SECURITIES & EXCHANGE COMMISSION EDGAR FILING

BIO KEY INTERNATIONAL INC

Form: 10-Q

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U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015
or
☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT**

For the Transition Period from to

Commission file number 1-13463

BIO-KEY INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	**41-1741861**
(State or Other Jurisdiction of Incorporation of Organization)	(IRS Employer Identification Number)

3349 HIGHWAY 138, BUILDING A, SUITE E, WALL, NJ 07719
(Address of Principal Executive Offices)

(732) 359-1100
(Issuer's Telephone Number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☒

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

Number of shares of Common Stock, $.0001 par value per share, outstanding as of November 13, 2015 was 66,098,482.

BIO-KEY INTERNATIONAL, INC.

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

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and cash equivalents	$ 72,232	$ 843,632
Accounts receivable, net of allowance for doubtful accounts of $20,526 at September 30, 2015 and December 31, 2014	2,165,416	625,341
Due from factor	-	76,657
Inventory	150,720	11,825
Prepaid expenses and other	37,588	236,429
Total current assets	2,425,956	1,793,884
Equipment and leasehold improvements, net	73,538	103,509
Deposits and other assets	8,712	8,712
Intangible assets—less accumulated amortization	151,140	161,344
Total non-current assets	233,390	273,565
TOTAL ASSETS	$ 2,659,346	$ 2,067,449
LIABILITIES		
Accounts payable	$ 1,307,984	$ 347,311
Accrued liabilities	432,793	488,617
Due to factor	533,422	-
Notes payable, net of discount of $92,199 and $0	177,801	-
Deferred revenue	392,815	429,233
Warrant liabilities	93,198	43,227
Total current liabilities	2,938,013	1,308,388
TOTAL LIABILITIES	2,938,013	1,308,388
Commitments and contingencies		
STOCKHOLDERS' (DEFICIT) EQUITY:		
Common stock — authorized, 170,000,000 shares; $.0001 par value issued and outstanding; 66,073,482 at September 30, 2015, and 66,001,260 as of December 31, 2014	6,607	6,600
Additional paid-in capital	57,719,409	57,506,605
Accumulated deficit	(58,004,683)	(56,754,144)
TOTAL STOCKHOLDERS' (DEFICIT) EQUITY	(278,667)	759,061
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY	$ 2,659,346	$ 2,067,449

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
Revenues				
Services	$ 250,191	$ 496,127	$ 755,813	$ 1,027,069
License fees and other	419,655	787,720	2,835,662	2,027,089
	669,846	1,283,847	3,591,475	3,054,158
Costs and other expenses				
Cost of services	30,283	144,224	154,251	296,504
Cost of license fees and other	344,557	99,730	505,339	225,925
	374,840	243,954	659,590	522,429
Gross Profit	295,006	1,039,893	2,931,885	2,531,729
Operating Expenses				
Selling, general and administrative	1,013,778	989,521	3,034,318	2,741,665
Research, development and engineering	368,788	324,992	1,169,427	1,282,536
	1,382,566	1,314,513	4,203,745	4,024,201
Operating loss	(1,087,560)	(274,620)	(1,271,860)	(1,492,472)
Other income (expense)				
Interest income	1	2	5	5
Interest expense	(20,000)	-	(20,000)	-
Gain on derivative liabilities	27,975	223,892	42,228	117,153
Income taxes	-	(800)	(912)	(1,712)
Total other income (expense)	7,976	223,094	21,321	115,446
Net loss	$ (1,079,584)	$ (51,526)	$ (1,250,539)	$ (1,377,026)
Basic and Diluted Loss per Common Share	$ (0.02)	$ (0.00)	$ (0.02)	$ (0.02)
Weighted Average Shares Outstanding:				
Basic and Diluted	66,038,941	58,026,262	66,013,958	57,989,165

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

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

	Nine Months Ended September 30,	
	2015	**2014**
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	$ (1,250,539)	$ (1,377,026)
Adjustments to reconcile net loss to cash used for operating activities:		
Depreciation	32,049	29,905
Amortization of intangible assets	10,204	10,205
Gain on derivative liabilities	(42,228)	(117,153)
Share-based compensation	258,297	170,282
Amortization on note payable discount	20,000	-
Other	-	6
Change in assets and liabilities:		
Accounts receivable	(1,540,075)	(347,549)
Due from factor	76,657	(19,259)
Inventory	(138,895)	(2,649)
Prepaid expenses and other	198,841	(7,104)
Accounts payable	960,673	(83,634)
Accrued liabilities	(55,824)	144,216
Due to factor	533,422	-
Deferred revenue	(36,418)	(97,057)
Net cash used for operating activities	(973,836)	(1,696,817)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,078)	(9,353)
Net cash used for investing activities	(2,078)	(9,353)
CASH FLOW FROM FINANCING ACTIVITIES:		
Repurchase of outstanding warrants	-	(150,000)
Stock issued to directors	13,000	-
Proceeds from issuance of Note Payable	250,000	-
Costs to issue common stock	(58,486)	-
Net cash provided by (used for) financing activities	204,514	(150,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(771,400)	(1,856,170)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	843,632	2,023,349
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 72,232	$ 167,179

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

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

SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION

	Nine Months Ended September 30,	
	2015	**2014**
Cash paid for:		
Interest	$ -	$ -
Noncash Investing and Financing Activities:		
Issuance of warrants for financing raise	$ 92,199	$ -

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

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of Business

BIO-key International, Inc. was founded in 1993 as a fingerprint biometric technology company. Biometric technology is the science of analyzing specific human characteristics which are unique to each individual in order to identify a specific person from a broader population. We develop and market advanced fingerprint biometric identification and identity verification technologies, cryptographic authentication-transaction security technologies, as well as related identity management and credentialing software solutions. We sell our products and provide services primarily to commercial entities within highly regulated industries, like healthcare and financial services and the broader corporate enterprise.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements include the accounts of BIO-key International, Inc. and its wholly-owned subsidiary (collectively, the "Company") and are stated in conformity with accounting principles generally accepted in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. Significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all necessary adjustments, consisting only of those of a recurring nature, and disclosures to present fairly the Company's financial position and the results of its operations and cash flows for the periods presented. The balance sheet at December 31, 2014 was derived from the audited financial statements, but does not include all of the disclosures required by accounting principles generally accepted in the United States of America. These unaudited interim condensed consolidated financial statements should be read in conjunction with the financial statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the "Form 10-K"), filed with the SEC on March 31, 2015.

Recently Issued Accounting Pronouncements

In January 2015, ASU No. 2015-01, "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary items" ("ASU 2015-01") was issued. ASU 2015-01 eliminates from GAAP the concept of extraordinary items. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company is currently evaluating the effects of adopting ASU 2014-15 on its consolidated financial statements but the adoption is not expected to have a significant impact.

In April 2015, the FASB issued ASU 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires debt issuance costs related to a debt liability measured at amortized cost to be reported in the balance sheet as a direct deduction from the face amount of the debt liability. ASU 2015-03 is effective for interim and annual periods beginning January 1, 2016 with early adoption permitted, and is applied on a retrospective basis. The adoption of ASU 2015-03 is not expected to materially impact the Company's consolidated financial statements.

In July 2015 the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" ("ASU 2015-11"). The amendments in ASU 2015-11 clarifies the measurement of inventory to be the lower of cost or realizable value and would only apply to inventory valued using the FIFO or average costing methods. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The reporting entity should apply the amendments prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the effects of adopting ASU 2015-11 on its consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standard if currently adopted would have a material effect on the accompanying consolidated financial statements.

2. GOING CONCERN

The Company has incurred significant losses to date and at September 30, 2015, had an accumulated deficit of approximately $58 million. In addition, broad commercial acceptance of the Company's technology is critical to the Company's success and ability to generate future revenues. At September 30, 2015, the Company's total cash and cash equivalents were approximately $72,000, as compared to approximately $844,000 at December 31, 2014.

The Company has financed itself in the past through access to the capital markets by issuing secured and convertible debt securities, convertible preferred stock, common stock, and through factoring receivables. The Company estimates that it currently requires approximately $575,000 per month to conduct operations and pay dividend obligations, a monthly amount that it has been unable to achieve consistently through revenue generation.

If the Company is unable to generate sufficient revenue to meet its goals, it will need to obtain additional third-party financing to (i) conduct the sales, marketing and technical support necessary to execute its plan to substantially grow operations, increase revenue, and serve a significant customer base; and (ii) provide working capital. No assurance can be given that any form of additional financing will be available on terms acceptable to the Company, that adequate financing will be obtained by the Company, in order to meet its needs, or that such financing would not be dilutive to existing shareholders.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern, and assumes continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The matters described in the preceding paragraphs raise substantial doubt about the Company's ability to continue as a going concern. Recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon the Company's ability to meet its financing requirements on a continuing basis, and become profitable in its future operations. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

3. SHARE BASED COMPENSATION

The following table presents share-based compensation expenses for continuing operations included in the Company's unaudited interim condensed consolidated statements of operations:

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
Selling, general and administrative	$ 30,779	$ 32,700
Research, development and engineering	5,271	5,364
	$ 36,050	$ 38,064

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Selling, general and administrative	$ 218,653	$ 144,616
Research, development and engineering	39,644	25,666
	$ 258,297	$ 170,282

4. FACTORING

Due from (to) factor consisted of the following as of:

	September 30, 2015	December 31, 2014
Original invoice value	$ 815,085	$ 306,625
Factored amount	(775,598)	(229,968)
Over advances and fees	(572,909)	-
Balance due from (to) factor	$ (533,422)	$ 76,657

As of December 2011, the Company entered into a 24 month accounts receivable factoring arrangement with a financial institution (the "Factor"). Pursuant to the terms of the arrangement, the Company, from time to time, sells to the Factor certain of its accounts receivable balances on a non-recourse basis for credit approved accounts. The Factor remits 35% of the foreign and 75% of the domestic accounts receivable balance to the Company (the "Advance Amount"), with the remaining balance, less fees to be forwarded to the Company once the Factor collects the full accounts receivable balance from the customer. In addition, the Company, from time to time, receives over advances from the factor. Factoring fees range from 2.75% to 21% of the face value of the invoice factored, and are determined by the number of days required for collection of the invoice. In April 2012, the terms were updated from monthly to quarterly, and the 24-month arrangement was extended to August 1, 2014. In July of 2014, the arrangement was extended to July 31, 2016. The cost of factoring is included in selling, general and administrative expenses. The cost of factoring was as follows:

	Three Months ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Factoring fees	$ 87,929	$ 33,798	$ 323,059	$ 133,921

5. INVENTORY

Inventory is stated at the lower of cost, determined on a first in, first out basis, or market, and consists primarily of fabricated assemblies and finished goods. Inventory is comprised of the following as of:

	September 30, 2015	December 31, 2014
Finished goods	$ 45,239	$ 11,825
Fabricated assemblies	105,481	-
Total inventory	$ 150,720	$ 11,825

6. NOTE PAYABLE

Securities Purchase Agreement dated September 23, 2015

On September 23, 2015 the Company issued a promissory note due seven months from the date of issuance and a warrant to purchase 833,333 shares of common stock in consideration of $250,000. The principal sum due under the note is the aggregate purchase price of $250,000 plus an original issue discount of approximately 20% of the purchase price and a one-time interest charge of 12% of the purchase price. The principal sum and all other amounts owing under the note were fully paid by the Company following the initial closing of the October 2015 Series A-1 Convertible Preferred Stock offering. Refer to Note 13 - Subsequent Events. The warrants are immediately exercisable at an exercise price of $0.30 per share and have a term of five years.

The warrants have customary anti-dilution protections including a "full ratchet" anti-dilution adjustment provision which are triggered in the event the Company sells or grants any additional shares of common stock, options, warrants or other securities that are convertible into common stock at a price lower than $0.30 per share, The anti-dilution adjustment provision is not triggered by certain "exempt issuances" which among other issuances, includes the issuance of shares of common stock, options or other securities to officers, employees, directors, consultants or service providers.

Based on an evaluation as discussed in FASB ASC 815-15, “Embedded Derivatives” and FASB ASC 815-40-15, “Contracts in Entity’s Own Equity - Scope and Scope Exceptions,” the Company determined that the full ratchet anti-dilution feature in the common stock issued was not considered indexed to its own stock because neither the occurrence of a sale of equity securities by the issuer at market nor the issuance of another equity contract with a lower strike price is an input to the fair value of a fixed-for-fixed option or forward on equity shares. As such, the full ratchet anti-dilution feature should be bifurcated from the common stock and accounted for as a derivative liability.

The Company did not value the derivative liability. One of the key determinants of the Company’s decision to not value the derivative liability was the high likelihood that a future financing would not occur that would trigger the down round feature. Whether a future equity financing would occur would be determined by the cash needs of the Company and management’s willingness to trigger the down round feature. The Company’s reasons were based on the Memorandum of Understanding that was signed on June 24, 2015, indicating that the preferred shares would be issued at a conversion price of $0.30

The cashless exercise features contained in the warrants are considered to be derivatives and the Company recorded warrant liabilities on the consolidated balance sheet. The Company initially recorded a debt discount of $92,199 and a warrant liability in the same amount. The debt discount is being amortized over the term of the loan. The warrants issued by the Company are valued using the Black-Scholes option-pricing model. The Company is required to mark-to-market the warrant liabilities at the end of each reporting period. For the three and nine months ended September 30, 2015, the Company recorded a gain on the change in fair value of the cashless exercise features of $7,191. As of September 30, 2015, the fair value of the cashless exercise features was $85,008.

7. EARNINGS (LOSS) PER SHARE COMMON STOCK (“EPS”)

The Company’s basic EPS is calculated using net income (loss) available to common shareholders and the weighted-average number of shares outstanding during the reporting period. Diluted EPS includes the effect from potential issuance of common stock, such as stock issuable pursuant to the exercise of stock options and warrants and the assumed conversion of convertible notes and preferred stock.

The reconciliation of the numerators of the basic and diluted EPS calculations was as follows for both of the following three and nine month periods ended September 30:

	Three Months ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Basic Numerator:				
Net income (loss) available to common stockholders	$ (1,079,584)	$ (51,526)	$ (1,250,539)	$ (1,377,026)
Basic Denominator	66,038,941	58,026,262	66,013,958	57,989,165
Per Share Amount	(0.02)	(0.00)	(0.02)	(0.02)

The following table sets forth the options and warrants which were excluded from the diluted per share calculation even though the exercise prices were less than the average market price of the common shares because the effect of including these potential shares was antidilutive due to the net losses for the three and nine months ended September 30:

	Three Months ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Stock options	12,917	364,149	68,227	714,696
Warrants	-	-	-	-
Total	12,917	364,149	68,227	714,696

Items excluded from the diluted per share calculation because the exercise price was greater than the average market price of the common shares:

	Three Months ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Stock options	3,991,332	3,097,501	2,888,332	1,740,000
Warrants	20,455,414	15,184,565	20,455,414	15,184,565
Total	24,446,746	18,282,066	23,343,746	16,924,565

8. STOCKHOLDERS' DEFICIT

Derivative Liabilities

In connection with the issuances of equity instruments or debt, the Company may issue options or warrants to purchase common stock. In certain circumstances, these options or warrants may be classified as liabilities, rather than as equity. In addition, the equity instrument or debt may contain embedded derivative instruments, such as conversion options or listing requirements, which in certain circumstances may be required to be bifurcated from the associated host instrument and accounted for separately as a derivative liability instrument. The Company accounts for derivative liability instruments under the provisions of FASB ASC 815, "Derivatives and Hedging."

Securities Purchase Agreements dated October 25, 2013 and November 8, 2013

Pursuant to a series of Private Investors Securities Purchase Agreements (the "PI SPA"), on October 25, 2013 and November 8, 2013, the Company issued to certain private investors an aggregate of 12,323,668 units consisting of 12,323,668 post split shares of common stock (the "Shares") and warrants to purchase an additional 12,323,668 post-split shares of common stock (the "Warrants") for an aggregate purchase price of $3,697,100. The warrants are immediately exercisable at an exercise price of $0.50 per post-split share, have a term of three years, and were exercisable on a cashless basis if at any time following the nine month anniversary of the issuance date, there is not an effective registration statement covering the public resale of the shares of Common Stock underlying the warrants. The Company filed a registration statement on November 22, 2013 and such registration was declared effective on December 31, 2013.

In connection with the share issuances described above, and pursuant to a placement agency letter agreement, the Company paid the placement agent cash commissions equal to 8% of the gross proceeds of the offering, reimbursed the placement agent for its reasonable out of pocket expenses, and issued to the placement agent warrants (the "Placement Agent Warrants") to purchase an aggregate of 985,893 post split shares of common stock. The Placement Agent Warrants have substantially the same terms as the warrants issued to the investors, except the Placement Agent Warrants are immediately exercisable on a cashless basis.

The cashless exercise features contained in the warrants are considered to be derivatives and the Company recorded warrant liabilities on the consolidated balance sheet. The Company initially recorded the warrant liabilities equal to their estimated fair value of $325,891. Such amount was also recorded as a reduction of additional paid-in capital. The Company is required to mark-to-market the warrant liabilities at the end of each reporting period. For the quarter ended September 30, 2015, the Company recorded a gain on the change in fair value of the cashless exercise features of $20,784. For the nine months ended September 30, 2015, the Company recorded a net gain on the change in fair value of the cashless exercise feature of $35,037. As of September 30, 2015, the fair value of the cashless exercise features was $8,190. The fair value of the cashless exercise features was $43,227 as of December 31, 2014.

Securities Purchase Agreement dated November 13, 2014

Pursuant to a Securities Purchase Agreement, dated November 13, 2014, by and between the Company and a number of private and institutional investors (the "November 2014 Private Investor SPA"), the Company issued to certain private investors 7,974,999 post split shares of common stock and warrants to purchase an additional 11,962,501 post split shares of common stock for aggregate gross proceeds of $1,595,000. In addition, for each share purchased in this offering, the investors surrendered to the Company for cancellation a warrant to acquire one share of our common stock which we previously issued in a private placement transaction in November 2013. This resulted in the cancellation of warrants to purchase an aggregate of 7,974,999 post split shares of common stock.

The common stock has a purchase price reset feature. If at any time prior to the two year anniversary of the effective date of the registration statement covering the public resale of such shares, the Company sells or issues shares of common stock or securities that are convertible into common stock at a price lower than $0.20 per share, the Company will be required to issue additional shares of common stock for no additional consideration.

Based on an evaluation as discussed in FASB ASC 815-15, "Embedded Derivatives" and FASB ASC 815-40-15, "Contracts in Entity's Own Equity - Scope and Scope Exceptions," the Company determined that the purchase price reset feature in the common stock issued was not considered indexed to its own stock because neither the occurrence of a sale of equity securities by the issuer at market nor the issuance of another equity contract with a lower strike price is an input to the fair value of a fixed-for-fixed option or forward on equity shares. As such, the purchase price reset feature should be bifurcated from the common stock and accounted for as a derivative liability.

The Company valued the purchase price reset feature using a Monte Carlo simulation at the date of issuance, and December 31, 2014, and determined that the purchase price reset feature had no value as the calculated price of the common stock was not below $0.20 per share. At September 30, 2015 the calculated price was below $0.20, however the Company did not value the reset feature based on the Memorandum of Understanding that was signed on June 24, 2015 indicating that preferred shares would be issued at a conversion price of $0.30.

The warrants have a term of five years and an exercise price of $0.30 per post-split share. Warrants to purchase 5,981,251 post-split shares of common stock were immediately exercisable. The remaining warrants to purchase 5,981,250 post-split shares of common stock became exercisable on the completion of a 1 - for - 2 reverse split of the Company's common stock in February 2015.

The warrants have customary anti-dilution protections including a “full ratchet” anti-dilution adjustment provision which are triggered in the event the Company sells or grants any additional shares of common stock, options ,warrants or other securities that are convertible into common stock at a price lower than $0.30 per share, The anti-dilution adjustment provision is not triggered by certain “exempt issuances” which among other issuances, includes the issuance of shares of common stock, options or other securities to officers, employees, directors, consultants or service providers.

The warrants are exercisable on a cashless basis if at any time there is no effective registration statement covering the resale of the shares of common stock underlying the warrants. See below.

Based on an evaluation as discussed in FASB ASC 815-15, “Embedded Derivatives” and FASB ASC 815-40-15, “Contracts in Entity’s Own Equity - Scope and Scope Exceptions,” the Company determined that the full ratchet anti-dilution feature in the warrants issued were not considered indexed to its own stock because neither the occurrence of a sale of equity securities by the issuer at market nor the issuance of another equity contract with a lower strike price is an input to the fair value of a fixed-for-fixed option or forward on equity shares. As such, the full ratchet anti-dilution feature should be bifurcated from the warrants and accounted for as a derivative liability.

The Company did not value the derivative liability. One of the key determinants of the Company’s decision to not value the derivative liability was the high likelihood that a future financing would not occur that would trigger the down round feature. Whether a future equity financing would occur would be determined by the cash needs of the Company and management’s willingness to trigger the down round feature. The Company’s reasons were based on the Memorandum of Understanding that was signed on June 24, 2015 indicating that preferred shares would be issued at a conversion price of $0.30.

Under GAAP, the Company is required to mark-to-market the derivative liability at the end of each reporting period. The Company did not value the derivative liability at the date of issuance, December 31, 2014 or September 30, 2015. At such dates, the Company determined that it was highly unlikely that an equity financing would occur that would trigger the down round feature. Such conclusion was based upon the discussion noted above.

The Company filed a registration statement on Form S-1 with the SEC to register the public resale of 13,956,250 of the shares of common stock issued in the November 2014 Private Investor SPA. The registration statement was declared effective on January 29, 2015. Post reverse split, the Company filed a registration statement on Form S-1 with the SEC to register the balance of the shares of common stock issued under the November 2014 Private Investor SPA which was declared effective on May 4, 2015.

Warrants

On March 9, 2015, the Company issued a warrant to purchase 575,000 shares of common stock to a consultant which vests in equal quarterly installments over one year and is exercisable at $0.21 per share through March 8, 2020.

The fair value of the warrants was estimated on the date of grant at $98,065 using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate: 1.66%, expected life of options in years: 5, expected dividends: 0, volatility of stock price: 115.7%.

Share based expense related to the value of the stock warrants is recorded over the requisite service period, which is generally the vesting period for each tranche. Stock warrants issued by the Company are valued using the Black-Scholes option-pricing model. For the three and nine months ended September 30, 2015, the Company recorded an expense of $4,398 and $30,054 respectively, related to the stock warrants.

On September 23, 2015, the Company issued a warrant to purchase 833,333 shares of common stock in connection with the issuance of a promissory note. Refer to Note 6 for details.

Issuances and Exercise of Stock Options

During the three and nine months ended September 30, 2015, the Company granted 1,103,000 and 1,178,000 stock options, respectively, to employees and directors. The options are exercisable for a term of seven years and vest in equal annual installments over a three-year period commencing on the date of grant. The options are exercisable at $0.18-0.20 per share.

The fair value of the options was estimated on the date of grant at $169,343 using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate: 1.44-1.50%, expected life of options in years: 4.5, expected dividends: 0, volatility of stock price: 117-118%.

9. SEGMENT INFORMATION

The Company has determined that its continuing operations are one discrete segment consisting of biometric products. Geographically, North American sales accounted for approximately 56% and 81% of the Company's total sales for the three months ended September 30, 2015 and 2014, respectively, and were approximately 32% and 91% of the Company's total sales for the nine months ended September 30, 2015 and 2014, respectively.

10. FAIR VALUES OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts and notes receivable, accounts payable, accrued liabilities, and notes payable, are carried at, or approximate, fair value because of their short-term nature.

The fair value of the warrant liabilities at September 30, 2015 were measured using the following assumptions:

Risk-free interest rate	0.35 - 1.37%
Expected term	1.07 – 4.98
Expected dividends	0
Volatility of stock price	84.4 - 115.9%

The warrant liabilities are considered Level 3 liabilities on the fair value hierarchy as the determination of fair value includes various assumptions about of future activities and the Company's stock prices and historical volatility as inputs.

Warrant issued under PI SPA	
Fair value at January 1, 2015	43,227
Gain on derivative	(35,037)
	8,190
Warrant issued under September 2015 SPA	
Fair value at January 1, 2015	-
Fair value at issuance	92,199
Gain on derivative	(7,191)
	85,008
Balance, September 30, 2015	$ 93,198

11. MAJOR CUSTOMERS AND ACCOUNTS RECEIVABLE

For the three months ended September 30, 2015 and 2014, three customers accounted for 65% and three customers accounted for 58% of revenue, respectively. For the nine months ended September 30, 2015 and 2014, one customer accounted for 53% and four customers accounted for 71% of revenue, respectively.

At September 30, 2015, one customer accounted for 94% of accounts receivable. At December 31, 2014, one customer accounted for 62% of accounts receivable.

12. CONTINGENCY

On or about March 13, 2014, LifeSouth Community Blood Centers, Inc. (“LifeSouth”), filed a lawsuit against the Company in the Superior Court of Monmouth County, New Jersey (MON-L-1042-14) alleging a breach of a license agreement and seeking return of all amounts paid under the license in the amount of $718,500. On August 21, 2015, the Company and LifeSouth entered into a settlement agreement to discontinue and end litigation.

13. SUBSEQUENT EVENTS

On October 22 and 29, 2015 the Company issued 84,500 shares (the “Series A-1 Shares”) of Series A-1 Convertible Preferred Stock at a purchase price of $100.00 per share, for aggregate gross proceeds of $8,450,000. The Series A-1 Shares are convertible at any time at the option of the holder into shares of common stock at an initial conversion price of $0.30 per share and accrue dividends at the rate of 6% per annum payable quarterly on April 1, July, 1, October 1, and January 1 of each year, payable in cash through October 1, 2017 and thereafter, in cash or kind through the issuance of additional shares of common stock.

On November 11, 2015 the Company issued 105,000 shares (the “Series B-1 Shares”) of Series B-1 Convertible Preferred Stock at a purchase price of $100.00 per share, for gross proceeds of $10,500,000, and 5,500 additional shares of Series A-1 Convertible Preferred Stock at a purchase price of $100.00 per share, for gross cash proceeds of $550,000.

The Series B-1 Shares are convertible at any time at the option of the holder into shares of common stock at an initial conversion price of $0.30 per share and accrue dividends at the rate of 2.5% per annum payable quarterly on April 1, July, 1, October 1, and January 1 of each year payable in cash.

The holders of the Series A-1 and B-1 Shares are entitled to vote on an as converted to common stock basis together with the holders of our common stock on all matters presented to our stockholders.

On November 11, 2015, in conjunction with the private placement transactions described above, BIO-key Hong Kong Ltd., a wholly-owned subsidiary of the Company, entered into a software license purchase agreement regarding a portfolio of mobile and online payment and security software technologies from certain subsidiaries of China Goldjoy Group Limited, formerly World Wide Touch Technology (Holdings) Limited, in consideration of a one-time payment of $12 million.

On November 9. 2015, the Company issued 25,000 shares of common stock to its directors in payment of board fees.

The Company has reviewed all other subsequent events through the date of filing.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT FOR FORWARD-LOOKING STATEMENTS

The information contained in this Report on Form 10-Q and in other public statements by us and our officers include or may contain certain forward-looking statements. All statements other than statements of historical facts contained in this Report, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "anticipate," "believe," "estimate," "will," "may," "future," "plan," "intend" and "expect" and similar expressions generally identify forward-looking statements. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Although we believe that our plans, intentions and expectations reflected in the forward-looking statements are reasonable, we cannot be sure that they will be achieved. Particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include: our history of losses and limited revenue; our ability to raise additional capital; our ability to protect our intellectual property; changes in business conditions; changes in our sales strategy and product development plans; changes in the marketplace; continued services of our executive management team; security breaches; competition between us and other companies in the biometric technology industry; market acceptance of biometric products generally and our products under development; delays in the development of products and statements of assumption underlying any of the foregoing, as well as other factors set forth under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the foregoing. Except as required by law, we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

We develop and market advanced fingerprint biometric identification and identity verification technologies, cryptographic authentication-transaction security technologies, as well as related identity management and credentialing software solutions. We were pioneers in developing automated, finger identification technology that supplements or compliments other methods of identification and verification, such as personal inspection identification, passwords, tokens, smart cards, ID cards, PKI, credit card, passports, driver's licenses, OTP or other form of possession or knowledge-based credentialing. Advanced BIO-key® technology has been and is used to improve both the accuracy and speed of competing finger-based biometrics.

In partnerships with OEMs, integrators, and solution providers, we provide biometric software solutions to private and public sector customers. We provide the ability to positively identify and authenticate individuals before granting access to valuable corporate resources, web portals or applications in seconds. Powered by our patented Vector Segment Technology™ or VST™, WEB-key® and BSP development kits are fingerprint biometric solutions that provide interoperability with all major reader manufacturers, enabling application developers and integrators to integrate fingerprint biometrics into their applications.

We have developed what we believe is the most discriminating and effective commercially available finger-based biometric technology. Our primary focus is in marketing and selling this technology into commercial logical and physical privilege entitlement & access control markets. Our primary market focus includes, among others, mobile payments & credentialing, online payments and credentialing, and healthcare record and payment data security. Our secondary focus includes government markets, primarily law enforcement forensic investigation and Department of Homeland Security.

STRATEGIC OUTLOOK

Historically, our largest market has been access control within highly regulated industries such as healthcare. However, we believe the mass adoption of advanced smart-phone and hand-held wireless devices has caused commercial demand for advanced user authentication to emerge. The introduction of smart-phone capabilities, like mobile payments and credentialing, could effectively require biometric user authentication on mobile devices to reduce risks of identity theft, payment fraud and other forms of fraud in the mobile or cellular-based world wide web. As more services and payment functionalities, such as mobile wallets and near field communication (NFC), migrate to smart-phones, the value and potential risk associated with such systems should grow and drive demand and adoption of advanced user authentication technologies, including fingerprint biometrics and BIO-key solutions.

In October 2013, Apple Computer Corporation released the Apple iPhone 5s smartphone ("5s"). We believe the 5s to be the first broadly distributed smartphone to incorporate fingerprint biometrics in the phone. Since that time, HTC Corporation has also released a fingerprint biometric enabled smartphone. We believe other smartphone, tablet, laptop and related smart-device manufacturers will additionally make fingerprint-enabled smart devices available for consumer applications. As devices with onboard fingerprint sensors continue to deploy to consumers, we expect that third party application developers will demand the ability to authenticate users of their respective applications with the onboard fingerprint biometric. We further believe that authentication will occur on the device itself for potentially low-value, and therefore low-risk, use-transactions and that user authentication for high-value transactions will migrate to the application provider's authentication server, typically located within their supporting technology infrastructure, or cloud. We have developed our technology to enable on-device authentication as well as network or cloud-based authentication and believe we may be the only technology vendor capable of providing this flexibility and capability.

We believe there is potential for significant market growth in three key areas:

- corporate network access control, including corporate campuses, computer networks and applications;
- consumer mobile credentialing, including mobile payments, credit and payment card programs, data and application access, and commercial loyalty programs; and
- government services and highly regulated industries, including Medicare, Medicaid, Social Security, drivers licenses, campus and school ID, passports/visas.

In the near-term, we expect to grow our business within government services and highly-regulated industries in which we have historically had a strong presence, such as the healthcare industry. We believe that continued heightened security and privacy requirements in these industries will generate increased demand for security solutions, including biometrics.

Over the longer term, we intend to expand our business into the cloud and mobile computing industries. The emergence of cloud computing and mobile computing are primary drivers of commercial and consumer adoption of advanced authentication applications, including biometric and BIO-key authentication capabilities. This effort will be facilitated with our recent software license purchase agreement regarding a portfolio of mobile and online payment and security software technologies. As the value of assets, services and transactions increases on such networks, we expect that security and user authentication demand should rise proportionately. Our integration partners include major web and network technology providers, who we believe will deliver our cloud-applicable solutions to interested service-providers. These service-providers could include, but are not limited to, financial institutions, web-service providers, consumer payment service providers, credit reporting services, consumer data service providers, healthcare providers and others. Additionally, our integration partners include major technology component providers and OEM manufacturers, who we believe will deliver our device-applicable solutions to interested hardware manufacturers. Such manufacturers could include cellular handset and smartphone manufacturers, tablet manufacturers, laptop and PC manufacturers, among other hardware manufacturers.

CRITICAL ACCOUNTING POLICIES

For detailed information regarding our critical accounting policies and estimates, see our financial statements and notes thereto included in this Report and in our Annual Report on Form 10-K, for the year ended December 31, 2014. There have been no material changes to our critical accounting policies and estimates from those disclosed in our most recent Annual Report on Form 10-K.

RECENT ACCOUNTING PRONOUNCEMENTS

For detailed information regarding recent account pronouncements, see Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2015 AS COMPARED TO SEPTEMBER 30, 2014

Consolidated Results of Operations - Percent Trend

	Three Months Ended September 30,	
	2015	**2014**
Revenues		
Services	37%	39%
License fees and other	63%	61%
	100%	100%
Costs and other expenses		
Cost of services	5%	11%
Cost of license fees and other	51%	8%
	56%	19%
Gross Profit	44%	81%
Operating expenses		
Selling, general and administrative	151%	77%
Research, development and engineering	55%	25%
	206%	102%
Operating loss	-162%	-21%
Other income (deductions)		
Total other income	1%	17%
Net loss	-161%	-4%

	Three months ended September 30,			
	2015	**2014**	**$ Change**	**% Change**
Revenues				
Service	$ 250,191	$ 496,127	$ (245,936)	-50%
License & other	419,655	787,720	(368,065)	-47%
Total Revenue	$ 669,846	$ 1,283,847	$ (614,001)	-48%
Cost of goods sold				
Service	$ 30,283	$ 144,224	$ (113,941)	-79%
License & other	344,557	99,730	244,827	245%
Total COGS	$ 374,840	$ 243,954	$ 130,886	54%

Revenues

For the three months ended September 30, 2015 and 2014, service revenues included approximately $229,000 and $179,000, respectively, of recurring maintenance and support revenue, and approximately $21,000 and $317,000 of non-recurring custom services revenue, respectively. Recurring service revenue increased 28% during the current period primarily due to the maintenance agreement from the large shipment in the second quarter of 2015. The non-recurring custom services decreased 93% due to a customer project that was completed at year-end 2014.

License and other revenue (comprised of third party hardware and royalties) decreased during the three months ended September 30, 2015. The decrease consisted of an approximate $605,000 or 97% decrease in our core software, offset by a $234,000 or 164% increase in third party hardware sales as a result of increased OEM demands, selling sensors to a reader manufacturer, and a variety of smaller proof of concept trial orders, offset by a 15% increase in royalty revenue from another OEM arrangement.

Costs of goods sold

During the three months ended September 30, 2015, cost of services decreased approximately $114,000 from the corresponding period in 2014 due to decreased associated requirements for non-recurring custom services revenue.

License and other costs for the three months ended September 30, 2015 increased $245,000 from the corresponding period in 2014 due to the hardware sold and associated cost.

Selling, general and administrative

	Three months ended September 30,			
	2015	2014	$ Change	% Change
Selling, general and administrative	$ 1,013,778	$ 989,521	$ 24,257	2%

Selling, general and administrative expenses increased 2% during the three months ended September 30, 2015 from the corresponding period in 2014. Increases consisted of increased professional fees and costs related to the settlement of the LifeSouth lawsuit, and factoring fees, offset by lower commissions related to decreased sales.

Research, development and engineering

	Three months ended September 30,			
	2015	2014	$ Change	% Change
Research, development and engineering	$ 368,788	$ 324,992	$ 43,796	13%

During the three months ended September 30, 2015, research, development and engineering costs increased 13% over the corresponding period in 2014. During 2014, some of the R&D projects were paid for by a third party and, therefore, the associated costs were reclassified resulting in a decrease in research, development and engineering costs of approximately $100,000. Accordingly, total R&D costs were reduced for the current quarter by approximately $56,000 due to reduced temporary personal costs, offset by increased personnel costs in 2015.

Other income and expense

	Three months ended September 30,			
	2015	2014	$ Change	% Change
Interest income	1	2	(1)	-50%
Interest expense	(20,000)	-	(20,000)	100%
Gain on derivative liabilities	27,975	223,892	(195,917)	-88%
Income taxes	-	(800)	800	-100%
Total	$ 7,976	223,094	$ (215,118)	-96%

Interest income for the quarter ended September 30, 2015 and September 30, 2014 consisted of bank interest.

Interest expense for the quarter ended September 30, 2015 represents the amortized portion of the original issue discount of and the interest charge the loan. During the fourth quarters of 2013 and 2014 and third quarter of 2015, we issued various warrants that contained derivative liabilities. Such derivative liabilities are required to be marked-to-market each reporting period.

NINE MONTHS ENDED SEPTEMBER 30, 2015 AS COMPARED TO SEPTEMBER 30, 2014

Consolidated Results of Operations - Percent Trend

	Nine Months Ended September 30,	
	2015	**2014**
Revenues		
Services	21%	34%
License fees and other	79%	66%
	100%	100%
Costs and other expenses		
Cost of services	4%	10%
Cost of license fees and other	14%	7%
	18%	17%
Gross Profit	82%	83%
Operating expenses		
Selling, general and administrative	84%	90%
Research, development and engineering	33%	42%
	117%	132%
Operating loss	-35%	-49%
Other income (deductions)		
Total other income	1%	4%
Net Income (loss)	-34%	-45%

	Nine months ended September 30,			
	2015	**2014**	**$ Change**	**% Change**
Revenues				
Service	$ 755,813	$ 1,027,069	$ (271,256)	-26%
License & other	2,835,662	2,027,089	808,573	40%
Total Revenue	$ 3,591,475	$ 3,054,158	$ 537,317	18%
Cost of goods sold				
Service	$ 154,251	$ 296,504	$ (142,253)	-48%
License & other	505,339	225,925	279,414	124%
Total COGS	$ 659,590	$ 522,429	$ 137,161	26%

Revenues

For the nine months ended September 30, 2015 and 2014, service revenues included approximately $506,000 and $472,000, respectively, of recurring maintenance and support revenue, and approximately $250,000 and $555,000, respectively, of non-recurring custom services revenue. Recurring service revenue increased 7% from 2014 to 2015 as we continued to expand our customer base. The non-recurring custom services decreased 55% due to a customer project that was completed at year-end 2014.

For the nine months ended September 30, 2015, license and other revenue (comprised of third party hardware and royalty) increased approximately 40% as a result of several contributing factors. Software license revenue increased approximately $516,000 or 32% as a result of licenses purchased for both new and existing customers. This included one large order shipped in the second quarter and continued expansion of biometric ID deployments with commercial partners LexisNexis, Educational Biometric Technology, and Identimetrics, and continued expansion of our footprint in the healthcare market. Third-party hardware sales increased by approximately $273,000 or 79%, as a result of increased OEM demands, selling sensors to a reader manufacturer, and a variety of smaller proof-of-concept trial orders. Finally, royalty income increased 35% to approximately $81,000 from $62,000 during the corresponding period in 2014 due to an additional OEM contract.

Costs of goods sold

For the nine months ended September 30, 2015, cost of service decreased approximately $142,000 from the corresponding period in 2014 primarily as a result of costs associated with non-recurring custom services decreased revenue. License and other costs for the nine months ended September 30, 2015 increased approximately $279,000 from the corresponding period in 2013, due to the increase in third party hardware revenue.

Selling, general and administrative

	Nine months ended September 30,			
	2015	2014	$ Change	% Change
Selling, general and administrative	$ 3,034,318	$ 2,741,665	$ 292,653	10%

Selling, general and administrative expenses for the nine months ended September 30, 2015 increased 10% from the corresponding period in 2014. Increases included factoring fees, the LifeSouth settlement, and sales recruiting costs.

Research, development and engineering

	Nine months ended September 30,			
	2015	2014	$ Change	% Change
Research, development and engineering	$ 1,169,427	$ 1,282,536	$ (113,109)	-9%

During the nine months ended September 30, 2015, research, development and engineering costs decreased 9% from the corresponding period in 2014, due to reduced temporary outside services for specific projects. Some of the projects were paid for by a third party in 2014 and, therefore, the associated costs were reclassified and are not included in the 9% decrease.

Other income and expense

	Nine months ended September 30,			
	2015	2014	$ Change	% Change
Interest income	5	5	-	0%
Interest expense	(20,000)	-	(20,000)	100%
Gain on derivative liabilities	42,228	117,153	(74,925)	-64%
Income taxes	(912)	(1,712)	800	-47%
Total	$ 21,321	$ 115,446	$ (94,125)	-82%

Interest income for the period ended September 30, 2015 and September 30, 2014 consisted of bank interest.

Interest expense for the period ended September 30, 2015 represents the amortized portion of the original issue discount and the interest charge of the loan.

During the fourth quarters of 2013 and 2014, and third quarter of 2015, we issued various warrants that contained derivative liabilities. Such derivative liabilities are required to be marked-to-market each reporting period.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash used for operations during the nine months ended September 30, 2015 was approximately $974,000. The cash used in operating activities was primarily attributable to the following items:

- Positive cash flows related to an increase in accounts payable, as well as adjustments to depreciation, amortization, share-based compensation, and amortization on note payable discount of approximately $1,281,000.

- Negative cash flows related to an increase in accounts receivable, net of due to factor of approximately $930,000, due to working capital management.

Net cash used for investing activities during the nine months ended September 30, 2015 was approximately $2,000 and related to capital expenditures.

Net cash provided by financing activities during the nine months ended September 30, 2015 was approximately $204,000. $250,000 was due to the issuance of a promissory note partially offset by $58,000 of costs to issue common stock.

Net working capital deficit at September 30, 2015 was approximately $512,000 as compared to net working capital of approximately $485,000 at December 31, 2014.

Capital Resources

Since our inception, our capital needs have been principally met through proceeds from the sale of equity and debt securities. We expect capital expenditures to be less than $100,000 during the next twelve months. We do not currently maintain a line of credit or term loan with any commercial bank or other financial institution.

The following sets forth our primary sources of capital since January 1, 2013:

As of December 2011, we entered into a 24-month accounts receivable factoring arrangement with a financial institution (the “Factor”). Pursuant to the terms of this arrangement, from time to time, we sell to the Factor certain of our accounts receivable balances on a non-recourse basis for credit approved accounts. The Factor remits 35% of the foreign and 75% of the domestic accounts receivable balance to the Company (the “Advance Amount”), with the remaining balance, less fees to be forwarded to the Company once the Factor collects the full accounts receivable balance from the customer. In addition, the Company, from time to time, receives over advances from the factor. Factoring fees range from 2.75% to 21% of the face value of the invoice factored, and are determined by the number of days required for collection of the invoice. In April 2012, the terms were updated from monthly to quarterly, and the 24-month arrangement was extended to August 1, 2014. In July of 2014, the arrangement was extended to July 31, 2016. We expect to continue to use this factoring arrangement periodically to assist with our general working capital requirements due to contractual requirements.

On February 26, 2013, we issued a promissory note in the principal amount of $497,307 (the “InterDigital Note”) to DRNC. The InterDigital Note accrued interest at a rate of 7% per annum and was scheduled to mature on December 31, 2015. A portion of the proceeds from the sale of the InterDigital Note was used to repay the Colatosti Note in full, and the remaining proceeds were used for general corporate purposes. On November 22, 2013, we repaid in full the $497,307 balance due under the InterDigital Note.

On February 26, 2013, we issued 2,013,468 shares of common stock to DRNC for an aggregate purchase price of $402,693.

On February 26, 2013, we also issued 2,500,000 shares of common stock to a limited number of investors for an aggregate purchase price of $500,000.

On July 23, 2013, we issued units to certain investors consisting of 1,750,003 shares of our common stock and warrants to purchase an additional 1,750,003 shares of our common stock at a purchase price $0.60 per unit, for an aggregate purchase price of $1,050,000. The warrants were originally exercisable at $0.80 per share and expire five years after the date of the grant. On December 2, 2013, we agreed to reduce the exercise price of the warrants to $0.50 per share.

On October 25 and November 8, 2013, we issued an aggregate of 12,323,668 units consisting of 12,323,668 shares of common stock and warrants to purchase an additional 12,323,668 shares of common stock at a purchase price $0.30 per unit for an aggregate purchase price of $3,697,100 prior to a deduction for placement agent fees and expenses. The warrants are exercisable at $0.50 per share and expire three years after the date of the grant.

In November 2014, we issued an aggregate of 7,974,999 shares of our common stock and warrants to purchase an additional 11,962,501 shares of common stock for an aggregate purchase price of $1,595,000. The warrants have a term of five years and an exercise price of $0.30 per share.

On September 23, 2015, we issued a promissory note and a warrant to purchase 833,333 shares of common stock for an aggregate principal sum of $250,000. The warrants have a term of five years and have an exercise price of $0.30 per share. The note was repaid in full in October 2015.

On October 22 and 29, 2015, we issued 84,500 shares (the “Series A-1 Shares”) of Series A-1 Convertible Preferred Stock at a purchase price of $100.00 per share, for aggregate gross proceeds of $8,450,000. The Series A-1 Shares are convertible at any time at the option of the holder into shares of common stock at an initial conversion price of $0.30 per share, subject to adjustment for stock dividends, stock splits, combinations, and reclassifications of our capital stock, and subject to a “blocker provision” which prohibits conversion if such conversion would result in the holder being the beneficial owner of in excess of 9.99% of our common stock. The Series A-1 Shares accrue dividends at the rate of 6% per annum payable quarterly on April 1, July, 1, October 1, and January 1 of each year payable in cash through October 1, 2017 and thereafter, in cash or kind through the issuance of additional shares of common stock having a value equal to the volume weighted average trading price of the Company’s common stock for the ten (10) days preceding the applicable dividend payment date.

On November 11, 2015 the Company issued 105,000 shares (the “Series B-1 Shares”) of Series B-1 Convertible Preferred Stock at a purchase price of $100.00 per share, for gross proceeds of $10,500,000, and 5,500 additional shares of Series A-1 Convertible Preferred Stock at a purchase price of $100.00 per share, for gross cash proceeds of $550,000. The Series B-1 Shares are convertible at any time at the option of the holder into shares of common stock at an initial conversion price of $0.30 per share, subject to adjustment for stock dividends, stock splits, combinations, and reclassifications of our capital stock, and subject to a “blocker provision” which prohibits conversion if such conversion would result in the holder being the beneficial owner of in excess of 9.99% of our common stock. The Series B-1 Shares accrue dividends at the rate of 2.5% per annum payable quarterly on April 1, July, 1, October 1, and January 1 of each year payable in cash.

Liquidity outlook

At September 30, 2015, our total cash and cash equivalents were approximately $72,000, as compared to approximately $844,000 at December 31, 2014.

As discussed above, we have historically financed our operations through access to the capital markets by issuing secured and convertible debt securities, convertible preferred stock, common stock, and recently through factoring receivables. We estimate that we currently require approximately $512,000 per month to conduct our operations, a monthly amount that we have been unable to consistently achieve through revenue generation. During the first nine months of 2015, we generated approximately $3,591,000 of revenue, which is below our average monthly requirements. With the addition of the dividend obligations for the Series A-1 and B-1 shares, our monthly amount will increase by approximately $63,000. With our recent fourth quarter capital raise, we believe our current cash resources are sufficient to fund our operations for at least the next twelve months.

If we are unable to continue to generate sufficient revenue to meet our goals, we will need to obtain additional third-party financing to (i) conduct the sales, marketing and technical support necessary to execute our plan to substantially grow operations, increase revenue and serve a significant customer base; and (ii) provide working capital. We may, therefore, need to obtain additional financing through the issuance of debt or equity securities.

Due to several factors, including our history of losses and limited revenue, our independent auditors have included an explanatory paragraph in their opinion related to our annual financial statements as to the substantial doubt about our ability to continue as a going concern. Our long-term viability and growth will depend upon the successful commercialization of our technologies and our ability to obtain adequate financing. To the extent that we require such additional financing, no assurance can be given that any form of additional financing will be available on terms acceptable to us, that adequate financing will be obtained to meet our needs, or that such financing would not be dilutive to existing stockholders. If available financing is insufficient or unavailable or we fail to continue to generate sufficient revenue, we may be required to further reduce operating expenses, delay the expansion of operations, be unable to pursue merger or acquisition candidates, or continue as a going concern.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of September 30, 2015, our CEO and CFO concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting occurred during the fiscal quarter ended September 30, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On or about March 13, 2014, LifeSouth Community Blood Centers, Inc. filed a lawsuit against us in the Superior Court of Monmouth County, New Jersey (MON-L-1042-14) alleging a breach of a license agreement and seeking return of all amounts paid under the license in the amount of $718,500. On August 24, 2015, we entered into a confidential settlement agreement to discontinue and end the litigation in consideration of quarterly payment through December 1, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On August 13, 2015, we issued options to purchase an aggregate of 1,003,000 shares of common stock to twelve employees, and 100,000 shares of common stock to our four non-employee directors. The options are exercisable at $0.18 per share, have a term of seven years, and vest in equal annual installments over a three-year period commencing on the date of grant.

On September 23, 2015, we issued a warrant to purchase 833,333 shares of common stock to one accredited investor in connection with the issuance of a promissory note. The warrant is immediately exercisable in full at an exercise price of $0.30 per share and has a term of five years.

The foregoing securities were issued in a private placement transactions pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, without general solicitation or advertising of any kind and without payment of placement agent or brokerage fees to any person.

ITEM 5. OTHER INFORMATION.

The information set forth below is included herewith for the purpose of providing the disclosure required under "Item 1.01- Entry into a Material Definitive Agreement", "Item 3.02 -Unregistered Sales of Equity Securities" and Item 5.03 - Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year" of SEC Form 8-K.

On November 11, 2015, pursuant to a Securities Stock Purchase Agreement (the "SPA") we issued 105,000 shares (the "Series B-1 Shares") of Series B-1 Convertible Preferred Stock at a purchase price of $100.00 per share for aggregate gross proceeds of $10,500,000 and pursuant to a Convertible Preferred Stock Purchase Agreement (the "CPSPA"), issued 5,500 shares (the "Series A-1 Shares") of Series A-1 Convertible Preferred Stock at a purchase price of $100.00 per share for aggregate gross proceeds of $550,000.

The Series B-1 Shares are convertible at any time at the option of the holder into shares of common stock at an initial conversion price of $0.30 per share, subject to adjustment for stock dividends, stock splits, combinations, and reclassifications of our capital stock, and subject to a "blocker provision" which prohibits conversion if such conversion would result in the holder being the beneficial owner of in excess of 9.99% of our common stock. The Series B-1 Shares accrue dividends at the rate of 2.5% per annum payable in cash quarterly on April 1, July, 1, October 1, and January 1 of each year provided that if payment in cash would be prohibited under applicable Delaware corporation law or cause us to breach any agreement for borrowed money, such dividends are payable in kind through the issuance of additional shares of common having a value equal to the volume weighted average trading price of our common stock for the ten (10) days preceding the applicable dividend payment date. The holders of the Series B-1 Shares are entitled to designate one person to serve on the Board of Directors of the Company. The holders of the Series B-1 Shares are entitled to vote on an as converted to common stock basis together with the holders of our common stock on all matters presented to our stockholders. Upon any liquidation or dissolution of the Company, any merger or consolidations involving the Company or any subsidiary of the Company in which the shares of capital stock of the Company outstanding immediately prior to such merger or consolidation do not represent immediately following such merger or consolidation at least a majority of the voting power of the capital stock of the resulting or surviving corporation, or the sale of all or substantially all assets in a single transaction or a series of related transactions, unless the holders of at least a majority of the outstanding Series B-1 Shares and A-1 Shares elect otherwise, holders of Series B-1 Shares shall be entitled to receive prior to any payment to any holders of the Company's common stock an amount per share equal to the series equal to $100.00 per share plus any declared and unpaid dividends.

The shares of common stock issuable upon conversion of the Series A-1 Shares and Series B-1 Shares are subject to a registration rights agreement (the "Registration Rights Agreement") pursuant to which we are obligated to seek registration of the public resale of such shares.

Under the CPSPA and SPA, we have agreed to seek stockholder approval to affect a reverse split of our outstanding shares of common stock. In the event that such split is effective and we otherwise satisfy the initial listing standards of the Nasdaq Capital Market, we will use commercially reasonable efforts to cause our shares to be listed on the Nasdaq Capital Market. The CPSPA and SPA contain standstill provisions which prevent the investors, either alone or together with any other person, from acquiring additional shares of our stock or any of our assets, soliciting proxies, or seeking further representation on our board of directors.

The forgoing securities were issued in a private placement transaction to three accredited investors pursuant to the exemption from registration provided by Section 4(a)(2) of the Securities Act if 1933, as amended, without engaging in any advertising or general solicitation of any kind and without payment of placement agent or brokerage fees to any person.

In connection with the issuance of the forgoing securities, BIO-key Hong Kong Limited, our wholly-owned subsidiary ("BIO-key HK"), entered into a Software License Purchase Agreement (the "License Agreement") with certain subsidiaries of China Goldjoy Group Limited, formerly known as World Wide Touch Technology (Holding) (the "Licensors"). The License Agreement provides for the grant to BIO-key HK of a perpetual, irrevocable, exclusive, worldwide, fully-paid license to all software and documentation regarding the software code, toolkit, electronic libraries and related technology currently known as or offered under the Finger Q name, together with perpetual license under all related patents held by the Licensors and any other intellectual property rights owned by the Licensors related to the forgoing software. The License Agreement grants BIO-key HK the exclusive right to reproduce, create derivative works and distribute copies of the FingerQ software and documentation, create new FingerQ related products, and grant sublicenses of the licensed technology to end users. In addition, in the event the Licensors make any derivatives or improvement in the FingerQ software or makes any product or service that may compete with or which includes functionality similar to the FingerQ technology, the Licensors are required to license such derivative, improvement, product or service to BIO-key HK on the terms set forth in the Licence Agreement at no additional charge to BIO-key HK. In consideration for the forgoing, our subsidiary made a one-time payment to the Licensors of $12,000,000.

The descriptions of the CPSPA, SPA, Registration Rights Agreement, and Certificate of Designations of Preferences of the Series B-1 Convertible Preferred Stock, set forth above are qualified in their entirety by reference to copies of such agreements filed as exhibits to this report and incorporated herein by this reference.

ITEM 6. EXHIBITS

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed as part of this Report.

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, thereunto duly authorized.

BIO-Key International, Inc.

Dated: November 16, 2015

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

Dated: November 16, 2015

/s/ Cecilia Welch
Cecilia Welch
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
3.1	Certificate of Designation of Preferences, Rights and Limitations of Series B-1 Convertible Preferred Stock
10.1	Form of Securities Purchase Agreement
10.2	Form of Registration Rights Agreement
31.1	Certificate of CEO of Registrant required under Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended
31.2	Certificate of CFO of Registrant required under Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended
32.1	Certificate of CEO of Registrant required under 18 U.S.C. Section 1350
32.2	Certificate of CFO of Registrant required under 18 U.S.C. Section 1350
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

BIO-KEY INTERNATIONAL, INC.

CERTIFICATE OF DESIGNATION OF PREFERENCES,
RIGHTS AND LIMITATIONS
OF
SERIES B-1 CONVERTIBLE PREFERRED STOCK

The undersigned, Michael DePasquale, hereby certifies that:

1. He is the Chief Executive Officer and Chairman of the Board of Directors of BIO-Key International, Inc., a Delaware corporation (the " **Corporation**").

2. The Corporation is authorized to issue 5,000,000 shares of preferred stock, par value $0.0001 per share, none of which are issued or outstanding.

3. The following resolutions were duly adopted by the Board of Directors:

WHEREAS, the certificate of incorporation, as amended to date, of the Corporation provides for a class of its authorized stock known as preferred stock, comprised of up to 5,000,000 shares, par value $0.0001 per share (the "**Preferred Stock**"), issuable from time to time in one or more series;

WHEREAS, the Board of Directors of the Corporation is authorized to fix the dividend rights, dividend rate, voting rights, conversion rights, rights and terms of redemption and liquidation preferences of any wholly unissued series of Preferred Stock and the number of shares constituting any series and the designation thereof, of any of them;

WHEREAS, as of the date hereof, no shares of preferred stock are outstanding and it is the desire of the Board of Directors of the Corporation, pursuant to its authority as aforesaid, to authorize 56,771 shares of Series B-1 Convertible Preferred Stock pursuant to the following Certificate of Designation of Preferences, Rights and Limitations.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors does hereby authorize the following Certificate of Designation of Preferences, Rights and Limitations to provide for the issuance of Series B-1 Convertible Preferred Stock for cash or exchange of other securities, rights or property and does hereby fix and determine the rights, preferences, restrictions and other matters relating to such Series B-1 Convertible Preferred Stock as follows:

TERMS OF SERIES B-1 CONVERTIBLE PREFERRED STOCK

1 . Designation, Amount, Par Value and Rank . This series of Preferred Stock shall be designated as the Corporation's Series B-1 Convertible Preferred Stock (the "**Series B-1 Preferred Stock**") and the number of shares so designated shall be 105,000. Each share of Series B-1 Preferred Stock shall have a par value of $0.0001 per share. Shares of Series B-1 Preferred Stock shall rank pari-passu in all respects with the shares of Series A-1 Convertible Preferred Stock, $0.0001 par value per share (the "**Series A-1 Preferred Stock**").

2. Dividends and Other Distributions.

2.1 Accruing Dividends and Dividend Rate. From and after the date of issuance of any shares of Series B-1 Preferred Stock, dividends shall accrue on such shares of Series B-1 Preferred Stock at the rate of 2.5% per annum, on April 1, July 1, October 1 and January 1 of each year on the Series B-1 Original Issue Price ("**Accruing Dividends**"). The amount of Accruing Dividends issuable will be computed on the basis of a 360-day year of twelve 30 day months. Accruing Dividends shall accrue from day to day, whether or not declared, and shall be cumulative. Unless holders of at least a majority of the outstanding shares of Series B-1 Preferred Stock and Giant Leap International Limited ("**GLIL**"), to the extent that it remains a holder of at least 25% of the issued and outstanding shares of Series B-1 Preferred Stock, elect otherwise by written notice to the Corporation, all Accruing Dividends shall be paid in cash unless such payment would be prohibited by the Delaware General Corporation Law or cause the Corporation to breach any agreement for borrowed money. In such event, the Corporation will pay the Accruing Dividends "in kind" by issuing shares (such shares, "**Dividend Shares**") of common stock, $.0001 par value per share, of the Corporation ("**Common Stock**") and delivering stock certificates representing such Dividend Shares on the applicable quarterly payment date. For the avoidance of doubt, Dividend Shares are deemed issued and outstanding on the applicable dividend payment date, regardless of whether stock certificates evidencing the Dividend Shares are issued or delivered. Payment of Dividend Shares shall be made by delivering a certificate or certificates evidencing such shares, which shall be dated as of the applicable dividend payment date, to such holder at such holder's address as it appears in the books and records of the Corporation at the close of business on the record date for such dividend payment date. Payments of Dividend Shares shall be made in shares of Common Stock having a value equal to the volume weighted average trading price of the Common Stock during the ten (10) trading day period preceding the applicable dividend payment date. All dividends paid in respect of shares of Series B-1 Preferred Stock, including the Accruing Dividends, shall be paid pro rata to the holders of Series B-1 Preferred Stock entitled thereto. The "**Series B-1 Original Issue Price**" shall mean $100.00 per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series B-1 Preferred Stock.

2.2 Fractional Shares. Fractional shares of Common Stock otherwise payable as Dividend Shares shall be rounded down to the nearest whole share after aggregating all Dividend Shares issuable to a holder thereof, and the amount of Accruing Dividends attributable to such fractional share shall be paid in cash, except to the extent otherwise required by applicable law. All Dividend Shares will, upon issuance, be duly authorized, validly issued, fully paid, and nonassessable.

3. Liquidation, Dissolution or Winding Up; Certain Mergers, Consolidations and Asset Sales.

3.1 Preferential Payments to Holders of Series B-1 Preferred Stock. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event (as defined below), the holders of shares of Series B-1 Preferred Stock and Series A-1 Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders before any payment shall be made to the holders of Common Stock by reason of their ownership thereof, an amount per share equal to (a) in the case of shares of Series B-1 Preferred Stock, the Series B-1 Original Issue Price, plus any other dividends declared but unpaid thereon (the "**Series B-1 Liquidation Amount**") and (b) in the case of the Series A-1 Preferred Stock, the Series A-1 Liquidation Amount (as that term is defined in the Certificate Of Designation of Preferences, Rights and Limitations Of Series A-1 Convertible Preferred Stock of BIO-Key International, Inc.). If upon any such liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of shares of Series B-1 Preferred Stock and Series A-1 Preferred Stock the full amount to which they shall be entitled under this Subsection 3.1, the holders of shares of Series B-1 Preferred Stock and the holders of shares of Series A-1 Preferred Stock shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

3.2 Payments to Holders of Common Stock. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, after the payment of all preferential amounts required to be paid to the holders of shares of Series B-1 Preferred Stock, Series A-1 Preferred Stock and any other series of preferred stock having a preference over Common Stock with respect to distributions in liquidation, the remaining assets of the Corporation available for distribution to its stockholders shall be distributed among the holders of shares of Common Stock and any other series of Preferred Stock which rank pari-passu with the Common Stock with respect to distributions in liquidation, pro rata based on the number of shares held by each such holder.

3.3 Deemed Liquidation Events.

3.3.1 Definition. Each of the following events shall be considered a " **Deemed Liquidation Event**" unless the holders of at least a majority of the outstanding shares of Series B-1 Preferred Stock and Series A-1 Preferred Stock voting together as a single class and GLIL, to the extent that it remains a holder of at least 25% of the issued and outstanding shares of Series B-1 Preferred Stock, elect otherwise by written notice sent to the Corporation at least five (5) days prior to the effective date of any such event:

(a) a merger or consolidation in which

(i) the Corporation is a constituent party or

(ii) a subsidiary of the Corporation is a constituent party and the Corporation issues shares of its capital stock pursuant to such merger or consolidation,

except any such merger or consolidation involving the Corporation or a subsidiary in which the shares of capital stock of the Corporation outstanding immediately prior to such merger or consolidation continue to represent, or are converted into or exchanged for shares of capital stock that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the capital stock of (1) the surviving or resulting corporation; or (2) if the surviving or resulting corporation is a wholly owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation; or

(b) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Corporation or any subsidiary of the Corporation of all or substantially all the assets of the Corporation and its subsidiaries taken as a whole, or the sale or disposition (whether by merger, consolidation or otherwise) of one or more subsidiaries of the Corporation if substantially all of the assets of the Corporation and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly owned subsidiary of the Corporation.

3.3.2 Effecting a Deemed Liquidation Event .

(a) The Corporation shall not have the power to effect a Deemed Liquidation Event referred to in Subsection 3.3.1(a)(i) unless the agreement or plan of merger or consolidation for such transaction (the "**Merger Agreement**") provides for payment to the holders of shares of Series B-1 Preferred Stock an amount per share equal to the Series B-1 Liquidation Amount, unless the holders of at least a majority of the outstanding shares of Series B-1 Preferred Stock, voting as a single class, and GLIL, to the extent that it remains a holder of at least 25% of the issued and outstanding shares of Series B-1 Preferred Stock, elect otherwise by written notice sent to the Corporation.

(b) In the event of a Deemed Liquidation Event referred to in Subsection 3.3.1(a)(ii) or 3.3.1(b), if the Corporation does not effect a dissolution of the Corporation under the General Corporation Law within ninety (90) days after such Deemed Liquidation Event, then (i) the Corporation shall send a written notice to each holder of Series B-1 Preferred Stock and Series A-1 Preferred Stock no later than the ninetieth (90^{th}) day after the Deemed Liquidation Event advising such holders of their right (and the requirements to be met to secure such right) pursuant to the terms of the following clause; (ii) to require the redemption of such shares of Series B-1 Preferred Stock and Series A-1 Preferred Stock, and (iii) if the holders of at least a majority of the then outstanding shares of Series B-1 Preferred Stock and Series A-1 Preferred Stock, respectively, voting as separate classes, and GLIL, to the extent that it remains a holder of at least 25% of the issued and outstanding shares of Series B-1 Preferred Stock, so request in a written instrument delivered to the Corporation not later than one hundred twenty (120) days after such Deemed Liquidation Event, the Corporation shall use the consideration received by the Corporation for such Deemed Liquidation Event (net of any retained liabilities associated with the assets sold or technology licensed, as determined in good faith by the Board of Directors of the Corporation), together with any other assets of the Corporation available for distribution to its stockholders, all to the extent permitted by Delaware law governing distributions to stockholders (the "**Available Proceeds**"), on the one hundred fiftieth (150^{th}) day after such Deemed Liquidation Event, to redeem all outstanding shares of Series B-1 Preferred Stock at a price per share equal to the Series B-1 Liquidation Amount and all outstanding shares of Series A-1 Preferred Stock at a price per equal to the Series A-1 Liquidation Amount (as that term is defined the Certificate Of Designation of Preferences, Rights and Limitations Of Series A-1 Convertible Preferred Stock of BIO-Key International, Inc.). Notwithstanding the foregoing, in the event of a redemption pursuant to the preceding sentence, if the Available Proceeds are not sufficient to redeem all outstanding shares of Series B-1 Preferred Stock and Series A-1 Preferred Stock, the Corporation shall ratably redeem each holder's shares of Series B-1 Preferred Stock and Series A-1 Preferred Stock to the fullest extent of such Available Proceeds, and shall redeem the remaining shares as soon as it may lawfully do so under Delaware law governing distributions to stockholders. Prior to the distribution or redemption provided for in this Subsection 3.3.2(b), the Corporation shall not expend or dissipate the consideration received for such Deemed Liquidation Event, except to discharge expenses incurred in connection with such Deemed Liquidation Event or in the ordinary course of business.

3.3.3 Amount Deemed Paid or Distributed. If the amount deemed paid or distributed under this Subsection 3.3.3 is made in property other than in cash, the value of such distribution shall be the fair market value of such property, determined as follows:

(a) For securities not subject to investment letters or other similar restrictions on free marketability,

(i) if traded on a securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange or market over the thirty (30) day period ending three (3) days prior to the closing of such transaction;

(ii) if actively traded over-the-counter, the value shall be deemed to be the average of the closing bid prices over the thirty (30) day period ending three (3) days prior to the closing of such transaction; or

(iii) if there is no active public market, the value shall be the fair market value thereof, as determined in good faith by the Board of Directors of the Corporation.

(b) The method of valuation of securities subject to investment letters or other similar restrictions on free marketability (other than restrictions arising solely by virtue of a stockholder's status as an affiliate or former affiliate) shall take into account an appropriate discount (as determined in good faith by the Board of Directors of the Corporation) from the market value as determined pursuant to clause (a) above so as to reflect the approximate fair market value thereof.

4. Voting.

4.1 General. On any matter presented to the stockholders of the Corporation for their action or consideration at any meeting of stockholders of the Corporation (or by written consent of stockholders in lieu of meeting), each holder of outstanding shares of Series B-1 Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the shares of Series B-1 Preferred Stock held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. Except as provided by law or by the other provisions of the Certificate of Incorporation, holders of Series B-1 Preferred Stock shall vote together with the holders of Common Stock as a single class.

4.2 Election of Directors. The holders of record of the shares of Series B-1 Preferred Stock, exclusively and as a separate class, shall be entitled to nominate one (1) director of the Corporation (the "**Series B-1 Director**"). The nominee for the Series B-1 Director shall be designated by majority vote or written consent in lieu of a meeting of the holders of the Series B-1 Preferred Stock voting as a separate class and the vote or written consent of GLIL to the extent that it remains a holder of at least 25% of the issued and outstanding shares of Series B-1 Preferred Stock. The Board of Directors will initially appoint such nominee as the Series B-1 Director upon receiving a written, signed certification from such appointee that he or she is not subject to any of the "Bad Actor" disqualifications described in Rule 506(d)(1)(i) to (viii) under the Securities Act of 1933, as amended. Thereafter, the Board of Directors will include such Series B-1 Director in management's slate of directors in future stockholder meetings. Any director nominated and elected as provided in the preceding sentences may be removed without cause by, and only by, majority vote or written consent in lieu of a meeting of the holders of the Series B-1 Preferred Stock voting as a separate class and the vote or written consent of GLIL to the extent that it remains a holder of at least 25% of the issued and outstanding shares of Series B-1 Preferred Stock. If the holders of shares of Series B-1 Preferred Stock fail to nominate a director, then such directorship not so filled shall remain vacant until such time as the holders of the Series B-1 Preferred Stock nominate a person to fill such directorship by vote or written consent in lieu of a meeting.

5. Optional Conversion.

The holders of the Series B-1 Preferred Stock shall have conversion rights as follows (the " **Conversion Rights**"):

5.1 Right to Convert.

5.1.1 Conversion Ratio. Each share of Series B-1 Preferred Stock shall be convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into such number of fully paid and non-assessable shares of Common Stock as is determined by dividing the Series B Original Issue Price by the Series B-1 Conversion Price (as defined below) in effect at the time of conversion. The "**Series B-1 Conversion Price**" shall initially be equal to $0.30. Such initial Series B-1 Conversion Price, and the rate at which shares of Series B-1 Preferred Stock may be converted into shares of Common Stock, shall be subject to adjustment as provided in Section 5 hereof and shall be subject to the limitation set forth in Section 5.1.3 hereof.

5.1.2 Termination of Conversion Rights. In the event of a liquidation, dissolution or winding up of the Corporation or a Deemed Liquidation Event, the Conversion Rights shall terminate at the close of business on the last full day preceding the date fixed for the payment of any such amounts distributable on such event to the holders of Series B-1 Preferred Stock.

5.1.3 Limitation on Conversion. Each holder of Series B-1 Preferred Stock shall not have the right to convert any portion of the Series B-1 Preferred Stock pursuant to Section 5.1 hereof, to the extent that after giving effect to such conversion, the holder (together with the holder's affiliates) would beneficially own in excess of 9.99% (the "**Maximum Percentage**") of the number of shares of Common Stock outstanding immediately after giving effect to such conversion. For purposes of this Section 5.1.3, in determining the number of outstanding shares of Common Stock, the holder may rely on the number of outstanding shares of Common Stock as reflected in (x) the Corporation's most recent Form 10-Q or Form 8-K, as the case may be (y) a more recent public announcement by the Corporation or (z) any other notice by the Corporation or the transfer agent of the Corporation setting forth the number of shares of Common Stock outstanding. For any reason at any time, upon the written or oral request of the holder, the Corporation shall within one business day confirm orally and in writing to the holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Corporation, including the Series B-1 Preferred Stock, by the holder or its affiliates since the date as of which such number of outstanding shares of Common Stock was reported. By written notice to the Corporation, the holder may increase the Maximum Percentage to any other percentage specified in such notice; provided that (i) any such increase will not be effective until the sixty-first (61st) day after such notice is delivered to the Corporation (unless such notice is provided prior to the initial issuance of such Series B-1 Preferred Stock), and (ii) any such increase will apply only to the holder and not to any other holder of Series B-1 Preferred Stock.

5 . 2 Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of the Series B-1 Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the fair market value of a share of Common Stock as determined in good faith by the Board of Directors of the Corporation. Whether or not fractional shares would be issuable upon such conversion shall be determined on the basis of the total number of shares of Series B-1 Preferred Stock the holder is at the time converting into Common Stock and the aggregate number of shares of Common Stock issuable upon such conversion.

5.3 Mechanics of Conversion.

5.3.1 Notice of Conversion. In order for a holder of Series B-1 Preferred Stock to voluntarily convert shares of Series B-1 Preferred Stock into shares of Common Stock, such holder shall (a) provide written notice to the Corporation's transfer agent at the office of the transfer agent for the Series B-1 Preferred Stock (or at the principal office of the Corporation if the Corporation serves as its own transfer agent for the Series B-1 Preferred Stock) that such holder elects to convert all or any number of such holder's shares of Series B-1 Preferred Stock and, if applicable, any event on which such conversion is contingent and (b), if such holder's shares are certificated, surrender the certificate or certificates for such shares of Series B-1 Preferred Stock (or, if such registered holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate), at the office of the transfer agent for the Series B-1 Preferred Stock (or at the principal office of the Corporation if the Corporation serves as its own transfer agent for the Series B-1 Preferred Stock). Such notice shall state such holder's name or the names of the nominees in which such holder wishes the shares of Common Stock to be issued. If required by the Corporation, any certificates surrendered for conversion shall be endorsed or accompanied by a written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or his, her or its attorney duly authorized in writing. The close of business on the date of receipt by the transfer agent (or by the Corporation if the Corporation serves as its own transfer agent for the Series B-1 Preferred Stock) of such notice and, if applicable, certificates (or lost certificate affidavit and agreement) shall be the time of conversion (the "**Conversion Time**"), and the shares of Common Stock issuable upon conversion of the specified shares shall be deemed to be outstanding of record as of such date. The Corporation shall, as soon as practicable after the Conversion Time (i) issue and deliver to such holder of Series B-1 Preferred Stock, or to his, her or its nominees, a certificate or certificates for the number of full shares of Common Stock issuable upon such conversion in accordance with the provisions hereof and a certificate for the number (if any) of the shares of Series B-1 Preferred Stock represented by the surrendered certificate that were not converted into Common Stock, (ii) pay in cash such amount as provided in Subsection 5.2 in lieu of any fraction of a share of Common Stock otherwise issuable upon such conversion and (iii) pay all declared but unpaid dividends on the shares of Series B-1 Preferred Stock converted.

5.3.2 Reservation of Shares. At all times when the Series B-1 Preferred Stock shall be outstanding, the Corporation shall take such corporate action as may be necessary to reserve and keep such number of shares available out of its authorized but unissued capital stock, for the purpose of effecting the conversion of the Series B-1 Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series B-1 Preferred Stock, the Corporation shall take such corporate action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes, including, without limitation, engaging in reasonable best efforts to obtain the requisite stockholder approval of any necessary amendment to the Certificate of Incorporation.

5.3.3 Effect of Conversion. All shares of Series B-1 Preferred Stock which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares shall immediately cease and terminate at the Conversion Time, except only the right of the holders thereof to receive shares of Common Stock in exchange therefor, to receive payment in lieu of any fraction of a share otherwise issuable upon such conversion as provided in Subsection 5.2 and to receive payment of any dividends declared but unpaid thereon. Any shares of Series B-1 Preferred Stock so converted shall be retired and cancelled and may not be reissued as shares of such series, and the Corporation may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the authorized number of shares of Series B-1 Preferred Stock accordingly.

5.3.4 No Further Adjustment. Upon any such conversion, no adjustment to the Series B-1 Conversion Price shall be made for any declared but unpaid dividends on the Series B-1 Preferred Stock surrendered for conversion or on the Common Stock delivered upon conversion.

5.3.5 Taxes. The Corporation shall pay any and all issue and other similar taxes imposed by the United States of America that may be payable in respect of any issuance or delivery of shares of Common Stock upon conversion of shares of Series B-1 Preferred Stock pursuant to this Section 5. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares of Common Stock in a name other than that in which the shares of Series B-1 Preferred Stock so converted were registered, and no such issuance or delivery shall be made unless and until the person or entity requesting such issuance has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

5.4 Adjustment for Stock Splits and Combinations. If the Corporation shall at any time or from time to time after the date on which the first share of Series B-1 Preferred Stock was issued (the "**Series B-1 Original Issue Date** ") effect a subdivision of the outstanding Common Stock, the Series B-1 Conversion Price in effect immediately before that subdivision shall be proportionately decreased so that the number of shares of Common Stock issuable on conversion of each share of Series B-1 Preferred Stock shall be increased in proportion to such increase in the aggregate number of shares of Common Stock outstanding. If the Corporation shall at any time or from time to time after the Series B-1 Original Issue Date combine the outstanding shares of Common Stock, the Series B-1 Conversion Price in effect immediately before the combination shall be proportionately increased so that the number of shares of Common Stock issuable on conversion of each share of Series B-1 Preferred Stock shall be decreased in proportion to such decrease in the aggregate number of shares of Common Stock outstanding. Any adjustment under this subsection shall become effective at the close of business on the date the subdivision or combination becomes effective.

5.5 Adjustment for Certain Dividends and Distributions. In the event the Corporation at any time or from time to time after the Series B-1 Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable on the Common Stock in additional shares of Common Stock, then and in each such event the Series B-1 Conversion Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Series B-1 Conversion Price then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution.

Notwithstanding the foregoing (a) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Series B-1 Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Series B-1 Conversion Price shall be adjusted pursuant to this subsection as of the time of actual payment of such dividends or distributions; and (b) that no such adjustment shall be made if the holders of Series B-1 Preferred Stock simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if all outstanding shares of Series B-1 Preferred Stock had been converted into Common Stock on the date of such event.

5 . 6 Adjustments for Other Dividends and Distributions . In the event the Corporation at any time or from time to time after the Series B-1 Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation (other than a distribution of shares of Common Stock in respect of outstanding shares of Common Stock) or in other property, then and in each such event the holders of Series B-1 Preferred Stock shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities or other property in an amount equal to the amount of such securities or other property as they would have received if all outstanding shares of Series B-1 Preferred Stock had been converted into Common Stock on the date of such event.

5.7 Adjustment for Merger or Reorganization, etc . Subject to the provisions of Subsection 3.3, if there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Corporation in which the Common Stock (but not the Series B-1 Preferred Stock) is converted into or exchanged for securities, cash or other property (other than a transaction covered by Subsections 5.5 or 5.6), then, following any such reorganization, recapitalization, reclassification, consolidation or merger, each share of Series B-1 Preferred Stock shall thereafter be convertible in lieu of the Common Stock into which it was convertible prior to such event into the kind and amount of securities, cash or other property which a holder of the number of shares of Common Stock of the Corporation issuable upon conversion of one share of Series B-1 Preferred Stock immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in good faith by the Board of Directors of the Corporation) shall be made in the application of the provisions in this Section 5 with respect to the rights and interests thereafter of the holders of the Series B-1 Preferred Stock, to the end that the provisions set forth in this Section 5 (including provisions with respect to changes in and other adjustments of the Series B-1 Conversion Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities or other property thereafter deliverable upon the conversion of the Series B-1 Preferred Stock. For the avoidance of doubt, nothing in this Subsection 5.7 shall be construed as preventing the holders of Series B-1 Preferred Stock from seeking any appraisal rights to which they are otherwise entitled under the DGCL in connection with a merger triggering an adjustment hereunder, nor shall this Subsection 5.7 be deemed conclusive evidence of the fair value of the shares of Series B-1 Preferred Stock in any such appraisal proceeding.

5 . 8 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Series B-1 Conversion Price pursuant to this Section 5, the Corporation at its expense shall, as promptly as reasonably practicable but in any event not later than twenty (20) days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Series B-1 Preferred Stock a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Series B-1 Preferred Stock is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, as promptly as reasonably practicable after the written request at any time of any holder of Series B-1 Preferred Stock (but in any event not later than twenty (20) days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (i) the Series B-1 Conversion Price then in effect, and (ii) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of Series B-1 Preferred Stock.

5.9 Notice of Record Date. In the event:

(a) the Corporation shall take a record of the holders of its Common Stock (or other capital stock or securities at the time issuable upon conversion of the Series B-1 Preferred Stock) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of capital stock of any class or any other securities, or to receive any other security; or

(b) of any capital reorganization of the Corporation, any reclassification of the Common Stock of the Corporation, or any Deemed Liquidation Event; or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Corporation,

then, and in each such case, the Corporation will send or cause to be sent to the holders of the Series B-1 Preferred Stock a notice specifying, as the case may be, (i) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is proposed to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other capital stock or securities at the time issuable upon the conversion of the Series B-1 Preferred Stock) shall be entitled to exchange their shares of Common Stock (or such other capital stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series B-1 Preferred Stock and the Common Stock. Such notice shall be sent at least ten (10) days prior to the record date or effective date for the event specified in such notice.

6. Amendments and Waiver. No provision of this Certificate of Designation may be amended, modified or waived except by an instrument in writing executed by the Corporation and the written consent or affirmative vote of the holders of at least a majority of the then outstanding shares of Series B-1 Preferred Stock, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, and the affirmative vote or written consent of GLIL, to the extent that it remains a holder of at least 25% of the issued and outstanding shares of Series B-1 Preferred Stock and any such act or transaction entered into without such consent or vote shall be null and void ab initio, and of no force or effect. Except as required by law, no vote by any other class of capital stock of the Corporation shall be required. Any such written amendment, modification or waiver will be binding upon the Corporation and each holder of Series B-1 Preferred Stock; provided, that no amendment, modification or waiver of the terms or relative priorities of the Series B-1 Preferred Stock may be accomplished by the merger, consolidation or other transaction of the Corporation with another corporation or entity unless the Corporation has obtained the prior written consent of the holders in accordance with this Section 6.

7. Notices. Any notice required or permitted by the provisions of this Certificate of Designation to be given to a holder of shares of Series B-1 Preferred Stock shall be mailed, postage prepaid, to the post office address last shown on the records of the Corporation, or given by electronic communication in compliance with the provisions of the General Corporation Law, and shall be deemed sent upon such mailing or electronic transmission.

8. Headings. The headings contained herein are for convenience only, do not constitute a part of this Certificate of Designation and shall not be deemed to limit or affect any of the provisions hereof.

RESOLVED, FURTHER, that the chairman, chief executive officer, president, chief financial officer or any vice-president, and the secretary or any assistant secretary, of the Corporation be and they hereby are authorized and directed to prepare and file a Certificate of Designation of Preferences, Rights and Limitations of Series B-1 Preferred Stock in accordance with the foregoing resolution and the provisions of Delaware law.

IN WITNESS WHEREOF, the undersigned have executed and acknowledged this Certificate of Designation this 10th day of November, 2015.

BIO-KEY INTERNATIONAL, INC.

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

CONFIDENTIAL

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT (this "Agreement"), dated on and as of the latest date set forth on the signature page hereto, by and between BIO-key International, Inc., a Delaware corporation (the "Company"), and the purchaser identified on the signature page hereof (the "Purchaser").

R E C I T A L S:

WHEREAS, Purchaser desires to purchase and the Company desires to sell securities on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises hereof and the agreements set forth herein below, the parties hereto hereby agree as follows:

1. The Offering.

(a) Private Offering. The securities offered by this Agreement are being offered in a private offering (the " Offering") of **$10,500,000** consisting of **105,000** shares (the "Shares") of the Company's Series B-1 Convertible Preferred Stock, $0.0001 par value per share (the " Preferred Stock"), the preferences, rights and limitations of which are set forth on the Certificate of Designation of Preferences, Rights and Limitations of the Series B-1 Convertible Preferred Stock, substantially in the form attached hereto as Exhibit A (the "Certificate of Designation"). The Shares will be sold pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and/or Rule 506 of Regulation D thereunder. The Shares are being offered solely to a limited number of "accredited investors" as that term is defined in Rule 501(a) of the Securities Act. This Agreement and the Exhibits hereto are hereinafter collectively referred to as the "Offering Documents". The Shares and all shares of the Company's common stock, $0.0001 par value per share (the " Common Stock"), issuable upon conversion of the Shares are hereinafter defined collectively as the "Securities".

2. Sale and Purchase of Shares.

(a) Purchase and Sale. Subject to the terms and conditions hereof, the Company agrees to sell, and Purchaser irrevocably subscribes for and agrees to purchase _____ shares at a purchase price of $100.00 per Share. The aggregate purchase price payable by Purchaser for the Shares shall be $_____ (the "Aggregate Purchase Price") and shall be payable at the Closing by wire transfer of immediately available funds as set forth below.

(b) Subject to the terms and conditions of this Agreement, the purchase and sale of the Shares contemplated hereby shall take place at a closing (the "Closing") to be held on the date falling on the 2 nd Business Day after the date hereof (the " Closing Date") at the offices of Fox Rothschild LLP, 997 Lenox Drive, Building 3, Lawrenceville, NJ 08648, or at such other time or on such other date or at such other place or by such other method as the Company and Purchaser may mutually agree upon orally or in writing. "Business Day" for the purposes of this sub-paragraph (b) means a day, other than Saturday or Sunday, on which banks in Hong Kong are open for ordinary banking business.

(c) Closing Conditions.

(i) The obligations of each party to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment, at or prior to the Closing, of each of the following conditions:

(a) No governmental authority shall have enacted, issued, promulgated, enforced or entered any order, writ, judgment, injunction, decree, stipulation, determination or award which is in effect and has the effect of making the transactions contemplated by this Agreement illegal, otherwise restraining or prohibiting consummation of such transactions or causing any of the transactions contemplated hereunder to be rescinded following completion thereof.

(b) The Company shall have received all consents, authorizations, orders and approvals from all third parties and governmental authorities necessary to consummate the transactions contemplated hereby and no such consent, authorization, order and approval shall have been revoked.

(c) No action or proceeding by or before any court or other governmental body shall have been instituted or threatened by any governmental authority or person whatsoever which shall seek to restrain, prohibit or invalidate the transactions contemplated by this Agreement.

(d) The Certificate of Designation shall have been filed with the Delaware Secretary of State.

(e) The Company's subsidiary, Shining Union Limited, WWTT Technology China and Golden Vast Macao Commercial Offshore Limited shall have executed that certain Software License Purchase Agreement dated on or about the date hereof (the "License Agreement") and all conditions to the Company's and each party's obligation to close the transactions contemplated thereby have been satisfied or waived in accordance with the License Agreement.

(f) The Company and the other party thereto shall have executed that certain Convertible Preferred Stock Purchase Agreement dated [•] November 2015 (the "CPSPA") and Securities Purchase Agreement dated on or about the date hereof (the " Other SPA", and together with the CPSPA, the "Purchase Agreements") and all conditions to the Company's and each party's obligation to close the transactions contemplated thereby have been satisfied or waived in accordance with the respective Purchase Agreements.

(ii) The obligations of Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or such Purchaser's waiver, at or prior to the Closing, of each of the following conditions:

(a) This Agreement, the Registration Rights Agreement substantially in the form attached hereto as Exhibit A (the "Registration Rights Agreement"), and all other ancillary agreements contemplated hereby shall have been executed and delivered by the parties thereto and true and complete copies thereof shall have been delivered to Purchaser.

(b) The representations and warranties of Company contained in Section 4 shall be true and correct in all material respects as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all respects as of that specified date).

(c) The Company shall have duly performed and complied in all respects with all agreements, covenants and conditions required by this Agreement to be performed or complied with by it prior to or on the Closing Date.

(d) Such Purchaser shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of the Company, that each of the conditions set forth in Section 2(c)(ii)(b) and (c) have been satisfied.

(e) Such Purchaser shall have been satisfied with the results of its due diligence review.

(f) The Company shall have delivered, or caused to be delivered, to Purchaser such documents or instruments as Purchaser reasonably requests and are reasonably necessary to consummate the transactions contemplated by this Agreement.

(iii) The obligations of the Company to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or the Company's waiver, at or prior to the Closing, of each of the following conditions:

(a) This Agreement, the Registration Rights Agreement, and all other ancillary agreements contemplated hereby shall have been executed and delivered by the parties thereto and true and complete copies thereof shall have been delivered to the Company.

(b) The representations and warranties of Purchaser contained in Section 3 shall be true and correct in all respects as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all respects as of that specified date), except where the failure of such representations and warranties to be true and correct would not have a material adverse effect on Purchaser's ability to consummate the transactions contemplated hereby.

(c) Purchaser shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement to be performed or complied with by it prior to or on the Closing Date.

(d) The Company shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of Purchaser, that each of the conditions set forth in Section 2(c)(iii)(b) and (c) have been satisfied.

(e) Purchaser shall have transferred, or procured the transfer of, the Aggregate Purchase Price to the Company by wire transfer in immediately available funds, to an account or accounts designated in writing by the Company to Purchaser prior to or at the Closing Date.

(f) Purchaser shall have delivered, or caused to be delivered, to the Company such documents or instruments as the Company reasonably requests and are reasonably necessary to consummate the transactions contemplated by this Agreement.

(iv) For the avoidance of doubt, the respective obligations of each party hereto to consummate the transactions contemplated by this Agreement shall be subject to the express condition that, prior to or simultaneous with the Closing, closing shall be conducted with respect to the transactions contemplated by the respective Purchase Agreements. In the event that a closing is not conducted with respect to any Purchase Agreements in accordance with its terms, then this Agreement shall automatically be terminated and the parties hereto shall be released from any further rights or obligations hereunder save for any rights and obligations which have accrued prior to such effective termination date.

3. Representations and Warranties of Purchaser. Purchaser represents and warrants to the Company as follows:

(a) Organization and Qualification.

(i) Purchaser is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, with the corporate or other entity power and authority to own and operate its business as presently conducted, except where the failure to be or have any of the foregoing would not have a material and adverse effect on the legality, validity or enforceability of this Agreement and any documents contemplated hereby (collectively, the "Transaction Documents") to which it is a party, and such Purchaser is duly qualified as a foreign corporation or other entity to do business and is in good standing in each jurisdiction where the character of its properties owned or held under lease or the nature of their activities makes such qualification necessary, except for such failures to be so qualified or in good standing as would not have a material adverse effect on it.

(ii) The address of its principal place of business of Purchaser is as set forth on the signature page hereto.

(b) Authority; Validity and Effect of Agreement.

(i) Purchaser has the requisite corporate or other entity power and authority to execute and deliver the Transaction Documents to which it is a party and perform its obligations under such Transaction Documents. The execution and delivery of each such Transaction Document by Purchaser, the performance by Purchaser of its obligations thereunder, and all other necessary corporate or other entity action on the part of Purchaser have been duly authorized by its board of directors or similar governing body, and no other corporate or other entity proceedings on the part of Purchaser is necessary for Purchaser to execute and deliver the relevant Transaction Documents and perform its obligations thereunder.

(ii) Each of the relevant Transaction Documents has been duly and validly authorized, executed and delivered by Purchaser and, assuming each has been duly and validly executed and delivered by the Company, each constitutes a legal, valid and binding obligation of such Purchaser, in accordance with its terms.

(c) No Conflict; Required Filings and Consents. Neither the execution and delivery of the relevant Transaction Documents by Purchaser nor the performance by such Purchaser of its obligations, thereunder will: (i) if Purchaser is an entity, conflict with such Purchaser's articles of incorporation or bylaws, or other similar organizational documents; (ii) violate any statute, law, ordinance, rule or regulation, applicable to Purchaser or any of the properties or assets of Purchaser; or (iii) violate, breach, be in conflict with or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or permit the termination of any provision of, or result in the termination of, the acceleration of the maturity of, or the acceleration of the performance of any obligation of Purchaser under, or result in the creation or imposition of any lien upon any properties, assets or business of Purchaser under, any material contract or any order, judgment or decree to which Purchaser is a party or by which it or any of its assets or properties is bound or encumbered except, in the case of clauses (ii) and (iii), for such violations, breaches, conflicts, defaults or other occurrences which, individually or in the aggregate, would not have a material adverse effect on its obligation to perform its covenants under this Agreement.

(d) Accredited Investor. Purchaser is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D under the Securities Act and was not formed for the specific purpose of acquiring the Shares.

(e) No Government Review. Purchaser understands that neither the United States Securities and Exchange Commission (" SEC") nor any securities commission or other governmental authority of any state, country or other jurisdiction has passed upon or endorsed the merits of this Agreement, the Shares, or any of the other documents relating to the Offering, or confirmed the accuracy of, determined the adequacy of, or reviewed this Agreement, the Shares or such other documents.

(f) Investment Intent. The Shares are being acquired for Purchaser's own account for investment purposes only, not as a nominee or agent and not with a view to the resale or distribution of any part thereof, and Purchaser has no present intention of selling, granting any participation in or otherwise distributing the same. By executing this Agreement, Purchaser further represents that it does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or third person with respect to any of the Shares.

(g) Restrictions on Transfer. Purchaser understands that the Shares are "restricted securities" as such term is defined in Rule 144 under the Securities Act and have not been registered under the Securities Act or registered or qualified under any state securities law, and may not be, directly or indirectly, sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of without registration under the Securities Act and registration or qualification under applicable state securities laws or the availability of an exemption therefrom. Purchaser acknowledges that it is able to bear the economic risks of an investment in the Shares for an indefinite period of time, and that its overall commitment to investments that are not readily marketable is not disproportionate to its net worth.

(h) Investment Experience. Purchaser has such knowledge, sophistication and experience in financial, tax and business matters in general, and investments in securities in particular, that it is capable of evaluating the merits and risks of this investment in the Shares, and Purchaser has made such investigations in connection herewith as it deemed necessary or desirable so as to make an informed investment decision without relying upon the Company for legal or tax advice related to this investment. In making its decision to acquire the Shares, Purchaser has not relied upon any information other than information provided to it by the Company or its representatives and contained herein, including the representations and warranties and covenants of the Company contained herein

(i) Access to Information. Purchaser acknowledges that it has had access to and has reviewed all documents and records relating to the Company, including, but not limited to, the Company's Annual Report on SEC Form 10-K for the year ended December 31, 2014, the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, 2015 and June 30, 2015, and any Current Reports on SEC Form 8-K filed with the SEC after June 30, 2015 and before the date this Agreement is executed (as such documents have been amended since the date of their filing, collectively, the "Company SEC Documents"), that it has deemed necessary in order to make an informed investment decision with respect to an investment in the Shares; that it has had the opportunity to ask representatives of the Company certain questions and request certain additional information regarding the terms and conditions of such investment and the finances, operations, business and prospects of the Company and has had any and all such questions and requests answered to its satisfaction; and that it understands the risks and other considerations relating to such investment. Purchaser understands any statement contained in the Company SEC Documents shall be deemed to be modified or superseded for the purposes of this Agreement to the extent that a statement contained herein or in any other document subsequently filed with the SEC modifies or supersedes such statement.

(j) Reliance on Representations. Purchaser understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of the federal and state securities laws and that the Company is relying in part upon the truth and accuracy of, and Purchaser's compliance with, the representations, warranties, agreements, acknowledgments and understandings of Purchaser set forth herein in order to determine the availability of such exemptions and the eligibility of such Purchaser to acquire the Shares. Purchaser represents and warrants to the Company that any information that it has heretofore furnished or furnishes herewith to the Company is complete and accurate, and further represents and warrants that it will notify and supply corrective information to the Company immediately upon the occurrence of any change therein occurring prior to the Company's issuance of the Shares. Within five (5) days after receipt of a request from the Company, Purchaser will provide such information and deliver such documents as may reasonably be necessary to comply with any and all laws and regulations to which the Company is subject in connection with the transactions contemplated under the Transaction Documents.

(k) No General Solicitation. Purchaser is unaware of, and in deciding to participate in the Offering is in no way relying upon, and did not become aware of the Offering through or as a result of, any form of general solicitation or general advertising including, without limitation, any article, notice, advertisement or other communication published in any newspaper, magazine or similar media, or broadcast over television or radio or the internet, in connection with the Offering.

(l) Investment Risks. Purchaser understands that purchasing Shares will subject it to certain risks, including, but not limited to, those set forth in the Company SEC Documents.

(n) Import and Export Compliance. Purchaser represents and warrants to the Company as follows:

(i) During the five (5) year period ending on the Closing Date, neither Purchaser nor any subsidiary, director or officer of Purchaser or any subsidiary, or any employee, agent, or representative acting with authorization of Purchaser or any subsidiary, has directly or indirectly, whether through affiliates, partners, officers, employees, agents or representatives, paid, offered, promised, authorized or agreed to give any monies, gift or other thing of value or benefit, whether in cash or kind, and whether or not pursuant to a written contract, to any "Foreign Official", as defined in the United States Foreign Corrupt Practices Act of 1977, as amended (the "FCPA") or employee of any Governmental Body (as that term is defined below) (including an official or employee of any public international organization or government-owned business or enterprise), or to any political party, employee or director thereof, or any candidate for a political position or any political subdivision for the sole purpose of influencing any act or decision of such official or employee, in violation of any Law, including but not limited to the FCPA (A) to further the business of the Purchaser or any of its subsidiaries, or (B) to assist the Purchaser or any of its subsidiaries in connection with any actual or proposed transaction in connection with the operations of the Purchaser or any of its subsidiaries.

(ii) Purchaser and its subsidiaries are in compliance in all material respects with all applicable Export Laws (as that term is defined below).

(iii) Neither Purchaser nor any of its officers, directors, owners, managers, or employees, (A) are persons with whom United States persons are restricted from doing business under regulations of the Office of Foreign Asset Control (the "OFAC") of the United States Department of the Treasury (including, without limitation, those named on OFAC's Specially Designated Nationals and Blocked Persons List), the Export Laws (as that term is defined below), or under any applicable law or any other governmental action that is applicable to Purchaser ("Prohibited End-Users"); and (B) have had any direct or indirect dealings with and have not sold, exported, re-exported, or retransferred, directly or indirectly, any goods, technology or services to any Prohibited End-Users or to any country under embargo by the United States of America.

(iv) As used herein:

(A) "Export Laws" means any applicable United States of America requirements related to import and export control, including, without limitation, the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701 et seq., the Trading with the Enemy Act, 12 U.S.C. § 95a and 50 U.S.C. App. § 5(b), the Export Administration Act, 50 U.S.C. App. §§ 2401 et seq., the Arms Export Control Act, 22 U.S.C. §§ 2778 et seq., and any and all regulations and orders promulgated or issued under such authority, including the regulations administered by the U.S. Department of the Treasury's Office of Foreign Assets Control, 31 C.F.R. Parts 500 through 598, the Export Administration Regulations, 15 C.F.R. Parts 730 through 774, and the International Traffic in Arms Regulations, 22 C.F.R. Parts 120 through 130.

(B) "Governmental Body" means any: (a) nation, state, county, city, town, village, district, or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign, or other government; (c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal); or (d) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

(o) Anti-Money Laundering. Purchaser acknowledges that due to anti-money laundering regulations within their respective jurisdictions, the Company and/or any person acting on behalf of the Company may require further documentation verifying Purchaser's identity and the source of funds used to purchase Shares before this Agreement can be accepted. Purchaser further agrees to provide the Company at any time with such information as the Company reasonably determines to be necessary and appropriate to verify compliance with the anti-money laundering regulations of any applicable jurisdiction or to respond to requests for information concerning the identity of Purchaser from any governmental authority, self-regulatory organization or financial institution in connection with its anti-money laundering compliance procedures, and to update such information as necessary.

(p) Short Sales and Confidentiality Prior to the Date Hereof. Purchaser has not directly or indirectly, nor has any person acting on behalf of or pursuant to any understanding with Purchaser, executed any disposition, including Short Sales (as such term is defined in Rule 200 of Regulation SHO under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), in the securities of the Company during the period commencing from the time that Purchaser first received written or oral notice of this Offering from the Company or any other person setting forth the material terms of the transactions contemplated hereunder or by this Agreement until the date hereof ("Discussion Time"). Other than to other persons party to this Agreement and except as provided in Section 7(b), Purchaser has maintained the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction).

(q) No Disqualification Events. Neither Purchaser nor any affiliate of Purchaser is subject to any of the "Bad Actor" disqualifications described in Rule 506(d)(1)(i) to (viii) under the Securities Act (a "Disqualification Event"), except for a Disqualification Event covered by Rule 506(d)(2) under the Securities Act.

(r) Notice of Disqualification Events. Purchaser will notify the Company in writing, prior to the Closing Date of (i) any Disqualification Event relating to Purchaser or any of its affiliates and (ii) any event that would, with the passage of time, become a Disqualification Event relating to Purchaser or any of its affiliates.

(s) Concurrent Offering. Purchaser understands and acknowledges that the Company is conducting a concurrent offering of its securities in accordance with the terms set forth in the Purchase Agreements. Purchaser represents and warrants that it (i) has read the Purchase Agreements in their entirety, (ii) understands all of the terms and conditions of the Purchase Agreements, and (iii) has had the opportunity to ask representatives of the Company certain questions and request certain additional information regarding the terms and conditions of the Purchase Agreements and has had any and all such questions and requests answered to its satisfaction.

4. Representations and Warranties of the Company. The Company represents and warrants to Purchaser as follows:

(a) Organization and Qualification. The Company is duly organized, validly existing and in good standing under the laws of the State of Delaware, with the corporate power and authority to own and operate its business as presently conducted. The Company is duly qualified as a foreign corporation or other entity to do business and is in good standing in each jurisdiction where the character of its properties owned or held under lease or the nature of their activities makes such qualification necessary.

(b) Authority; Validity and Effect of Agreement. The Company has the requisite corporate power and authority to execute and deliver each of the Transaction Documents, perform its obligations thereunder, and conduct the Offering. The execution and delivery of each of the Transaction Documents by the Company, the performance by the Company of its obligations thereunder, the transactions contemplated thereby, the Offering, and all other necessary corporate action on the part of the Company have been duly authorized by its board of directors, and no other corporate proceedings on the part of the Company are necessary to authorize each of the Transaction Documents or the Offering. Each of the Transaction Documents has been duly and validly executed and delivered by the Company and, assuming that each has been duly authorized, executed and delivered by Purchaser, each constitutes a legal, valid and binding obligation of the Company, in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

(c) No Conflict; Required Filings and Consents. Neither the execution and delivery of the Transaction Documents by the Company nor the performance by the Company of its obligations thereunder will: (i) conflict with the Company's certificate of incorporation or bylaws; (ii) violate any material statute, law, ordinance, rule or regulation, applicable to the Company or any material properties or assets of the Company; or (iii) violate, breach, be in conflict with or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or permit the termination of any provision of, or result in the termination of, the acceleration of the maturity of, or the acceleration of the performance of any obligation of the Company, or result in the creation or imposition of any lien upon any properties, assets or business of the Company under, any material contract or any order, judgment or decree to which the Company is a party or by which it or any of its assets or properties is bound or encumbered.

(d) SEC Reports. The Company has filed all reports, schedules, forms, statements and other documents required to be filed by it under the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the two years preceding the date hereof on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, or to the extent corrected by a subsequent restatement, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, and all other reports of the Company filed with the Commission pursuant to the Exchange Act from January 1, 2015 through the date of this Agreement (including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "SEC Reports") complied in all material respects with the requirements of the Exchange Act.

(e) Financial Statements. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing (or to the extent corrected by a subsequent restatement). Such financial statements have been prepared in accordance with United States generally accepted accounting principles, as applied by the Company on a consistent basis during the financial periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, year-end audit adjustments. All material agreements to which the Company is a party or to which the property or assets of the Company are subject are included as part of or specifically identified in the SEC Reports.

(f) Issuance of the Shares. The Securities (i) have been duly and validly authorized and, when issued and paid for pursuant to this Agreement, will be validly issued, fully paid and nonassessable; and (ii) free from any encumbrance, mortgage, charge, pledge, lien, assignment, hypothecation, security interest, interest or equity of any person (including any right to acquire, option or right of pre-emption or conversion), title retention or restrictions or restrictions on transfer of any nature whatsoever (other than the restrictions contemplated under Section 3(g)) or any other security agreement or arrangement, or any agreement to create any of the foregoing.

(g) Capitalization. The number of shares and type of all authorized, issued and outstanding capital stock, options and other securities of the Company (whether or not presently convertible into or exercisable or exchangeable for shares of capital stock of the Company) has been set forth in the SEC Reports and has changed since the date of such SEC Reports only to reflect stock, stock option and warrant issuances or exercises that do not, individually or in the aggregate, have a material effect on the issued and outstanding capital stock, options and other securities. All of the outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and non-assessable, have been issued in compliance in all material respects with all applicable federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase any capital stock of the Company. Except as specified in the SEC Reports or as contemplated by the Transaction Documents: (i) no shares of the Company's capital stock are subject to preemptive rights or any other similar rights or any liens or encumbrances suffered or permitted by the Company; (ii) except as set forth on Schedule 4(g), there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, or exercisable or exchangeable for, any shares of capital stock of the Company, or contracts, commitments, understandings or arrangements by which the Company is or may become bound to issue additional shares of capital stock of the Company or options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, or exercisable or exchangeable for, any shares of capital stock of the Company; (iii) except as set forth in Schedule 4(j), there are no outstanding debt securities, notes, credit agreements, credit facilities or other agreements, documents or instruments evidencing indebtedness of the Company or by which the Company is or may become bound; (iv) there are no financing statements securing obligations in any material amounts, either singly or in the aggregate, filed in connection with the Company; (v) there are no agreements or arrangements under which the Company is obligated to register the sale of any of their securities under the Securities Act (except the Registration Rights Agreement or as set forth in Schedule 4(g)); (vi) there are no outstanding securities or instruments of the Company or which contain any redemption or similar provisions, and there are no contracts, commitments, understandings or arrangements by which the Company is or may become bound to redeem a security of the Company; (vii) there are no securities or instruments containing anti-dilution or similar provisions that will be triggered by the issuance of the Shares; (viii) the Company does not have any stock appreciation rights or "phantom stock" plans or agreements or any similar plan or agreement; and (ix) the Company has no liabilities or obligations required to be disclosed in the SEC Reports (as defined herein) but not so disclosed in the SEC Reports, other than those incurred in the ordinary course of the Company's businesses or set forth in Schedule 4(j).

(h) Tax Matters. The Company (i) has accurately and timely prepared and filed all foreign, federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith, with respect to which adequate reserves have been set aside on the books of the Company and (iii) has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the Company by the taxing authority of any jurisdiction.

(i) Employment Matters. No material labor dispute exists or, to the Company's knowledge, is imminent with respect to any of the employees of the Company. None of the Company's employees is a member of a union that relates to such employee's relationship with the Company, the Company is not a party to a collective bargaining agreement, and the Company believes that its relationship with its employees is satisfactory. No executive officer, to the Company's knowledge, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant, and the continued employment of each such executive officer does not subject the Company to any liability with respect to any of the foregoing matters. To the Company's knowledge, the Company is in compliance with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours.

(j) Material Changes. Since the date of the latest audited financial statements included within the SEC Reports and except as disclosed in a subsequent SEC Report filed prior to the date of this Agreement: (i) there have been no events, occurrences or developments that have had or that could reasonably be expected to result, either individually or in the aggregate, in a Material Adverse Effect, (ii) except as set forth in Schedule 4(j), the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables, accrued expenses and other liabilities incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or required to be disclosed in filings made with the SEC, (iii) the Company has not altered its method of accounting or the manner in which it keeps its accounting books and records, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its shareholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) the Company has not issued any equity securities to any officer, director or Affiliate (as defined in Rule 405 of the Securities Act), except pursuant to existing Company incentive plans or executive and director corporate arrangements disclosed in the SEC Reports and (vi) there has not been any material change or amendment to, or any waiver of any material right under, any contract under which the Company or any of their assets is bound or subject. For purposes of this Agreement, "Material Adverse Effect" means any of (i) a material and adverse effect on the legality, validity or enforceability of any Transaction Documents, (ii) a material and adverse effect on the results of operations, assets, business or financial condition of the Company and subsidiaries, taken as a whole, or (iii) any material adverse impairment to the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document.

(k) Litigation. Except as disclosed in the SEC Reports, there is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "Action") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Shares or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under provincial, federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the SEC involving the Company or, to the knowledge of the Company, any director or officer of the Company. The SEC has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any subsidiary under the Exchange Act or the Securities Act.

(l) Compliance. The Company is not: (i) in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company under), nor has the Company received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other material written agreement or written instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) in violation of any judgment, decree or order of any court, arbitrator or governmental body in which the Company is named as a party, or (iii) in violation of, and has complied with, any and all statutes, rules, ordinances or regulations of any governmental authority, including without limitation all foreign, federal, state and local laws applicable to it and each of its subsidiaries and its business and all such laws that affect the environment.

(m) Listing and Maintenance Requirements. The Common Stock is registered pursuant to Section 12(b) or 12(g) of the Exchange Act, and the Company has taken no action designed to terminate the registration of the Common Stock under the Exchange Act nor has the Company received any written notification that the SEC is contemplating terminating such registration.

(n) Internal Accounting Controls. The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(o) Sarbanes-Oxley; Disclosure Controls. The Company is in compliance in all material respects with all of the provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it as of the Closing. The Company maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) that are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC, including, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer or officers and its principal financial officer or officers, as appropriate, to allow timely decisions regarding required disclosure.

(p) No Integrated Offering. Assuming the accuracy of Purchaser's representations and warranties set forth in Section 3, neither the Company, nor, to the knowledge of the Company, any of its affiliates, nor any Person acting on its or, to the knowledge of the Company, 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 this Offering of the Shares by the Company to be integrated with prior offerings by the Company for purposes of (i) the Securities Act which would require the registration of any such securities under the Securities Act, or (ii) any applicable shareholder approval provisions of any trading market on which any of the securities of the Company are listed or designated.

(q) Investment Company. The Company is not required to be registered as, and is not an affiliate of, and immediately following the Closing will not be required to register as, an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

(r) Off Balance Sheet Arrangements. There is no transaction, arrangement, or other relationship between the Company and an unconsolidated or other off balance sheet entity that is required to be disclosed by the Company in its Exchange Act filings and is not so disclosed or that otherwise would be reasonably likely to have a Material Adverse Effect.

(s) No Additional Agreements. The Company does not have any agreement or understanding with the Purchaser with respect to the transactions contemplated by the Transaction Documents other than as specified in the Transaction Documents.

(t) Insolvency. (i) Neither the Company nor any of its subsidiaries is insolvent or unable to pay its debts. (ii) Neither the Company nor any of its subsidiaries has ceased trading or stopped payment to its creditors. (iii) No order has been made or petition presented or resolution passed or meeting convened for the bankruptcy, suspension of payment obligations, winding-up or administration of the Company or any of its subsidiaries, nor are there any grounds on which any person would be entitled to have the Company or any of its subsidiaries wound-up or placed in receivership, administration or liquidation, nor has any person threatened to present such a petition or convened or threatened to convene a meeting of the Company or any of its subsidiaries to consider a resolution to wind up or declare such entity as bankrupt, nor has any step been taken in relation to the Company or any of its subsidiaries under the applicable laws relating to bankruptcy, insolvency, suspension of payment obligations or the relief of debtors. (iv) No receiver (including an administrative receiver), liquidator, trustee, administrator, supervisor, nominee or custodian has been appointed in respect of the whole or any part of the business or assets of the Company or any of its subsidiaries. (v) No distress, execution or other process has been levied on any assets owned or used by the Company or any of its subsidiaries nor has any person threatened any such distress, execution or other process.(u)

(u) Intellectual Property. (i) To the knowledge of the Company, all intellectual property used by, required or necessary for the Company and its subsidiaries to operate their respective business (the "Group IP") are legally owned by, validly licensed to, or used under the authority of the owner by, the Company or any of its subsidiaries. (ii) All Group IP which is owned by the Company or any of its subsidiaries is not licensed to a third party otherwise than in the ordinary course of business or subject to any encumbrances or third party interests. None of the Group IP owned by the Company or any of its subsidiaries is subject to any judgments or limitations or restrictions on use or otherwise issued by any governmental authority, save for claim limitations imposed by the applicable registration authorities as part of the normal prosecution process prior to issuance with respect to registered intellectual property. No person, including employees or consultants of the Company or any of its subsidiaries, has any ownership right to any Group IP owned by the Company or the relevant subsidiary of the Company or any right to any payment of any sum with respect to Group IP owned by such entity. (iii) All Group IP is: (A) to the knowledge of the Company, not the subject of any claim (save for claim limitations with respect to registered intellectual property imposed by the applicable registration authorities as part of the normal prosecution process prior to issuance), opposition, action, suit, investigation or proceeding, from or by a person (including, without limitation, a customer, a supplier, an employee, a consultant or an independent contractor of the Company or any of its subsidiaries) as to title, validity, enforceability, entitlement, misappropriation, or infringement of any intellectual property or other proprietary rights of any third party or otherwise that prohibits or restricts the Company or any of its subsidiaries from carrying on its business, or any portion of it, in the jurisdiction where it is operating as at the date of this Agreement or from any use of the Group IP in connection with the business of the Company and its subsidiaries and to the knowledge of the Company there are no facts or circumstances which might give rise to a claim, opposition, action, suit, investigation or proceeding of this type; (B) to the knowledge of the Company, not registered in contravention of any applicable laws and regulations; and (C) in each case in which the Company or any of its subsidiaries has acquired any Group IP or has agreed to assign any intellectual property to its customers through or from any current or former employee, consultant, independent contractor or other person, the Company or the relevant subsidiary has obtained a valid and enforceable written assignment agreement, sufficient to irrevocably transfer all rights, title and interest in that intellectual property to that entity to the extent any such rights did not become the sole property of the Company or any of its subsidiaries by operation of law. (iv) All registration, maintenance and renewal fees and taxes due prior to Closing in respect of each of the registered Group IP and applications thereof that are owned by the Company or any of its subsidiaries have duly been paid in full. All necessary registration, maintenance and renewal documents and certificates have been filed with the relevant patent, copyright, trademark or other authorities for purposes of maintaining such registered Group IP that is owned by the Company. (v) Nothing has been done or omitted to be done and no circumstances exist by which a person is or will be liable to seek cancellation, rectification or other modification of a registration of any of the registered Group IP of the Company or the relevant subsidiary. (v) To the knowledge of the Company, there is no threatened infringement or unauthorised use of any of the Group IP that is owned by the Company by any third party anywhere in the world. (vi) To the knowledge of the Company, the activities, processes, methods, products, services or Group IP that is owned by the Company used, dealt in or supplied, assigned or licensed on the date of this Agreement by the Company or any of its subsidiaries do not at the date of this Agreement to the knowledge of the Company infringe, or misuse the intellectual property of another person and have not given, and will not give, rise to any claim against the Company or any of its subsidiaries. (vii) To the knowledge of the Company, no party to an agreement relating to the use by another person of any Group IP owned by the Company or any of its subsidiaries is in material breach of the agreement, which breach could lead to a termination, suspension or revocation of such agreement and which would cause a Material Adverse Effect, and to the knowledge of the Company, no circumstances exist which, would give rise to any breach of any such agreement or to any such agreement being terminated, suspended, significantly varied or revoked without the Company or the relevant subsidiary's consent and if terminated, would cause a Material Adverse Effect (other than termination without cause upon notice in accordance with the terms of the agreement). (viii) The ownership, license or rights in the Group IP owned by the Company or any of its subsidiaries will not be materially adversely affected by the transactions contemplated by this Agreement and the other Transaction Documents. (ix) Each of the Company and its subsidiaries has at all times used commercially reasonable efforts to protect its trade secrets and confidential information.

(v) Reliance. The Company acknowledges that the Purchaser has entered into this Agreement and the other Transaction Documents to which it is a party, in reliance upon the information provided to it by the Company or its representatives and contained herein, including the representations and warranties and covenants of the Company contained herein.

5. Other Agreements of the Parties.

(a) Transfer Restrictions.

(i) The Securities may only be disposed of in compliance with applicable federal and state securities laws. In connection with any transfer of Securities other than pursuant to an effective registration statement or Rule 144, to the Company or to an Affiliate of Purchaser or in connection with a pledge, the Company may require the transferor thereof to provide to the Company an opinion of counsel to the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and the other Transaction Documents and shall have the rights and obligations of Purchaser under this Agreement.

(ii) Legends. The certificates and agreements evidencing the Securities shall have endorsed thereon the following legend (and appropriate notations thereof will be made in the Company's stock transfer books), and stop transfer instructions reflecting these restrictions on transfer will be placed with the transfer agent of the Shares:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE. THE SECURITIES REPRESENTED HEREBY HAVE BEEN TAKEN BY THE REGISTERED OWNER FOR INVESTMENT, AND WITHOUT A VIEW TO RESALE OR DISTRIBUTION THEREOF, AND MAY NOT BE SOLD, TRANSFERRED OR DISPOSED OF WITHOUT AN OPINION OF COUNSEL SATISFACTORY TO THE ISSUER THAT SUCH TRANSFER OR DISPOSITION DOES NOT VIOLATE THE SECURITIES ACT OF 1933, AS AMENDED, THE RULES AND REGULATIONS THEREUNDER OR OTHER APPLICABLE SECURITIES LAWS.

(b) Securities Laws Disclosure; Publicity. On or prior to the fourth (4th) business day following the date of the Closing, the Company will file a Current Report on Form 8-K with the SEC describing the terms of the Transaction Documents (and including as exhibits to such Current Report on Form 8-K the material Transaction Documents (including, without limitation, this Agreement and the Registration Rights Agreement)). Except as provided in Section 7(b), Purchaser covenants that until such time as the transactions contemplated by this Agreement are publicly disclosed by the Company as described in Section 5(b), Purchaser will maintain the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction).

(c) Reporting Status. During the one year period from and after the Closing, the Company shall not terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act would otherwise permit such termination.

(d) Reverse Stock Split. The Company will use commercially reasonable to execute a reverse split (the "Reverse Split") of its outstanding shares of Common Stock with a view to satisfying the minimum bid required for the initial listing of shares of its Common Stock on the Nasdaq Capital Market which shall include the filing of a preliminary proxy statement with the SEC within sixty (60) days of the Closing Date. In the event the Reverse Split is completed and the Company meets the requirements imposed by applicable rules and regulation of the Nasdaq Stock Market for the initial listing of its shares of Common Stock on the Nasdaq Capital Market (the "Initial Listing Requirements"), the Company will use commercially reasonable efforts to cause its shares of Common Stock to be listed on the Nasdaq Capital Market. Purchaser understands, acknowledges and agrees that the Company makes no representation, warranty or assurance that (i) the Company will be able to satisfy the Initial Listing Requirements, (ii) in the event that the Company is able to satisfy the Initial Listing Requirements, that its shares of Common Stock will be approved by the Nasdaq Stock Market for listing on the Nasdaq Capital Market, or (iii) in the event that its shares of Common Stock are approved by the Nasdaq Stock Market for listing on the Nasdaq Capital Market, that it will be able to maintain such listing.

(e) Use of Proceeds. The Company will use the net proceeds to the Company from the sale of the Shares hereunder to pay for the license fees due under the License Agreement.

(f) Standstill. Unless otherwise consented to in writing by the Board of Directors of the Company or as specifically set forth in the Transaction Documents (which for the avoidance of doubt, includes the transactions contemplated under the Purchase Agreements), Purchaser agrees that neither Purchaser nor any of its directors, officers, employees, agents or advisors (including, without limitation, attorneys, accountants, investment bankers, and other consultants and advisors) (collectively, "Representatives") will in any manner, directly or indirectly: (i) effect or seek, offer or propose (whether publicly or otherwise) to effect, or announce any intention to effect or cause or participate in or in any way assist, facilitate or encourage any other person to effect or seek, offer or propose (whether publicly or otherwise) to effect or participate in (A) any acquisition of any securities (or any beneficial ownership thereof or any right to vote such securities) or assets of the Company, or any rights or options to acquire any securities (or any beneficial ownership thereof or any right to vote such securities), or any assets, indebtedness or businesses of the Company or any of its affiliates, (B) any tender or exchange offer, merger or other business combination involving the Company, any of its affiliates or any assets of the Company or its affiliates constituting a significant portion of the consolidated assets of the Company and its affiliates, (C) any recapitalization, restructuring, liquidation, dissolution or other extraordinary transaction with respect to the Company or any of its affiliates, (D) any "change in control" of the Company, or (E) any "solicitation" of "proxies" (as such terms are used in the proxy rules of the SEC) or consents to vote any voting securities of the Company or any of its affiliates; (ii) form, join or in any way participate in a "group" (as defined under the Exchange Act) with respect to the Company or its securities or otherwise act in concert with any person in respect of any such securities; (iii) otherwise act, alone or in concert with others, to seek representation on or to control or influence the management, Board of Directors or policies of the Company or to obtain further representation on the Board of Directors of the Company; or (iv) enter into any discussions or arrangements with any third party with respect to any of the foregoing. Purchaser further agrees not to request that the Company directly or indirectly, amend or waive any provision of this paragraph (including this sentence). Purchaser further agrees that if it or its Representatives are approached by any third party concerning Purchaser's or their participation in a transaction involving any assets, indebtedness or business of, or securities issued by, the Company, Purchaser will, to the extent that it is aware, promptly inform the Company of the nature of such transaction and the parties involved.

(g) Independent Nature of Purchaser's Obligations and Rights. The obligations of the Purchaser hereunder and under any Transaction Document and the obligations of any party to the Purchase Agreements identified as a "Purchaser" under the Purchase Agreements (each, an "Other Party") are several and not joint with the obligations of any Other Party and Purchaser shall not be responsible in any way for the performance or non-performance of the obligations of any such Other Party under the Purchase Agreements. Nothing contained herein or in any other Transaction Document or the Purchase Agreements, and no action taken by Purchaser pursuant hereto or thereto, or any Other Party pursuant to the Purchase Agreements shall be deemed to constitute the Purchaser and any such Other Party as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchaser and any such Other Party are in any way acting in concert or as a group with respect to such obligations, the transactions contemplated by the Transaction Documents or the Purchase Agreements, or the voting or disposition of shares of Common Stock or other shares of capital stock of the Company. Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any Other Party to be joined as an additional party in any proceeding for such purpose. It is expressly understood and agreed that each provision contained in this Agreement and in each other Transaction Document is between the Company and Purchaser, solely, and not between or among the Company and any Other Party, individually or collectively. Purchaser shall not act in concert, as a group, or together with any Other Party with regard to any vote of the stockholders of the Company.

5. Subsequent Investments.

(a) The Company may raise additional capital investment from third parties (the " Additional Investors") and in connection therewith, may issue preferred stock to such Additional Investors (the "Subsequent Investment"); provided that, prior to the Subsequent Investment, the Company shall make an offer to Purchaser and the holders of any Preferred Shares acquired from the Purchaser (collectively, the "Holders" and individually, a "Holder") in accordance with the provisions of Sections 6(b) and 6(c) (the "Proposed Issuance Offer") such that each Holder shall be entitled to purchase up to such number of newly issued securities based on their respective shareholding percentage in the Company calculated on a fully diluted basis by full payment in cash equal to the per share price to be paid by the Additional Investors and on the same terms and conditions to be offered by the Company to the Additional Investors.

(b) At least thirty (30) days before the proposed Subsequent Investment (the " Proposed Issuance"), the Company shall deliver to each of the Holders a written notice of the Proposed Issuance. Such notice shall state (i) the quantity, type and terms of such issuance of securities; (ii) the consideration which the Company will receive from the Proposed Issuance; (iii) the identity of the Additional Investors; and (iv) the terms of the Proposed Issuance Offer, including the calculation of such Holder's shareholding percentage in the Company calculated on a fully diluted basis before and immediately following the Proposed Issuance.

(c) Within twenty (20) days from the delivery of the notice set forth in Section 6(b) (the " New Issuance Offer Period"), each Holder who elects to exercise its right in accordance with the provisions of this Section 6(c) shall give a written notice to the Company. Such notice shall specify the number of securities to be purchased by the Holder and the calculation of such Holder's shareholding percentage in the Company calculated on a fully diluted basis. Where any Holder fails to give a notice within the New Issuance Offer Period, such Holder shall be deemed to have waived its right in relation to the Proposed Issuance under this Section 6, and the Company may issue the relevant securities not accepted by such Holder to other third parties on terms which are not more favorable than the terms on which they were offered to the Holders.

6. Confidentiality.

(a) Purchaser acknowledges and agrees that: (i) certain of the information contained herein is of a confidential nature and may be regarded as material non-public information under Regulation FD of the Securities Act; (ii) except as provided in Section 7(b), this Agreement and the other Transaction Documents and the transactions contemplated hereby and thereby will be kept confidential by Purchaser and will not be used for any purpose other than for the purposes of entering into and consummating the transactions contemplated under the Transaction Documents; (iii) except as provided in Section 7(b), until the time the information contained herein has been adequately disseminated to the public, the existence of this Agreement and the information contained herein shall not, without the prior written consent of the Company, be disclosed by Purchaser to any person or entity, other than its personal financial and legal advisors for the sole purpose of evaluating the entering into and the consummation of the transactions contemplated under the Transaction Documents, and Purchaser will not, directly or indirectly, disclose or permit its personal financial and legal advisors to disclose, any of such information without the prior written consent of the other party; (iv) Purchaser shall make its representatives aware of the terms of this Section 7 and to be responsible for any breach of this Agreement by such representatives; (v) except as provided in Section 7(b), Purchaser shall not, without the prior written consent of the Company, directly or indirectly, make any statements, public announcements or release to trade publications or the press with respect to the contents or subject matter of this Agreement; and (vi) if Purchaser decides to not pursue further investigation of the Company or to not participate in the Offering, Purchaser will promptly return this Agreement and any accompanying documentation to the Company.

(b) Any party hereto may disclose, or permit the disclosure of, information which would otherwise be confidential if and to the extent (i) required by law or any securities exchange, regulatory or governmental body, (ii) disclosed to its respective affiliates and its and their respective directors, officers, employees, shareholders, finance providers and their respective professional advisers or officers on a need-to-know basis (but it shall remain responsible for the compliance with this Section 7 by any such person), or (iii) it comes into the public domain other than as a result of a breach by any party hereto.

7. Non-Public Information. Purchaser acknowledges that certain information concerning the matters that are the subject matter of this Agreement constitute material non-public information under United States federal securities laws, and that United States federal securities laws prohibit any person who has received material non-public information relating to the Company from purchasing or selling securities of the Company, or from communicating such information to any person under circumstances in which it is reasonably foreseeable that such person is likely to purchase or sell securities of the Company. Accordingly, until such time as any such non-public information has been adequately disseminated to the public, Purchaser shall not purchase or sell any securities of the Company, or communicate such information to any other person save as provided in Section 7(b).

8. Sales and Confidentiality After The Date Hereof. Purchaser shall not, and shall cause its affiliates not to, engage, directly or indirectly, in any transactions in the securities of the Company (including, without limitation, any Short Sales (as such term is defined in Rule 200 promulgated under Regulation SHO under the Exchange Act)) during the period from the date hereof until such time as (i) the transactions contemplated by this Agreement are first publicly announced or (ii) this Agreement is terminated. Purchaser understands and acknowledges that the SEC currently takes the position that covering a short position established prior to effectiveness of a resale registration statement with shares included in such registration statement would be a violation of Section 5 of the Securities Act, as set forth in the SEC's Compliance and Disclosure Interpretation 239.10.

9. Entire Agreement; No Third Party Beneficiaries. This Agreement contains the entire agreement between the parties and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereto, and no party shall be liable or bound to any other party in any manner by any warranties, representations, guarantees or covenants except as specifically set forth in this Agreement. Purchaser acknowledges and agrees that it did not rely upon any statements or information, whether oral or written, provided by the Company, or any of its officers, directors, employees, agents or representatives, in deciding to enter into this Agreement or purchase the Shares. Nothing in this Agreement, express or implied, is intended to confer upon any person other than the parties hereto or their respective successors and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

10. Amendment and Modification. This Agreement may not be amended, modified or supplemented except by an instrument or instruments in writing signed by the Company and the Purchaser.

11. Extensions and Waivers. At any time prior to the Closing, the parties hereto entitled to the benefits of a term or provision may (a) extend the time for the performance of any of the obligations or other acts of the parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document, certificate or writing delivered pursuant hereto, or (c) waive compliance with any obligation, covenant, agreement or condition contained herein. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument or instruments in writing signed by the Company and the Purchaser. No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty, covenant or agreement.

12. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that the Company may not assign its rights or delegate its obligations under this Agreement without the express prior written consent of the Purchaser. Except as provided in Section 6, nothing in this Agreement is intended to confer upon any person not a party hereto (and their successors and assigns) any rights, remedies, obligations or liabilities under or by reason of this Agreement.

13. Survival of Representations, Warranties and Covenants. The representations and warranties contained herein shall survive the Closing and shall thereupon terminate 24 months from the Closing, except that the representations contained in Sections 3(a), 3(b), 3(q), 3(r), 4(a), 4(b) and 4(f) shall survive indefinitely. All covenants and agreements contained herein which by their terms contemplate actions following the Closing shall survive the Closing and remain in full force and effect in accordance with their terms. All other covenants and agreements contained herein shall not survive the Closing and shall thereupon terminate.

14. Headings; Definitions. The Section headings contained in this Agreement are inserted for convenience of reference only and will not affect the meaning or interpretation of this Agreement. All references to Sections contained herein mean Sections of this Agreement unless otherwise stated. All capitalized terms defined herein are equally applicable to both the singular and plural forms of such terms.

15. Severability. If any provision of this Agreement or the application thereof to any person or circumstance is held to be invalid or unenforceable to any extent, the remainder of this Agreement shall remain in full force and effect and shall be reformed to render the Agreement valid and enforceable while reflecting to the greatest extent permissible the intent of the parties.

16. Notices. All notices hereunder shall be sufficiently given for all purposes hereunder if in writing and delivered personally, sent by documented overnight delivery service or, to the extent receipt is confirmed, telecopy, telefax or other electronic transmission service to the appropriate address or number as set forth below:

If to the Company:

BIO-key International, Inc.
3349 Highway 138
Building A, Suite E
Wall, NJ 07719
Fax (732) 359-1101
Attention: Michael W. DePasquale, Chief Executive Officer

with a copy to:

Fox Rothschild LLP
997 Lenox Drive, Building 3
Lawrenceville, New Jersey 08648-2311
Fax (609) 896-1469
Attention: Vincent A. Vietti, Esquire

If to Purchaser:

To that address indicated on the signature page hereof.

17. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey, without regard to the laws that might otherwise govern under applicable principles of conflicts of laws thereof, except to the extent that the General Corporation Law of the State of Delaware shall apply to the internal corporate governance of the Company.

18. Arbitration. If any dispute arises out of or in connection with any of the Transaction Documents (including a dispute regarding the existence, scope, validity or termination of the Transaction Documents or the consequences of its nullity), it shall be referred to and finally resolved by arbitration in Hong Kong under the Hong Kong International Arbitration Rules Centre Administered Arbitration Rules in force when the Notice of Arbitration is submitted in accordance with these rules. The tribunal shall consist of three arbitrators, whereby the parties hereto shall each nominate one arbitrator and the third arbitrator, who shall be the Chairman of the tribunal, shall be appointed by the Hong Kong International Arbitration Centre Council. The language of the arbitration shall be English. The decision of the arbitrators shall be conclusively binding upon the parties and final and such decision shall be enforceable as a judgment in any court of competent jurisdiction. The parties shall share equally the costs of arbitration.

19. Counterparts. This Agreement may be executed and delivered by facsimile in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same agreement.

20. Attorneys' Fees. Each party shall pay all costs and expenses that it incurs with respect to the negotiation, execution, delivery and performance of the Transaction Documents.

[Signature page follows]

IN WITNESS WHEREOF, intending to be legally bound, the parties hereto have caused this Agreement to be executed as of the date set forth below.

PURCHASER

For and on behalf of
_____

Date: _____, 2015

By: _____
Name: _____
Title: _____
Address:_____
_____
Phone:_____
Social Security
or Tax ID No.:_

Number of
Shares Purchased: _____

Aggregate Purchase Price: $_____
($100.00 per Share)

Delivery Instructions (if different than Address):
_____
_____
_____

BIO-KEY INTERNATIONAL, INC.

Date:_____, 2015

By: _____
Name: _____
Title: _____

EXHIBIT A

Form of Registration Rights Agreement

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement") is made as of the date set forth on the Company signature page hereto, among BIO-key International, Inc., a Delaware corporation (the "Company"), and each signatory hereto (each, a " Purchaser" and collectively, the "Purchasers"). This Registration Rights Agreement supersedes and replaces in its entirety, that certain Registration Rights Agreement dated October 23, 2015 by and between the Company and the other party thereto.

R E C I T A L S

WHEREAS, the Company and the Purchasers are parties to a Securities Purchase Agreement dated on or about the date hereof (the " SPA") and/or Convertible Preferred Stock Purchase Agreements, dated 22 October 2015, 29 October 2015 and 9 November, 2015 (the "CPSPA", and together with the SPA, collectively, the "Purchase Agreements"), as such may be amended and supplemented from time to time;

WHEREAS, the Purchase Agreements contemplate the Company and the Purchasers entering into an agreement pursuant to which the Company agrees to grant to the Purchasers certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (the "Securities Act"); and

WHEREAS, the Purchasers and the Company desire to provide for the rights of registration under the Securities Act as are provided herein upon the execution and delivery of this Agreement by such Purchasers and the Company.

NOW, THEREFORE, in consideration of the promises, covenants and conditions set forth herein, the parties hereto hereby agree as follows:

1. Registration Rights.

1.1 Definitions. As used in this Agreement, the following terms shall have the meanings set forth below:

(a) "Commission" means the United States Securities and Exchange Commission.

(b) "Common Stock" means the Company's common stock, par value $0.0001 per share.

(c) "Effectiveness Date" means the date that is one hundred and twenty (120) days after the Trigger Date.

(d) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(e) "Offering" means the private placements being conducted by the Company pursuant to the Purchase Agreements.

(f) "Purchaser" means any person owning Registrable Securities who becomes party to this Agreement by executing a counterpart signature page hereto, or other agreement in writing to be bound by the terms hereof, which is accepted by .

(g) The terms "register," "registered" and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document.

(h) "Registrable Securities" means the Shares and securities issued or issuable as (or any securities issued or issuable upon the conversion or exercise of any warrant, right or other security that is issued as) a dividend or other distribution with respect to, or in exchange for, or in replacement of, the Shares; provided, however, that Registrable Securities shall not include any securities of the Company that have previously been registered and remain subject to a currently effective registration statement or which have been sold to the public either pursuant to a registration statement or Rule 144, or which have been sold in a private transaction in which the transferor's rights under this Section 1 are not assigned, or which may be sold immediately without registration under the Securities Act and without volume restrictions pursuant to Rule 144.

(i) "Rule 144" means Rule 144 as promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar successor rule that may be promulgated by the Commission.

(j) "Rule 415" means Rule 415 as promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar successor rule that may be promulgated by the Commission.

(k) "Shares" means (i) the shares of Common Stock issuable upon conversion of the Series A-1 Convertible Preferred Stock issued to the relevant Purchaser pursuant to the CPSPA, and (ii) the shares of Common Stock issuable upon conversion of the Series B-1 Convertible Preferred Stock issued to the relevant Purchasers pursuant to the SPA.

(l) "Trigger Date" means the initial closing of the Offering in accordance with the terms of the Purchase Agreements.

1.2 Company Registration.

(a) 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 S-1 or, if the Company is so eligible, on Form S-3 and shall contain (unless otherwise required pursuant to written comments received from the Commission upon a review of such registration statement or directed by all of the Purchasers) substantially the "Plan of Distribution" attached hereto as Annex A. The Company shall cause the registration statement to become effective and remain effective as provided herein. The Company shall use its reasonable best efforts to cause the registration statement to be declared effective under the Securities Act as soon as possible and, in any event, by the Effectiveness Date. The Company shall use its reasonable best efforts to keep the registration statement continuously effective under the Securities Act until all Registrable Securities covered by such registration statement have been sold, or may be sold without the requirement to be in compliance with Rule 144(c)(1) and otherwise without restriction or limitation pursuant to Rule 144, as determined by the counsel to the Company (the "Effectiveness Period"). Notwithstanding anything to the contrary set forth in this Section 1, in the event the Commission does not permit the Company to register all of the Registrable Securities in the initial registration statement referenced in this Section 1.2(a) because of the Commission's application of Rule 415 (a "415 Notice"), the Company shall, within 5 days of receipt of the 415 Notice, register in the initial registration statement referenced in this Section 1.2(a) the maximum number of Registrable Securities as is permitted by the Commission. In the event the Commission does not permit the Company to register all of the Registrable Securities in the initial registration statement, the Company shall file subsequent registration statements to register the Registrable Securities that were not registered in the initial registration statement as promptly as practicable and in a manner permitted by the Commission. The Company shall prepare and file with the Commission such amendments (including, without limitation, post-effective amendments) and supplements to each registration statement and the prospectus used in connection with each such registration statement, which prospectus is to be filed pursuant to Rule 424 promulgated under the Securities Act, as may be necessary to keep each such registration statement effective at all times during the Effectiveness Period for such registration statement, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company required to be covered by such Registration Statement until such time as all of such Registrable Securities shall have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in such registration statement.

(b) The Company shall bear and pay all expenses incurred in connection with any registration, filing or qualification of Registrable Securities with respect to the registrations pursuant to this Section 1.2, including (without limitation) all registration, filing and qualification fees, printer's fees, accounting fees and fees and disbursements of counsel for the Company, but excluding any brokerage or underwriting fees, discounts and commissions relating to Registrable Securities and fees and disbursements of counsel for the Purchasers.

1.3 Obligations of the Company. Whenever required under this Section 1 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the Commission a registration statement with respect to such Registrable Securities and use its commercially best efforts to cause such registration statement to become effective and to keep such registration statement effective during the Effectiveness Period;

(b) Prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement;

(c) Furnish to the Purchasers such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them (provided that the Company would not be required to print such prospectuses if readily available to Purchasers from any electronic service, such as on the EDGAR filing database maintained at www.sec.gov);

(d) Use its reasonable efforts to register and qualify the securities covered by such registration statement under such other securities' or blue sky laws of such jurisdictions as shall be reasonably requested by the Purchasers; provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions;

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering (each Purchaser participating in such underwriting shall also enter into and perform its obligations under such an agreement);

(f) Promptly notify each Purchaser holding Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act, within two business days (i) of the effectiveness of such registration statement, or (ii) of the happening of any event as a result of which the prospectus included 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 the light of the circumstances then existing;

(g) Cause all such Registrable Securities registered pursuant hereto to be listed on each securities exchange or nationally recognized quotation system on which similar securities issued by the Company are then listed; and

(h) Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

1.4 Furnish Information. It shall be a condition precedent to the Company's obligations to take any action pursuant to this Section 1 with respect to the Registrable Securities of any selling Purchaser that such Purchaser shall furnish to the Company such information regarding such Purchaser, the Registrable Securities held by such Purchaser, and the intended method of disposition of such securities in the form attached to this Agreement as Annex B, or as otherwise reasonably required by the Company or the managing underwriters, if any, to effect the registration of such Purchaser's Registrable Securities.

1.5 Delay of Registration. No Purchaser shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.6 Indemnification.

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Purchaser, any underwriter (as defined in the Securities Act) for such Purchaser and each person, if any, who controls such Purchaser or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages or liabilities (joint or several) to which any of the foregoing persons may become subject under the Securities Act, the Exchange Act or other federal or state securities law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively, a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in a registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto (collectively, the "Filings"), (ii) the omission or alleged omission to state in the Filings a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law; and the Company will pay any legal or other expenses reasonably incurred by any person to be indemnified pursuant to this Section 1.6(a) in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 1.6(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation that occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Purchaser, underwriter or controlling person.

(b) To the extent permitted by law, each Purchaser will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act, any underwriter, any other Purchaser selling securities in such Registration Statement, and any controlling person of any such underwriter, against any losses, claims, damages or liabilities (joint or several) to which any of the foregoing persons may become subject under the Securities Act, the Exchange Act or other federal or state securities law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Purchaser expressly for use in connection with such registration; and each such Purchaser will pay any legal or other expenses reasonably incurred by any person to be indemnified pursuant to this Section 1.6(b) in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 1.6(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Purchaser (which consent shall not be unreasonably withheld); provided, however, in no event shall any indemnity under this subsection 1.6(b) exceed the net proceeds received by such Purchaser upon the sale of the Registrable Securities giving rise to such indemnification obligation.

(c) Promptly after receipt by an indemnified party under this Section 1.6 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.6, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties that may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if materially prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 1.6, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 1.6.

(d) If the indemnification provided for in Sections 1.6(a) and (b) is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, claim, damage or expense referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions or alleged statements or omissions that resulted in such loss, liability, claim or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. In no event shall any Purchaser be required to contribute an amount in excess of the net proceeds received by such Purchaser upon the sale of the Registrable Securities giving rise to such indemnification obligation.

(e) The obligations of the Company and Purchasers under this Section 1.6 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 1, and otherwise.

1.7 Reports Under Securities Exchange Act. With a view to making available the benefits of certain rules and regulations of the Commission, including Rule 144, that may at any time permit any Purchaser to sell securities of the Company to the public without registration or pursuant to a registration on Form S-1 or Form S-3, until the earlier of (i) two years from the date hereof or (ii) such time as the Registrable Securities may be sold without volume restriction pursuant to Rule 144 and without the requirement to be in compliance with Rule 144(c)(1), the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144;

(b) take such action, including the voluntary registration of its Common Stock under Section 12 of the Exchange Act, as is necessary to enable the Purchasers to utilize Form S-1 for the sale of their Registrable Securities, such action to be taken as soon as practicable after the end of the fiscal year in which the registration statement is declared effective;

(c) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(d) furnish to any Purchaser forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-1 or Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Purchaser of any rule or regulation of the Commission that permits the selling of any such securities without registration or pursuant to such form.

1.8 Transfer or Assignment of Registration Rights. All or any portion of the rights under this Agreement shall be automatically assignable (but only with all related obligations) by each Purchaser to any transferee or assignee (as the case may be of all or a portion of such Purchaser's Registrable Securities if: (i) such Purchaser agrees in writing with such transferee or assignee (as the case may be) to assign all or any portion of such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such transfer or assignment (as the case may be); (ii) the Company is, within a reasonable time after such transfer or assignment (as the case may be), furnished with written notice of (a) the name and address of such transferee or assignee (as the case may be), and (b) the securities with respect to which such registration rights are being transferred or assigned (as the case may be); (iii) immediately following such transfer or assignment (as the case may be) the further disposition of such securities by such transferee or assignee (as the case may be) is restricted under the Securities Act or applicable state securities laws if so required; (iv) at or before the time the Company receives the written notice contemplated by clause (ii) of this sentence such transferee or assignee (as the case may be) agrees in writing with the Company to be bound by all of the provisions contained herein; (v) such transfer or assignment (as the case may be) shall have been made in accordance with the applicable requirements of the Securities Purchase Agreement; and (vi) such transfer or assignment (as the case may be) shall have been conducted in accordance with all applicable federal and state securities laws.

2. Miscellaneous.

2.1 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey, without regard to the laws that might otherwise govern under applicable principles of conflicts of laws thereof, except to the extent that the General Corporation Law of the State of Delaware shall apply to the internal corporate governance of the Company.

2.2 Arbitration. If any dispute arises out of or in connection with this Agreement (including a dispute regarding the existence, scope, validity or termination of this Agreement or the consequences of its nullity), it shall be referred to and finally resolved by arbitration in Hong Kong under the Hong Kong International Arbitration Rules Centre Administered Arbitration Rules in force when the Notice of Arbitration is submitted in accordance with these rules. The tribunal shall consist of three arbitrators, whereby the Purchasers shall collectively nominate one arbitrator, the Company shall appoint one arbitrator, and the third arbitrator, who shall be the Chairman of the tribunal, shall be appointed by the Hong Kong International Arbitration Centre Council. The language of the arbitration shall be English. The decision of the arbitrators shall be conclusively binding upon the parties and final and such decision shall be enforceable as a judgment in any court of competent jurisdiction. The Parties shall share equally the cost of the arbitration.

2.3 Waivers and Amendments. This Agreement may be terminated and any term of this Agreement may be amended or waived (either generally or in a particular instance and either retroactively or prospectively) with the written consent of the Company and, as to the rights of any Purchaser, the consent of such Purchaser.

2.4 Successors and Assigns. Except as otherwise expressly provided herein, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

2.5 Entire Agreement. This Agreement constitutes the full and entire understanding and agreement among the parties with regard to the subject matter hereof, and no party shall be liable or bound to any other party in any manner by any warranties, representations or covenants except as specifically set forth herein.

2.6 Notices. All notices and other communications required or permitted under this Agreement shall be in writing and shall be delivered personally by hand or by overnight courier, mailed by United States first-class mail, postage prepaid, sent by facsimile or sent by electronic mail directed (a) if to a Purchaser, at such Purchaser's address, facsimile number or electronic mail address set forth in the Company's records, or at such other address, facsimile number or electronic mail address as such Purchaser may designate by ten (10) days' advance written notice to the other parties hereto or (b) if to the Company, to its address, facsimile number or electronic mail address set forth on its signature page to this Agreement and directed to the attention of Mike DePasquale, Chief Executive Officer, or at such other address, facsimile number or electronic mail address as the Company may designate by ten (10) days' advance written notice to the other parties hereto. All such notices and other communications shall be effective or deemed given upon delivery, on the date that is three (3) days following the date of mailing, upon confirmation of facsimile transfer or upon confirmation of electronic mail delivery.

2.7 Interpretation. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation." The titles and subtitles used in this Agreement are used for convenience only and are not considered in construing or interpreting this Agreement.

2.8 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement, and the balance of the Agreement shall be interpreted as if such provision were so excluded, and shall be enforceable in accordance with its terms.

2.9 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser hereunder are several and not joint with the obligations of any other Purchaser hereunder, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser hereunder. Nothing contained herein or in any other agreement or document delivered at any closing, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert with respect to such obligations or the transactions contemplated by this Agreement. Each Purchaser shall be entitled to protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

2.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

2.11 Telecopy Execution and Delivery. A facsimile, telecopy or other reproduction of this Agreement may be executed by one or more parties hereto, and an executed copy of this Agreement may be delivered by one or more parties hereto by facsimile or similar electronic transmission device pursuant to which the signature of or on behalf of such party can be seen, and such execution and delivery shall be considered valid, binding and effective for all purposes. At the request of any party hereto, all parties hereto agree to execute an original of this Agreement as well as any facsimile, telecopy or other reproduction hereof.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, as of _____, 2015.

BIO-KEY INTERNATIONAL, INC.

By: _____
Name: _____
Title: _____

[COMPANY SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned Purchaser has executed this Agreement as of the date, month and year that such Purchaser became the owner of Registrable Securities.

"Purchaser"

_____

By:
Name:
Title:

Address:
_____
_____
_____

Telephone: _____

Facsimile: _____

Email: _____

[PURCHASER COUNTERPART SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT]

Annex A

Plan of Distribution

Each selling stockholder of the common stock and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on the OTC Bulletin Board or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. A selling stockholder may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales entered into after the effective date of the registration statement of which this prospectus is a part;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- a combination of any such methods of sale; or
- any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act of 1933, as amended, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with FINRA Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with FINRA IM-2440.

In connection with the sale of the common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of the common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be “underwriters” within the meaning of the Securities Act of 1933, as amended, in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act of 1933, as amended. Each selling stockholder has informed us that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the common stock. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).

We are required to pay certain fees and expenses incurred by us incident to the registration of the shares. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act of 1933, as amended.

Because selling stockholders may be deemed to be “underwriters” within the meaning of the Securities Act of 1933, as amended, they will be subject to the prospectus delivery requirements of the Securities Act of 1933, as amended, including Rule 172 thereunder. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act of 1933, as amended may be sold under Rule 144 rather than under this prospectus. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the selling stockholders.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the shares may be resold by the selling stockholders without registration and without the requirement to be in compliance with Rule 144(c)(1) and otherwise without restriction or limitation pursuant to Rule 144 or (ii) all of the shares have been sold pursuant to this prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Securities Exchange Act of 1934, as amended, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling stockholders will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common stock by the selling stockholders or any other person. We will make copies of this prospectus available to the selling stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act of 1933, as amended).

Annex B

BIO-KEY INTERNATIONAL, INC.

Selling Securityholder Notice and Questionnaire

The undersigned beneficial owner of common stock (the "Registrable Securities") of BIO-key International, Inc., a Delaware corporation (the " Company"), understands that the Company has filed or intends to file with the Securities and Exchange Commission (the "Commission") a registration statement (the "Registration Statement") for the registration and resale under Rule 415 of the Securities Act of 1933, as amended (the " Securities Act"), of the Registrable Securities, in accordance with the terms of the Registration Rights Agreement (the "Registration Rights Agreement") to which this document is annexed. A copy of the Registration Rights Agreement is available from the Company upon request at the address set forth below. All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Registration Rights Agreement.

Certain legal consequences arise from being named as a selling securityholder in the Registration Statement and the related prospectus. Accordingly, holders and beneficial owners of Registrable Securities are advised to consult their own securities law counsel regarding the consequences of being named or not being named as a selling securityholder in the Registration Statement and the related prospectus.

NOTICE

The undersigned beneficial owner (the "Selling Securityholder") of Registrable Securities hereby elects to include the Registrable Securities owned by it in the Registration Statement.

The undersigned hereby provides the following information to the Company and represents and warrants that such information is accurate:

Please answer every question.

If the answer to any question is "none" or "not applicable," please so state.

1. Name. _____

2. Contact Information.

Address: _____
Phone: _____
Facsimile: _____

3. Relationship with the Company. Describe the nature of any position, office or other material relationship the selling security holder has had with the Company (if any) during the past three years.

_____

_____

_____

_____

4. Organizational Structure. Please indicate or (if applicable) describe how the selling security holder is organized.

Is the selling security holder a natural person? ___ Yes ___ No

(If so, please mark the box and skip to Question 5.)

Is the selling security holder a reporting company under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")? ___ Yes ___ No

(If so, please mark the box and skip to Question 5.)

Is the selling security holder a majority-owned subsidiary of a reporting company under the Exchange Act? ___Yes ___ No

(If so, please mark the box and skip to Question 5.)

Is the selling security holder a registered investment company under the Investment Company Act of 1940? ___ Yes ___ No

(If so, please mark the box and skip to Question 5.)

If the answer to all of the foregoing questions is “no,” please describe: (i) the exact legal description of the selling security holder (e.g., corporation, partnership, limited liability company, etc.); (ii) whether the legal entity so described is managed by another entity and the exact legal description of such entity (repeat this step until the last entity described is managed by a person or persons, each of whom is described in any one of (a) through (d) above); (iii) the names of each person or persons having voting and investment control over the Company's securities that the entity owns (e.g., director(s), general partner(s), managing member(s), etc.).

(a) Legal Description of Entity:

_____

(b) Name of Entities)/(y) Managing Such Entity (if any):

_____

_____

(c) Name of Entities)/(y) Managing such Entities)/(y) (if any):

_____

_____

(d) Name(s) of Natural Person(s) Having Voting or Investment Control Over the Shares Held by such Entities)/(y) :

_____

5. Ownership of the Company's Securities. This question covers beneficial ownership of the Company's securities. State (a) the number of shares of the Company's common stock (including any shares issuable upon exercise of warrants or other convertible securities) that the selling security holder beneficially owned as of the date this Questionnaire is signed and (b) the number of such shares of the Company's common stock that the selling security holder wishes to have registered for resale in the Registration Statement:

(a) Number of shares of common stock and other equity securities owned:

_____

(b) Number of shares of common stock and other equity securities owned to be registered for resale in the Registration Statement:

_____

6. Broker-Dealer Status.

(a) Is the selling security holder a broker-dealer?	___ Yes	___ No
(b) If the answer to Section 6(a) is "yes," did the selling security holder receive the Registrable Securities as compensation for investment banking services to the Company? Note: If the answer to 6(b) is "no," SEC guidance has indicated that the selling security holder should be identified as an underwriter in the Registration Statement.	___ Yes	___ No
(c) Is the selling security holder an affiliate of a broker-dealer?	___ Yes	___ No
(d) If the selling security holder is an affiliate of a broker-dealer, does the selling security holder certify that it purchased the Registrable Securities in the ordinary course of business, and at the time of the purchase of the Registrable Securities to be resold, the selling security holder had no agreements or understandings, directly or indirectly, with any person to distribute the Registrable Securities?	___ Yes	___ No

Note: If the answer to 6(d) is "no," SEC guidance has indicated that the selling security holder should be identified as an underwriter in the Registration Statement.

7. Plan of Distribution. The undersigned has reviewed the proposed "Plan of Distribution" section in the Registration Statement and agrees that the statements contained therein reflect its intended method(s) of distribution or, to the extent these statements are inaccurate or incomplete, the undersigned has communicated in writing to the Company any changes to the proposed "Plan of Distribution" that are required to make these statements accurate and complete.

___ **(Please insert an "X" to the left if you have made any changes)**

8. Reliance on Responses. The undersigned acknowledges and agrees that the Company and its legal counsel shall be entitled to rely on its responses in this Questionnaire in all matters pertaining to the Registration Statement and the sale of any Registrable Securities pursuant to the Registration Statement.

The undersigned hereby acknowledges and is advised of the SEC's Compliance and Disclosure Interpretation 239.10 regarding short selling:

An Issuer filed a Form S-3 registration statement for a secondary offering of common stock which is not yet effective. One of the selling shareholders wanted to do a short sale of common stock "against the box" and cover the short sale with registered shares after the effective date. The issuer was advised that the short sale could not be made before the registration statement become effective, because the shares underlying the short sale are deemed to be sold at the time such sale is made. There would, therefore, be a violation of Section 5 if the shares were effectively sold prior to the effective date.

By returning this Questionnaire, the undersigned will be deemed to be aware of the foregoing interpretation.

If the Company is required to file a new or additional registration statement to register Registrable Securities beneficially owned by the selling security holder, the undersigned hereby agrees to complete and return to the Company, upon the request of the Company, a new Questionnaire (in a form substantially similar to this Questionnaire).

If the selling security holder transfers all or any portion of its Registrable Securities after the date on which the information in this Questionnaire is provided to the Company, the undersigned hereby agrees to notify the transferee(s) at the time of transfer of its rights and obligations hereunder.

By signing below, the undersigned represents that the information provided herein is accurate and complete. The undersigned agrees to promptly notify the Company of any inaccuracies or changes in the information provided herein that may occur subsequent to the date hereof at any time while the Registration Statement remains effective.

By signing below, the undersigned consents to the disclosure of the information contained herein and the inclusion of such information in the Registration Statement and the related prospectus and any amendments or supplements thereto. The undersigned understands that such information will be relied upon by the Company in connection with the preparation or amendment of the Registration Statement and the related prospectus.

IN WITNESS WHEREOF, the undersigned has executed this Selling Securityholder Notice and Questionnaire as of the date set forth below.

SELLING SECURITYHOLDER

By: _____

Name: _____

Title: _____

Date: _____

Exhibit 31.1

CERTIFICATION

I, Michael W. DePasquale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BIO-key International, Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting;

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 16, 2015

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

Exhibit 31.2

CERTIFICATION

I, Cecilia Welch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BIO-key International, Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting;

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 16, 2015

/s/ Cecilia Welch
Cecilia Welch
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of BIO-key International, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael W. DePasquale, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

BIO-KEY INTERNATIONAL, INC.

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

Date: November 16, 2015

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of BIO-key International, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Cecilia Welch, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

BIO-KEY INTERNATIONAL, INC.

By: /s/ Cecilia Welch
Cecilia Welch
Chief Financial Officer

Date: November 16, 2015