether, respectively, may at any time and from time to time without the consent of or notice to the Shaar Purchasers or any holder of the Shaar Notes, without incurring liability to the Shaar Purchasers or any holder of the Shaar Notes and without impairing or releasing the obligations of the Shaar Purchasers or any holder of the Shaar Notes under this Agreement, change the manner or place of payment or extend the time of payment of or renew or alter any Senior Indebtedness, or amend, supplement, restate or otherwise modify in any manner the Senior Lender Documents or Aether Note or any document or instrument related thereto; provided, however, Laurus and Aether agree not to take any action permitted under this Section 3.2 from and after an event of default has been declared under the Senior Lender Documents or the Aether Note, respectively.

Section 4. Representations and Warranties. Shaar hereby represents and warrants to Laurus and Aether as follows:

4.1. Existence and Power. Shaar is duly organized, validly existing and in good standing under the laws of the state of its organization.

4.2. Authority. Shaar has been duly authorized by the holders of the Shaar Notes to serve as agent for such holders. As agent for the holders of the Shaar Notes, Shaar has full power and authority to enter into, execute, deliver and carry out the terms of this Agreement and to incur the obligations provided for herein, all of which have been duly authorized by all proper and necessary action and are not prohibited by the organizational documents of Shaar.

4.3. Binding Agreements. This Agreement, when executed and delivered, will constitute the valid and legally binding obligation of Shaar and the holders

of the Shaar Notes enforceable in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by equitable principles.

4.4. Conflicting Agreements; Litigation. No provisions of any mortgage, indenture, contract, agreement, statute, rule, regulation, judgment, decree or order binding on Shaar (individually and not as collateral agent) or affecting the property of Shaar (individually and not as collateral agent) conflicts with, or requires any consent which has not already been obtained under, or would in any way prevent the execution, delivery or performance of the terms of this Agreement. The execution, delivery and carrying out of the terms of this Agreement will not constitute a default under, or result in the creation or imposition of, or obligation to create, any lien upon the property of Shaar (individually and not as collateral agent) pursuant to the terms of any such mortgage, indenture, contract or agreement. No pending or, to the best of Shaar's knowledge, threatened, litigation, arbitration or other proceedings if adversely determined would in any way prevent the performance of the terms of this Agreement.

4.5. No Divestiture. On the date hereof, the current owners and holders of the Shaar Notes are set forth on Schedule 3.5 attached hereto.

4.6. Default under Subordinated Debt Documents. On the date hereof, no default exists under or with

respect to the Shaar Notes.

Section 5. Representations and Warranties. Laurus and Aether each hereby represent and warrants to Shaar follows.

5.1. Existence and Power. Laurus and Aether each is duly organized, validly existing and in good standing under the laws of the state of its organization.

5.2. Authority. Laurus and Aether each has full power and authority to enter into, execute, deliver and carry out the terms of this Agreement and to incur the obligations provided for herein, all of which have been duly authorized by all proper and necessary action and are not prohibited by the organizational documents of Laurus and Aether, respectively.

5.3. Binding Agreements. This Agreement, when executed and delivered, will constitute the valid and legally binding obligation of each of Laurus and Aether enforceable in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by equitable principles.

5.4. Conflicting Agreements; Litigation. No provisions of any mortgage, indenture, contract, agreement, statute, rule, regulation, judgment, decree or order binding on Laurus (individually and not as collateral agent) or Aether or affecting the property of Laurus (individually and not as collateral agent) or Aether conflicts with, or requires any consent which has not already been obtained under, or would in any way prevent the execution, delivery or performance of the terms of this Agreement. The

execution, delivery and carrying out of the terms of this Agreement will not constitute a default under, or result in the creation or imposition of, or obligation to create, any lien upon the property of Laurus (individually and not as collateral agent) or Aether pursuant to the terms of any such mortgage, indenture, contract or agreement. No pending or, to the best of Laurus's or Aether's knowledge, threatened, litigation, arbitration or other proceedings if adversely determined would in any way prevent the performance of the terms of this Agreement.

5.5. No Divestiture. On the date hereof, Laurus is the current owner and holder of the Laurus Note, and Aether is the current owner and holder of the Aether Note.

5.6. Default under Subordinated Debt Documents. On the date hereof, no default exists under or with respect to the Laurus Note or Aether Note.

Section 6. Cumulative Rights; No Waivers. Each and every right, remedy and power granted to Laurus and Aether hereunder shall be cumulative and in addition to any other right, remedy or power specifically granted herein, in the Laurus Purchase Agreement and Laurus Note and Aether Note, respectively, now or hereafter existing in equity, at law, by virtue of statute or otherwise, and may be exercised by Laurus and Aether, from time to time, concurrently or independently and as often and in such order as Laurus and Aether, respectively, may deem expedient. Any failure or delay on the part of Laurus or Aether in exercising any such right, remedy or power, or abandonment or discontinuance of steps to enforce the same, shall not operate as a waiver thereof or affect Laurus' or Aether's right thereafter to exercise the same, and any single or partial exercise of any such right, remedy or power shall not preclude any other or further exercise thereof or the exercise of any other right, remedy or power, and no such failure, delay, abandonment or single or partial exercise of Laurus' or Aether's rights hereunder shall be deemed to establish a custom or course of dealing or performance among the parties hereto.

Section 7. Specific Performance. The parties hereto acknowledge that legal remedies may be inadequate and therefore any party hereto is herby authorized to demand specific performance of the provisions hereof at any time when a party hereto shall have failed to comply with any provision hereof. Each party hereto irrevocably waives any defense based on the adequacy of a remedy at law that might be asserted as a bar to such remedy of specific performance.

Section 8. Additional Documents and Actions. Each party hereto, upon the request of any other party hereto and at the expense of BIO-key, promptly will execute and deliver such further documents and do such further acts and things as reasonably requested in order to effect fully the purposes of this Agreement.

Section 9. Conflict. In the event of any conflict between any term, covenant or condition of this Agreement and any term, covenant or condition of any of the Shaar Notes, the provisions of this Agreement shall control and govern. For purposes of this Section 9, to the extent that any provisions of any of the Junior Lender Documents provide rights, remedies and benefits to Laurus or Aether that exceed the rights, remedies and benefits provided to Laurus or

Aether under this Agreement, such provisions of the Junior Lender Documents shall be deemed to supplement (and not to conflict with) the provisions hereof.

Section 10. Statement of Indebtedness to Subordinated Creditors BIO-key will furnish to Laurus and Aether upon demand, a statement of the indebtedness owing from Obligors to the Shaar Purchasers, and will give Laurus and Aether access to the books of Obligors so that Laurus and Aether can make a full examination of the status of such indebtedness.

Section 11. Termination. This Agreement shall terminate upon the Discharge of the Senior Claims.

Section 12. Default Notices.

12.1. Subordinated Notices. The Purchaser Agent and BIO-key each shall provide Laurus and Aether with notice of default in the payment of the Shaar Notes or in the performance of any term, covenant or condition contained in the Shaar Notes, and Shaar shall notify Laurus and Aether in the event such default is cured or waived.

12.2. Senior Notices. BIO-key shall provide Purchaser Agent with notice of default in the payment of the Laurus Note or the Aether Note or in the performance of any term, covenant or condition contained in the Laurus Note or Aether Note, and BIO-key shall notify Shaar in the event such default is cured or waived.

12.3. Other Notices. Laurus and Aether shall provide Purchaser Agent with a copy of all notices to Obligors of a default under the Senior Lender Documents and Aether Note, respectively; provided, however, that the failure to deliver such notice shall not prejudice the rights and remedies of Laurus or Aether hereunder or under the Senior Lender Documents or the Aether Note, respectively, except to the extent such failure would have created a right under Section 1.1 or 1.2.

Section 13. No Contest of Senior Indebtedness or Liens; No Security for Subordinated Indebtedness Shaar agrees that it will not, and will not encourage any other person to, at any time, contest the validity, perfection, priority or enforceability of the Senior Indebtedness or liens granted in respect thereto or accept or take any collateral security for the Shaar Notes. Aether and Laurus each agrees that it will not, and will not encourage any other person to, at any time, contest the validity or enforceability of the Shaar Notes, except in the case of willful misconduct or fraud.

Section 14.

Section 15. Waiver of Consolidation. The Purchaser Agent acknowledges and agrees that (i) Obligors are each separate and distinct entities; and (ii) it will not at any time insist upon, plead or seek advantage of any substantive consolidation, piercing the corporate veil or any other order or judgment that causes an effective combination of the assets and liabilities of Obligors in any case or proceeding under Title 11 of the United States Code or other similar proceeding.

Section 16. Waiver and Amendment. Neither this Agreement nor any provisions hereof (including this Paragraph) may be waived, altered, amended, terminated, terminated, or discharged except by an instrument in writing executed by the party or parties sought to be charged therewith. All remedies, either under this Agreement, by law or otherwise afforded to any party, shall be cumulative and not alternative.

Section 17. Successors and Assigns. This Agreement shall be binding upon and shall insure to the benefit of Laurus, Aether, the Shaar Purchasers and the Purchaser Agent and their respective successors and assigns.

Section 18. Headings. The paragraph headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

Section 19. Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given:

(a) upon personal delivery to the party to be notified;

(b) when sent by confirmed facsimile if sent during normal business hours of the recipient, if not,

then on the next business day;

(c) three (3) business days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or

(d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt.

All communications shall be sent as follows:

If to Purchaser Agent, to:

The Shaar Fund, Ltd.
Kaya Flamboyam 9
Curacao
Netherlands Antilles
Telephone No.: 599-9-732-2222
Facsimile No.: 599-9-732-2225

with copies to:

Levinson Capital Management, LLC
350 Fifth Avenue, Suite 2210
New York, New York 10118

and

Meltzer, Lippe, Goldstein & Breitstone, LLP
190 Willis Avenue
Mineola, NY 11501
Attention: Ira R. Halperin, Esq.
Facsimile: 516-747-0653

If to Laurus, to:

Laurus Master Fund, Ltd.
c/o Ironshore Corporate Services, Ltd.
P.O. Box 1234 G.T.
Queensgate House, South Church Street
Grand Cayman, Cayman Islands
Facsimile: 345-949-9877

with a copy to:

John E. Tucker, Esq.
825 Third Avenue, 14th Floor
New York, NY 10022
Facsimile: 212-541-4434

If to Aether, to:

Aether Systems, Inc.
11500 Cronridge Drive, Suite 110
Owings Mills, MD 21117
Attention: Chief Financial Officer
Facsimile: 410-356-8699

with a copy to:

Kirkland & Ellis LLP

655 Fifteenth Street NW, Suite 1200
Washington, DC 20005
Attention: Mark D. Director, Esq.
Facsimile: 202-879-5200

or at such other addresses as the parties may designate by written notice to the other parties hereto given in accordance herewith.

Section 20. **Governing Law.** THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS. ANY ACTION BROUGHT BY ANY PARTY AGAINST ANOTHER CONCERNING THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT SHALL BE BROUGHT ONLY IN THE STATE

COURTS OF NEW YORK COUNTY OR IN THE FEDERAL COURTS LOCATED IN THE SOUTHERN DISTRICT OF THE STATE OF NEW YORK. ALL PARTIES AND THE INDIVIDUALS EXECUTING THIS AGREEMENT ON BEHALF OF THE COMPANY AGREE TO SUBMIT TO THE JURISDICTION OF SUCH COURTS AND WAIVE TRIAL BY JURY. IN THE EVENT THAT ANY PROVISION OF THIS AGREEMENT DELIVERED IN CONNECTION HEREWITH IS INVALID OR UNENFORCEABLE UNDER ANY APPLICABLE STATUTE OR RULE OF LAW, THEN SUCH PROVISION SHALL BE DEEMED INOPERATIVE TO THE EXTENT THAT IT MAY CONFLICT THEREWITH AND SHALL BE DEEMED MODIFIED TO CONFORM WITH SUCH STATUTE OR RULE OF LAW. ANY SUCH PROVISION THAT MAY PROVE INVALID OR UNENFORCEABLE UNDER ANY LAW SHALL NOT AFFECT THE VALIDITY OR ENFORCEABILITY OF ANY OTHER PROVISION OF THIS AGREEMENT.

Section 21. **Invalidity.** If any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired.

Section 22. **Counterparts.** This Agreement may be executed by facsimile signatures, which shall have the same legal effect as original signatures, and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date above first written.

THE SHAAR FUND, LTD., individually and as Purchaser Agent

By: InterCaribbean Services, Ltd., Director

By: /s/
Title: Director

LAURUS MASTER FUND, LTD., individually and as collateral agent

By: /s/ David Grin
Name:
Title:

AETHER SYSTEMS, INC.

By: /s/ David C. Reymann
Name:
Title:

AGREED TO AND ACKNOWLEDGED

BIO-KEY INTERNATIONAL, INC.

By: /s/ Michael W. DePasquale
Name:
Title:

PUBLIC SAFETY GROUP, INC.

By: /s/ Michael W. DePasquale
Name:
Title:

THIS NOTE AND THE INDEBTEDNESS EVIDENCED HEREBY ARE SUBJECT TO THE PROVISIONS OF THAT CERTAIN INTERCREDITOR AND SUBORDINATION AGREEMENT (THE "SUBORDINATION AGREEMENT") DATED AS OF SEPTEMBER 30, 2004 AMONG SHAAR FUND, LTD., AS PURCHASER AGENT, LAURUS MASTER FUND, LTD., AS COLLATERAL AGENT, AETHER SYSTEMS, INC., BIO-KEY INTERNATIONAL, INC. AND PUBLIC SAFETY GROUP, INC.; AND EACH HOLDER OF THIS NOTE, BY ITS ACCEPTANCE HEREOF, SHALL BE BOUND BY THE PROVISIONS OF THE SUBORDINATION AGREEMENT.

SUBORDINATED SECURED PROMISSORY NOTE

$6,884,588
September 30, 2004

Each of BIO-key International, Inc., a Minnesota corporation ("BIO-key"), Public Safety Group, Inc., a Delaware corporation ("PSG" and, together with BIO-key, the "Makers"), hereby promises to pay to the order of Aether Systems, Inc., a Delaware corporation (the "Payee"), the principal amount (not to exceed $6,884,588), which may hereafter be drawn by Hamilton County under the Hamilton LC, together with accrued but unpaid interest thereon or, prior to such draw by Hamilton County, on cash collateral deposited by Seller with Bank of America in connection with the Hamilton LC (the "Cash Collateral") calculated from the date hereof and fees and expenses in accordance with the provisions of this note ("Note").

1. **Definitions.** All terms used in this Note which are defined in the Asset Purchase Agreement (as defined below) or in Article 8 or Article 9 of the Uniform Commercial Code (the "UCC") currently in effect in the State of New York and which are not otherwise defined herein shall have the same meanings herein as set forth therein. In addition, for purposes of this Note, the following terms shall have the following meanings:

"Affiliate" means any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, another Person. A Person shall be deemed to control another Person for purposes of this definition if such Person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of the other Person, whether through the ownership of voting securities, common directors, trustees or officers, by contract or otherwise; *provided that*, in any event for purposes of this definition, any Person that owns, directly or indirectly, 10% or more of the securities having the ordinary voting power for the election of directors or governing body of a corporation or 10% or more of the partnership or other ownership interest of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person.

"Asset Purchase Agreement" means that certain Asset Purchase Agreement, dated August 16, 2004, among Payee, BIO-key, Cerulean Technologies, Inc. and SunPro, Inc.

"Business Day" means any day other than Saturday or Sunday or a public holiday under the laws of the State of New York or other day on which banking institutions are authorized or obligated to close in the State of New York.

"Cash Collateral" has the meaning given such term in the introductory paragraph hereof.

"Change of Control" means (i) BIO-key ceases to own, directly or indirectly a majority of the Voting Stock of PSG, (ii) any merger, consolidation, share exchange, business combination, issuance of securities, acquisition of securities, tender offer, exchange offer or other similar transaction (a) in which BIO-key is a constituent corporation, (b) in which a Person or "group" (as defined in the Exchange Act and the rules promulgated thereunder) of Persons directly or indirectly acquires beneficial or record ownership of securities representing more than 50% of the outstanding securities of any Voting Stock of BIO-key, or (c) in which BIO-key issues securities representing more than 50% of the outstanding securities of any class of Voting Stock of BIO-key or (iii) any sale, lease, exchange, transfer, license, acquisition or disposition of any assets that constitute more than 50% of the assets of BIO-key on a consolidated basis.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Makers, are treated as a single employer under Section 414 of the Code.

"Default" means any event or condition the occurrence of which would, with the passage of time or the giving of notice, or both, constitute an Event of Default.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute thereto.

"Environmental Law" means any current or future Legal Requirement pertaining to (a) the protection of health, safety and the

indoor or outdoor environment, (b) the conservation, management or use of nature resources and wildlife, (c) the protection or use of surface water or groundwater, (d) the management, manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, Release, threatened Release, abatement, removal, remediation or handling of, or exposure to, any Hazardous Material or (e) pollution (including any Release to air, land, surface water or groundwater), and any amendment, rule, regulation, order or directive issued thereunder.

"First Lien Secured Party" means Laurus Master Fund, Ltd., a Cayman Islands company.

"Hamilton County" means the Board of County Commissioners, Hamilton County, Ohio.

"Hamilton LC" means that certain irrevocable standby letter of credit number 3055256 issued by Bank of America for the benefit of Hamilton County.

"Hazardous Material" means any substance, chemical, compound, product, solid, gas, liquid, waste, byproduct, pollutant, contaminant or material which is hazardous or toxic, and includes, without limitation, (a) asbestos, polychlorinated biphenyls and petroleum (including crude oil or any fraction thereof) and (b) any material classified or regulated as "hazardous" or "toxic" or words of like import pursuant to an Environmental Law.

"Indebtedness for Borrowed Money" means for any Person (without duplication) (a) all indebtedness created, assumed or incurred in any manner by such Person representing money borrowed (including by the issuance of debt securities), (b) all indebtedness for the deferred purchase price of property or services (other than trade accounts payable arising in the ordinary course of business which are not more than ninety (90) days past due unless being disputed in

good faith), (c) all indebtedness secured by any Lien upon property of such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness, (d) all capitalized lease obligations of such Person, and (e) all obligations of such Person on or with respect to letters of credit, banker's acceptances and other extensions of credit whether or not representing obligations for borrowed money.

"Intercreditor Agreement" means that certain Intercreditor Agreement, dated the date hereof, between Payee and the First Lien Secured Party.

"Legal Requirement" means any treaty, convention, statute, law, regulation, ordinance, license, permit, governmental approval, injunction, judgment, order, consent decree or other requirement of any governmental authority, whether federal, state, or local.

"Lien" means any mortgage, lien, security interest, pledge, charge or encumbrance of any kind in respect of any property, including the interests of a vendor or lessor under any conditional sale, capital lease or other title retention arrangement.

"Material Adverse Effect" means (a) any event, change, circumstance or effect that has or could reasonably be expected to have a material adverse change in, or material adverse effect upon, the operations, business, assets, liabilities, property, prospects or condition (financial or otherwise) of any Maker or the Makers taken as a whole, (b) a material impairment of the ability of any Maker to perform its material obligations under the Note or any document related thereto or (c) a material adverse effect upon (i) the legality, validity, binding effect or enforceability against any Maker of the Note and related documents or the material rights and remedies of the Payee hereunder and thereunder or (ii) the perfection or priority of the Lien granted herein.

"PBGC" means the Pension Benefit Guaranty Corporation or any Person succeeding to any or all of its functions under ERISA.

"Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

"Plan" means any employee pension benefit plan covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code that either (a) is maintained by a member of the Controlled Group for employees of a member of the Controlled Group or (b) is maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, migration, dumping, or disposing into the indoor or outdoor environment, including, without limitation, the abandonment or discarding

of barrels, drums, containers, tanks or other receptacles containing or previously containing any Hazardous Material.

"Securities Purchase Agreement" means that certain Securities Purchase Agreement, dated the date hereof, between BIO-key and the First Lien Secured Party.

"Senior Note" means that certain Secured Convertible Term Note issued pursuant to the Securities Purchase Agreement by BIO-key in the principal aggregate amount of $5,000,000 payable to the First Lien Secured Party.

"Sublease" means that certain Sublease between Payee and BIO-key, dated the date hereof.

"Subsidiary" of any person or entity means (i) a corporation or other entity whose shares of stock or other ownership interests having ordinary voting power to elect a majority of the directors of such corporation, or other persons or entities performing similar functions for such person or entity, are owned, directly or indirectly, by such person or entity or (ii) a corporation or other entity in which such person or entity owns, directly or indirectly, more than 50% of the equity interests at such time.

"Voting Stock" of any Person means capital stock or other equity interests of any class or classes (however designated) having ordinary power for the election of directors or other similar governing body of such Person.

"Welfare Plan" means a "welfare plan" as defined in Section 3(1) of ERISA.

2. **Effective Date.** This Note shall become effective as of the Business Day (the 'Effective Date") when each of the following conditions precedent shall have been satisfied in a manner satisfactory to the Payee:

(a) The following statements shall be true and correct: (i) the representations and warranties contained in this Note and in each other document, certificate or other writing delivered to the Payee pursuant hereto or thereto on or prior to the Effective Date are true and correct on and as of the Effective Date as though made on and as of such date and (ii) no Event of Default shall have occurred and be continuing on the Effective Date or would result from this Note or the other documents becoming effective in accordance with its or their respective terms.

(b) The Payee shall have received all documents required to be delivered by each Maker in connection with this Note and the Asset Purchase Agreement, including, without limitation, financing statements in each case in form and substance satisfactory to the Payee.

(c) The Senior Lender shall have received all certificates evidencing all of the capital stock of any Person owned by the Makers, together with undated stock powers, executed in blank.

(d) The Payee shall be satisfied in all respects with the ownership, capital, corporate, tax, organizational and legal structure of each Maker.

(e) Each Maker shall have obtained any third-party and regulatory approvals and consents necessary to consummate the proposed transactions hereunder and related hereto and such approvals and consents shall be final.

(f) The Payee shall have received copies of each Maker's insurance policies with respect to property, casualty, liability, business interruption and key-man, which shall each include appropriate endorsements naming the Payee as loss payee, mortgagee and additional insured, as applicable, and require the insurance carrier to provide thirty (30) days advance notice to the Payee of the cancellation, non-renewal or amendment of such insurance policies.

(g) The Payee shall have received a favorable legal opinion from the Makers' legal counsel in form and substance reasonably satisfactory to Payee.

(h) The Payee shall have received a certificate from each Maker's Secretary certifying to (i) such Maker's articles of incorporation, (ii) such Maker's bylaws (or comparable organizational documents) and any amendments thereto, (iii) the resolutions of such Maker's Board of Directors authorizing the execution, delivery and performance of this Note and the other documents to which it is a party and the consummation of the transactions contemplated hereby and thereby, (iv) the specimen signatures of the persons authorized to execute such documents on behalf of such Maker and (v) a certificate of good standing from the state of organization of such Maker.

(i) The Payee shall have received such resolutions, consents, certificates, and other documents as it shall have requested with respect to the execution and delivery of the Note, the related transactions and performance of the obligations created thereunder.

3. **Makers Reimbursement Obligation.** In connection with consummation of the transactions contemplated by the Asset Purchase Agreement, Seller has agreed to provide Makers with the benefit of the Cash Collateral and to allow the Hamilton LC to remain outstanding for the benefit of Makers. In the event the Hamilton LC is drawn upon by Hamilton County, Makers agree to reimburse the Payee for the full amount of such draw, not to exceed $6,884,588.00, together with interest thereon and fees and expenses in accordance therewith, all calculated in accordance with the provisions of this Note. Prior to the date, if any, upon which the Hamilton LC is drawn, and until the expiration thereof, Makers agree to pay interest to the Payee at the times and in the amount set forth herein, as a surety fee to the Payee in consideration of Payee's willingness to provide Makers with the benefit of the Cash Collateral and to keep outstanding the Hamilton LC. From and after the date of any draw on the Hamilton LC, such interest payment shall accrue and be deemed made in respect of the Makers' reimbursement obligation hereunder.

4. **Payments.**

(a) **Interest**. Interest shall accrue at a rate per annum equal to the London interbank offer rate ("LIBOR") as in effect from time to time plus 350 basis points. The Interest Rate shall be adjusted quarterly and shall be based upon the average of LIBOR rates in effect on the first and last day of each calendar quarter (the "Interest Rate") (computed on the basis of a 360-day year for actual days elapsed) on (i) the Cash Collateral prior to a draw of the Hamilton LC and (ii) the unpaid principal amount of this Note outstanding from and after the date of a draw under the Hamilton LC; *provided, however*, that upon the occurrence and during the continuance of an Event of Default, the interest on this Note shall accrue at a rate equal to 14% per annum. In no event shall the Interest Rate exceed 10%, except upon the occurrence and

during an Event of Default. The Makers shall pay to the holder of this Note all accrued and unpaid interest not later than three (3) Business Days following the last day of each calendar quarter until the Maturity Date. Unless prohibited under applicable law, any accrued interest and fees which have not been paid on the date on which they are payable shall bear interest at the same rate at which interest is then accruing on the principal amount of this Note.

(b) **LC Fees**. The Makers agree to pay the fees incurred by Payee to maintain the Hamilton LC (the "Hamilton Fee"). The Makers shall pay to the holder of this Note the Hamilton Fee not later than ten (10) days after receipt of notice from Payee demanding payment thereof.

5. **Payment of Principal on Note.**

(a) **Scheduled Payments.** The Makers shall pay the principal amount of $6,884,588(or such lesser principal amount then outstanding), together with all interest accrued thereon and any other fees and amounts payable with respect thereto, to the holder of this Note within two (2) Business Days following the date on which Hamilton County makes a draw on the Hamilton LC. The obligations under this Note shall continue until the first to occur of the following: (i) full payment as required under this Section 5(a), (ii) the thirtieth (30^{th}) day after December 31, 2006, (iii) BIO-key obtaining alternate security or collateral in place of the Hamilton LC with the prior written consent of Hamilton County and Payee, (iv) BIO-key obtaining a payment bond satisfactory to Payee in its sole discretion that ensures that Payee shall receive full reimbursement in cash for the Hamilton LC in the event Hamilton County makes a draw on the Hamilton LC and (v) release of the Hamilton LC to Payee by Hamilton County (the "Maturity Date").

(b) **Optional Prepayments.** The Makers shall not be permitted at any time prepay all or any portion of the aggregate principal amount outstanding on this Note, except that the Makers shall be required to make prepayments of all or a portion of the aggregate principal amount outstanding on this Note together with accrued interest and fees in accordance with section 2.3 of the secured convertible term note in the principal amount of $5,000,000 issued by BIO-key to Laurus Master Fund, Ltd. and section 2.3 of the secured convertible term note in the principal amount of $4,950,000 issued by BIO-key to Shaar Fund, Ltd.

6. **Payment Terms.**

(a) **Time of Payment.** If any scheduled payment date for either principal or interest is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall in such case be included in computing interest in connection with such payment.

(b) **Form of Payment.** Any payment to be made hereunder shall be made at the direction of the holder hereof by wire transfer of immediately available funds to the following account:

ABA# 052001633
Aether Systems, Inc. Concentration Account
Account # 003931117959

Such funds shall be sent so as to be received not later than the date on which such payment is due.

(c) **Order of Payment.** Except as expressly set forth herein to the contrary, any payments made by the Makers shall be deemed to be made first in respect of any accrued but unpaid interest and fees due hereunder and second in respect of the then outstanding principal amount due hereunder.

7. **Security.** As security for the payment and performance of the obligations and liabilities, now existing or hereafter arising, of the Makers to the Payee under this Note, the Sublease and any renewals, extensions and modifications of all of the foregoing, each Maker hereby gives, grants and assigns to the Payee a Lien on and perfected second priority security interest in and against (a) any and all Accounts (including, without limitation, Supporting Obligations), Chattel Paper, Documents, Equipment, General Intangibles (including, without limitation, payment intangibles, Software and proceeds of all litigation), Goods (including, without limitation, embedded Software to the extent included in such Goods), Investment Property (including, without limitation, all shares of stock held by such Maker), Instruments, Inventory, all cash on hand and all Deposit Accounts or other deposits (general or special, time or demand, provisional or final) with any bank or other financial institution, real property and all other property of such Maker, wherever located in which such Maker now has or hereafter acquires any right or interest, and any and all Proceeds, insurance proceeds and products thereof, together with all books and records, customer lists, credit files, computer files, programs, printouts and other computer materials and records related thereto; and (b) any and all additions to, accessions to, and substitutions, replacements and exchanges for or Proceeds from, any and all of the foregoing items (all of the foregoing, together with the Pledged Collateral (as defined below), being hereinafter referred to as the "Collateral"). The Payee also has the right, upon the occurrence of any Event of Default under this Note, to set off any amounts payable to Makers from time to time against any amounts due under this Note.

Each Maker agrees to execute and deliver all financing statements or other documents (including, without limitation, security agreements, pledge agreements and mortgages), and take all further action, necessary or desirable to perfect, protect or further evidence the Payee's security interest in the Collateral as from time to time requested by the Payee. Each Maker hereby authorizes the Payee to file one or more financing or continuation statements (including financing statements with a description of the Collateral as "all assets" or "all personal property" of such Maker), and amendments thereto, relating to all or any part of the Collateral without the signature of such Maker where permitted by law. A photocopy or other reproduction of this Note or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law. Each Maker will furnish to the Payee from time to time statements and schedules further identifying and describing the Collateral and such other reports or statements in connection with the Collateral or the Makers' financial performance as the Payee may reasonably request, all in reasonable detail.

8. **Pledge.** As security for the payment and performance of the obligations and liabilities, now existing or hereafter arising, of the Makers to the Payee under this Note, the Sublease and any renewals, extensions and modifications of the foregoing, BIO-key (the "Pledgor") hereby pledges and grants to the Payee a security interest in any and all of Pledgor's right, title and interest in and to the Pledged Collateral. (a) As used herein, "Pledged Collateral" shall mean:

(i) all of the shares of the capital stock, membership interests, partnership interests and all other equity interests of each corporation, limited liability company, limited partnership or other legal entity (collectively, the "Issuers" and each, an "Issuer") identified on Schedule 10(f) attached hereto held by the Pledgor (the "Pledged Securities") and the certificates (if any) representing the Pledged Securities, all options, warrants and other rights to acquire additional shares of capital stock, membership interests, partnership interests and all other equity interests of each Issuer, and the shares, membership interests, partnership interests and other equity interests underlying such rights and all distributions, dividends (in the form of cash, securities or otherwise), cash, instruments, chattel paper and other rights, property or proceeds and products from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Securities;

(ii) all additional shares of the capital stock, membership interests, partnership interests and all other equity interests of each Issuer at any time acquired by the Pledgor in any manner, and the certificates (if any) representing such additional shares, membership interests, partnership interests and other equity interests (and any such additional shares, membership interests, partnership interests and other equity interests, with respect to which the Pledgor shall execute and deliver to the Payee, shall constitute part of the Pledged Securities under this Note), together with all distributions, dividends (in the form of cash, securities or otherwise), cash, instruments, chattel paper and other rights, property or proceeds and products from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such additional shares, membership interests, partnership interests and other equity interests; and

(iii) all proceeds of any of the foregoing.

(b) Delivery. All certificates or instruments (if any) representing or evidencing any Pledged Collateral shall be delivered to and held by or on behalf of the Payee pursuant hereto and shall either be in suitable form for transfer by delivery, or shall be accompanied by duly executed undated instruments of transfer or assignment in blank, all in form and substance satisfactory to the Payee. Subject to the terms of the Intercreditor Agreement, delivery of the Pledged Collateral to the Senior Lender shall be deemed to satisfy the requirements of this Section 8(b).

(c) Information. Pledgor shall furnish to Payee, from time to time upon reasonable request, statements and schedules further identifying, updating, and describing the Pledged Collateral and such other information, reports and evidence concerning the Pledged Collateral as Payee may reasonably request, all in reasonable detail.

(d) Restrictions. The Pledgor shall not (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option or similar right with respect to, any of the Pledged Collateral; or (ii) create or suffer to exist any Lien upon or with respect to any of the Pledged Collateral except for the Liens in favor of the First Lien Secured Party and Liens permitted by the Securities Purchase Agreement. In addition, Pledgor shall not use or permit the use of any Pledged Collateral in violation of any provision of applicable law and shall do anything to impair the rights of Payee in any of the Pledged Collateral, except as permitted by the Securities Purchase Agreement.

(e) Issuances. Pledgor agrees that it will not vote to enable, and will not otherwise permit, any Issuer to (i) issue any stock, membership interests or other securities (including any warrants, options, subscriptions or the like for the purchase of stock, membership interests or other securities) in addition to or in substitution for any of the Pledged Securities or (ii) dissolve, liquidate, retire any of its stock or membership interests, reduce its capital or merge or otherwise consolidate with any other Person.

(f) Voting Rights; Dividends.

(i) So long as no Event of Default has occurred and is then continuing:

(A) Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Collateral, or any part thereof, for any purpose not inconsistent with the terms of this Note; and

(B) Pledgor shall be entitled to receive all distributions, dividends (in the form of cash, securities or otherwise), cash, instruments, chattel paper and other rights, property or proceeds and products from time to time received, receivable or otherwise distributed in respect of the Pledged Collateral.

(ii) At any time that an Event of Default has occurred and is then continuing:

(A) All rights of the Pledgor to exercise voting and other consensual rights in respect of the Pledged Collateral shall immediately cease to be effective and all such voting and other consensual rights shall become vested in Payee and Payee shall thereupon have the sole right to exercise such voting and other consensual rights (including, without limitation, the right to vote in favor of, and to exchange any or all of the Pledged Collateral upon, the consolidation, recapitalization, merger or other reorganization with respect to an Issuer). In order to effect the foregoing, the Pledgor hereby grants to Payee an irrevocable proxy to vote the Pledged Collateral and, any time that an Event of Default exists, the Pledgor agrees to execute such other proxies as such Payee may request; and

(B) All rights of the Pledgor to receive and retain any distributions, dividends (in the form of cash, securities or otherwise), instruments, chattel paper or other property paid or payable with respect to any of the Pledged Collateral shall immediately cease and any such distributions, dividends (in the form of

cash, securities or otherwise), instruments, chattel paper or other property paid or payable with respect to any of the Pledged Collateral shall be paid to Payee. Any distributions, dividends (in the form of cash, securities or otherwise), instruments, chattel paper or other property paid or payable with respect to any of the Pledged Collateral and received by the Pledgor contrary to the provisions of this Agreement shall be received in trust for the benefit of Payee, shall be segregated from other assets (including, in the case of cash or cash equivalents, other funds) of the Pledgor and shall be forthwith paid to Payee.

(g) Collateral Agent Appointed Attorney-in-Fact. The Makers hereby irrevocably appoint Payee, its nominee, and any other Person whom Payee may designate, as Makers' attorney-in-fact, with full power during the existence of any Event of Default to take any action (including the completion and presentation of any proxy) and to execute any instrument that such attorney-in-fact may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, to (A) receive, endorse and collect all instruments (or other property, as applicable) made payable to the Makers representing any distribution in respect of the Collateral or any part thereof; (B) exercise the voting and other consensual rights pertaining to the Pledged Collateral; and (C) sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though such attorney-in-fact was the absolute owner thereof for all purposes, and to do, at such attorney-in-fact's option and the Makers' expense, at any time or from time to time, all acts and things that such attorney-in-fact deems necessary to protect, preserve or realize upon the Pledged Collateral. Each Maker hereby ratifies and approves all acts of any such attorney-in-fact made or taken pursuant to this Section 8(g) and agrees that Payee and any Person designated as an attorney-in-fact by Payee shall be not liable for any acts, omissions, errors of judgment or mistakes of fact or law (other than, and only to the extent of, such Person's gross negligence or willful misconduct). The foregoing powers of attorney, being coupled with an interest, are irrevocable until the full discharge of all obligations hereunder.

(h) BIO-key Common Stock. Payee shall have the option, exercisable in its sole discretion, to accept in lieu of any or all of the security interests granted hereunder a pledge of common stock of BIO-key, which common stock would be (i) subject to no Liens other than the Liens of Payee, (ii) registered and freely tradeable, (iii) subject to Payee's agreement not to dispose of such common stock except upon an Event of Default, and (iv) not subject to any restriction contained in the Senior Note. The terms and conditions of any such pledge of common stock of BIO-key shall be subject to the agreement of Payee which shall be in Payee's sole and exclusive discretion, and Payee shall be entitled consider only such interests and factors as it desires and shall have no duty to consider any interest affecting Makers.

9. **Intercreditor Agreement.** Notwithstanding anything herein to the contrary, the lien, security interest and pledge granted to the Payee pursuant to this Note and the exercise of any right or remedy by the Payee hereunder are subject to the provisions of the Intercreditor Agreement, dated as of the date hereof (as amended, supplemented or otherwise modified from time to time, the "Intercreditor Agreement"), among Aether Systems, Inc., Laurus Master Fund, Ltd. and BIO-key International, Inc. In the event of any conflict between the terms of the Intercreditor Agreement and this Agreement, the terms of the Intercreditor Agreement shall govern.

10. **Representations and Warranties.** Each Maker represents and warrants to the Payee as follows, and all of the representations and warranties herein shall survive the execution and delivery of this Note.

(a) **Good Standing.** Each Maker is duly organized, validly existing, and in good standing under the laws of the jurisdiction of its organization, has full and adequate power to own its property and conduct its business as now conducted. Each Maker is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the property owned or leased by it requires such licensing or qualifying, except where the failure to do so would not reasonably be expected to have a Material Adverse Effect.

(b) **Power and Authority.** Each Maker has all requisite power and authority to make the borrowings hereunder, to execute and deliver each document to which it is a party, to grant the Liens described herein and to consummate the transactions contemplated thereby. Each Maker has all material franchises, permits, licenses and any similar authority necessary for the conduct of its business as now being conducted by it, the lack of which could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(c) **Validity.** Each of the Note and the other documents required to be executed and delivered on or prior to the Effective Date has been duly and validly executed and delivered by each Maker and constitute legal, valid and binding obligations of each Maker enforceable in accordance with the term thereof.

(d) **Noncontravention.** This Note and the other documents executed in connection herewith do not, nor does the performance and observance by each Maker of any of the matters and things herein or therein provided for, (a) contravene or

constitute a default under any provision of material law or any judgment, injunction, order or decree binding upon any Maker or any provision of the organizational documents of any Maker, (b) contravene or constitute a default under any covenant, indenture or agreement of or affecting any Maker or any of its property, or (c) result in the creation or imposition of any Lien on any property of any Maker other than the Liens granted in favor of the Payee pursuant to the Note and liens granted to the First Lien Secured Party.

(e) **Subsidiaries.** Schedule 10(e) sets forth for each Subsidiary of BIO-key (i) its name and jurisdiction of incorporation, (ii) the number of authorized shares for each class of its capital stock and (iii) the number of issued and outstanding shares of each class of its capital stock, the names and holders thereof and the number of shares held by such holder.

(f) **Pledge.**

(i) Schedule 10(f) completely and accurately identifies, as of the date hereof, (i) the number of issued and outstanding equity interests of each Issuer held by the Pledgor and (ii) the percentage of the Pledgor's ownership of the aggregate issued and outstanding equity interests of each Issuer. Each Pledged Security has been duly and validly authorized and issued to the Pledgor and, if applicable, is fully paid and non-assessable.

(ii) The delivery of the Pledged Securities to the Payee and the continued possession of such Pledged Securities by Payee (and, with respect to Pledged Securities consisting of membership interests or partnership interests, the timely and proper filing in the appropriate filing office of a UCC financing statement describing the same as collateral) is effective to create a valid and perfected first priority security interest in the Pledged Collateral, free of any adverse claim in favor of Payee, other than the claims of the First Lien Secured Party. Subject only to (i) the consummation of the delivery described in the immediately preceding sentence (and, if applicable, the timely and proper filing of a financing statement described in such sentence) and (ii) claims of the First Lien Secured Party, the Payee has a valid and perfected second priority security interest in the Pledged Collateral and such security interest is entitled to all of the rights, priorities and benefits afforded by the UCC or other applicable law as enacted in any relevant jurisdiction which relates to perfected security interests.

(iii) Except as set forth on the Schedule 10(f), no Pledged Security consisting of either (i) a membership interest in an Issuer that is a limited liability company or (ii) a partnership interest in an Issuer that is a partnership provides by its terms that it is a "security" governed by Article 8 of the UCC.

(iv) None of the Pledged Securities constitutes margin stock, as defined in Regulation U of the Board of Governors of the Federal Reserve System.

(g) **Full Disclosure.** The statements and information furnished by or on behalf of any Maker to the Payee in connection with the negotiation of this Note and the other documents provided in connection herewith and the commitments by the Payee to provide the financing contemplated hereby do not contain any untrue statements of a material fact or omit a material fact necessary to make the material statements contained herein or therein not misleading.

(h) **Location of Equipment and Inventory.** All of the Equipment and Inventory of each Maker are located at the places specified in Schedule 10(h) hereto. The chief place of business and the chief executive office of each Maker and the office where each Maker keeps its records concerning the receivables, and the originals of all chattel paper that evidence receivables, are located at its address specified in Schedule 10(h) hereto.

(i) **No Material Adverse Change.** Since March 31, 2004, there has been no Material Adverse Effect.

(j) **Government Authority and Licensing.** Each Maker has received all licenses, permits, and approvals of all federal, state, and local governmental authorities, if any, necessary to conduct its businesses, in each case where the failure to obtain or maintain the same could not reasonably be expected to have a Material Adverse Effect. No investigation or proceeding which is reasonably likely to be adversely determined and, if adversely determined, could reasonably be expected to result in revocation or denial of any such license, permit or approval is pending, or, to the knowledge of any Maker, threatened.

(k) **Good Title.** Each Maker has good and defensible title to (or valid leasehold interests in or other rights to use) its assets as reflected on the most recent consolidated balance sheet, free and clear of any lien, security interest, option or other charge or encumbrance, except for the security interest created by this Note and the Senior Note. There is no effective financing statement or other document similar in effect covering all or any part of the Collateral is on file in any recording office, except such as

may have been filed in favor of the Payee relating to this Note and except with respect to the Senior Note. All facilities, machinery, equipment, fixtures, vehicles and other properties owned, leased or used by the Makers are in good operating condition and repair and are reasonably fit and usable for the purposes for which they are being used. Each Maker is in compliance with all material terms of each lease to which it is a party or is otherwise bound.

(l) **Taxes.** Each Maker has timely filed all tax returns (federal, state and local) required to be filed by it. All taxes shown to be due and payable on such returns, any assessments imposed, and all other taxes due and payable by each Maker on or before the Effective Date, have been paid or will be paid prior to the time they become delinquent. Except as set forth on Schedule 10(l), no Maker has been advised:

(i) that any of its returns, federal, state or other, have been or are being audited as of the date hereof; or

(ii) of any deficiency in assessment or proposed judgment to its federal, state or other taxes.

No Maker has any knowledge of any liability of any tax to be imposed upon its properties or assets as of the date hereof that is not adequately provided for.

(m) **Approvals.** No authorization, consent, license or exemption from, or filing or registration with, any court or governmental department, agency or instrumentality, nor any approval or consent of any other Person, is or will be necessary to the valid execution, delivery or performance by each Maker of this Note or any other document delivered in connection herewith, except for such approvals which have been obtained prior to the date of this Note and remain in full force and effect.

(n) **Transactions with Affiliates.** Except as set forth on Schedule 10(n), no Maker is a party to any contracts or agreements with any of its Affiliates on terms and conditions which are less favorable in any material respect to such Maker than would be usual and customary in similar contracts or agreements between Persons not affiliated with each other.

(o) **Investment Company; Public Utility Holding Company.** No Maker is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or a "public utility holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(p) **ERISA.** Each Maker and each other member of its Controlled Group has fulfilled in all material respects its obligations under the minimum funding standards of and is in compliance in all material respects with ERISA and the Code to the extent applicable to it and has not incurred any material liability to the PBGC or a Plan under Title IV of ERISA other than

a liability to the PBGC or a Plan under Section 4007 of ERISA. No Maker has any material contingent liabilities with respect to any post-retirement benefits under a Welfare Plan, other than liability for continuation coverage described in Article 6 of Title I of ERISA.

(q) **Intellectual Property.**

(i) Each Maker owns or possesses sufficient legal rights to all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes necessary for its business as now conducted and to each Maker's knowledge, as presently proposed to be conducted (the "Intellectual Property"), without any known infringement of the rights of others. There are no outstanding options, licenses or agreements of any kind relating to the foregoing proprietary rights, nor is any Maker bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes of any other person or entity other than such licenses or agreements arising from the purchase of "off the shelf" or standard products.

(ii) No Maker has received any communications alleging that it has violated any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity, nor is any Maker aware of any basis therefor.

(iii) No Maker believes it is or will be necessary to utilize any inventions, trade secrets or proprietary information of any of its employees made prior to their employment by any Maker, except for inventions, trade secrets or proprietary information that have been rightfully assigned to the Makers

(r) **Litigation**. Except as set forth on Schedule 10(r), there is no action, suit, proceeding or investigation pending or, to any Maker's knowledge, currently threatened against any Maker that prevents the Makers from entering into this Note, from consummating the transactions contemplated hereby or which has had, or could reasonably be expected to have, a Material

Adverse Effect, nor is any Maker aware that there is any basis to assert any of the foregoing. No Maker is a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by any Maker currently pending or which any Maker intends to initiate.

(s) **SEC Reports.** BIO-key has filed all proxy statements, reports and other documents required to be filed by it under the Exchange Act. Each filing made with the SEC since January 1, 2004 (the "SEC Reports") was, at the time of its filing, in substantial compliance with the requirements of its respective form and none of the SEC Reports, nor the financial statements (and the notes thereto) included in the SEC Reports, as of their respective filing dates, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(t) **Environmental and Safety Laws**. No Maker is in violation of any applicable statute, law or regulation relating to the environment or occupational health and safety, and to its knowledge, no material expenditures are or will be required in order to comply with any such existing statute, law or regulation. Except as set forth on Schedule 10(t), no Hazardous Materials are used or have been used, stored, or disposed of by the Makers or, to the Maker's knowledge, by any other Person on any property owned, leased or used by the Makers.

(u) **Other Agreements.** Any Maker is in default under the terms of any covenant, indenture or agreement of or affecting any Maker or any of its property, which default if uncured could reasonably be expected to have a Material Adverse Effect.

(v) **No Default.** No Default or Event of Default has occurred and is continuing.

(w) **Conditions Precedent.** There are no conditions precedent to the effectiveness of this Note that have not been satisfied or waived.

11. **Covenants.** Each Maker agrees that, until this Note is indefeasibly paid in full in cash and cancelled, except to the extent compliance in any case or cases is waived in writing pursuant to the terms of Section 19 hereof:

(a) **Maintenance of Business**. Each Maker shall, preserve and maintain its existence and shall not materially alter or change the scope of the business of the Makers. Each Maker shall preserve and keep in force and effect all licenses, permits, franchises, approvals, patents, trademarks, trade names, trade styles, copyrights, and other proprietary rights necessary to the proper conduct of its business.

(b) **Maintenance of Properties**. Each Maker will keep its properties in good repair, working order and condition, reasonable wear and tear excepted, and from time to time make all needful and proper repairs, renewals, replacements, additions and improvements thereto; and each Maker will at all times comply with each provision of all leases to which it is a party or under which it occupies property if the breach of such provision could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(c) **Taxes and Assessments**. Each Maker shall duly pay and discharge all material taxes, rates, assessments, fees, and governmental charges upon or against it or its property, in each case before the same become delinquent and before penalties accrue thereon, unless and to the extent that the same are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and preclude interference with the operation of its business and adequate reserves are provided therefor.

(d) **Insurance**. Each Maker will keep its assets which are of an insurable character insured by financially sound and reputable insurers against loss or damage by fire, explosion and other risks customarily insured against by companies in similar business similarly situated as the Makers, and the each Maker will maintain, with financially sound and reputable insurers, insurance against other hazards and risks and liability to persons and property to the extent and in the manner which BIO-key reasonably believes is customary for companies in similar business similarly situated as the Makers and to the extent available on commercially

reasonable terms. The Makers will jointly and severally bear the full risk of loss from any loss of any nature whatsoever with respect to the Collateral. At the each Maker's joint and several cost and expense in amounts and with carriers reasonably acceptable to Payee, each Maker shall (i) keep all its insurable properties and properties in which it has an interest insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts,

as is customary in the case of companies engaged in businesses similar to the business of the Makers, including business interruption insurance; (ii) maintain a bond in such amounts as is customary in the case of companies engaged in businesses similar to the business of the Makers insuring against larceny, embezzlement or other criminal misappropriation of insured's officers and employees who may either singly or jointly with others at any time have access to the assets or funds of the Makers either directly or through governmental authority to draw upon such funds or to direct generally the disposition of such assets; (iii) maintain public and product liability insurance against claims for personal injury, death or property damage suffered by others; (iv) maintain all such worker's compensation or similar insurance as may be required under the laws of any state or jurisdiction in which the Makers are engaged in business; and (v) furnish Payee with (x) copies of all policies and evidence of the maintenance of such policies at least thirty (30) days before any expiration date, (y) excepting the Maker's workers' compensation policy, from and after Discharge of the Senior Lender Claims (as defined in the Intercreditor Agreement) endorsements to such policies naming Payee as "co-insured" or "additional insured" and appropriate loss payable endorsements in form and substance satisfactory to Payee, naming Payee as loss payee, and (z) evidence that as to Payee the insurance coverage shall not be impaired or invalidated by any act or neglect of the Makers, and the insurer will provide Payee with at least thirty (30) days notice prior to cancellation. The Makers shall instruct the insurance carriers that in the event of any loss thereunder, the carriers shall make payment for such loss to the Makers and Payee jointly. In the event that as of the date of receipt of each loss recovery upon any such insurance, the Payee has not declared an Event of Default, then the Makers shall be permitted to direct the application of such loss recovery proceeds toward investment in property, plant and equipment that would comprise Collateral, with any surplus funds to be applied toward payment of the obligations of the Makers to Payee. In the event that Payee has properly declared an Event of Default, then all loss recoveries received by Payee upon any such insurance thereafter may be applied to the obligations of the Makers hereunder, in such order as the Payee may determine. Any surplus (following satisfaction of all obligations of Maker to Payee) shall be paid by Payee to the Makers or applied as may be otherwise required by law. Any deficiency thereon shall be paid by the Makers to Payee on demand.

(e) **Inspection**. Each Maker shall permit the Payee, and each of its duly authorized representatives and agents to visit and inspect any of its property, corporate books, and financial records, to examine and make copies of its books of accounts and other financial records, and to discuss its affairs, finances, and accounts with, and to be advised as to the same by, its officers, employees and independent public accountants (and by this provision each Maker hereby authorizes such accountants to discuss with the Payee the finances and affairs of the Makers) upon reasonable notice and at such reasonable times and intervals as the Payee may reasonably designate.

(f) **Intellectual Property.** Each Maker shall maintain in full force and effect its existence, rights and franchises and all licenses and other rights to use Intellectual Property owned or possessed by it and reasonably deemed to be necessary to the conduct of its business.

(g) **Name Change.** No Maker shall change its name, FEIN, organizational identification number, state of organization or organizational identity; *provided, however*, that any Maker may change its name upon at least thirty (30) days prior written notice to Payee of such change and so long as, at the time of such written notification, such Maker provides any financing statements (or other perfection document) necessary to perfect and continue perfected the Payee's Liens.

(h) **Indebtedness.** No Maker shall (i) create, incur, assume or suffer to exist any Indebtedness for Borrowed Money whether secured or unsecured other than (A) the Makers' Indebtedness for Borrowed Money to the Payee and the First Lien Secured Party, (B) Indebtedness for Borrowed Money set forth on Schedule 11(h) and any refinancings or replacements thereof on terms no less favorable to the Maker than such indebtedness being refinanced or replaced, and (C) any Indebtedness for Borrowed Money incurred in connection with the purchase of assets in the ordinary course of business, or any refinancings or replacements thereof on terms no less favorable to the Maker than such indebtedness being refinanced or replaced; (ii) cancel any Indebtedness for Borrowed Money owing to it in excess of $50,000 in the aggregate during any 12-month period and (iii) assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any obligations of any other Person, except the endorsement of negotiable instruments by the Makers for deposit or collection or similar transactions in the ordinary course of business or guarantees of indebtedness otherwise permitted to be outstanding pursuant to this Section 11(h).

In the event of the conversion of the total aggregate principal amount of the Senior Note into common stock of BIO-key in accordance with the terms thereof or the full discharge of obligations under the Senior Note, the Makers may to incur Indebtedness for Borrowed Money not permitted hereby by redeeming the Note at its face amount, plus accrued but unpaid interest to the date of redemption. In order to redeem the Note the Makers shall either (A) replace the Hamilton LC to the satisfaction of Hamilton County, in which case Payee shall retain all of its interest in the collateral securing the Hamilton LC or (B) pay to Payee an amount equal to the amount of collateral securing the Hamilton LC which shall relieve Payee of any further liability to the issuer of the Hamilton LC, in which event Payee shall, upon receipt from BIO-key of an additional amount in cash equal to all interest accrued but unpaid under this Note, return this Note to BIO-key for cancellation, release its security interest in the Common Collateral and transfer its interest in the collateral securing the Hamilton LC to BIO-key.

(i) **Subsidiaries.** No Maker shall create or acquire any Subsidiary after the date hereof unless (i) such

Subsidiary is a wholly-owned Subsidiary of a Maker and (ii) such Subsidiary becomes party to this Note (either by executing a counterpart thereof or an assumption or joinder agreement in respect thereof) and, to the extent required by the Payee, satisfies each condition of this Note as if such Subsidiary were a Subsidiary on the Effective Date.

(j) **Liens**. No Maker shall create, incur or permit to exist any Lien of any kind on any property owned by any Maker that would be senior to or pari passus with the Lien of Payee granted hereunder, other than the Liens granted in favor or the First Lien Secured Party.

(k) **Dividends and Certain Other Restricted Payments**. No Maker shall (i) declare or pay any dividends on or make any other distributions in respect of any class or series of its capital stock or other equity interests, other than dividends paid to BIO-key by PSG or (ii) directly or indirectly purchase, redeem, or otherwise acquire or retire any of its capital stock or other equity interests or any warrants, options, or similar instruments to acquire the same.

(l) **Compliance with Laws**. (i) Each Maker shall comply in all respects with the requirements of all federal, state, and local laws, rules, regulations, ordinances and orders (including, without limitation, Environmental Laws) applicable to or pertaining to its property or business operations, where any such non-compliance, individually or in the aggregate could reasonably be expected to have a Material Adverse Effect or result in a Lien upon any of its property other than Permitted Liens.

(m) **Hamilton Sales Agreement.** BIO-key shall and shall cause its Affiliates to comply in all material respects with terms and conditions of the Hamilton Sales Agreement. In the event of a default under the Hamilton Sales Agreement that results in a draw of the Hamilton LC, or entitles Hamilton County to draw the Hamilton LC, Payee shall have the right to complete, or arrange for a third party to complete, performance under the Hamilton Sales Agreement, subject only to the approval of Hamilton County (the "Performance Remedy"). In any such case, Payee shall be entitled to recover from Hamilton County any amounts paid to Hamilton County under the Hamilton LC. Makers shall provide to Payee a copy of all notices delivered to Hamilton County or received by Makers under the Hamilton Sales Agreement, including, without limitation, notices delivered under section 43 of the Hamilton Sales Agreement, at the time such notices are received or delivered, as the case may be, and Payee shall continue to be listed as a party required to receive copies of all notices from Makers or Hamilton County under the Hamilton Sales Agreement. BIO-key will notify Payee immediately of any draw of, or notice of intent to draw, the Hamilton LC, as well as the occurrence of any Event of Default, including any matter that, with the passage of time, would constitute an event of default). Payee shall be entitled to participate in any dispute resolution conducted under section 43 of the Hamilton Sales Agreement. In addition, BIO-key will provide Payee with written notice of any event, occurrence or omission, promptly following such event, occurrence or omission, which has had or is reasonably likely to have an adverse effect on Maker's ability to satisfy the terms and conditions of the Hamilton Sales Agreement.

(n) **Hamilton LC.** Each Maker shall use its commercially reasonable efforts to obtain, at its sole cost and expense, a performance bond or standby letter of credit as promptly as possible that is satisfactory to Hamilton County as a replacement for the Hamilton LC. If Makers are unable to secure such bond or other replacement security within a reasonable time after the date hereof, each Maker shall use its commercially reasonable efforts to obtain, at its sole cost and expense, a bond, issued by a surety reasonably satisfactory to Payee, to ensure that Payee will receive full reimbursement in the event of a draw of the Hamilton LC.

(o) **Reorganizations.** No Maker shall liquidate, dissolve or effect a material reorganization (it being understood that in no event shall any Maker dissolve, liquidate or merge with any other person or entity (unless the Maker is the surviving entity);

(p) **Other Agreements.** No Maker shall become subject to (including, without limitation, by way of amendment to or modification of) any agreement or instrument which by its terms would (under any circumstances) restrict any Maker from performing the provisions of this Note or any of the agreements or documents contemplated hereby.

(q) **Legal Opinion**. On or before October 7, 2004, the Makers shall deliver to Payee an opinion of counsel reasonably acceptable to Payee.

12. **Replacement of Lost Note**. Upon receipt of evidence reasonably satisfactory to the Makers of the mutilation, destruction, loss or theft of this Note and the ownership thereof, and, in the case of any such mutilation, upon surrender and cancellation of this Note, the Makers shall, upon the written request of the holder of the Note, execute and deliver in replacement thereof a new Note in the same form, in the same original principal amount and dated the same date as this Note so mutilated,

destroyed, lost or stolen, and such Note so mutilated, destroyed, lost or stolen shall then be deemed no longer outstanding hereunder.

13. **Assignment of Note.** The Payee shall have the right at any time to sell, assign, transfer or negotiate all or any part of its rights and obligations under the Note and related documents. The Makers shall execute and deliver replacement Note(s) in order to affect such assignment.

14. **Events of Default.**

(a) **Definition.** For purposes of this Note, an "Event of Default" shall be deemed to have occurred if:

(i) any Maker fails to pay when due the full amount of principal or any interest or fees on this Note, as required by Sections 4 and 5 or as otherwise required by the provisions of this Note and such failure shall continue for a period of three (3) days following the date upon which any such payment was due;

(ii) any Maker fails to comply in any material respect with any provision of this Note and such failure remains unremedied for fifteen (15) days after the occurrence thereof, or in the case of failure to deliver a required notice, three (3) days if such notice relates to an event or occurrence that constitutes, or with the passage of time would constitute, an Event of Default, or ten (10) days for any other notice;

(iii) any representation or warranty made herein or in any other document or in any certificate furnished to the Payee pursuant hereto or thereto or in connection with any transaction contemplated hereby or thereby proves untrue in any material respect as of the date of the issuance or making or deemed making thereof;

(iv) this Note or any of the documents contemplated hereby shall for any reason not be or shall cease to be in full force and effect or are declared to be null and

void, or the Note shall for any reason fail to create a valid and perfected second priority Lien in favor of the Payee in the Collateral purported to be covered hereby except as expressly permitted by the terms hereof, or any Maker takes any action for the purpose of terminating, repudiating or rescinding the Note or any document executed in connection herewith by it or any of its obligations hereunder or thereunder;

(v) default shall occur under any Indebtedness for Borrowed Money issued, assumed or guaranteed by any Maker or under any indenture, agreement or other instrument under which the same may be issued, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such Indebtedness for Borrowed Money (whether or not such maturity is in fact accelerated), or any such Indebtedness for Borrowed Money shall not be paid when due (whether by demand, lapse of time, acceleration or otherwise);

(vi) any judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes, shall be entered or filed against any Maker, or against any of its property, in any aggregate amount in excess of $50,000 (except to the extent fully covered by insurance pursuant to which the insurer has not denied or disputed coverage), and which remains undischarged, unvacated, unbonded or unstayed for a period of thirty (30) days;

(vii) a Change of Control occurs;

(viii) any Maker shall (A) have entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (B) not pay, or admit in writing its inability to pay, its debts generally as they become due, (C) make a general assignment for the benefit of creditors, (D) apply for, seek, consent to or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its property, (E) institute any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (F) take any action authorizing of any matter described in parts (A) through (E) above, or (G) fail to contest in good faith any appointment or proceeding described in Section 14(a)(ix) hereof;

(ix) a custodian, receiver, trustee, examiner, liquidator or similar official shall be appointed for any Maker, or any substantial part of any of its Property, or a proceeding described in Section 14(a)(viii)(E) shall be instituted against any Maker;

(x) any Maker fails to make any payment in respect of any Indebtedness for Borrowed Money having an aggregate principal amount of more than $100,000 when due (whether by scheduled maturity, required prepayment acceleration, demand or otherwise) and such failure continues after the applicable grace or notice period, if any;

(xi) any termination of the Hamilton Sales Agreement that does not involve a release (without any draw) of the Hamilton LC or any dispute, disagreement or claim of breach, non-performance or repudiation under the Hamilton Sales Agreement between Hamilton County and Makers shall have arisen and not have been resolved within the time (an in a manner) allowed for remedy or cure by Makers of such dispute, disagreement or claim of breach, non-performance or repudiation; or

(xii) Makers receive any notice from Hamilton County or from the issuer of the Hamilton LC of any intention to draw the LOC.

(b) **Consequences of Events of Default**. Subject in each instance to the terms of the Intercreditor Agreement referred to in Section 9 above:

(i) If any Event of Default of the type described in Section 14(a)(i), (ii), (iii), (iv), (v), (vii), (x), (xi) or (xii) has occurred, the holder of this Note may declare all or any portion of the outstanding principal amount of this Note (together with all accrued interest and fees thereon) due and payable and demand immediate payment of all or any portion of such outstanding principal amount of this Note (together with all accrued interest and fees thereon).

(ii) If an Event of Default of the type described in Section 14(a)(vii), (viii) or (ix) has occurred, the principal amount of this Note (together with all accrued interest and fees thereon) shall become immediately due and payable without any action on the part of the holders of this Note, and the Makers shall immediately pay to the holder of this Note all amounts due and payable with respect to the outstanding principal amount, together with all accrued interest and fees thereon.

(iii) Each Maker hereby waives diligence, presentment, protest and demand and notice of protest and demand, dishonor and nonpayment of this Note, and expressly agrees that this Note, or any payment hereunder, may be extended from time to time and that the holder hereof may accept security for this Note or release all or any security or guarantees for this Note, all without in any way affecting the liability of each Maker hereunder.

(iv) Upon the occurrence of any Event of Default under this Note, the Payee shall have all of the rights and remedies of a secured party under the UCC and under any other applicable law, as the same may from time to time be in effect. Upon demand of the Payee after the occurrence of any Event of Default, each Maker shall deliver, or cause to be delivered, all Collateral covered hereby to the Payee at the Makers' expense. Any notice which the Payee is required to give to the Makers under the UCC of a time and place of any public sale or the time after which any private sale or other intended disposition of collateral hereunder is to be made shall be deemed to constitute reasonable notice if such notice is mailed by registered or certified mail at least ten (10) days prior to such action.

(v) Upon the occurrence of any Event of Default under this Note, the Payee shall have the right to take any action or cause any action to be taken with respect to Hamilton County, the Hamilton Sale Agreement or the Hamilton LC.

15. **Costs and Expenses; Indemnification.** (a) The Makers agree to pay all costs and expenses, including, without limitation, attorneys' fees and disbursements, costs of collection and court costs, incurred or paid by the Payee or its Affiliates in connection with the enforcement or collection of this Note and any related documents.

(b) The Makers agree to indemnify the Payee and its respective directors, officers, employees, agents, financial advisors, and consultants against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all reasonable expenses of litigation or preparation therefor, whether or not the indemnified Person is a party thereto, or any settlement arrangement arising from or relating to any such litigation) which any of them may pay or incur arising out of or relating to the Note or any document delivered in connection therewith or any of the transactions contemplated thereby or the direct or indirect application or proposed application of the proceeds of the Note, other than those which arise from the gross negligence or willful misconduct of the party claiming indemnification. The Makers, upon demand by the Payee at any time, shall reimburse the Payee for any reasonable legal or other expenses incurred in connection with investigating or defending against any of

the foregoing (including any settlement costs relating to the foregoing) except if the same is directly due to the gross negligence or willful misconduct of the party to be indemnified. The obligations of the Makers under this Section shall survive the cancellation of the Note.

(c) Each Maker unconditionally agrees to forever indemnify, defend and hold harmless, and covenants not to sue for any claim for contribution against, the Payee for any damages, costs, loss or expense, including without limitation, response, remedial or removal costs, arising out of any of the following: (i) any presence, release, threatened release or disposal of any hazardous or toxic substance or petroleum by any Maker or otherwise occurring on or with respect to its property (whether owned or leased), (ii) the operation or violation of any environmental law, whether federal, state, or local, and any regulations promulgated thereunder, by any Maker or otherwise occurring on or with respect to its property (whether owned or leased), (iii) any claim for personal injury or property damage in connection with any Maker or otherwise occurring on or with respect to its property (whether owned or leased), and (iv) the inaccuracy or breach of any environmental representation, warranty or covenant by any Maker made herein or in any other document evidencing or securing the Note or setting forth terms and conditions applicable thereto or otherwise relating thereto, except for damages arising from the willful misconduct or gross negligence of the party claiming indemnification. This indemnification shall survive the payment and satisfaction of all obligations and the cancellation of this Note, and shall remain in force beyond the expiration of any applicable statute of limitations and payment or satisfaction in full of any single claim under this indemnification. This indemnification shall be binding upon the successors and assigns of each Maker and shall inure to the benefit of the Payee, its directors, officers, employees, agents, and collateral trustees, and their successors and assigns.

16. **The Payee's Duties.** Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Payee shall have

no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. The Payee shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which the Payee accords its own property. If any Maker fails to perform any agreement contained herein, Payee may itself perform, or cause performance of, such agreement, and the expenses of the Payee incurred in connection therewith shall be payable by the Makers under Section 15 hereof, and be a part of the obligations represented by this Note.

17. **Hamilton LC Collateral.** Except as provided in Section 11(h), Payee shall retain all of its right, title and interest to any collateral supporting the Hamilton LC and any decrease in such collateral as a result of the a reduction in the Hamilton LC in accordance with the Hamilton Sales Agreement shall inure solely to the benefit of Payee.

18. **Amendment and Waiver.** Except as otherwise expressly provided herein, the provisions of this Note may not be amended and the Makers may not take any action herein prohibited, or omit to perform any act herein required to be performed by it, unless the Makers have obtained the prior written consent of the holder of this Note.

19. **Cancellation.** After the last to occur of the Maturity Date and satisfaction in full of all of BIO-key's obligations under the Sublease, this Note shall be surrendered to the Makers for cancellation and shall not be reissued. Upon such cancellation of the Note as a result of the indefeasible payment in full in cash of the obligations hereunder, the Payee shall, upon the request and at the expense of the Makers, forthwith release its Liens and security interests hereunder and provide any documentation reasonably requested by the Makers to evidence such termination.

20. **Remedies Cumulative.** No remedy herein conferred upon the holder of this Note is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise.

21. **Remedies Not Waived.** No course of dealing between the Makers and the holder of this Note or any delay on the part of the holder hereof in exercising any rights hereunder shall operate as a waiver of any right of the holder of this Note.

22. **Successors and Assigns.** All the covenants, stipulations, promises and agreements in this Note contained by or on behalf of the Makers shall bind their successors and assigns and shall inure to the benefit of the Payee and its successors and assigns, whether so expressed or not.

23. **Submission to Jurisdiction.** ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST EITHER MAKER WITH RESPECT TO THIS NOTE OR ANY OTHER AGREEMENT CONTEMPLATED HEREBY OR THEREBY MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE OF MARYLAND, AND BY EXECUTION AND DELIVERY OF THIS NOTE, EACH MAKER ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS RESPECTIVE PROPERTIES,

GENERALLY AND UNCONDITIONALLY, THE EXCLUSIVE JURISDICTION OF THE AFORESAID COURTS, AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS NOTE. EACH MAKER HEREBY WAIVES ANY CLAIM THAT THE STATE OF MARYLAND IS AN INCONVENIENT FORUM OR AN IMPROPER FORUM BASED ON LACK OF VENUE. NOTHING HEREIN SHALL AFFECT THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF PAYEE TO BRING PROCEEDINGS AGAINST EITHER MAKER IN THE COURTS OF ANY OTHER JURISDICTION.

24. **Waiver of Jury Trial**. EACH OF THE MAKERS AND PAYEE (BY ACCEPTING THIS NOTE), ON BEHALF OF ITSELF, ITS SUCCESSORS AND ASSIGNS, HEREBY WAIVES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TRIAL BY JURY IN ANY LITIGATION IN ANY COURT WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF THIS NOTE OR ANY OTHER AGREEMENT CONTEMPLATED HEREBY OR THEREBY OR THE VALIDITY, PROTECTION, INTERPRETATION, COLLECTION OR ENFORCEMENT.

25. **Governing Law.** ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY AND INTERPRETATION OF THIS NOTE WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF NEW YORK OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF NEW YORK.

26. **Headings.** The headings of the sections and subsections of this Note are inserted for convenience only and do not constitute a part of this Note.

27. **Place of Payment and Notices**. Payments of principal and interest will be paid in accordance with Section 6(b) and notices are to be delivered to the holder of the Note at the following address:

Aether Systems, Inc.
11500 Cronridge Drive, Suite 110
Owings Mills, MD 21117
Attention: Chief Financial Officer

with copy to:

Kirkland & Ellis LLP
655 Fifteenth Street, N.W., Suite 1200
Washington, D.C. 20005
Attention: Mark D. Director

notices are to be delivered to the Makers at the following address:

BIO-key International, Inc.
1285 Corporate Center Drive
Suite 175
Eagan, MN 55121

or, in each case, to such other address or to the attention of such other Person as specified by prior written notice to the other party.

28. **Cross-Guaranty; Makers' Obligations Joint and Several.** Each Maker hereby agrees that such Maker is jointly and severally liable for, and hereby absolutely and unconditionally guarantees to Payee and its successors and assigns, the full and prompt payment (whether at stated maturity, by acceleration or otherwise) and performance of, all obligations and liabilities owed or hereafter owing to Payee by the other Maker. Each Maker agrees that its guaranty obligation hereunder is a continuing guaranty of payment and performance and not of collection, that its obligations under this Section 28 shall not be discharged until payment and performance, in full in cash, of the obligations has occurred, and that its obligations under this Section 28 shall be absolute and unconditional, irrespective of, and unaffected by (a) the genuineness, validity, regularity, enforceability or any future amendment of, or change in, this Note; (b) the absence of any action to enforce this Note or the waiver or consent by Payee with respect to any of the provisions thereof; (c) the existence, value or condition of, or failure to perfect its lien against, any security for the obligations or any action, or the absence of any action, by Payee in respect thereof (including the release of any such security); (d) the insolvency

of any Maker; or (e) any other action or circumstances (other than payment in full in cash of the obligations) that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor. Each Maker shall be regarded, and shall be in the same position, as principal debtor with respect to the obligations guaranteed hereunder.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each Maker has executed and delivered this Note on the Effective Date.

BIO-KEY INTERNATIONAL, INC.

By: _____
Name:
Title:

PUBLIC SAFETY GROUP, INC.

By: _____
Name:
Title:

SCHEDULE	DESCRIPTION
10(e)	Subsidiaries
10(f)	Pledge
10(h)	Location of Equipment and Inventory
10(l)	Taxes
10(n)	Transactions with Affiliates
10(r)	Litigation
10(t)	Environmental and Safety Laws
11(h)	Indebtedness for Borrowed Money

Exhibit 99.15

Execution Version

ASSET PURCHASE AGREEMENT

by and among

AETHER SYSTEMS, INC.,

CERULEAN TECHNOLOGIES, INC., and

SUNPRO, INC.

as Seller,

and

BIO-key International, Inc.,

as Buyer,

dated as of

August 16, 2004

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ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT ("*Agreement*"), is made and entered into as of August 16, 2004, by and among Aether Systems, Inc., a Delaware corporation ("*Aether*"), Cerulean Technology, Inc., a Delaware corporation ("*Cerulean*"), and SunPro, Inc., a Washington corporation (together with Cerulean, the "*Relevant Subsidiaries*" and together with Aether, "*Seller*"), and BIO-key International, Inc., a Minnesota corporation ("*Buyer*"). Buyer and Seller are referred to collectively herein as the "*Parties*" and

each is individually, a "*Party*."

W I T N E S S E T H:

WHEREAS, Seller is in the business of providing wireless and mobile data solutions to public safety agencies at the federal, state and local levels (as provided exclusively through its mobile government segment)(the "*Business*"); and

WHEREAS, the Relevant Subsidiaries are wholly owned subsidiaries of Aether and together with Aether own and have all right title and interest in or to all of the Purchased Assets (as defined herein); and

WHEREAS, Seller desires to sell and assign to Buyer, and Buyer desires to acquire certain assets and to assume certain liabilities from Seller, in each case relating exclusively to the Business (as defined herein), which the Parties agree will be achieved pursuant to (i) the purchase and sale of the Purchased Assets (as defined herein) and (ii) the assumption of the Assumed Liabilities (as defined herein), all on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises made herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged, and subject to the conditions hereinafter set forth, the Parties hereto agree as follows.

ARTICLE I

DEFINITIONS

Whenever used in this Agreement, the terms defined below shall have the indicated meanings:

"*Accounts Payable*" shall mean all accounts payable and accrued Liabilities constituting the obligation to make payments in respect of goods and/or services to the extent received or ordered or contracted for by Seller, or any of its respective Affiliates on or prior to the Closing in connection with the Business.

"*Accounts Receivable*" shall mean (i) all accounts receivable under agreements or contracts for services provided by the Business and other rights to payment from customers of the Business and the full benefit of all security for such accounts or right to payment (other than as provided in Section 6.2(d)), (ii) all other accounts or notes receivable of Seller with respect to

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the Business and the full benefit of all security for such accounts or notes (other than as provided in Section 6.2(d)), (iii) costs and estimated earnings in excess of billings on uncompleted Contracts, and (iv) any claim, remedy or other right relating to any of the foregoing.

"*Acquisition*" shall mean any transaction or series of transactions involving:

(a) any merger, consolidation, share exchange, business combination, issuance of securities, acquisition of securities, tender offer, exchange offer or other similar transaction (i) in which the Seller is a constituent corporation, (ii) in which a Person or "group" (as defined in the Exchange Act and the rules promulgated thereunder) of Persons directly or indirectly acquires beneficial or record ownership of securities representing more than 20% of the outstanding securities of any class of voting securities of Seller, or (iii) in which Seller issues securities representing more than 20% of the outstanding securities of any class of voting securities of Seller;

(b) any sale, lease, exchange, transfer, license, acquisition or disposition of any assets that constitute more than 10% of the total assets used exclusively in the Business (other than the sale of Inventory or services in the ordinary course of the Business); or

(c) any liquidation or dissolution of Seller.

"*Acquisition Proposal*" shall mean any offer or proposal that is in writing, is from any Person other than Buyer (or its Affiliates or representatives) and proposes, contemplates or otherwise relates to any Acquisition.

"*Adjustment Amount*" shall have the meaning set forth in Section 3.4(b).

"*Affiliate*" shall mean, with respect to any Person, any Person which directly or indirectly through stock ownership, other arrangements or otherwise either controls, or is controlled by or is under common control with, such Person.

"*Agreement*" shall have the meaning set forth in the preamble.

"*Allocation*" shall have the meaning set forth in Section 3.8.

"*Ancillary Agreements*" shall mean the (i) Transition Services Agreement, (ii) Deal License Agreement, (iii) Patent Assignment, (iv) Copyright Assignment, (v) Trademark Assignment, (vi) Bill of Sale and (vii) Assignment and Assumption Agreement.

"*Applicable Laws*" shall mean all laws, statutes, rules, regulations and ordinances as may be in effect on or prior to the Closing Date of any Governmental Authority having jurisdiction or regulatory authority over the Purchased Assets or the Business.

"*Assignment and Assumption Agreement*" shall mean the assignment and assumption agreement to be entered into between Seller and/or its Affiliates and Buyer in form and substance reasonably satisfactory to Buyer and Seller.

"*Assumed Liabilities*" shall mean all Liabilities (whether or not incurred on or prior to the Closing Date) arising out of, incurred in connection with, or relating in any way to (i) the Purchased Assets, excluding (A) violations of Applicable Laws by Seller, (B) with respect to the Contracts, Liabilities resulting from, arising out of or relating to any breach of contract, tort or breach of warranty to the extent occurring prior to the Closing Date and (C) with respect to the Intellectual Property, Liabilities resulting from, arising out of or relating to any infringement to the extent occurring prior to the Closing Date, (ii) Liabilities for Taxes to the extent set forth in Section 9.1(b), (iii) the ownership or use of the Purchased Assets or the operation of the Business after Closing, (iv) all Liabilities and obligations of Buyer under this Agreement, the Note, the Security Agreements and the Ancillary Agreements, (v) all Liabilities set forth on the Closing Statement, (vi) all Liabilities arising after the date of the Closing Statement that have arisen in the ordinary course of business (but excluding any such Liabilities that are excluded by subclauses (A)-(C) in clause (i) above), and (vii) any Liability set forth on Schedule 1(a).

"*Bill of Sale*" shall mean the bill of sale and assignment conveying, selling, transferring, and assigning the Purchased Assets to Buyer, in form and substance reasonably satisfactory to Buyer and Seller.

"*Books and Records*" shall mean all books and records of Seller relating exclusively to and necessary for the operation of the Business as it is currently operated, including files, documents, correspondence, cost and pricing information, accounting records, supplier lists and records, training materials, training records, maintenance and inspection reports, equipment lists, repair notes and archives, sales and marketing materials.

"*Business*" shall have the meaning set forth in the recitals.

"*Business Day*" shall mean any day on which commercial banks are open for business in Baltimore, Maryland.

"*Buyer*" shall have the meaning set forth in the preamble.

"*Buyer Default*" shall have the meaning set forth in Section 6.2(e).

"*Buyer Employee Plans*" shall have the meaning set forth in Section 6.2(c)(i).

"*Buyer 401(k) Plan*" shall have the meaning set forth in Section 6.2(c)(iii).

"*Cerulean*" shall have the meaning set forth in the preamble.

"*Closing*" shall have the meaning set forth in Section 3.1.

"*Closing Date*" shall have the meaning set forth in Section 3.1.

"*Closing Net Working Capital*" shall have the meaning set forth in Section 3.4(b).

"*Closing Net Working Capital Statement*" shall have the meaning set forth in Section 3.4(b).

"*Closing Statement*" shall mean a statement of assets and liabilities of the Business as of the end of the month immediately preceding the Closing Date prepared by Seller and delivered pursuant to Section 3.4(b).

"*COBRA*" shall mean the requirements of Part 6 of Subtitle B of Title I of ERISA and Code Section 4980B and any similar state law.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended.

"*Collateral Source*" shall have the meaning set forth in Section 8.8.

"*Confidentiality Agreement*" shall mean that certain Non-Disclosure Agreement, dated May 18, 2004, between Aether and Buyer.

"*Contracts*" shall mean all contracts, leases (including unexpired real property leases), subleases, licenses, permits, registrations, authorizations and agreements related exclusively to the Purchased Assets or the Business and any and all claims, rights of setoff or recoupment, causes of action, accounts receivable, contracts, accounts and/or rights to reciprocal compensation arising under or in connection therewith.

"*Copyright Assignment*" shall be the copyright assignment to be entered into between Seller and Buyer in form and substance reasonably satisfactory to Buyer and Seller.

"*Copyrights*" shall mean all copyrights, copyrightable works, semiconductor topography and mask work rights, including all rights of authorship, use, publication, reproduction, distribution, performance transformation, moral rights and rights of ownership of copyrightable works, semiconductor topography works and mask works, and all rights to register and obtain renewals and extensions of registrations, together with all other interests accruing by reason of international copyright, semiconductor topography and mask work conventions owned by Seller and used exclusively in the Business as currently operated.

"*Deal License Agreement*" shall mean the deal license agreement to be entered into between Seller and Buyer in form and substance reasonably satisfactory to Buyer and Seller.

"*Deposit*" shall have the meaning set forth in Section 2.3.

"*Deposit Return Event*" shall mean the termination of this Agreement pursuant to, and in accordance with the terms of, Section 11.1(a), (b), (c), (d), (e) or (f); *provided* that Buyer is not at such time in material breach of its representations, warranties, covenants and agreements hereunder.

"*Disclosure Schedule*" or "*Schedule*" shall mean that certain schedule identified as such and delivered by Seller to Buyer pursuant to this Agreement, as the same may be supplemented and updated from time to time pursuant to this Agreement, each of which is hereby incorporated and made a part of this Agreement for all purposes as if set forth in full herein.

"*Division Intellectual Property*" shall have the meaning set forth in Section 4.9(a).

"*Effective Time Adjustment Amount*" shall have the meaning set forth in Section 3.5(a).

"*Effective Time Payments*" shall have the meaning set forth in Section 3.5(a).

"*Effective Time Receipts*" shall have the meaning set forth in Section 3.5(a).

"*Effective Time Statement*" shall have the meaning set forth in Section 3.5(a).

"*Effective Time Statement Objection Notice*" shall have the meaning set forth in Section 3.5(b).

"*Effective Time Statement Resolution Period*" shall have the meaning set forth in Section 3.5(b).

"*Employee Benefit Plan*" shall mean any "employee benefit plan" (as such term is defined in Section 3(3) of ERISA and any other material employee benefit plan, program or arrangement.

"*Encumbrances*" shall mean all security interests, liens, pledges, charges, escrows, options, mortgages, hypothecations, prior assignments, title retention agreements, indentures, security agreements or any other encumbrances of any kind.

"*Environmental Laws*" shall mean any and all Applicable Laws relating to the pollution or protection of the environment or the protection of human health from environmental hazards.

"*ERISA*" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"*Escrow Amount*" shall have the meaning set forth in Section 7.2(c).

"*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"*Excluded Assets*" shall mean (i) Tax Assets, (ii) Excluded Know-how, (iii) cash, cash equivalents and marketable securities, (iv) defenses and claims that Seller could assert against third parties, (v) subject to Section 6.2(b), all Trademarks or other indicia of origin of Seller and its Affiliates in any of the following words, logos, stylized lettering, other designs and variants thereof: "Aether," "Aether Systems" or "AIM," (vi) all books, documents, records and files prepared in connection with or relating in any way to the transactions contemplated by this Agreement, including bids received from other parties and analyses relating in any way to the Purchased Assets, the Assumed Liabilities and/or the Business, (vii) all rights of Seller and its Affiliates under or pursuant to this Agreement, the Ancillary Agreements and the other agreements and transactions contemplated hereby, (viii) the assets, properties and rights of Seller and its Affiliates not used exclusively in the operation of the Business as currently operated, (ix) subject to Section 6.3(b), the rights and obligations of Seller under any agreements, contracts, leases, subleases, licenses, and similar instruments that are not assignable by Seller, (x) any rights under or amounts payable from present or former insurance policies covering Seller or the Business that are unrelated to the Purchased Assets or the Assumed Liabilities and (xi) any amounts included as goodwill of the Business for financial statement purposes.

"*Excluded Know-how*" shall mean any and all product specifications, processes, methods, product designs, plans, trade secrets, ideas, concepts, manufacturing, engineering and other manuals and drawings, physical and analytical, safety, quality control, technical information, data, research records, all promotional literature, customer and supplier lists and similar data and information, and any and all other confidential or proprietary technical and business information owned or controlled by Seller and related to Seller's or any of its or its Affiliates' past or present products or businesses, other than such matters used exclusively with respect to the Business as currently operated, as well as any documentation evidencing any of the foregoing.

"*Excluded Liabilities*" shall mean any and all Liabilities of the Business that are not Assumed Liabilities, including, without limitation, Liabilities arising out of, relating to or incurred in connection with (i) Tax Liabilities, (ii) the Excluded Assets, (iii) the Employees or Seller Employee Plans in each case that arise prior to Closing, including Liabilities of Seller to Transferred Employees arising as result of the consummation of the transactions contemplated hereby and Sale-related Payments, other than as set forth on the Closing Statement, (iv) Liabilities of Seller incurred in connection with this Agreement, the Ancillary Agreements or the transactions contemplated thereby, (v) Liabilities of the Business resulting from, arising out of, or relating to any breach of contract, tort, or breach of warranty occurring prior to Closing, (vi) intra-company Liabilities of Seller and its Affiliates, other than as set forth on the Closing Statement, (vii) Liabilities under Section 6.1(f), (viii) any obligation of the Seller to indemnify any Person by reason of the fact that such Person was a director, officer, employee, or agent of the Seller or was serving at the request of the Seller as a partner, trustee, director, officer, employee, or agent of another entity (whether such indemnification is for judgments, damages, penalties, fines, costs, amounts paid in settlement, losses, expenses, or otherwise and whether such indemnification is pursuant to any statute, charter document, bylaw, agreement, or otherwise) and (ix) Liabilities set forth on Schedule 4.8.

"*Facility*" means any real property, including without limitation any improvement, equipment structure, building or fixture located thereon that is owned, used, operated or rented by Seller exclusively in connection with the Business.

"*GAAP*" shall mean United States generally accepted accounting principles.

"*Glenborough LC*" shall have the meaning set forth in Section 6.2(d).

"*Governmental Authority*" shall mean any governmental department, commission, board, bureau, agency, court or other instrumentality of the United States, or any country, jurisdiction, state, county, province, municipality or other political subdivision thereof or any other supranational organization of sovereign states where any of the Purchased Assets are located.

"*Hamilton County*" shall mean The Board of County Commissioners, Hamilton County, Ohio.

"*Hamilton LC*" shall mean that certain irrevocable standby letter of credit number 3055256 issued by Bank of America for the benefit of Hamilton County.

"*Hamilton Sales Agreement*" shall mean the Sales Agreement between Aether and Hamilton County dated April 29, 2003.

"*Income Tax*" shall mean any federal, state, local, or foreign tax based on or measured by reference to net income including any interest, penalty, or addition thereto, whether disputed or not.

"*Indemnified Party*" shall have the meaning set forth in Section 8.4(a).

"*Indemnifying Party*" shall have the meaning set forth in Section 8.4(a).

"*Independent Accounting Firm*" shall have the meaning set forth in Section 3.4(b).

"Intellectual Property" means (a) Patents, (b) Trademarks, (c) Copyrights, (d) Know – how and (e) all copies and tangible embodiments thereof (in whatever form or medium).

"*Interim Period*" means the period beginning on the first day of the month in which the Closing occurs and ending at the close of business on the day immediately preceding the Closing Date.

"*Inventory*" shall mean the consumable inventory of Seller, wherever located, including, without limitation, all finished goods, work in process, raw materials, spare parts and all other materials and supplies to be used or consumed exclusively by the Business.

"*Know-how*" shall mean any and all product specifications, processes, methods, product designs, plans, trade secrets, ideas, concepts, inventions, manufacturing, engineering and other manuals and drawings, physical and analytical, safety, quality control, technical information, data, research records, all promotional literature, customer and supplier lists and similar data and information, and any and all other confidential or proprietary technical and business information which are licensed to or owned by Seller and used exclusively in the Business as currently operated.

"*Leased Real Property*" shall mean the Leases pursuant to which Seller holds a leasehold or subleasehold estate in, or is granted the right to use or occupy any land, buildings, structures, improvements, fixtures or other interests in real property used exclusively in the Business as currently operated.

"*Leases*" shall mean all of Seller's right, title and interest in any lease, sublease, license, concession or other arrangement pursuant to which Seller holds a leasehold or subleasehold estate in, or is granted the right to use or occupy any land, buildings, structures, improvements, fixtures or other interest in real property used exclusively in the Business prior to the Closing Date.

"*Legal Requirement*" means any federal, state, local, municipal, foreign, international, multinational or other administrative order, constitution, law, ordinance, principle of common law, regulation, statute or treaty.

"*Liability*" shall mean any and all direct or indirect indebtedness, liabilities, assessments, expenses, claims, Losses, deficiencies, obligations or responsibilities, known or unknown, disputed or undisputed, joint or several, vested or unvested, executory or not, fixed or unfixed, choate or inchoate, liquidated or unliquidated, secured or unsecured, determinable or

undeterminable, accrued or unaccrued, absolute or not, actual or potential, contingent or otherwise (including any Liability under any guarantees, letters of credit, performance credits or with respect to insurance loss accruals), whether due or to become due, and whether claims with respect thereto are asserted, if at all, before or after the Closing.

"*Losses*" shall mean any and all out of pocket losses, demands, claims, actions or causes of action, costs, damages, judgments, obligations (including corrective or remedial obligations), debts, settlements, assessments, deficiencies, Taxes (excluding Income Taxes and any other Taxes incurred prior to the Closing Date), penalties, fines or expenses, whether or not arising out of any claims by or on behalf of a third party, including interest, penalties, reasonable attorney's fees and expenses and all reasonable amounts paid in investigation, defense or settlement of any of the foregoing, but specifically excluding any consequential or punitive damages.

"*Material Adverse Effect*" shall mean any event, change, circumstance or effect that (A) has a material adverse effect on the Purchased Assets, operations or financial condition of the Business, taken as a whole, or (B) materially hinders or delays Seller's ability to consummate the transactions contemplated herein, in either case, other than any event, change, circumstance or effect relating (i) to the United States economy in general, or the economy of any foreign country in general in which Seller participates, (ii) in general to the industries in which the Business operates and not specifically relating to the Business, (iii) financial, banking, or securities markets (including any disruption thereof and any decline in the price of any security or any market index), (iv) to the announcement of the Agreement or any transactions contemplated hereunder, the fulfillment of the Parties' obligations hereunder of the consummation of the transactions contemplated by this Agreement, or (v) to any outbreak or escalation of hostilities or act of

terrorism involving the United States or any declaration of war by the U.S. Congress.

"*Material Contract*" shall have the meaning set forth in Section 4.20(a).

"*Material Government Contract*" shall have the meaning set forth in Section 4.20(c).

"*Minimum Loss*" shall have the meaning set forth in Section 8.7.

"*Most Recent Statement*" shall mean the statement of assets and liabilities of the Business dated June 30, 2004.

"*Net Working Capital*" shall be the amount equal to the remainder of (i) the sum of (a) Accounts Receivable (less allowances for doubtful accounts), (b) Inventory (net of any reserves thereon), and (c) Prepaid Expenses and other current assets (excluding current portion of deferred costs), *minus* (ii) Accounts Payable (including accrued expenses and accrued employee compensation and benefits). In the case of all of the foregoing items, each shall be calculated in the same way and using the same methods customarily employed by Seller and consistent with Seller's past practice in the manner set forth on Schedule 2.

"*Non-Competing Transaction*" shall have the meaning set forth in Section 6.1(c).

"*Note*" shall mean a promissory note issued by Buyer containing terms no less favorable to Seller than as set forth on Schedule 3, with such other terms and conditions reasonably satisfactory to Buyer and Seller and not otherwise inconsistent with Schedule 3.

"*Noteholder*" shall have the meaning set forth in Schedule 3 but also shall include and be deemed to refer to any third-party provider of financing to Buyer in connection with the transactions contemplated by this Agreement that is an alternative to the "Financing Notes" referenced on Schedule 3.

"*Party*" or "*Parties*" shall have the meaning set forth in the introductory paragraph.

"*Patents*" shall mean all patents, patent disclosures and patent applications (including, without limitation, all reissues, divisions, continuations, continuations-in-part, renewals, re-examinations and extensions of the foregoing) owned by Seller and used exclusively in the Business as currently operated.

"*Patent Assignment*" shall mean the patent assignment to be entered into between Seller and Buyer in form and substance reasonably satisfactory to Buyer and Seller.

"*Permits*" shall mean all permits, licenses, approvals, registrations, qualifications, rights, certificates, certifications, consents, and other authorizations of every nature whatsoever required by, or issued to or on behalf of Seller by any Governmental Authority that are necessary to and used exclusively in the Business as currently operated.

"*Permitted Encumbrances*" shall mean (i) liens for Taxes, assessments and other governmental charges not yet due and payable, (ii) mechanics', workmen's, repairmen's, warehousemen's, carriers' or other like liens arising or incurred in the ordinary course of business, and equipment leases with third parties entered into in the ordinary course of business or other Encumbrances incurred by the Business that are a matter of public record and that are not material, individually or in the aggregate, to the Business, (iii) licenses of Divisional Intellectual Property granted in the ordinary course of the operation of the Business, (iv) with respect to the Leased Real Property: (a) easements, quasi-easements, licenses, covenants, rights-of-way, and other similar restrictions, including without limitation any other agreements, conditions or restrictions, in each case, which are a matter of public record and that are not material, individually or in the aggregate, to the Business, (b) any conditions that would be shown by a current survey or physical inspection and (c) zoning, building and other similar restrictions pursuant to Applicable Laws, (v) Encumbrances specified on Schedule 1(b), and (vi) other Encumbrances which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

"*Person*" shall mean an individual, a corporation, a limited or general partnership, a limited liability company, an association, a trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"*Personal Property*" shall mean the equipment, furniture, machinery, computer hardware, motor vehicles and other tangible personal property owned by Seller and used exclusively in the Business as currently operated.

"*Prepaid Expenses*" as of any date shall mean payments made by Seller or any of its Affiliates with respect to the Business or the Purchased Assets, which constitute prepaid expenses in accordance with GAAP.

"*Proxy Statement*" shall mean the proxy statement to be sent to Aether's stockholders in connection with the Seller Stockholders Meeting.

"*Public Reports*" means Aether's Exchange Act filings with the SEC since July 1, 2003.

"*Public Software*" shall mean any software that contains, or is derived in any manner (in whole or in part) from, any software that is distributed as free software, open source software (e.g., Linux) or similar licensing or distribution models which requires the distribution of source code to licensees, including software licensed or distributed under any of the following licenses or distribution models, or licenses or distribution models similar to any of the following: (i) GNU's General Public License (GPL) or Lesser/Library GPL (LGPL); (ii) the Artistic License (e.g., PERL); (iii) the Mozilla Public License; (iv) the Netscape Public License; (v) the Sun Community Source License (SCSL); (vi) the Sun Industry Standards License (SISL); (vii) the BSD License; and (viii) the Apache License.

"*Purchase Price*" shall have the meaning set forth in Section 3.2.

"*Purchase Price Objection Notice*" shall have the meaning set forth in Section 3.4(b).

"*Purchase Price Resolution Period*" shall have the meaning set forth in Section 3.4(b).

"*Purchased Assets*" shall mean all right, title, and interest in and to all of the assets constituting the Business, other than the Excluded Assets, including, without limitation, (i) the Leased Real Property, (ii) the Personal Property, (iii) subject to Section 6.3(b), the Contracts and Permits, (iv) the Accounts Receivable, (v) the Division Intellectual Property, (vi) the Inventory, maintenance and operating supplies used exclusively in the Business as currently operated, (vii) the Prepaid Expenses, claims, refunds, causes of action, rights of recovery, rights of setoff, and rights of recoupment and (viii) the Books and Records.

"*Relevant Subsidiary*" shall have the meaning set forth in the preamble.

"*Required Seller Stockholder Vote*" shall mean the affirmative vote by the holders of a majority of the outstanding shares of Aether's common stock, par value $0.01 per share, consenting to the transactions contemplated by this Agreement.

"*Sale-related Payments*" shall mean any incentive compensation relating to the sale of the Business, separation payments resulting from a change of control of Aether or retention payments, in each case payable to Transferred Employees.

"*SEC*" shall mean the Securities and Exchange Commission.

"*Security Agreements*" shall mean, collectively, the collateral, security, inter-creditor and/or similar agreement(s) entered into in connection with the Note by Seller, Buyer and/or the Noteholder containing terms no less favorable to Seller than as set forth on Schedule 3 and such other terms and conditions reasonably satisfactory to Seller, Buyer and/or the Noteholder, as the case may be, and not otherwise inconsistent with Schedule 3.

"*Seller*" shall have the meaning set forth in the preamble.

"*Seller Board Recommendation*" shall have the meaning set forth in Section 6.1(e)(ii).

"*Seller Determination*" shall have the meaning set forth in Section 12.14.

"*Seller Employee Plans*" shall have the meaning set forth in Section 4.10.

"*Seller 401(k) Plan*" shall have the meaning set forth in Section 6.2(c)(iii).

"*Seller Product*" shall mean each of the products marketed, sold, licensed or otherwise distributed by Seller exclusively in connection with the Business.

"*Seller New Matters*" shall have the meaning set forth in Section 6.3(c).

"*Seller Other Matters*" shall have the meaning set forth in Section 6.3(c).

"*Seller Stockholders Meeting*" shall have the meaning set forth in Section 6.1(e).

"*Seller's Knowledge*" shall mean, and be limited to, the actual knowledge (without independent investigation) of David Oros, David Reymann, Steven Bass and Michael Mancuso.

"*Straddle Period*" shall mean any taxable year or period beginning before and ending after the Closing Date.

"*Superior Proposal*" shall mean an unsolicited, bona fide offer made by a third party for an Acquisition that is on terms that the board of directors of Aether determines, in its reasonable judgment, after consultation with its financial advisors and legal counsel, would, if consummated, be more favorable to Aether and its stockholders (taking into account such factors as Aether's board of directors in good faith deems relevant, including the identity of the offeror and all legal, financial, regulatory and other aspects of the proposal) than the terms of the transactions contemplated by this Agreement, taking into account any change proposed by Buyer.

"*Target Net Working Capital*" shall mean $4,587,000.

"*Tax Assets*" shall mean any refund, abatement or credit of, and all other assets comprising receivables or deferred assets or prepayments for, Taxes arising or resulting from Seller's and its Affiliate's conduct of the Business or ownership of the Purchased Assets for taxable periods ending on or before the Closing Date.

"*Tax Liabilities*" shall mean all liabilities for Taxes arising or resulting from Seller's and its Affiliate's conduct of the Business or ownership of the Purchased Assets for taxable periods or portions thereof ending on or before the Closing Date.

"*Tax Returns*" shall mean all reports, returns, schedules and any other documents required to be filed with respect to Taxes and all claims for refunds of Taxes.

"*Taxes*" (and with correlative meanings, "Tax" and "Taxable") shall mean all taxes of any kind imposed by a federal, state, local or foreign Governmental Authority, including but not

limited to those on, or measured by or referred to as income, gross receipts, financial operation, sales, use, ad valorem, value added, franchise, profits, license, withholding, payroll (including all contributions or premiums pursuant to industry or governmental social security laws or pursuant to other tax laws and regulations), employment, excise, severance, stamp, occupation, premium, property, transfer or windfall profits taxes, customs, duties or similar fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by such Governmental Authority with respect to such amounts.

"*Termination Fee*" shall have the meaning set forth in Section 11.3.

"*Third Party Intellectual Property*" shall have the meaning set forth in Section 4.9(c).

"*Trademark Assignment*" shall mean the trademark assignment to be entered into between Seller and Buyer in form and substance reasonably satisfactory to Buyer and Seller.

"*Trademarks*" shall mean (i) trademarks, service marks, trade names, trade dress, labels, logos and all other names and slogans used exclusively with any products or embodying associated goodwill of the Business related to such products, whether or not registered, and any applications or registrations therefor, and (ii) any associated goodwill incident thereto, in each case owned by or licensed to Seller and used in the Business as currently operated.

"*Transfer Taxes*" shall have the meaning set forth in Section 3.9.

"*Transferred Employees*" shall have the meaning set forth in Section 6.2(c)(i).

"*Transition Services Agreement*" shall mean the transition services agreement to be entered into between Seller or its Affiliates and Buyer in form and substance reasonably satisfactory to Buyer and Seller.

"*Transportation Proposal*" shall mean the proposal to sell Seller's Transportation segment in accordance with that certain Asset Purchase Agreement, dated July 20, 2004, among Aether, Platinum Equity Capital Partners, L.P. and Slingshot Acquisition Corporation.

"*Unaudited Financial Statements*" shall have the meaning set forth in Section 4.14(b).

"*WARN Act*" shall mean the Worker Adjustment and Retraining Notification Act of 1988, as amended.

ARTICLE II

PURCHASE AND SALE OF THE ASSETS AND ASSUMPTION OF LIABILITIES

Section 2.1 Purchase and Sale of Assets

(a) Subject to the terms and conditions of this Agreement, Seller agrees to sell, assign, convey, transfer and deliver to Buyer as of the Closing Date, and Buyer agrees to purchase and take assignment and delivery from Seller as of the Closing Date, all of Seller's

right, title and interest in and to the Purchased Assets, free and clear of all Encumbrances other than the Permitted Encumbrances.

(b) The Purchased Assets shall include all assets of Seller used exclusively in the Business. Seller shall retain and not sell, convey, transfer or deliver to Buyer, and Buyer shall not purchase or have any rights in or to, the Excluded Assets.

Section 2.2 Assignment and Assumption of Liabilities

(a) Subject to the terms and conditions of this Agreement, Buyer will assume as of the Closing Date and subsequently, in due course, pay, honor and discharge in accordance with their respective terms and conditions all of the Assumed Liabilities without any right of set-off against Seller.

(b) The liabilities and obligations of Seller and its Affiliates transferred to Buyer as of the Closing Date shall not include the Excluded Liabilities.

Section 2.3 Deposit. On the date hereof, Buyer shall pay to Aether in immediately available funds, by wire transfer to an account designated by Aether, a non-refundable deposit against the Purchase Price in an amount equal to ten percent (10%) of the Purchase Price (the "*Deposit*"). The Deposit shall be non-refundable in that it shall not be returned to Buyer under any circumstances, unless a Deposit Return Event shall have occurred in which event Seller shall transfer to Buyer, in immediately available funds by wire transfer to an account designated by Buyer, a cash amount equal to the Deposit *plus* interest thereon at the rate currently available for money market accounts.

ARTICLE III

CLOSING

Section 3.1 Closing. Subject to the Parties' satisfaction or waiver of the conditions precedent set forth in ARTICLE VII, the closing and consummation of the transactions contemplated by this Agreement (the "*Closing*") shall take place on the second Business Day after receipt of the Required Seller Stockholder Vote or if all of the conditions set forth in ARTICLE VII have not been satisfied or waived at such time then the second Business Day after all such conditions have been satisfied or waived (such date being the "*Closing Date*"). The Closing shall occur at 10:00 a.m., Eastern Time, at the offices of Kirkland & Ellis LLP at 655 15th Street, NW, Suite 1200, Washington, DC 20005. The Parties shall use commercially reasonable efforts to satisfy all of the conditions set forth in ARTICLE VII (other than receipt of the Required Seller Stockholder Vote) prior to the Seller Stockholders Meeting and the Parties further agree that if they are unable to hold the Closing on or prior to the 20th day of a calendar month, they shall hold the Closing on the last Business Day of such calendar month.

Section 3.2 Purchase Price. Subject to the terms and conditions set forth in this Agreement, in addition to the assumption by Buyer of the Assumed Liabilities, Buyer agrees to pay at Closing to Seller, in consideration for the Purchased Assets, Ten Million Dollars ($10,000,000) subject to adjustment pursuant to Section 3.4(b) (the "*Purchase Price*"), in immediately available funds by wire transfer to an account designated by Seller by written notice

to Buyer at least two Business Days prior to the Closing Date. If the Purchase Price is adjusted as contemplated by this Agreement, the term "Purchase Price" shall mean such adjusted amount, except for purposes of Section 3.4.

Section 3.3 Closing Payment. At Closing, Buyer shall pay to Seller the Purchase Price in immediately available funds by wire transfer to an account designated by Seller by written notice to Buyer at least two (2) Business Days prior to the Closing Date.

Section 3.4 Determination of Purchase Price and Adjustments to Purchase Price.

(a) No less than three (3) Business Days prior to the Closing Date, the Seller shall (i) prepare and deliver to Buyer the Most Recent Statement, (ii) include with such Most Recent Statement a statement showing what Closing Net Working Capital would be if the Closing had occurred on the date of the Most Recent Statement, and (iii) provide Buyer with a certificate of its Chief Financial Officer stating that the Most Recent Statement and the accompanying calculation were prepared by Seller in good faith, and the Most Recent Statement was prepared in a manner consistent with Seller's past practices, is consistent with the Books and Records and presents fairly the balance sheet items of the Business reflected thereon as of the date thereof.

(b) As soon as practicable (and in any event within forty (40) days following the Closing), Seller shall prepare and deliver to Buyer, (i) the Closing Statement, (ii) a statement (the "*Closing Net Working Capital Statement*") setting forth Net Working Capital as of the close of business on the last day of the month for the month immediately preceding the month in which the Closing occurred unless the Closing occurred on the last Business Day of the month, in which case the statement shall be as of the Closing Date (the "*Closing Net Working Capital*") based on the Closing Statement Date, and (iii) all work papers and back-up materials relating thereto. Each Party shall bear its own costs and expenses of preparing the Closing Statement. Buyer shall assist Seller and its representatives in the preparation of the Closing Statement and Closing Net Working Capital Statement and shall provide Seller and its representatives access at all reasonable times to the personnel, properties, and Books and Records, for such purpose. No changes shall be made in any reserve or other account existing as of the date of the Closing Statement except as required by GAAP. The Closing Statement and the Closing Net Working Capital Statement shall be conclusive and binding on the Parties hereto unless Buyer gives written notice to Seller of any objections thereto setting forth in reasonable detail the amounts in dispute and the basis for such disagreement (a "*Purchase Price Objection Notice*") within thirty (30) days after its receipt of the Closing Statement and the Closing Net Working Capital Statement. If Buyer delivers a Purchase Price Objection Notice as provided above, the Parties shall attempt in good faith to resolve such dispute, and any resolution by them as to any disputed amounts shall be final, binding and conclusive on the Parties. If the Parties are unable to resolve all disputes in the Purchase Price Objection Notice, despite good faith negotiations, within thirty (30) days thereafter (the "*Purchase Price Resolution Period*"), then the Parties will, within thirty (30) days after the expiration of the Purchase Price Resolution Period, submit any such unresolved disputes to an independent accounting firm mutually acceptable to Buyer and Seller (the "*Independent Accounting Firm*"). Buyer and Seller shall provide to the Independent Accounting Firm all work papers and back-up materials relating to the unresolved disputes requested by the Independent Accounting Firm to the extent available to Buyer or its

representatives or Seller or its representatives. Buyer and Seller shall be afforded the opportunity to present to the Independent Accounting Firm any material related to the unresolved disputes and to discuss the issues with the Independent Accounting Firm. The determination by the Independent Accounting Firm, as set forth in a notice to be delivered to Buyer and Seller within thirty (30) days after the submission of the unresolved disputes to the Independent Accounting Firm, shall be final, binding and conclusive on the Parties. The fees and expenses of the Independent Accounting Firm shall be borne by Buyer and Seller in inverse proportion as they may prevail on matters resolved by the Independent Accounting Firm, which proportionate allocations shall also be determined by the Independent Accounting Firm at the time the determination of the Independent Accounting Firm is rendered on the merits of the matters submitted. The Closing Net Working Capital reflected in the Closing Net Working Capital Statement, as revised to reflect the resolution of any and all disputes by the Parties and/or the Independent Accounting Firm, shall be deemed to be the Closing Net Working Capital. The "*Adjustment Amount*" (which may be a positive or negative number) shall equal the amount determined by subtracting the Target Net Working Capital from the Closing Net Working Capital. If the Adjustment Amount is positive, the Adjustment Amount shall be paid by Buyer via wire transfer of immediately available funds to the bank account designated in writing by Seller. If the Adjustment Amount is negative, the Adjustment Amount shall be paid by Seller via wire transfer of immediately available funds to the bank account designated in writing by Buyer. All payments shall be made together with interest at the rate of 6% per annum, which interest shall begin accruing on the Closing Date and end on the date that the payment is made. Within five (5) Business Days after the calculation of the Closing Net Working Capital becomes binding and conclusive on the Parties, Seller or Buyer, as the case may be, shall make the wire transfer payment provided for in this Section 3.4(b).

Section 3.5 Effective Time Adjustments.

(a) Within forty (40) days after the Closing, Seller shall prepare and deliver to Buyer a statement and supporting schedules (the "*Effective Time Statement*") setting forth all of the cash received by Seller with respect to the Business during the Interim Period (collectively, the "*Effective Time Receipts*") and all cash payments made by Seller or its Affiliates with respect to the Business during the Interim Period (collectively, the "*Effective Time Payments*"). The "*Effective Time Adjustment Amount*" (which may be a positive or negative number) shall equal the amount determined by subtracting the Effective Time Payments from the Effective Time Receipts. If the Effective Time Adjustment Amount is positive, Seller shall pay Buyer such positive amount via wire transfer of immediately available funds to the bank account designated in writing by Buyer. If the Effective Time

Adjustment Amount is negative, Buyer shall pay Seller such amount via wire transfer of immediately available funds to the bank account designated in writing by Seller. Any payment required under this Section 3.5(a) shall be paid within five (5) Business Days after the Effective Time Statement is becomes final, binding and conclusive in accordance with Section 3.5(b).

(b) Each Party shall bear its own costs and expenses of preparing the Effective Time Statement. The Effective Time Statement shall be conclusive and binding on the Parties unless the Buyer gives written notice of any objections thereto setting forth in reasonable detail the amounts in dispute and the basis for such disagreement (an "*Effective Time Statement Objection Notice*") to Seller within thirty (30) days after its receipt of the Effective Time

Statement. If the Buyer delivers an Effective Time Statement Objection Notice as provided above, the Parties shall attempt in good faith to resolve such dispute, and any resolution by them as to any disputed amounts shall be final, binding and conclusive. If the Parties are unable to resolve all disputes reflected in the Effective Time Statement Objection Notice, despite good faith negotiations, within thirty (30) days thereafter (the "*Effective Time Statement Resolution Period*"), then the Parties will, within thirty (30) days after the expiration of the Effective Time Statement Resolution Period, submit any such unresolved dispute to the Independent Accounting Firm. Buyer and Seller shall provide to the Independent Accounting Firm all work papers and back-up materials relating to the unresolved disputes requested by the Independent Accounting Firm to the extent available to Buyer or its representatives or Seller or its representatives. Buyer and Seller shall be afforded the opportunity to present to the Independent Accounting Firm any material related to the unresolved disputes and to discuss the issues with the Independent Accounting Firm. The determination by the Independent Accounting Firm, as set forth in a notice to be delivered to Buyer and Seller within thirty (30) days after the submission of the unresolved disputes to the Independent Accounting Firm, shall be final, binding and conclusive on the Parties. The fees and expenses of the Independent Accounting Firm shall be borne by Buyer and Seller in inverse proportion as they may prevail on matters resolved by the Independent Accounting Firm, which proportionate allocations shall also be determined by the Independent Accounting Firm at the time the determination of the Independent Accounting Firm is rendered on the merits of the matters submitted. Calculations under this Section 3.5 shall be separate and distinct from the calculations made under Section 3.4(b).

Section 3.6 Deliveries By Buyer. At the Closing, Buyer shall deliver, or cause to be delivered, to Seller the following:

(a) the Purchase Price;

(b) the Escrow Amount pursuant to Section 7.2(c);

(c) the executed certificate required to be delivered pursuant to Section 7.2(d);

(d) all Ancillary Agreements duly executed by Buyer;

(e) the Note duly executed by Buyer;

(f) the Security Agreements duly executed by Buyer and the Noteholder; and

(g) such other deeds, bills of sale, endorsements, assignments, affidavits, other instruments of sale, assignment, conveyance and transfer and documents and instruments (in recordable form, if requested), in form and substance reasonably satisfactory to Buyer and Seller, as are required to (i) effectively vest in Buyer all of Seller's right, title and interest in and to all of the Purchased Assets, free and clear of any and all Encumbrances, except for the Permitted Encumbrances and (ii) effectuate the terms and priorities contemplated by the Note and Security Agreements.

Section 3.7 Deliveries by Seller. At the Closing, Seller shall deliver, or cause to be delivered by its Affiliates, to Buyer the following:

(a) the executed certificate required to be delivered pursuant to Section 7.3(e);

(b) all Ancillary Agreements duly executed by Seller; and

(c) such other deeds, bills of sale, endorsements, assignments, affidavits and other instruments of sale, assignment, conveyance and transfer, in form and substance reasonably satisfactory to Buyer and Seller, as are required to effectively vest in Buyer all of Seller's right, title and interest in and to all of the Purchased Assets, free and clear of any and all Encumbrances, except for the Permitted Encumbrances.

Section 3.8 Tax Allocations. Within ninety (90) days after the Closing Date, Seller shall prepare and deliver to Buyer a schedule allocating the Purchase Price (and any other items or amounts that are required for federal income tax purposes to be included in the Purchase Price), among the Purchased Assets under the principles of Code Section 1060 and regulations thereunder (and any similar provision of state, local or foreign law, as appropriate) (such schedule and the allocations it contains, the "*Allocation*"). The Allocation shall be binding and conclusive and deemed accepted by Buyer, unless Buyer shall have notified Seller in writing of any objections thereto within twenty (20) Business Days after delivery of the Allocation, specifying in reasonable detail each item on the Allocation that Buyer disputes. Upon receipt of such objections, Seller and Buyer shall resolve the differences following the dispute resolution procedures (including the time periods) set forth in Section 3.4(b) for the Closing Statement. Buyer and Seller shall report and file all Tax Returns (including amended Tax Returns and claims for refund) consistent with the Allocation and shall not voluntarily take a position contrary thereto or inconsistent therewith (including, without limitation, in any audits or examinations by any governmental authority or any other proceedings). Buyer and Seller shall cooperate in the filing of any forms (including Form 8594 under Section 1060 of the Code) with respect to such Allocation, including any amendments to such forms required with respect to such Allocation.

Section 3.9 Transfer Taxes. All stamp, transfer, documentary, sales and use, registration and other similar taxes and fees (including any penalties and interest) incurred in connection with this Agreement and the transactions contemplated hereby (collectively, the "*Transfer Taxes*") shall be paid by Buyer, and except to the extent required to be filed by Seller, Buyer shall properly file on a timely basis all necessary Tax Returns and other documentation with respect to all Transfer Taxes. Buyer hereby agrees to indemnify Seller against, and hold Seller harmless from, any and all Transfer Taxes. The provisions of this Section 3.9 and no other provision, shall govern the economic burden of Transfer Taxes.

ARTICLE IV

SELLER'S REPRESENTATIONS AND WARRANTIES

Subject to the exceptions and limitations set forth in this ARTICLE IV and the matters set forth on the Schedules as may be supplemented or updated pursuant to this Agreement, Seller represents and warrants to Buyer, as of the date of this Agreement, as follows.

Section 4.1 Organization and Good Standing. Except as set forth on Schedule 4.1, Seller is duly organized, validly existing and in good standing under the laws of the state of its incorporation and has all requisite power and authority to own, lease and operate its properties and to operate the Business as currently operated. Except as set forth on Schedule 4.1, Seller is duly qualified in each jurisdiction in which the ownership of property or the conduct of its business requires such qualification, except where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

Section 4.2 Corporate Authorization. Seller has full power and authority to execute and deliver this Agreement and the Ancillary Agreements, to perform its obligations under this Agreement and the Ancillary Agreements and to consummate the transactions contemplated by this Agreement and the Ancillary Agreements on the terms set forth therein. This Agreement has been duly executed and delivered by such Seller and, assuming the due execution of this Agreement by Buyer, this Agreement is a valid and binding obligation of such Seller, enforceable against such Seller in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, receivership and similar laws affecting the enforcement of creditors' rights generally, and general equitable principles. All requisite corporate action on the part of Seller has been taken to authorize the execution and delivery of this Agreement and the Ancillary Agreements to which Seller is or will be a party subject only to the approval of the this Agreement and the sale of the Business by Seller's stockholders as contemplated by Section 6.1(e)(i).

Section 4.3 Sufficiency of Assets. Except as set forth on Schedule 4.3, the Purchased Assets constitute all of the assets (tangible and intangible) and all of the property (real and personal) of any nature whatsoever necessary to conduct the Business as currently operated. The Purchased Assets constitute all of the assets that are exclusively related to the Business. The Purchased Assets, together with the rights granted by Seller to Buyer through the Ancillary Agreements, constitute all assets necessary to enable Buyer to carry out the Business as conducted by Seller immediately prior to the Closing.

Section 4.4 Consents. Except as set forth on Schedule 4.4, no consent, approval of or by, or filing with or notice to any Governmental Authority is required by or with respect to Seller in connection with the execution, delivery or performance of this Agreement or the consummation of the transactions provided for hereby, except where the failure to obtain such consent or approval, make such filing or give such notice would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 4.5 No Breach. Except as set forth on Schedule 4.5, the execution, delivery and performance by Seller of this Agreement and the Ancillary Agreements, and the

consummation by Seller of the transactions contemplated hereby and thereby, do not and will not (a) breach, contravene, conflict with or cause a default under (with or without the giving of notice or lapse of time) the articles of incorporation or bylaws of Seller, (b) breach, contravene, conflict with or cause a default under (with or without the giving of notice or lapse of time) any Contract to which the Seller is a party or is bound or to which any of the Purchased Assets are subject, except where such breach, contravention, conflict or default is not, individually or in the aggregate, reasonably expected to have a Material Adverse Effect, or (c) result in the creation of an Encumbrance, other than Permitted Encumbrances, on either the Purchased Assets or the Business.

Section 4.6 Title to and Use of Property. Except as set forth in on Schedule 4.6, at the Closing, Seller will convey and Buyer will acquire good, valid and marketable title to, or a valid leasehold or subleasehold interest in, the Purchased Assets, free and clear of any and all Encumbrances (including any and all claims that may arise by reason of the execution, delivery or performance by Seller of this Agreement) other than the Permitted Encumbrances.

Section 4.7 Permits. Seller possesses all Permits necessary for the operation of the Business as currently operated, except for such Permits as to which the failure to possess would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Schedule 4.7 contains a complete list of all Permits held by Seller used exclusively in the Business as currently operated, the date of expiration of each Permit, and whether each such Permit is transferable.

Section 4.8 Litigation; Orders. Except as set forth on Schedule 4.8 and such matters as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, as of the date hereof, (i) there is no action, suit, arbitration or regulatory proceeding or claim pending, or, to Seller's Knowledge, threatened against the Business, this Agreement or the transactions contemplated hereby and (ii) there are no decrees, injunctions, liens, orders or judgments of or with any court or governmental department or agency outstanding against Seller or any of its Affiliates relating to or affecting the Purchased Assets, the Business, this Agreement or the transactions contemplated hereby.

Section 4.9 Intellectual Property.

(a) Seller owns, or has the right to use, all Intellectual Property used in the Business as currently conducted by Seller, free of any Encumbrances (collectively, the "*Division Intellectual Property*"). Schedule 4.9(a) lists (i) all Patents owned by Seller, (ii) all registrations (and applications) for Trademarks owned by Seller and (iii) all registrations (and applications) for Copyrights owned by Seller. All Patents and Trademarks and Copyrights included in the Division Intellectual Property are valid and subsisting, and all maintenance fees relating thereto have been paid in a timely fashion.

(b) To Seller's Knowledge, no third party has infringed or misappropriated any Division Intellectual Property, except as set forth on Schedule 4.9(b).

(c) Schedule 4.9(c) contains an accurate list as of the date of this Agreement of all licenses or other agreements related to intellectual property and used in the Business, other

than licenses or agreements related to either (i) commercially-available software not incorporated into Seller Products, (ii) software with a replacement cost of less than $10,000, or (iii) or Public Software (collectively, "*Third Party Intellectual Property*"). Seller is not in material breach of any such license or other agreement.

(d) Except as set forth on Schedule 4.9(d), the Business (including but not limited to the sale of Seller Products) as currently conducted does not infringe or misappropriate or otherwise conflict with any intellectual property owned or used by any third party, and Seller has not received any written notice, claim or demand alleging any of the foregoing.

(e) Except as set forth in Schedule 4.9(e), no Public Software has been incorporated into any Seller Product.

Section 4.10 Employee Benefits Plans.

(a) Schedule 4.10 lists each Employee Benefit Plan that Seller maintains or to which Seller contributes on behalf of employees of the Business ("*Seller Employee Plans*"). To Seller's Knowledge, each such Employee Benefit Plan has been maintained, funded and administered in accordance with its terms and complies in all respects with the applicable requirements of ERISA, the Code, and other Applicable Laws.

(b) None of such Employee Benefit Plans is a "multiemployer plan," as defined in Section 3(37) of ERISA, a "defined benefit plan," as defined in Section 3(35) of ERISA, or a plan subject to Section 412 of the Code.

Section 4.11 Taxes. Except as disclosed on Schedule 4.11, Seller has filed all Tax Returns that it was required to file, each of which were correct and complete in all material respects. All Taxes owed by Seller (whether or not shown on any Tax Return) have been paid or adequately reserved for. Except as set forth on Schedule 4.11, no action, suit, proceeding or audit is pending against or with respect to the Business regarding Taxes and Seller has not waived any statue of limitations in respect of Taxes or requested any extension of time within which to file any Tax Return that has not been filed. Seller is not a foreign person as defined in Section 1445(b)(2) of the Code and the regulations thereunder.

Section 4.12 Environmental Matters. Except as set forth on Schedule 4.12: (i) Seller is in material compliance with all applicable Environmental Laws; (ii) without any limitation to the foregoing, Seller has obtained and is in material compliance with all material Permits required under Environmental Laws to conduct the Business; (iii) Seller has not received any written notice, report or other information from any Governmental Authority regarding any material violation of, or any material liabilities (including any material investigatory, remedial or corrective obligations) arising under, any Environmental Laws. This Section 4.12 contains the sole and exclusive representations and warranties of the Seller with respect to any environmental, health or safety matters.

Section 4.13 Compliance with Legal Requirements. Except as set forth on Schedule 4.13, Seller is in full compliance with each Legal Requirement that is applicable or to the conduct or operation of the Business or the ownership of the Purchased Assets the absence of which would not reasonably be expected to have a Material Adverse Effect. Seller has not

received any notice or other communication (whether oral or written) from any Governmental Authority or any other Person regarding any actual, alleged, possible or potential violation of, or failure to comply with, any material Legal Requirement applicable to the Business.

Section 4.14 Financial Statements.

(a) Each of the consolidated financial statements (including, in each case, any notes thereto and segment information included therein) contained in the Seller's Annual Report on Form 10-K for the year ended December 31, 2003 and Seller's Quarterly Report on Form 10-Q for the quarter ending June 30, 2004 were prepared in accordance with GAAP (except in each case as described in the notes thereto) applied on a consistent basis throughout the periods indicated and each presented fairly the financial position of Seller and its subsidiaries on a consolidated basis, as at the respective dates thereof and its results of operations, stockholders' equity and cash flows for the respective periods indicated therein (subject, in the case of unaudited statements, to normal and recurring immaterial year-end adjustments and the absence of footnotes).

(b) Seller has provided to Buyer an unaudited statement of assets and liabilities and a statement of revenue and direct operating expenses for the Business (excluding certain corporate overhead and non-cash charges) as of June 30, 2004 (collectively, the "*Unaudited Financial Statements*"). The Unaudited Financial Statements (i) have been prepared from information contained in the Books and Records, (ii) have been prepared in accordance with GAAP applied on a consistent basis, except as disclosed on Schedule 4.14(b) and (iii) are true and correct in all material respects and fairly present the financial operations of the Business by Seller as of the dates and for the periods indicated therein.

(c) The Business does not have any Liability that would have been required to be reflected in, reserved against or otherwise described in the Unaudited Financial Statements that have not been so reflected, reserved against or described, except for Liabilities (i) set forth on the face of the Most Recent Statement (rather than in any notes thereto) and (ii) which have arisen after the date of the Most Recent Statement in the ordinary course of business (none of which results from or arises out of, relates to, is in the nature of, or was caused by any breach of contract, breach of warranty, tort, infringement or violation of law).

Section 4.15 Employees. Schedule 4.15 lists all of Seller's employees, independent contractors and consultants used in connection with the Business as currently operated. Seller is not a party to or bound by any collective bargaining agreement, nor has Seller experienced any strike or material grievance, claim of unfair labor practices, or other collective bargaining dispute in the past three years. There are no material claims, complaints, charges, investigations or proceedings pending or, to Seller's Knowledge, reasonably expected or threatened, between Seller, on the one hand, and any Employees, on the other hand, including, but not limited to, any claims for actual or alleged harassment or discrimination based on race, national origin, age, sex, sexual orientation, religion, disability, or similar tortuous conduct, breach of contract, wrongful termination, defamation, intentional or negligent infliction of emotional distress, interference with contract or interference with actual or prospective economic advantage.

Section 4.16 Filings with the SEC. None of the Public Reports, as of their respective dates, contained with respect to the Purchased Assets, the Assumed Liabilities, or the Business any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Section 4.17 Broker's Fees. No agent, broker, firm or other Person acting on behalf of Seller is, or will be, entitled to any investment banking, commission, broker's or finder's fees from any of the parties hereto, or from any Affiliate of any of the parties hereto, in connection with any of the transactions contemplated by this Agreement, except for Friedman, Billings & Ramsey Co., Inc. and Goldman, Sachs & Co., whose fees and expenses will be paid by Seller.

Section 4.18 Inventory. The Inventory does not include items that are obsolete, damaged or slow moving, for which reserves have not been established in accordance with GAAP. The Inventory is in good and merchantable condition, is suitable and usable for the purposes for which it is intended and is in a condition such that it can be sold in the ordinary course of the Business consistent with Seller's past practice. The Inventory is valued on the Books and Records at the lesser of cost or fair market value net of reserves recorded in accordance with GAAP.

Section 4.19 Absence of Certain Changes. Since December 31, 2003, Seller has conducted the Business in the ordinary and usual course consistent with past practice and, without limiting the generality of the foregoing, has not:

(a) suffered any Material Adverse Effect;

(b) suffered any material damage, destruction or loss, whether or not covered by insurance, in the Business or the assets to be sold under this Agreement;

(c) effected any acquisition, sale or transfer of any material asset used exclusively in the Business other than in the ordinary course of business and consistent with past practice;

(d) effected any change in accounting methods or practices (including any change in depreciation or amortization policies or rates) with respect to the Business, except as required by changes in GAAP;

(e) entered into any contract or agreement that would be a Material Contract, other than in the ordinary course of business, or terminated or defaulted under any Material Contract to which Seller is a party or by which it is bound;

(f) granted any license or covenant not to sue with respect to the Division Intellectual Property, except in the ordinary course of business;

(g) permitted or allowed any of the Purchased Assets to be subjected to any Encumbrance of any kind (other than a Permitted Encumbrance) other than in the ordinary course of business consistent with past practice;

(h) with respect to the Business or the Contracts, incurred any contingent Liability as guarantor or otherwise with respect to the obligations of others; or

(i) agreed to take any action described in this Section 4.19 or outside of its ordinary course of business.

Section 4.20 Material Contracts.

(a) Schedule 4.20(a) contains a complete and correct list, as of the date of this Agreement, of the following Contracts to which Seller is a party or by which the Seller is bound (collectively, the "*Material Contracts*"):

(i) all Contracts between Seller and an end-user or a distributor, reseller or similar arrangement in relation to an end-user of Seller's products for aggregate consideration in excess of $300,000 over the life of the contract;

(ii) all Contracts for the future purchase of goods or the provision of services involving a remaining obligation in excess of $100,000;

(iii) all notes, bonds, indentures and other instruments and agreements evidencing, creating or otherwise relating to obligations for borrowed money and guarantees of obligations for borrowed money;

(iv) all executory Contracts for capital expenditures with remaining obligations in excess of $300,000

each;

(v) all joint venture, partnership, and other Contracts involving a sharing of profits, losses, costs or liabilities by the Seller with any other Person;

(vi) all Contracts containing covenants that in any way purport to limit the freedom of the Seller to engage or to compete with any Person in the business of providing wireless and mobile data solutions to governmental and public safety agencies;

(vii) any other agreement material to the Business, the performance of which involves aggregate payments in excess of $300,000; and

(viii) all Contracts involving obligations of the Business to the Seller or its Affiliates.

(b) Except as set forth on Schedule 4.20(b), each of the Material Contracts is (assuming due authorization and execution by the other party or parties thereto) valid, binding and in full force and effect and enforceable by Seller in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, receivership and similar laws affecting the enforcement of creditor's rights generally and general equitable principles. Neither Seller, nor, to Seller's Knowledge, any other party, is in default under any Material Contract, and to Seller's Knowledge there are no existing disputes or written claims of default relating thereto, or any facts or conditions Known to Seller which, if continued, are reasonably likely to result in a default or claim of default thereunder. To Seller's Knowledge, no party to any Material

Contract has notified Seller that it intends to cancel, withdraw, modify or amend such Material Contract.

(c) With respect to each Material Contract relating to a Governmental Authority, through either a subcontract or distributor, reseller or similar type of arrangement (a "*Material Government Contract*"), except as set forth on Schedule 4.20(c):

(i) No material termination or default, cure notice or show cause notice is, or since January 1, 2003, has been, in effect with respect to any Material Government Contract;

(ii) To Seller's Knowledge, all material representations and certifications executed, acknowledged or set forth in each Material Government Contract were complete and correct in all material respects as of their effective date;

(iii) Since January 1, 2003, no contracting officer of a Governmental Authority has informed Seller in writing that Seller has breached or violated in any material respect any material statute or regulation pertaining to any Material Government Contract;

(iv) Since January 1, 2003, there has been no known governmental investigation (other than routine investigations and audit proceedings) of Seller regarding an alleged or potential material violation of law by Seller with respect to any Material Government Contract; and

(v) Seller is not debarred or suspended from participation in the award of any Material Government Contract nor, to the knowledge of Seller, is any debarment or suspension proceeding pending against Seller.

Section 4.21 Insurance. Seller maintains insurance policies relating to the Business or the Purchased Assets providing coverage described in Schedule 4.21. All of such policies are in full force and effect, and Seller is not in default with respect to any material provision of any of such policies. Seller has not received notice from any issuer of any such policies of its intention to cancel, terminate or refuse to renew any policy issued by it. There is no material claim pending under any of such policies or bonds with respect to the Business or the Purchased Assets. Seller has no Knowledge of any threatened termination of any of such policies.

Section 4.22 Facilities. Schedule 4.22 provides an accurate and complete list of the current Facilities. Seller has provided Buyer true and complete copies of the Leases for any Leased Real Property. Except as set forth in Schedule 4.22, there exists no event of default by Seller (nor any event which with notice or lapse of time would constitute an event of default by Seller) with respect to any Lease for any Leased Real Property, and to Seller's Knowledge, there exists no event of default by any of the other parties thereto (nor any event which with notice or lapse of time would constitute an event of default by any of the other parties thereto) with respect to any such Lease, except where such default would not reasonably be expected to have a Material Adverse Effect. To Seller's Knowledge, the Facilities, and any improvements Seller has constructed in the Facilities, are in material compliance with all Applicable Laws with respect to or affecting the Facilities except where such noncompliance would not reasonably be expected to have a Material Adverse Effect. Seller does not own any of the Facilities.

Section 4.23 Accounts Receivable; Accounts Payable.

(a) All Accounts Receivable represent (or, if arising after the date of this Agreement, will represent) valid obligations arising from transactions actually made or services actually performed in the ordinary course of the Business. Neither the Seller nor any of its respective Affiliates has received written notice of, nor to Seller's Knowledge is there any contest, Claim, defense or right of set-off related to any Accounts Receivable, other than returns in the ordinary and usual course of the Business. Except for the Accounts Receivable, neither Seller nor any of its respective Affiliates has extended any credit to any Person.

(b) All Accounts Payable represent or will represent valid obligations arising from transactions actually made or services actually performed in the ordinary course of the Business.

Section 4.24 Limitations. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS AGREEMENT, IT IS THE EXPLICIT INTENT OF EACH OF THE PARTIES HERETO THAT, EXCEPT AS EXPRESSLY PROVIDED IN THIS ARTICLE IV, SELLER DOES NOT MAKE ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, WITH RESPECT TO ITSELF, THE BUSINESS, THE PURCHASED ASSETS OR THE ASSUMED LIABILITIES TRANSFERRED TO BUYER PURSUANT TO THE TERMS OF THIS AGREEMENT, AND SELLER EXPRESSLY DISCLAIMS ANY IMPLIED WARRANTIES, INCLUDING ANY IMPLIED WARRANTIES OF MERCHANTABILITY CONDITION OR FITNESS FOR A PARTICULAR PURPOSE OR ORDINARY PURPOSE OR ANY REPRESENTATION OR WARRANTY AS TO VALUE.

ARTICLE V

BUYER'S REPRESENTATIONS AND WARRANTIES

Subject to the exceptions and limitations set forth in this ARTICLE V and the matters set forth on the Schedules as may be supplemented or updated pursuant to this Agreement, Buyer represents and warrants to Seller, as of the date of this Agreement, as follows:

Section 5.1 Organization and Good Standing. Buyer is duly organized, validly existing and in good standing under the laws of the state of its incorporation and has all requisite power and authority to own, lease and operate its properties and to operate its business. Buyer is duly qualified in each jurisdiction in which the ownership of property or the conduct of its business requires such qualification, except where the failure to do so would not, individually or in the aggregate, have a material adverse effect on the business, operations or financial condition of the Buyer that adversely affects Buyer's ability to consummate the transactions contemplated by this Agreement.

Section 5.2 Corporate Authorization. Buyer has the right, power, legal capacity and authority to enter into and perform its obligations under this Agreement, the Note, the Security Agreements and the Ancillary Agreements to which it is or will be a party. The execution and delivery of this Agreement, the Note, the Security Agreements and the Ancillary Agreements to

which Buyer is or will be a party have been duly and validly approved and authorized by the board of directors of Buyer. No authorization or approval, corporate, governmental or otherwise, is necessary in order to enable Buyer to enter into and to perform the terms of this Agreement, the Note, the Security Agreements or the Ancillary Agreements on its part to be performed, except for filings under applicable securities laws. This Agreement is and the Ancillary Agreements, the Note, and the Security Agreements, when executed and delivered by Buyer shall be, the valid and binding obligations of Buyer, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, receivership and similar laws affecting the enforcement of creditor's rights generally and general equitable principles.

Section 5.3 No Breach. The execution, delivery and performance by Buyer of this Agreement, the Note and the Security Agreements and the consummation by Buyer of the transactions contemplated hereby do not and will not (a) contravene or conflict with Buyer's certificate of incorporation or by-laws or (b) violate any order, injunction, judgment, decree or award, or federal, state, local or foreign law, ordinance, statute, rule or regulation to which Buyer is subject or by which Buyer or its properties may be bound except where such violations, conflicts, breaches or defaults would not, individually or in the aggregate, have a material adverse effect on the business, operations or financial condition of the Buyer that adversely affects Buyer's ability to consummate the transactions contemplated by this Agreement.

Section 5.4 Availability of Funds. Buyer has sufficient cash available to enable it to consummate the transactions

contemplated by this Agreement, to operate the Business for the reasonably foreseeable future, to satisfy the Assumed Liabilities and to meet the financial obligations under the Contracts that Buyer is assuming as such obligations are presently known or reasonably anticipated.

Section 5.5 No Knowledge of Misrepresentations or Omissions. Buyer has no knowledge that any representation or warranty of Seller in this Agreement or any other agreement contemplated hereby is not true and correct in all material respects, and Buyer has no knowledge of any material errors in, or material omissions from, the Schedules to this Agreement or the schedules, exhibits or attachments to any agreement contemplated hereby.

Section 5.6 Inspections; No Other Representations. Buyer is an informed and sophisticated purchaser experienced in the evaluation and purchase of assets such as the Business. Buyer has undertaken such investigation and has been provided with and has evaluated such documents and information as it has deemed necessary to enable it to make an informed and intelligent decision with respect to the execution, delivery and performance of this Agreement. Buyer agrees, subject to the express terms hereof, to accept the Purchased Assets and assume the Assumed Liabilities in the condition they are in on the Closing Date based upon its own inspection, examination and determination with respect thereto as to all matters and without reliance upon any express or implied representations or warranties of any nature made by or on behalf of or imputed to Seller, except as expressly set forth in this Agreement. Without limiting the generality of the foregoing, except as expressly set forth in this Agreement, Buyer acknowledges that Seller makes no representation or warranty with respect to any projections, estimates or budgets delivered to or made available to Buyer of future revenues, future results of operations (or any component thereof), future cash flows or future financial condition (or any

component thereof) of the Business or Purchased Assets or the future business and operations thereof or any other information or documents made available to Buyer or its counsel, accountants or advisors with respect to the Business or the Purchased Assets or the businesses or operations thereof.

Section 5.7 Broker's Fees. Except for an advisory fee payable to Jesup & Lamont, Buyer has no liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement.

ARTICLE VI

COVENANTS

Section 6.1 Covenants of Seller. Seller covenants and agrees as follows:

(a) Access and Information. Upon reasonable notice, Seller shall grant, or cause to be granted to, Buyer and its counsel, accountants, consultants, financing sources and other authorized representatives, during the period between the date of this Agreement and the Closing Date, reasonable access, in a manner that does not unreasonably interfere with the normal operations of the Business, during normal business hours to the Purchased Assets and the Books and Records and other information relating exclusively to the operations of the Business. From the date of this Agreement through the Closing Date, Seller shall use commercially reasonable efforts to furnish, or cause to be furnished, to Buyer all data and information concerning the Purchased Assets and the Business which may reasonably be requested by Buyer and shall use all commercially reasonable efforts to make available, or cause to be made available, such personnel of Seller as may reasonably be requested for the furnishing of such data. From the date of this Agreement through the Closing Date, except as otherwise approved in advance by Seller, Buyer shall not contact or communicate with any employee, customer of or supplier to the Business without Seller's prior written consent. All information provided under this Section 6.1(a) shall be treated as confidential in accordance with Section 6.2(a).

(b) Continued Operation of Business. Except as provided on Schedule 6.1(b), or as expressly required or contemplated by the terms of this Agreement or unless Seller obtains Buyer's prior written approval, until the Closing Date, Seller shall (i) operate the Business in the ordinary course consistent with past practice, (ii) use commercially reasonable efforts to maintain satisfactory relationships with employees, suppliers, customers and others having professional relationships with the Business and (iii) use commercially reasonable efforts to maintain the Purchased Assets in reasonably good operating condition, normal wear and tear excepted. Without Buyer's prior written approval, until the Closing Date, Seller shall not (v) dispose of, encumber, sell or otherwise transfer any of the Purchased Assets except for Inventory and supplies disposed of in the ordinary course of business consistent with past practice, (w) enter into any new, or amend any existing, severance agreement, deferred compensation or arrangements, plans or programs for the benefit of the Transferred Employees or grant any Transferred Employee an increase in employee compensation other than in the ordinary course of business or pursuant to a promotion consistent with past practice, (x) pay liabilities of the Business other than in the ordinary course of business consistent with past practice, (y) delay or postpone the payment of accounts payable or other liabilities of the Business other than in the

ordinary course of business consistent with past practice, or (z) enter into or modify, amend or terminate any Material Contract.

(c) No Solicitation.

(i) Seller hereby agrees not to, and shall cause its representatives not to: (A) solicit, initiate, assist or encourage the making by any Person (other than the Parties to this Agreement) of any Acquisition Proposal or (B) participate in any discussions or negotiations regarding, or furnish or disclose to any Person any information with respect to, any Acquisition Proposal; *provided*, *however*, that (x) neither Seller nor its representatives shall be in any way limited or restricted from discussing or negotiating, or otherwise taking any of the actions contemplated by subclauses (A) or (B) of this Section 6.1(c)(i) with respect to any transaction or proposal that does not involve the Business or that does not prevent Seller from completing the transactions contemplated by this Agreement (a "*Non-Competing Transaction*"), (y) this Section 6.1(c) shall not be applicable in any respect to a transaction or proposal that is a Non-Competing Transaction (and any such transaction or proposal shall not be deemed to be an "*Acquisition Proposal*" for any purpose under this Agreement), and (z) for the avoidance of doubt, in no event shall any payment be required under Section 11.3 as a result of any actions by Seller or any of its representatives with respect to a Non-Competing Transaction; *provided*, *further*, that prior to the receipt of the Required Seller Stockholder Vote, thisSection 6.1(c) shall not prohibit Seller from furnishing nonpublic information regarding Seller to, or entering into discussions with, any Person in response to a Superior Proposal if (1) neither Seller nor any representative of Seller shall have violated any of the restrictions set forth in this Section 6.1(c), (2) the board of directors of Seller concludes in good faith, after having taken into account the advice of its outside legal counsel, that such action is required in order for the board of directors of Seller to comply with its fiduciary obligations to Seller's stockholders under Applicable Law, and (3) at least two (2) Business Days prior to furnishing any such nonpublic information to, or entering into discussions with, such Person, Seller gives Buyer written notice of the receipt of a Superior Proposal. For the avoidance of doubt, the transactions contemplated by the Transportation Proposal shall be deemed to be "Non-Competing Transactions" for all purposes hereunder.

(ii) Seller shall promptly advise Buyer of any Acquisition Proposal that is made or submitted by any Person prior to Closing.

(d) Proxy Statement. As promptly as practicable after the date of this Agreement, Seller shall prepare and cause to be filed with the SEC the Proxy Statement. Seller shall cause the Proxy Statement to comply with the rules and regulations promulgated by the SEC and shall respond promptly to any comments of the SEC or its staff. Buyer shall promptly furnish to Seller all information concerning Buyer that may be required or reasonably requested by Seller in connection with the preparation of the Proxy Statement or of responses to comments from the SEC or its staff. Buyer and its counsel shall be given an opportunity to review and comment on the Proxy Statement prior to its filing with the SEC. If Seller becomes aware of any information, that should be disclosed in an amendment or supplement to the Proxy Statement, then Seller shall promptly inform Buyer thereof and shall file such amendment or supplement with the SEC and, if appropriate, mail such amendment or supplement to the stockholders of Seller.

(e) Stockholders' Meeting.

(i) Seller shall take all action necessary under all Applicable Laws to call, give notice of and hold a meeting of the holders of Seller's common stock to vote on a proposal to approve this Agreement and the sale of the Business separately from or together with the Transportation Proposal, as determined by Seller in its sole discretion (the "*Seller Stockholders Meeting*"). Seller shall use commercially reasonable efforts to hold the Seller Stockholders Meeting within a reasonable time after the date hereof and as close to the end of a month as permitted by the Seller's charter and bylaws, Applicable Law and the applicable requirements of the rules and regulations of the Nasdaq National Market, in order to allow for the Closing to occur on the last Business Day of such month. Seller shall ensure that all proxies solicited in connection with Seller Stockholders Meeting are solicited in compliance with all Applicable Laws.

(ii) Subject to Section 6.1(e)(iii), (A) the Proxy Statement shall include a statement to the effect that the board of directors of Seller recommends that Seller's stockholders vote to approve this Agreement and the Sale of the Business at the Seller Stockholders Meeting (the "*Seller Board Recommendation*") and (B) the Seller Board Recommendation shall not be withdrawn or modified in a manner adverse to Buyer, and no resolution by the board of directors of Seller or any committee thereof to withdraw or modify the Seller Board Recommendation in a manner adverse to Buyer shall be adopted or proposed.

(iii) Notwithstanding anything to the contrary contained inSection 6.1(e), at any time prior to the adoption of this Agreement by the Required Seller Stockholder Vote, the Seller Board Recommendation may be withdrawn or modified in a manner adverse to Buyer if: (A) an Acquisition Proposal is made to Seller and is not withdrawn; (B) Seller's board of directors determines in good faith that the Acquisition Proposal constitutes a Superior Proposal, and after having taken into account the advice of Seller's outside legal counsel, that, in light of such Superior Proposal, the withdrawal or modification of the Seller Board

Recommendation is required in order for Seller's board of directors to comply with its fiduciary obligations to Seller's stockholders under Applicable Law; and (C) neither Seller nor any of its representatives shall have violated any of the restrictions set forth in Section 6.1(c).

(f) Hamilton LC. Until the earlier of December 31, 2006, the date Buyer obtains a (i) performance bond or letter of credit reasonably satisfactory to Hamilton County in accordance with the terms of the Note or (ii) a bond from a surety reasonably satisfactory to Seller to insure Buyer's payment obligation under the Note if the Hamilton LC is drawn and the date Hamilton County releases the Hamilton LC, Seller shall maintain the Hamilton LC.

(g) Non-competition. For a period of five (5) years following the Closing Date, Seller shall not, and shall cause its direct and indirect subsidiaries not to, engage anywhere in the United States in the business of providing wireless and mobile data solutions to safety agencies at the federal, state and local levels; *provided*, *however*, that this Section 6.1(g) shall not limit in any way the right or ability of Seller or any of its Affiliates to (i) continue to operate any other business activities that are being conducted by Seller or its subsidiaries immediately following the Closing Date, including Seller's transportation business segment and (ii) take any

action or cause any action to be taken with respect to Hamilton County or the Hamilton Sales Agreement in accordance with provisions of the Note and/or the Security Agreements.

Section 6.2 Covenants of Buyer. Buyer covenants and agrees as follows:

(a) Confidentiality. Buyer and its Affiliates will hold, and will use their reasonable best efforts to cause their respective officers, directors, employees, accountants, counsel, consultants, advisors and agents to hold, in confidence, unless compelled to disclose by judicial or administrative process or by other requirements of law, all confidential documents and information concerning Seller or any of its Affiliates (whether or not related specifically to the Business) that are furnished to Buyer or its Affiliates, except to the extent that such information can be shown to have been (i) previously known on a nonconfidential basis by Buyer, (ii) in the public domain through no fault of Buyer or (iii) later lawfully acquired by Buyer from sources other than Seller or any of its subsidiaries or any other Person not under a non-disclosure or confidentiality obligation in favor of Seller or any of its subsidiaries; *provided* that Buyer may disclose such information to its officers, directors, employees, accountants, counsel, consultants, advisors and agents who need to know such information for purposes of participating in the evaluation, negotiation and/or execution of the transactions contemplated by this Agreement so long as such Persons are informed by Buyer of the confidential nature of such information and are directed by Buyer to treat such information confidentially. Buyer shall be responsible for any failure to treat such information confidentially by such Persons. If this Agreement is terminated, Buyer and its Affiliates will, and will use their reasonable best efforts to cause their respective officers, directors, employees, accountants, counsel, consultants, advisors and agents to, destroy or deliver to Seller, upon request, all documents and other materials, and all copies thereof, obtained by Buyer or its Affiliates or on their behalf from Seller or any of its subsidiaries in connection with this Agreement that are subject to such confidence. Notwithstanding the foregoing, effective upon, and only upon, the Closing, Buyer's obligations under this Section 6.2(a) shall terminate with respect to the Purchased Assets, the Assumed Liabilities and the Business.

(b) Removal of Seller Trademarks. Seller hereby grants Buyer, for the period commencing immediately after Closing and ending on the ninetieth (90th) Business Day after the Closing Date, a non-exclusive, royalty-free license to use the following Trademarks: "Aether," "Aether Systems" or "AIM " in connection with Buyer's ownership of the Purchased Assets and operation of the Business. After such time, Buyer shall, at its sole cost and expense, (i) remove, obliterate, cover or replace, as appropriate, all signs, advertisements or other media containing any Trademarks or other indicia of origin of Seller or any of its Affiliates in any of the following words, logos, stylized lettering, other designs and variants thereof: "Aether," "Aether Systems" or "AIM" located on or appurtenant to any of the Purchased Assets related to the Business; and (ii) destroy all items and materials, including stationery, letterhead, invoices, operating and procedural manuals, sales and marketing materials and purchase orders, containing the above described marks.

(c) Employment, Employees and Employment Benefit Plans.

(i) Prior to the Closing Date, Buyer shall have offered employment effective as of the Closing Date to all Persons set forth on Schedule 4.15 who are employees of

the Business at the time the offer is made (including employees who are on an approved leave of absence, short-term disability leave or military leave, but, to the extent permitted by Applicable Law, not including any individual on long-term disability leave) with titles, job descriptions and other terms and conditions of employment substantially similar to those applicable to such employees

immediately prior to the Closing Date. Employees who accept such offer of employment are referred to herein as "*Transferred Employees*." Except as otherwise provided under the terms of an applicable Seller Employee Plan, effective as of the Closing Date the Transferred Employees will cease to participate in, or accrue any benefits under, Seller Employee Plans. For a period of at least one year following the Closing Date, Buyer will use reasonable commercial efforts to provide each Transferred Employee with compensation (including salary or wage rate, as applicable, and bonus and incentive opportunity) and employee benefits that are no less favorable, in the aggregate, than the compensation and employee benefits that are provided to such Transferred Employee immediately prior to the Closing Date. As of the Closing Date, such Transferred Employees shall be permitted to participate in the plans, programs and arrangements of Buyer and/or its Affiliates relating to compensation and employee benefits ("*Buyer Employee Plans*"). For purposes of all Buyer Employee Benefit Plans and other employment agreements, arrangements and policies of Buyer under which a Transferred Employee's benefits depend, in whole or in part, on length of service, credit will be given to Transferred Employees for service with Seller and its Affiliates prior to the Closing Date for all purposes, *provided* that such crediting of service does not result in any duplication of benefits. In addition, any Buyer Employee Plan that is an employee welfare benefit plan (as defined in Section 3(1) of ERISA) (A) shall not limit or exclude coverage on the basis of any pre-existing condition of such Transferred Employee or dependent and (B) shall provide each Transferred Employee or dependent full credit, for the plan year during which the Closing occurs, with any deductible already incurred by the Transferred Employee or dependent under any Seller Employee Plan and with any other co-payments or out-of-pocket expenses that count against any maximum out-of-pocket expense provision of any Seller Employee Plan or Buyer Employee Plan. Notwithstanding the foregoing, except as provided in Section 6.3(g), Buyer shall not be restricted nor shall incur any liability in connection with the termination of the employment of any Transferred Employee who fails to adequately perform the duties of their position, engages in any violation of the code of conduct for employees of the Buyer as may be in effect from time to time, or if a reduction in workforce is required in the reasonable business judgment of the Buyer's board of directors.

(ii) Notwithstanding any other provision of this Agreement, effective as of the Closing Date, Buyer will become responsible for payment of all salaries and benefits and all other claims, costs, expenses, liabilities and other obligations related to Buyer's employment of the Transferred Employees that arise or relate to events occurring or conditions existing on or after the Closing Date other than the Sale-related Payments. Buyer shall be solely responsible for satisfying the notice and continuation coverage requirements of COBRA for all Transferred Employees (and their eligible dependents and beneficiaries) who are entitled to elect COBRA continuation coverage on account of a qualifying event occurring on and after the Closing Date.

(iii) Effective on the Closing Date, Buyer shall have in effect a tax-qualified defined contribution plan that includes a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code and that accepts "eligible rollover distributions" (as

defined in Section 402(c)(4) of the Code) including eligible rollover distributions including promissory notes (the "*Buyer's 401(k) Plan*"). Effective as of the Closing, the Transferred Employees who have an account balance in a Seller Employee Plan that includes a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code ("*Seller's 401(k) Plan*") shall be entitled to receive a distribution of their vested account balance in accordance with the terms of Seller's 401(k) Plan and shall be permitted to roll over their eligible rollover distributions to Buyer's 401(k) Plan. Such distribution from Seller's 401(k) Plan may include distributions of any promissory notes thereunder.

(d) Credit Support.

(i) At Closing, Buyer shall (A) replace the Letter of Credit dated as of June 12, 2001 issued by Bank of America to Glenborough Fund IX LLC, as beneficiary, with Seller, as account party, in the amount of $748,605.00 (the "*Glenborough LC*"), with letters of credit, guarantees or other credit enhancements of Buyer or its Affiliates so that Seller and its Affiliates shall have no further obligations or liability under the Glenborough LC and (B) return, or cause to be returned, to Seller or its Affiliates, as appropriate, all collateral that was provided by Seller or its Affiliates pursuant to the Glenborough LC. Except as set forth in Section 6.1(f), after Closing, neither Seller nor any of its Affiliates shall have any obligation to provide any credit support in respect of the Business, the Purchased Assets or the Assumed Liabilities.

(ii) Buyer shall use its commercially reasonable efforts to obtain, at its sole cost and expense, a performance bond or standby letter of credit as promptly as possible that is satisfactory to Hamilton County as a replacement for the Hamilton LC. If Buyer is unable to secure such bond or other replacement security within a reasonable time prior to the Closing, Buyer shall use its commercially reasonable efforts to obtain, at its sole cost and expense, a bond, issued by a surety reasonably satisfactory to Seller, to ensure that Seller will receive reimbursement in the event of a draw of the Hamilton LC. In the event Buyer obtains such a performance bond, standby letter of credit or surety bond prior to the Closing, the provisions of this Agreement regarding Buyer's issuance of the Note and execution and delivery of the Security Agreements shall be of no further force and effect.

(e) Notice of Developments. Buyer shall give Seller prompt written notice of any development, event, circumstance or condition causing or reasonably expected to cause a breach of any of its representations or warranties or adversely

affecting the ability of Buyer to perform its obligations hereunder (a "*Buyer Default*"), describing with reasonable particularity the development, event, circumstance or condition and the representation, warranty or obligation affected. Buyer shall have ten (10) Business Days following the occurrence of any such development, event, circumstance or condition to cure a Buyer Default to the reasonable satisfaction of Seller. In the event a Buyer Default is not cured to Seller's reasonable satisfaction within such ten-day period, the provisions of Section 6.1(c) shall be of no further force and effect, and Seller shall be permitted to solicit, initiate, assist or encourage the making by any Person of any Acquisition Proposal, participate in any discussions or negotiations regarding, or furnish or disclose to any Person any information with respect to, and subject to Section 11.1(g), accept any Acquisition Proposal.

Section 6.3 Mutual Covenants. Buyer and Seller covenant and agree as follows:

(a) State Regulatory Approvals, Notices and Filings. Buyer and Seller shall cooperate with one another in (i) determining whether any other action by or in respect of, or filing with, any Governmental Authority is required, or any actions, consents, approvals or waivers are required to be obtained from parties to any Material Contracts, in connection with the consummation of the transactions contemplated hereby and (ii) seeking any such other actions, consents, approvals or waivers or making any such filings, furnishing information required to be filed pursuant to Applicable Law.

(b) Assignments. With respect to any Material Contract or Lease that is able to be assigned to Buyer and requires consent for the assignment thereof, Seller shall take such actions as are commercially reasonable, and Buyer shall cooperate fully with Seller in all reasonable respects, to effect such assignment to Buyer as of the Closing Date. It is understood that such actions by Seller shall not include any requirement of Seller to expend monies, commence any litigation or offer or grant any accommodation (financial or otherwise) to any third party. In the event that Seller is unable to obtain the requisite approval for assignment of any Material Contract, then at the written request of Buyer on or before the Closing Date (except where such action would be unlawful or prohibited by such Material Contract), Seller shall (i) retain any such Material Contract and enter into an arrangement with Buyer to provide Buyer with the benefits of such Material Contract, *provided*, *however*, that Buyer shall perform Seller's obligations thereunder arising on or after the Closing Date until such Material Contract is assigned to Buyer or expires in accordance with its terms, and (ii) take all commercially reasonable actions required to accomplish the assignment to Buyer of such Material Contract as soon as reasonably practicable after the Closing Date.

(c) Notification of Certain Matters. The Parties agree that, with respect to the representations and warranties of the Seller contained herein, Seller shall have the continuing obligation until the Closing Date to supplement, modify or amend promptly the Disclosure Schedules with respect to: (i) any matter occurring after the date hereof that, if existing or occurring on or before the date of this Agreement, would have been required to be set forth or described in the Disclosure Schedule (the "*Seller New Matters*"), and (ii) other matters which are not Seller New Matters but should have been set forth or described in the Seller Disclosure Schedule as of the date hereof (the "*Seller Other Matters*"). Any such supplement, modification or amendment (A) that reflects a Seller New Matter shall qualify the Seller's representations and warranties for all purposes of this Agreement, except for purposes of determining whether the conditions set forth in ARTICLE VII hereof have been fulfilled and (B) that reflects one or more Seller Other Matters shall not qualify any of the Seller's representations or warranties for any purpose under this Agreement, and shall be provided solely for informational purposes. On or before the Closing Date, the Seller will prepare and deliver to Buyer a copy of the Disclosure Schedule revised to reflect any supplement, modification or amendment required pursuant to this Section 6.3(c). Seller shall use commercially reasonable efforts to deliver any such supplemented, modified or amended Disclosure Schedule to Buyer at least five (5) Business Days before the Closing Date. If a supplemented, modified or amended Disclosure Schedule satisfying the foregoing requirements is not provided by Seller, the Disclosure Schedule as delivered upon the execution of this Agreement shall continue to apply.

(d) Delivery of Property Received After Closing After the Closing, (a) Seller shall promptly transfer to Buyer, from time to time, any cash or other property received by Seller that is associated with or relates to the Purchased Assets and (b) Buyer promptly shall transfer to Seller, from time to time, any cash or other property received by Buyer that is associated with or related to the Excluded Assets.

(e) Post Closing Tax Matters.

(i) Seller will be responsible for the preparation and filing of all Tax Returns for all periods as to which Tax Returns are due after to the Closing Date (including the consolidated, unitary, and combined Tax Returns for Seller which include the operations of the Business for any period ending on or before the Closing Date). Seller will make all payments required with respect to any such Tax Return; *provided*, *however*, that Buyer will indemnify Seller pursuant to ARTICLE IX for any such Taxes that are Assumed Liabilities.

(ii) Buyer will be responsible for the preparation and filing of all Tax Returns for the Business for all periods as to which Tax Returns are due after the Closing Date (other than for Taxes with respect to periods for which the consolidated, unitary, and combined Tax Returns of Seller will include the operations of the Business). Buyer will make all payments required with respect to any such Tax Return; *provided*, *however*, that Seller will reimburse Buyer concurrently therewith to the extent any payment the Buyer is making relates to the operations of the Business for any period ending on or before the Closing Date.

(f) Further Assurances. Prior to and following the Closing, each Party agrees to cooperate fully with the other Party and to execute such further instruments, documents and agreements, and to give such further written assurances, as may be reasonably requested by any other Party to better evidence and reflect the transaction described in this Agreement, the Note, the Security Agreements, the Ancillary Agreements and contemplated herein and therein and to carry into effect the intent and purposes of this Agreement.

(g) WARN Act. Seller and Buyer hereby acknowledge and agree that (i) in accordance with Section 2101(b)(i) of the WARN Act, Seller will be responsible for all required notices prior to the Closing Date, and Buyer will be responsible for all required notices on or after the Closing Date, and (ii) all of the Transferred Employees will be deemed to have become employees of Buyer immediately on the Closing Date for purposes of the WARN Act.

ARTICLE VII

CONDITIONS

Section 7.1 Conditions to Obligation of Each Party to Effect the Transactions Contemplated by this Agreement. The obligation of each Party to effect the transactions contemplated by this Agreement shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

(a) Seller and Buyer have received all authorizations, consents and approvals of any Governmental Authority referred to in Section 4.4 and Section 4.7 hereof;

(b) no preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a Governmental Authority nor any Applicable Law shall be in effect that would restrain or otherwise prevent the consummation of the transactions contemplated by this Agreement; and

(c) the Required Seller Stockholder Vote shall have been obtained.

Section 7.2 Conditions to the Obligation of Seller. Unless waived in writing by Seller, the obligation of Seller to effect the transactions contemplated by this Agreement is subject to the fulfillment at or prior to the Closing Date of the following conditions:

(a) Buyer shall have performed in all material respects each obligation and agreement and complied in all material respects with each covenant to be performed and complied with by it hereunder at or prior to the Closing Date;

(b) the representations and warranties of Buyer in this Agreement that are qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects as of the date hereof and as of the Closing Date (except to the extent such representations and warranties expressly relate to any earlier date, in which case such representations and warranties shall be true and correct or true and correct in all material respects, as applicable, on and as of such earlier date), except for changes contemplated by this Agreement;

(c) Buyer shall have paid Seller an amount equal to the aggregate amount of cash held in escrow in account number 1680000080 at Branch Banking & Trust Company (the "*Escrow Amount*") (as of the date hereof, such amount being approximately Two Million Dollars ($2,000,000) *plus* interest paid to date) *plus* accrued but unpaid interest as of the Closing Date under the Escrow Agreement, by and among Seller, Lockheed Martin Management & Data Systems and Branch Banking & Trust Company, as escrow agent, dated as of January 27, 2003; and

(d) Buyer shall have furnished to Seller a certificate, dated as of the Closing Date, signed by a duly authorized officer of Buyer to the effect that all conditions set forth in Section 7.2(a) and (b) have been satisfied.

Section 7.3 Conditions to the Obligation of Buyer. Unless waived in writing by Buyer, the obligation of Buyer to effect the transactions contemplated by this Agreement is subject to the fulfillment at or prior to the Closing Date of the following conditions:

(a) Seller shall have performed in all material respects each obligation and agreement and complied in all

material respects with each covenant to be performed and complied with by them hereunder at or prior to the Closing Date;

(b) the representations and warranties of Seller in this Agreement that are qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects as of the date hereof and as of the Closing Date (except to the extent such representations and warranties expressly relate to any earlier date, in which case such representations and warranties shall be true and correct or true and correct in all material

respects, as applicable, on and as of such earlier date), except for changes contemplated by this Agreement;

(c) since the date hereof there shall not have occurred a Material Adverse Effect;

(d) Seller shall have obtained consents to the assignment to Buyer of the Contracts set forth on Schedule 7.3(d); and

(e) Seller shall have furnished to Buyer a certificate, dated as of the Closing Date, signed by a duly authorized officer of Seller to the effect that all conditions set forth in Section 7.3(a) and (b) have been satisfied.

ARTICLE VIII

SURVIVAL OF REPRESENTATIONS; INDEMNIFICATION

Section 8.1 Survival; Right to Indemnification. All representations and warranties of Seller and Buyer will survive the Closing and shall expire eighteen (18) months following the Closing, except that those representations and warranties contained in (i) Section 4.1, Section 4.2, Section 4.6, Section 5.1, and Section 5.2 shall survive the Closing without time limit, (ii) Section 4.20(c) shall survive Closing and shall expire on the date that is two (2) years after the Closing Date, and (iii) Section 4.11 shall expire on the date that is the last day of the shortest applicable federal or state statute of limitations or if there is no applicable statue of limitations, three (3) years after the Closing Date. Following the Closing, the exclusive remedy pursuant to this Agreement and the transactions contemplated hereby based upon the survival of such representations and warranties will be the rights to indemnification, payment of Losses and other remedies provided by this ARTICLE VIII and ARTICLE IX.

Section 8.2 Seller's Indemnity. Subject to the terms and conditions of this ARTICLE VIII, Seller shall indemnify, defend and hold Buyer, its stockholders, officers, directors and employees (collectively, the "*Buyer Group*") harmless from any Losses arising from or attributable to:

(a) the breach of any representation or warranty made by Seller in ARTICLE IV of this Agreement;

(b) any breach or nonfulfillment of any covenant of Seller under this Agreement;

(c) the Excluded Liabilities;

(d) Seller's ownership, operation or use of the Excluded Assets; and

(e) Seller's ownership, operation or use of the Purchased Assets and the Business prior to the Closing Date, other than the Assumed Liabilities.

Section 8.3 Buyer's Indemnity. Subject to the terms and conditions of this ARTICLE VIII, Buyer shall indemnify, defend and hold Seller, its stockholders, officers, directors and employees harmless from any Loss, arising from or attributable to:

(a) the breach of any representation or warranty made by Buyer in ARTICLE V of this Agreement;

(b) any breach or nonfulfillment by Buyer of any covenant of Buyer under this Agreement (other than Section 6.3(e) which is covered by ARTICLE IX);

(c) the Assumed Liabilities;

(d) the Glenborough LC; and

(e) Buyer's ownership, operation or use of the Purchased Assets and the Business from and after the Closing Date.

Section 8.4 Procedure for Indemnification – Third Party Claims.

(a) Promptly after receipt by any Person entitled to indemnity hereunder of the commencement of any action or proceeding against a Person (the "*Indemnified Party*"), such Indemnified Party will, if a claim is to be made against an indemnifying party under this ARTICLE VIII, give notice to the Party obligated to provide indemnification pursuant to this Section 8.4 (the "*Indemnifying Party*") of the commencement of such action or proceeding, specifying the factual basis of the claim and the amount thereof in reasonable detail to the extent then known by such Indemnified Party, but the failure to notify the Indemnifying Party will not relieve the Indemnifying Party of any liability that it may have to any Indemnified Party, except where (and then only to the extent that) the Indemnifying Party is actually prejudiced by the Indemnified Party's failure to give such notice.

(b) If any action or proceeding referred to in Section 8.4(a) is brought against an Indemnified Party and it gives notice to the Indemnifying Party of the commencement of such action or proceeding, the Indemnifying Party will be entitled to participate in such action or proceeding, if the Indemnifying Party gives written notice to the Indemnified Party of its election to assume the defense of such action or proceeding within ten (10) days after receiving notice of such action or proceeding. After notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense of such action or proceeding, the Indemnifying Party will not, as long as the Indemnifying Party diligently conducts such defense, be liable to the Indemnified Party under this ARTICLE VIII for any fees of other counsel or any other expenses with respect to the defense of such action or proceeding, in each case subsequently incurred by the Indemnified Party in connection with the defense of such action or proceeding unless the Indemnifying Party is also a party to such action and counsel to the Indemnified Party determines in good faith and advises the Indemnifying Party that joint representation would give rise to a conflict of interest under (a) applicable standards of professional responsibility, or (b) because the Indemnified Party has one or more defenses or counterclaims that are inconsistent with one or more of those that may be available to the Indemnifying Party in respect of such claim. If the Indemnifying Party assumes the defense of an action or proceeding (i) no compromise or settlement of such claims may be effected by the Indemnifying Party without the

Indemnified Party's consent unless (A) there is no finding or admission of any violation by any Indemnified Party of any Legal Requirement or any violation by any Indemnified Person of the rights of any Person, and (B) the sole relief provided is monetary damages that are paid in full by the Indemnifying Party; (ii) the Indemnifying Party will have no liability with respect to any compromise or settlement of such claims effected without the Indemnifying Party's consent (which shall not be unreasonably withheld or delayed); and (iii) the Indemnified Party will cooperate as the Indemnifying Party may reasonably request in investigating, defending and (subject to clause (i)) settling such action or proceeding.

Section 8.5 Procedure for Indemnification – Other Claims. A claim for indemnification for any matter not involving a third party claim may be asserted by notice from the Indemnified Party to the Indemnifying Party. Such notice shall specify the factual basis of such claim and the amount thereof in reasonable detail to the extent then known by the Indemnified Party.

Section 8.6 Time Limitations; Indemnification by Securityholders. If the Closing occurs, the Indemnifying Party shall have no liability pursuant to Section 8.2 or Section 8.3 of this Agreement unless, an Indemnified Party gives notice to the Indemnifying Party of an actual claim under Section 8.2 or Section 8.3 within the timeframe specified in Section 8.1, which notice shall specify the factual basis of that claim in reasonable detail to the extent then known by such Indemnified Party.

Section 8.7 Monetary Limitations. Subject to the last sentence of this Section 8.7, Seller shall not be required to indemnify the Buyer Group, and shall not have any Liability under Section 8.2, until the aggregate amount of all Losses under Section 8.2 exceeds 1% of the Purchase Price (the "*Minimum Loss*"), and then to the extent of all aggregate Losses, including Losses up to the Minimum Loss. Subject to the following sentence, the aggregate amount of Seller's liability for Losses under Section 8.2 shall be limited in each case to an amount equal to 20% of the Purchase Price. The limitations set forth in this Section 8.7 will not apply to any claims for indemnification in connection with, arising out of, or which would not have occurred but for:

(a) a breach of the representations and warranties contained in Section 4.1, Section 4.2, Section 4.3, Section 4.6, Section 4.11, and Section 4.12; *provided* that, notwithstanding the foregoing or anything to the contrary set forth herein, the aggregate amount of Seller's liability hereunder shall be limited to an amount equal to the Purchase Price in respect of all claims for indemnification pursuant to Section 8.2 in connection with, arising out of, or which would not have occurred but for, a breach of the representations and warranties contained in Section 4.1, Section 4.2, Section 4.3, Section 4.6, Section 4.11, and Section 4.12;

(b) fraud;

(c) Section 8.2(c) or (d); and

(d) covenants to be performed in whole or in part, post-Closing.

Section 8.8 Losses Net of Insurance; Taxes. The amount of any Loss for which indemnification is provided under Section 8.3 or Section 9.1 shall be net of (i) any amounts

recovered by the Indemnified Party or any of its Affiliates pursuant to any indemnification by or indemnification agreement with any third party, and (ii) any insurance proceeds or other cash receipts or sources of reimbursement received from the Indemnified Party or any of its Affiliates as an offset against such Loss (each source named in clauses (i) and (ii), a "*Collateral Source*"), (iii) an amount equal to the present value of the Tax benefit, if any, available to or taken by the Indemnified Party or any of its Affiliates attributable to such Loss and (iv) any specific accruals or reserves (or overstatement of liabilities in respect of actual liability) included in Seller's calculation of the Closing Statement. The parties acknowledge and agree that no right of subrogation shall accrue or inure to the benefit of any Collateral Source hereunder. The Indemnifying Party may require an Indemnified Party to assign the rights to seek recovery pursuant to the preceding sentence; *provided*, that the Indemnifying Party will then be responsible for pursuing such recovery at its own expense. If the amount to be netted hereunder from any payment required under ARTICLE VIII is determined after payment by the Indemnifying Party of any amount otherwise required to be paid to an Indemnified Party pursuant to this ARTICLE VIII, the Indemnified Party shall repay to the Indemnifying Party, promptly after such determination, any amount that the Indemnifying Party would not have had to pay pursuant to this ARTICLE VIII had such determination been made at the time of such payment.

Section 8.9 Purchase Price Adjustment. All indemnification payments under this ARTICLE VIII shall be deemed adjustments to the Purchase Price for federal tax purposes unless otherwise required by a determination made by a Governmental Authority or by a court of law.

Section 8.10 No Double Recovery. Notwithstanding the fact that any Party may have the right to assert claims for indemnification under or in respect of more than one provision of this Agreement or another agreement entered into in connection herewith in respect of any fact, event, condition or circumstance, no Party shall be entitled to recover the amount of any Losses suffered by such Party more than once under all such agreements in respect of such fact, event, condition or circumstance, and an Indemnifying Party shall not be liable for indemnification to the extent the Indemnified Party has otherwise been fully compensated on a dollar-for-dollar basis for such Losses pursuant to the Purchase Price adjustment under Section 3.4.

ARTICLE IX

TAX LIABILITY

Section 9.1 Liability for Taxes.

(a) Seller shall be liable for, and shall indemnify Buyer against, all Tax Liabilities.

(b) Buyer shall be liable for, and shall indemnify Seller against, all Taxes arising or resulting from (i) the conduct of the Business or the ownership of the Purchased Assets for taxable periods or portions thereof beginning after the Closing Date or (ii) any transaction relating to the Business or the Purchased Assets that Buyer or any of its Affiliates causes to

occur on or after the Closing Date (excluding the sale of the Business and the Purchased Assets pursuant to this Agreement).

(c) For purposes of Section 9.1(a) and Section 9.1(b) above, whenever it is necessary to determine the liability for Taxes for a Straddle Period, such Taxes shall be apportioned between Seller and Buyer (A) in the case of Taxes other than income, sales and use and withholding taxes, on a per diem basis (except with respect to real property taxes, which shall be apportioned on the Closing Date based on the most recent year's tax bill) and (B) in the case of income, sales and use and withholding taxes, as determined as though the Straddle Period consisted of two taxable years or periods, one which ended on the Closing Date and the other which began at the beginning of the day following the Closing Date.

(d) Buyer shall pay to Seller the amounts received by Buyer or any of its Affiliates of any refund, abatement or credit of (A) Taxes which are attributable to the conduct of the Business or the ownership of the Purchased Assets on or prior to the Closing Date and (B) any other Tax Assets. In the case of any Straddle Period, Buyer shall pay to Seller the amount received by Buyer or any of its Affiliates of any refund, abatement or credit of Taxes that would have been made had the Taxable Period ended

on the Closing Date.

ARTICLE X

RECORDS/LITIGATION

Section 10.1 Records.

(a) For a period of five (5) years after the Closing Date, Buyer shall provide to Seller and its Affiliates (and their respective counsel, auditors, accountants, agents, advisors or other representatives) reasonable access to the Purchased Assets and permit such Party to remove Excluded Assets and take copies of any Books and Records or accounts relating to the Business as conducted or operated prior to the Closing Date; and Buyer shall not destroy or dispose of any such Books and Records and accounts without first offering to surrender to Seller such books, records and accounts which Buyer may intend to destroy or dispose of.

(b) For a period of five (5) years after the Closing Date, each Party shall provide such assistance as the other Party may from time to time reasonably request in connection with the preparation of Tax Returns required to be filed, any audit or other examination by any taxing authority, any judicial or administrative proceeding relating to liability for Taxes, or any claim for refund in respect of such Taxes or in connection with any litigation and proceedings related to the Business, including making available documents, witnesses, employees for interviews, litigation preparation and testimony. The requesting party shall reimburse the assisting party for the out-of-pocket costs incurred by the assisting party.

ARTICLE XI

TERMINATION RIGHTS

Section 11.1 Termination Rights. This Agreement may be terminated at any time prior to the Closing Date as follows and in no other manner:

(a) by mutual written consent of Buyer and Seller;

(b) by Buyer or Seller if the Closing shall not have occurred by December 31, 2004 (unless the failure of the Closing to occur at such time is attributable to a failure of the Party seeking to terminate this Agreement to perform any material obligation required to be performed by such Party at or prior to the Closing and except where a Buyer Default shall have occurred and not have been cured to Seller's reasonable satisfaction in accordance with Section 6.2(e));

(c) by Buyer or Seller if a court of competent jurisdiction or other Governmental Entity shall have issued a final and nonappealable order, decree or ruling, or shall have taken any other action, having the effect of permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement;

(d) by Seller, if Seller has provided Buyer written notice that it has determined to accept a Superior Proposal after Seller has complied with Section 6.1(c) and after considering any proposals that may have been made by Buyer;

(e) by Buyer, if (i) the Seller Board Recommendation shall have been withdrawn or modified in a manner adverse to Buyer or (ii) Seller's board of directors shall have recommended or approved any Acquisition Proposal, except where a Buyer Default shall have occurred and not have been cured to Seller's reasonable satisfaction in accordance with Section 6.2(e);

(f) by Buyer or Seller, if Seller Stockholders Meeting (including any adjournments and postponements thereof) shall have been held and Seller's stockholders shall have taken a final vote on a proposal to adopt this Agreement and this Agreement shall not have been adopted by the Required Seller Stockholder Vote; *provided, however,* that a Party shall not be permitted to terminate this Agreement pursuant to this Section 11.1(f) if the failure to obtain the Required Seller Stockholder Vote is attributable to a failure of such Party to perform any material obligations required to be performed by such Party hereunder; and

(g) by Seller, if a Buyer Default has occurred and has not been cured to Seller's reasonable satisfaction in accordance with Section 6.2(e).

Section 11.2 Effect of Termination. In the event of termination by Buyer or Seller pursuant to this ARTICLE XII, written notice thereof shall forthwith be given to the other Party and the transactions contemplated by this Agreement shall be terminated, without further action by any Party. If the transactions contemplated by this Agreement are terminated as provided herein:

(a) Buyer shall return to Seller all documents and copies and other materials received from or on behalf of Seller relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof;

(b) all confidential information received by Buyer with respect to the Purchased Assets, the Assumed Liabilities and the Business shall be treated in accordance with the terms and conditions of Section 6.2(a);

(c) no Party hereto shall have any liability or further obligation under this Agreement resulting from such termination, and this Agreement shall be of no further force and effect, except (i) that the provisions of Section 6.2(a), Section 12.4, Section 12.9, and this ARTICLE XI shall remain in full force and effect; and

(d) no Party waives any claim or right against a breaching Party to the extent such termination results from the breach by a Party of any of its representations, warranties, covenants or agreements set forth in this Agreement.

Section 11.3 Termination Fee. Concurrently with the termination of this Agreement pursuant to Section 11.1(d), Seller shall make a nonrefundable cash payment by wire transfer to an account designated by Buyer in an aggregate amount equal to Seven Hundred Fifty Thousand Dollars ($750,000) (the "*Termination Fee*"). In the case of termination of this Agreement by Buyer pursuant to Section 11.1(e), Seller shall pay by wire transfer to an account designated by Buyer the Termination Fee within two (2) Business Days of Buyer's termination of this Agreement. Notwithstanding anything to contrary herein, Buyer shall not be entitled to receive the Termination Fee in the event a Buyer Default has occurred and not been cured to Seller's reasonable satisfaction in accordance with Section 6.2(e).

Section 11.4 Buyer Default. In the case of termination of this Agreement by Seller pursuant to Section 11.1(g), Seller shall be entitled to retain, and Buyer shall have no right or interest whatsoever in, the Deposit (and any interest accrued thereon), notwithstanding anything to the contrary herein.

ARTICLE XII

MISCELLANEOUS

Section 12.1 Notices. All notices or other communications required or permitted to be delivered hereunder shall be in writing and shall be delivered by hand or sent by prepaid telex or telecopy, or sent, postage prepaid, by registered, certified or express mail, or reputable overnight courier service and shall be deemed delivered when so delivered by hand, telexed or telecopied with acknowledged receipt, or if mailed, five (5) calendar days after mailing (one (1) Business Day in the case of express mail or overnight courier service), as follows:

If to Buyer:

BIO-key International, Inc.
1285 Corporate Center Drive
Suite 175
Eagan, MN 55121
Attn: Chief Executive Officer
Telecopy: (651) 687-0515

with a copy to:

Choate, Hall & Stewart
53 State Street
Boston, MA 02109
Attn: Charles J. Johnson, Esq.
Telecopy: (617) 248-4000

If to Seller:

Aether Systems, Inc.
11500 Cronridge Dr., Suite 110

Owings Mills, Maryland 21117
Attn: David S. Oros
Telecopy: (410) 356-8699

and:

Kirkland & Ellis LLP
655 15th Street, N.W., Suite 1200
Washington, D.C. 20005
Attn: Mark D. Director, Esq.
Telecopy: (202) 879-5200

or such other address or facsimile number as such Party may hereafter specify for the purpose by notice to the other Parties hereto.

Section 12.2 Governing Law; Submission To Jurisdiction. This Agreement shall be deemed to be made in and in all respects shall be interpreted, construed and governed by and in accordance with the law of the State of New York without regard to the conflict of law principles thereof. The Parties hereby irrevocably submit to the jurisdiction of the courts of the State of Maryland and the federal courts of the United States of America located in the State of Maryland solely in respect of the interpretation and enforcement of the provisions of this Agreement and of the documents referred to in this Agreement, and in respect of the transactions contemplated hereby, and hereby waive, and agree not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or of any such document, that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement or any such document may not be enforced in or by such courts, and the parties hereto irrevocably agree that all claims with respect to such action or proceeding shall be heard and determined in such a Maryland State or federal court.

Section 12.3 WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 12.4 Public Announcements. Neither Buyer or Seller nor any of their respective Affiliates, agents or representatives shall issue or cause the publication of any press release or other announcement with respect to the transactions contemplated by this Agreement, without the prior approval of the other Party, which approval shall not be unreasonably withheld, except as may be required by law, any listing agreement with a national securities exchange or the Nasdaq National Market. In the case of an announcement required by law, a listing agreement or the Nasdaq National Market, the Party required to make such announcement shall use reasonable efforts to provide the other Party with a copy of the proposed announcement prior to its release and will give due consideration to such comments as such other Party may have.

Section 12.5 Bulk Transfer Laws. Buyer acknowledges that Seller will not comply with the provisions of any bulk transfer laws of any jurisdiction in connection with the transactions contemplated by this Agreement.

Section 12.6 Entire Agreement. This Agreement, the attached Schedules and the agreements referred to herein or executed simultaneously herewith, constitutes the entire agreement and understanding of the parties in respect to the transactions contemplated hereby and thereby and supersede all prior agreements (including the Confidentiality Agreement), arrangements and undertakings, whether written or oral, relating to the subject matter hereof; *provided*, *however*, that the Confidentiality Agreement shall continue and shall be binding among the Parties with respect to information disclosed prior to the date of this Agreement. Except as otherwise specifically provided in this Agreement, no conditions, usage of trade, course of dealing or performance, understanding or agreement purporting to modify, vary, explain or supplement the terms or conditions of this Agreement will be binding unless hereafter made in writing and signed by the Party to be bound, and no modification will be effected by the acknowledgment or acceptance of documents containing terms or conditions at variance with or in addition to those set forth in this Agreement, except as otherwise specifically agreed to by the Parties in writing.

Section 12.7 Assignment. This Agreement and any rights and obligations hereunder shall not be assignable or transferable by Buyer or Seller (including by operation of law in connection with a merger or sale of stock, or sale of substantially all the assets, of Buyer or Seller) without the prior written consent of the other Party, and any purported assignment without such consent shall be void and without effect.

Section 12.8 Amendment and Waiver. This Agreement may be amended, modified, superseded or canceled, and any of the terms, covenants, representations, warranties or conditions hereof may be waived, only by a written instrument executed by the Parties hereto, or, in the case of a waiver, by or on behalf of the Party waiving compliance unless otherwise contemplated by this Agreement (including Section 6.3(c)). The failure of any Party at any time or times to require performance of any provision hereof

shall in no manner affect the right at a later time to enforce the same. No waiver by any Party of any condition, or of any breach of any term, covenant, representation or warranty contained in this Agreement, in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of any such condition or breach or a waiver of any other condition or of any breach of any other term, covenant, representation or warranty.

Section 12.9 Expenses. Section 11.3 notwithstanding, whether or not the transactions contemplated hereby are consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby, including legal, due diligence, accounting and investment banking fees and expenses, shall be borne by the Party incurring such cost or expense.

Section 12.10 Headings. The section and paragraph headings contained in this Agreement are for reference purposes only, and shall not in any way affect the meaning or interpretation of this Agreement.

Section 12.11 Counterparts. This Agreement may be executed in one or more counterparts (including by means of telecopied signature pages), all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the Parties and delivered to the other Parties.

Section 12.12 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be valid and effective under Applicable Laws, but if any provision of this Agreement or the application of any such provision to any Person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 12.13 No Third Party Beneficiaries. Except as provided with respect to indemnification as set forth in ARTICLE VIII and ARTICLE IX and except as otherwise expressly stated in this Agreement, nothing in this Agreement shall confer any rights upon any Person other than the Parties hereto and their respective heirs, successors and permitted assigns.

Section 12.14 Stockholder Approval. In the event Seller determines that the Required Seller Stockholder Vote is not required by Applicable Law in order for Seller to complete the transactions contemplated by this Agreement (the "*Seller Determination*"), Seller shall provide written notice of such determination to Buyer, and immediately thereafter, without any further action by any Party, Seller shall have no requirement to file the Proxy Statement or call, give notice of and hold the Seller Stockholders Meeting or take any actions related to obtaining the Required Seller Stockholder Vote. In such event the provisions in this Agreement shall be read to exclude references to the Proxy Statement, Seller Board Recommendation, Seller Stockholders Meeting and Required Seller Stockholder Vote, and such definitions and provisions shall be of no further force and effect. Without limiting the generality of the foregoing, following a Seller Determination, it is agreed that Section 6.1(d) and (e), Section 7.1(c), Section 11.1(e)(i) and Section 11.1(f) shall have no further force and effect and this Agreement shall be read without regard to such provisions. Upon a Seller Determination, subject to the Parties' satisfaction or waiver of the conditions precedent set forth in ARTICLE VII, the Closing shall take place on September 30, 2004, at 10:00 a.m., Eastern Time, at the offices of Kirkland & Ellis LLP at 655 15th Street, NW, Suite 1200, Washington, DC 20005 or at such other time and place as is acceptable to the Parties, it being agreed that if the conditions to Closing have not been satisfied or waived prior to September 30, 2004, the Parties shall endeavor to hold the Closing as promptly thereafter as commercially practicable and within two (2) Business Days of the waiver and/or satisfaction of all conditions to Closing.

[END OF PAGE]
[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned have duly executed this Asset Purchase Agreement on the date first written above.

AETHER SYSTEMS, INC.

By: _____

Name:
Title:

CERULEAN TECHNOLOGY, INC.

By: _____
Name:
Title:

SUNPRO, INC.

By: _____
Name:
Title:

BIO-KEY INTERNATIONAL, INC.

By: _____
Name:
Title:

BIO-key Completes Acquisition of Aether Mobile Government Division

Company Also Raises $10 Million in Convertible Debentures

October 1—MINNEAPOLIS—BIO-key International, Inc. (OTC Bulletin Board: BKYI), a leader in finger-based biometric identification and wireless public safety solutions, today announced the closing of the purchase of Aether's Mobile Government Division (NASDAQ: AETH). As previously announced the purchase price was $10 million in cash and subject to certain post closing adjustments.

The Company also announced that it completed a $10 million private placement of convertible debentures and warrants with institutional and accredited investors. The conversion price of the bonds is $1.35. Investors received warrants to purchase up to approximately 3 million shares of common stock at $1.55 per share.

The funds will be used to help finance the transaction and provide for working capital to implement the Company's business plan of providing highly accurate, fast and scalable one-to-many fingerprint biometric identification solutions and mobile wireless systems that enable security officials access to law enforcement databases to validate identities and obtain suspect information.

Mike DePasquale, BIO-Key CEO said, "With the addition of the AMG companies including Cerulean and Sunpro, BIO-key has become the largest provider of mobile, wireless information and identity management solutions in the public safety market. Combined with BIO-key's biometric and wireless technologies, we are positioned as the leading force in an emerging largely untapped market that we value at more than $5 billion. With a large 2500 customer base and a network of strategic partners, we will have the market presence and reach to accelerate biometric deployments and expand the market for providing secure wireless information to the estimated 5 million first responders across nearly 50,000 agencies engaged in homeland security."

Tom Colatosti, BIO-key Chairman, added, "We are also delighted that our investors have embraced and endorsed our vision and demonstrated their belief in our ability to successfully execute and achieve our business potential by assuming a conversion rate that is a significant more than 35% premium to the market price of our stock."

About BIO-key

BIO-key develops and delivers advanced identification solutions and information services to law enforcement departments, public safety agencies, governments 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 as well as reducing identity theft. www.bio-key.com

About Aether Systems

Aether Systems owns and manages a portfolio of residential mortgage-backed securities and other short-term government agency investments. Our principal business objective is to generate

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net income from the spread between the interest income on these securities and the costs of borrowing to finance their acquisition.

BIO-key Safe Harbor Statement

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.

For more information contact:
Albert Maruggi
612-325-8126
amaruggi@providentpartners.net