

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## BIO KEY INTERNATIONAL INC

**Form: 10-Q**

**Date Filed: 2016-11-14**

Corporate Issuer CIK: 1019034

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, 2016**

**or**

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT**

**For the Transition Period from to**

**Commission file number 1-13463**

**BIO-KEY INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of incorporation of organization)

**41-1741861**

(IRS Employer Identification Number)

**3349 HIGHWAY 138, BUILDING A, SUITE E, WALL, NJ 07719**

(Address of principal executive offices)

**(732) 359-1100**

(Registrant's telephone number, including area code)

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 11, 2016 was 66,425,305.

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**BIO-KEY INTERNATIONAL, INC.**

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**PART I -- FINANCIAL INFORMATION**

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

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 177,388	\$ 4,321,078
Accounts receivable, current, net of allowance for doubtful accounts of \$13,785 at September 30, 2016 and \$20,526 December 31, 2015	364,381	3,391,405
Due from factor	4,041	37,421
Inventory	568,236	348,645
Software license rights	2,000,000	5,000,000
Prepaid expenses and other	136,408	97,203
Total current assets	3,250,454	13,195,752
Software license rights, less current portion	9,999,550	7,000,000
Accounts receivable, net of current portion	2,070,000	-
Equipment and leasehold improvements, net	79,088	63,877
Deposits and other assets	8,712	8,712
Intangible assets—less accumulated amortization	137,534	147,738
Total non-current assets	12,294,884	7,220,327
<b>TOTAL ASSETS</b>	<b>\$ 15,545,338</b>	<b>\$ 20,416,079</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 550,807	\$ 1,158,555
Accrued liabilities	337,067	493,067
Dividends payable on preferred stock	200,625	133,851
Deferred revenue	240,154	376,405
Warrant liabilities	1,206	104,284
Total current liabilities	1,329,859	2,266,162
<b>TOTAL LIABILITIES</b>	<b>1,329,859</b>	<b>2,266,162</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Commitments and contingencies		
Series A-1 convertible preferred stock; authorized, 100,000 (liquidation preference of \$100 per share): issued and outstanding 90,000 of \$.0001 par value	9	9
Series B-1 convertible preferred stock; authorized, 105,000 (liquidation preference of \$100 per share): issued and outstanding 105,000 of \$.0001 par value	11	11
Common stock — authorized, 170,000,000 shares; \$.0001 par value issued and outstanding; 66,377,157 at September 30, 2016, and 66,098,482 as of December 31, 2015	6,638	6,610
Additional paid-in capital	76,493,397	76,754,737
Accumulated deficit	(62,284,576)	(58,611,450)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>14,215,479</b>	<b>18,149,917</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 15,545,338</b>	<b>\$ 20,416,079</b>

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<b>Revenues</b>				
Services	\$ 187,025	\$ 250,191	\$ 692,677	\$ 755,813
License fees and other	244,438	419,655	585,192	2,835,662
Total Revenues	431,463	669,846	1,277,869	3,591,475
<b>Costs and other expenses</b>				
Cost of services	46,257	30,283	168,636	154,251
Cost of license fees and other	125,526	344,557	251,485	505,339
Total costs and other expenses	171,783	374,840	420,121	659,590
Gross Profit	259,680	295,006	857,748	2,931,885
<b>Operating Expenses</b>				
Selling, general and administrative	925,939	1,013,778	2,956,456	3,034,318
Research, development and engineering	528,554	368,788	1,584,403	1,169,427
	1,454,493	1,382,566	4,540,859	4,203,745
Operating loss	(1,194,813)	(1,087,560)	(3,683,111)	(1,271,860)
<b>Other income (expense)</b>				
Interest income	6	1	19	5
Interest expense	-	(20,000)	-	(20,000)
Gain on derivative liabilities	60,385	27,975	10,879	42,228
Income taxes	-	-	(912)	(912)
Total other income (expense)	60,391	7,976	9,986	21,321
Net loss	(1,134,422)	(1,079,584)	(3,673,125)	(1,250,539)
Convertible preferred stock dividends	(200,625)	-	(601,875)	-
Net loss available to common stockholders	\$ (1,335,047)	\$ (1,079,584)	\$ (4,275,000)	\$ (1,250,539)
<b>Basic and Diluted Loss per Common Share</b>	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.02)
<b>Weighted Average Shares Outstanding:</b>				
Basic and Diluted	66,360,445	66,038,941	66,253,808	66,013,958

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

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

	Nine Months Ended September 30,	
	2016	2015
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (3,673,125)	\$ (1,250,539)
<b>Adjustments to reconcile net loss to cash used for operating activities:</b>		
Depreciation	37,764	32,049
Amortization of intangible assets	10,205	10,204
Gain on derivative liabilities	(10,879)	(42,228)
Share-based and warrant compensation for employees and consultants	231,983	258,297
Stock based directors fees	48,999	-
Amortization on note payable discount	-	20,000
<b>Change in assets and liabilities:</b>		
Accounts receivable	957,024	(1,540,075)
Due from factor	33,380	76,657
Inventory	(219,591)	(138,895)
Prepaid expenses and other	(39,205)	198,841
Software license rights	450	-
Accounts payable	(607,748)	960,673
Accrued liabilities	(156,000)	(55,824)
Due to factor	-	533,422
Deferred revenue	(136,251)	(36,418)
Net cash used for operating activities	(3,522,994)	(973,836)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(52,976)	(2,078)
Net cash used for investing activities	(52,976)	(2,078)
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Preferred dividends paid	(535,100)	-
Stock issued to directors	-	13,000
Proceeds from issuance of Note Payable	-	250,000
Costs to issue preferred and common stock	(32,620)	(58,486)
Net cash provided by (used for) financing activities	(567,720)	204,514
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(4,143,690)	(771,400)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	4,321,078	843,632
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 177,388	\$ 72,232

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

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

SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION

	Nine Months Ended September 30,	
	2016	2015
Cash paid for:		
Interest	\$ -	\$ -
Noncash Investing and Financing Activities:		
Issuance of warrants for financing raise	\$ -	\$ 92,199
Accrual of preferred stockholder dividends	\$ 200,625	\$ -

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

**BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2016 (Unaudited)

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 subsidiaries (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, 2015 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, 2015 (the "Form 10-K"), filed with the SEC on March 30, 2016.

*Recently Issued Accounting Pronouncements*

In May 2014, ASU No. 2014-09, "Revenue from Contracts with Customers" was issued. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The guidance will also require that certain contract costs incurred to obtain or fulfill a contract, such as sales commissions, be capitalized as an asset and amortized as revenue is recognized. Adoption of the new rules could affect the timing of both revenue recognition and the incurrence of contract costs for certain transactions. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The new standard was scheduled to be effective for reporting periods beginning after December 15, 2016 and early adoption is not permitted. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date" ("ASU 2015-14") which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual reporting periods after December 15, 2017 including interim periods within annual periods beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of adoption of ASU 2014-09 and the further updates codified in ASU 2016-12, ASU 2016-11 and ASU 2016-10 and the implementation approach to be used.

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 did not 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. Management is currently evaluating the effects of adopting ASU 2015-11 on the Company's consolidated financial statements but the adoption is not expected to have a significant impact.

In September 2015, FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments" ("ASU 2015-16"). This standard requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 also requires separate presentation on the face of the income statement, or disclosure in the notes, of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amount had been recognized as of the acquisition date. ASU 2015-16 was effective for the Company beginning January 1, 2016 and did not have a material impact on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). This update requires an entity to classify deferred tax liabilities and assets as noncurrent within a classified statement of financial position. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted as of the beginning of the interim or annual reporting period. Management is currently evaluating the effects of adopting ASU 2015-17 on the Company's consolidated financial statements but the adoption is not expected to have a significant impact.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). The update addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments, specifically equity investments and financial instruments measured at amortized cost. ASU 2016-01 is effective for public companies for annual and interim periods beginning after December 15, 2017. Management is currently assessing the impact ASU 2016-01 will have, if any, on the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-09, "Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 requires, among other things, that excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement rather than as additional paid-in capital, changes the classification of excess tax benefits from a financing activity to an operating activity in the statement of cash flows, and allows forfeitures to be accounted for when they occur rather than estimated. ASU 2016-09 is effective for public companies for interim and annual periods beginning after December 15, 2016. Management is currently assessing the impact ASU 2016-09 will have on the Company's 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.

#### *Reclassification*

Reclassifications occurred to certain prior year amounts in order to conform to the current year classifications. The reclassifications have no effect on the reported net loss.

## 2. GOING CONCERN

The Company has incurred significant losses to date and at September 30, 2016, had an accumulated deficit of approximately \$62 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, 2016, the Company's total cash and cash equivalents were approximately \$177,000, as compared to approximately \$4,321,000 at December 31, 2015.

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 \$579,000 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 ("GAAP"), 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:

	<b>Three Months Ended September 30, 2016</b>	<b>Three Months Ended September 30, 2015</b>
Selling, general and administrative	\$ 31,610	\$ 30,779
Research, development and engineering	25,074	5,271
	<b>\$ 56,684</b>	<b>\$ 36,050</b>

  

	<b>Nine Months Ended September 30, 2016</b>	<b>Nine Months Ended September 30, 2015</b>
Selling, general and administrative	\$ 221,791	\$ 218,653
Research, development and engineering	59,191	39,644
	<b>\$ 280,982</b>	<b>\$ 258,297</b>

### 4. FACTORING

Due from factor consisted of the following as of:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Original invoice value	\$ 16,117	\$ 149,680
Factored amount	(12,076)	(112,259)
Balance due from factor	<b>\$ 4,041</b>	<b>\$ 37,421</b>

As of December 2011, the Company entered into a 24-month accounts receivable factoring arrangement with a financial institution (the "Factor"). 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. In June of 2015, the arrangement was extended to October 31, 2017. 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. 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,	
	2016	2015	2016	2015
Factoring fees	\$ 16,264	\$ 87,929	\$ 319,627	\$ 323,059

#### 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, 2016	December 31, 2015
Finished goods	\$ 330,947	\$ 246,475
Fabricated assemblies	237,289	102,170
Total inventory	\$ 568,236	\$ 348,645

#### 6. SOFTWARE LICENSE RIGHTS

On November 11, 2015, the Company entered into a license agreement for the rights to all software and documentation regarding the technology currently known as or offered under the FingerQ name. The license agreement grants the Company the exclusive right to reproduce, create derivative works and distribute copies of the FingerQ software and documentation, create new FingerQ related products, and grant sub-licenses of the licensed technology to end users. The license rights have been granted to the Company in perpetuity, with a stated number of end-user resale sub-licenses allowed under the contract for a total of \$12,000,000. The cost of sub-license rights expected to be sold to customers in the following 12 months is \$2,000,000 and is classified as a current asset, and the balance as non-current.

	September 30, 2016	December 31, 2015
Current software license rights	\$ 2,000,000	\$ 5,000,000
Non-current software license rights	9,999,550	7,000,000
Total software license rights	\$ 11,999,550	\$ 12,000,000

#### 7. EARNINGS (LOSS) PER SHARE COMMON STOCK ("EPS")

The Company's basic EPS is calculated using net 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,	
	2016	2015	2016	2015
<b>Basic Numerator:</b>				
Net loss	\$ (1,134,422)	\$ (1,079,584)	\$ (3,673,125)	\$ (1,250,539)
Convertible preferred stock dividends	(200,625)	-	(601,875)	-
Net loss available to common stockholders	\$ (1,335,047)	\$ (1,079,584)	\$ (4,275,000)	\$ (1,250,539)
Basic Denominator	66,360,445	66,038,941	66,253,808	66,013,958
Per Share Amount	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.02)

All potential common shares were antidilutive, and accordingly diluted EPS equaled basic EPS for all periods presented in the accompanying financial statements.

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,	
	2016	2015	2016	2015
Preferred stock	65,000,000	-	65,000,000	-
Stock options	347,897	12,917	160,770	68,227
Warrants	78,342	-	-	-
Total	65,426,239	12,917	65,160,770	68,227

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,	
	2016	2015	2016	2015
Stock options	2,580,000	3,991,332	2,780,000	2,888,332
Warrants	19,880,414	20,455,414	20,455,414	20,455,414
Total	22,460,414	24,446,746	23,235,414	23,343,746

## 8. STOCKHOLDERS' EQUITY

### Preferred Stock

Within the limits and restrictions provided in the Company's Certificate of Incorporation, the Board of Directors has the authority, without further action by the shareholders, to issue up to 5,000,000 shares of preferred stock, \$.0001 par value per share, in one or more series, and to fix, as to any such series, any dividend rate, redemption price, preference on liquidation or dissolution, sinking fund terms, conversion rights, voting rights, and any other preference or special rights and qualifications. As of September 30, 2016, 100,000 shares of preferred stock have been designated as Series A-1 Convertible Preferred Stock, of which 90,000 shares are issued and outstanding, and 105,000 shares of preferred stock have been designated as Series B-1 Convertible Preferred Stock, all of which are issued and outstanding.

#### Series A-1 Convertible Preferred Stock

On October 22 and 29, 2015, the Company issued 84,500 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. On November 11, 2015, 5,500 additional shares of Series A-1 Convertible Preferred Stock were issued at a purchase price of \$100.00 per share, for gross cash proceeds of \$550,000. Shares of the Series A-1 Convertible Preferred Stock are convertible at any time at the option of the holder into shares of common stock by dividing the Series A-1 Original Issue Price by an initial conversion price of \$0.30 per share, subject to adjustment for stock dividends, stock splits, combinations, and reclassifications of the Company's 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 the Company's 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. Until October 1, 2017, the dividends are payable in cash provided that if payment in cash would be prohibited under applicable Delaware corporation law or cause the Company to breach any agreement for borrowed money, such dividends are payable in 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. Commencing January 1, 2018, dividends are payable at the option of the Company in cash or kind through the issuance of additional shares of common valued as described above.

The holders of the Series A-1 shares are entitled to designate one person to serve on the Board of Directors of the Company. The holders of the Series A-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 consolidation 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 A-1 Shares elect otherwise, holders of Series A-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 \$100.00 per share plus any declared and unpaid dividends (pari-passu with the Series B-1 holders). As of September 30, 2016, \$135,000 of dividends were accrued for the holders of the Series A-1 shares, and have not been paid as of the date of this filing.

The Series A-1 Preferred Stock contains options that based on an evaluation of FASB ASC 815-15, "Embedded Derivatives" and FASB ASC 815-40-15, "Contracts in Entity's Own Equity - Scope and Scope Exceptions," are considered embedded features: Preferred Stock's conversion option: The Preferred Stock is convertible at the Holder's option at any time at the fixed conversion price of \$0.30 per share; Quarterly Dividend Conversion Option: From issuance until December 31, 2017, the majority of Holders may elect to have the Stock's Quarterly dividend payment 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. These features were analyzed by the Company and determined that they were not required to be bifurcated from the preferred stock and recorded as derivatives as they are clearly and closely related to an equity host.

#### Series B-1 Convertible Preferred Stock

On November 11, 2015, the Company issued 105,000 shares of Series B-1 Convertible Preferred Stock at a purchase price of \$100.00 per share, for gross proceeds of \$10,500,000. Shares of the Series B-1 Convertible Preferred Stock are convertible at any time at the option of the holder into shares of common stock by dividing the Series B-1 Original Issue Price by an initial conversion price of \$0.30 per share, subject to adjustment for stock dividends, stock splits, combinations, and reclassifications of the Company's 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 the Company's 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 provided that if payment in cash would be prohibited under applicable Delaware corporation law or cause the Company to breach any agreement for borrowed money, or if the majority of the outstanding shares of the Series B-1 Shares elect otherwise, such dividends are payable in 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.

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 consolidation 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 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 \$100.00 per share plus any declared and unpaid dividends (pari-passu with the Series A-1 holders). As of September 30, 2016, \$65,625 of dividends were accrued for the holders of the Series B-1 shares, and have not been paid as of the date of this filing.

The Series B-1 Preferred Stock contains options that based on an evaluation of FASB ASC 815-15, "Embedded Derivatives" and FASB ASC 815-40-15, "Contracts in Entity's Own Equity - Scope and Scope Exceptions," are considered embedded features: Preferred Stock's conversion option: The Preferred Stock is convertible at the Holder's option at any time at the fixed conversion price of \$0.30 per share; Quarterly Dividend Conversion Option: The majority of Holders may elect to have the Stock's Quarterly dividend payment 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. These features were analyzed by the Company and determined that they were not required to be bifurcated from the preferred stock and recorded as derivatives as they are clearly and closely related to an equity host.

## Common Stock

On March 8, 2016, the company issued 100,000 shares of common stock to its directors in payment of board fees valued at \$16,000. On May 11, 2016, the Company issued 41,174 shares of common stock to its directors in payment of board fees valued at \$6,999. On May 11, 2016, the Company issued 100,000 shares of common stock to the Chief Executive Officer as compensation valued at \$17,000. On August 10, 2016, the Company issued 37,501 shares of common stock to its directors in payment of board fees valued at \$9,000.

## 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

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, 2016, the Company recorded a gain on the change in fair value of the cashless exercise features of \$4,368. For the nine months ended September 30, 2016, the Company recorded a gain on the change in the fair value of the cashless exercise feature of \$6,272. As of September 30, 2016, the fair value of the cashless exercise features was \$1,206. The fair value of the cashless exercise features was \$7,478 as of December 31, 2015.

## 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 (January 29, 2015), 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.

The warrants have a term of five years, an exercise price of \$0.30 per post-split share and are currently exercisable in full. 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 purchase price reset feature in the common stock and 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 purchase price reset feature and the full ratchet anti-dilution feature should be bifurcated from the common stock and accounted for as a derivative liabilities.

The Company valued the purchase price reset feature using a Monte Carlo simulation at the date of issuance, 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 December 31, 2015, the calculated price was below \$0.20, and on September 30, 2016 the calculated price was above \$0.20 based on the Monte Carlo simulation.

The Company did not value the derivative liabilities. One of the key determinants of the Company's decision to not value the derivative liabilities 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 did not value the purchase price reset feature. The Company's reason was based on the issuance of Series A and Series B preferred stock in October and November of 2015, 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 liabilities at the dates of issuance through September 30, 2016. 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 vested 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, 2016, the Company recorded an expense of \$0 and \$11,625 respectively, related to the stock warrants, which completed the service period expense.

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. 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 issuance of Series A and Series B preferred stock in October and November of 2015, issued at a conversion price of \$0.30.

The cashless exercise features contained in the warrants were initially considered to be derivatives and the Company recorded a warrant liability of \$92,199 on the consolidated balance sheet. The warrants issued by the Company were valued using an option-pricing model. The Company marked-to-market the warrant liabilities at the end of each reporting period. During the quarter ended September 30, 2016, the Company determined the cashless exercise features did not meet the criteria for recording a warrant liability. Accordingly, the grant date fair value of the warrant liability was transferred to additional paid-in capital and the cumulative loss due to change in the recorded fair value of the liability was reversed during the quarter. For the quarter ended September 30, 2016 the Company recorded income of \$56,017 in order to reverse the net cumulative loss on the warrant liability that had been previously recorded. For the nine months ended September 30, 2016 the Company recorded income on the change in warrant liability of \$4,607. The warrant liability was \$96,806 as of December 31, 2015.

## Issuances and Exercise of Stock Options

During the three and nine months ended September 30, 2016, the Company granted 200,000 and 275,000 stock options respectively, to new employees under the 2015 Equity Plan. 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 \$0.17-0.24 per share. The weighted average fair value of the options granted during the quarter was \$0.164.

The fair value of the options issued during the three months ended June 30, 2016 was estimated on the date of grant at \$8,644 using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate: 1.12%, expected life of options in years: 4.5, expected dividends: 0, volatility of stock price: 93.7%.

The fair value of the options issued during the three months ended September 30, 2016 was estimated on the date of grant at \$32,830 using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate: 1.08%, expected life of options in years: 4.5, expected dividends: 0, volatility of stock price: 93%.

## 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 90% and 56% of the Company's total sales for the three months ended September 30, 2016 and 2015, respectively, and were approximately 84% and 32% of the Company's total sales for the nine months ended September 30, 2016 and 2015, 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, 2016 were measured using the following assumptions:

Risk-free interest rate	0.20 - 0.21%
Expected term	0.07 - 0.11
Expected dividends	0
Volatility of stock price	62.9 - 69.0%

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, 2016	\$ 7,478
Gain on derivative	(6,272)
	<u>1,206</u>
Warrant issued under September 2015 SPA	
Fair value at January 1, 2016	96,806
Gain on derivative	(4,607)
Transfer to additional paid-in capital	(92,199)
	<u>-</u>
Balance, September 30, 2016	<u>\$ 1,206</u>



## 11. MAJOR CUSTOMERS AND ACCOUNTS RECEIVABLE

For the three months ended September 30, 2016 and 2015, two customers accounted for 44% and three customers accounted for 65% of revenue, respectively. For the nine months ended September 30, 2016 and 2015, one customer accounted for 22% and one customer accounted for 53% of revenue, respectively.

At September 30, 2016, one customer accounted for 85% of accounts receivable. This receivable has been past due per the terms of the invoice for fifteen months as of September 30, 2016. Based on prior history with this customer, the Company believes the amount is fully collectable and has determined that a reserve is not necessary. During the quarter ended September 30, 2016, the company reclassified the past due receivable to long-term as management concluded that collection may not occur in the near term. At December 31, 2015, three customers accounted for 87% of accounts receivable.

## 12. SUBSEQUENT EVENTS

On November 7, 2016, the Company issued 48,148 shares of common stock to its directors in payment of board fees. On November 11, 2016, we entered into a Securities Purchase Agreement with a stockholder/director for the purchase and sale of 6,200,000 shares of our common stock at an aggregate purchase price of \$1,860,000 or \$0.30 per share.

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, 2015 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 complements 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.

More recently, we have begun to distribute directly to consumers and commercial users our SideSwipe™, SideTouch and EcoID™ products. SideSwipe, SideTouch and EcoID are stand-alone fingerprint readers that can be used on any laptop, tablet or other device with a USB port.

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 and educational markets.

## 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 have caused commercial demand for advanced user authentication to emerge as viable. 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.

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 (app's) 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. Our core technology works on over 40 commercially available fingerprint readers, across both Windows and Linux platforms, and Apple iOS and Android mobile operating systems. This interoperability, coupled with the ability to authenticate users via the device or cloud, is unique in the industry, provides a key differentiator for us, and in our opinion, makes our technology more viable than competing technologies and expands the size of the overall market for our products.

We believe there is potential for significant market growth in five 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;
- Government services and highly regulated industries including, Medicare, Medicaid, Social Security, drivers licenses, campus and school ID, passports/visas;
- Direct sales of fingerprint readers to consumers and commercial customers; and
- Growth in the Asia Pacific region.

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. In addition, we expect that the integration of our technology into Windows 10, will accelerate the demand for our computer network log-on solutions and fingerprint readers. Finally, our entry into the Asian market and licensing arrangement with China Goldjoy Group is expected to further expand our business by opening new markets.

Over the longer term, we intend to expand our business into the cloud and mobile computing industries. The continued 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. 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, 2015. 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, 2016 AS COMPARED TO SEPTEMBER 30, 2015

#### Consolidated Results of Operations - Percent Trend

	Three Months Ended September 30,	
	2016	2015
<b>Revenues</b>		
Services	43%	37%
License fees and other	57%	63%
	100%	100%
<b>Costs and other expenses</b>		
Cost of services	11%	5%
Cost of license fees and other	29%	51%
	40%	56%
Gross Profit	60%	44%
<b>Operating expenses</b>		
Selling, general and administrative	214%	151%
Research, development and engineering	123%	55%
	337%	206%
<b>Operating loss</b>	-277%	-162%
<b>Other income (deductions)</b>		
Total other income	14%	1%
<b>Net loss</b>	-263%	-161%

#### Revenues and cost of goods sold

	Three months ended September 30,		\$ Change	% Change
	2016	2015		
<b>Revenues</b>				
Service	\$ 187,025	\$ 250,191	\$ (63,166)	-25%
License & other	244,438	419,655	(175,217)	-42%
<b>Total Revenue</b>	<b>\$ 431,463</b>	<b>\$ 669,846</b>	<b>\$ (238,383)</b>	<b>-36%</b>
<b>Cost of goods sold</b>				
Service	\$ 46,257	\$ 30,283	\$ 15,974	53%
License & other	125,526	344,557	(219,031)	-64%
<b>Total COGS</b>	<b>\$ 171,783</b>	<b>\$ 374,840</b>	<b>\$ (203,057)</b>	<b>-54%</b>

#### Revenues

For the three months ended September 30, 2016 and 2015, service revenues included approximately \$182,000 and \$229,000, respectively, of recurring maintenance and support revenue, and approximately \$5,000 and \$21,000 of non-recurring custom services revenue, respectively. Recurring service revenue decreased 21% during the current period primarily due to the delayed renewal of a maintenance agreement from the large shipment in the second quarter of 2015. The non-recurring custom services decreased 75% due to fewer customized requirements.

License and other revenue (comprised of hardware and royalties) decreased during the three months ended September 30, 2016. The decrease consisted of an approximate \$157,000 or 42% decrease in our hardware sales, however, with the removal of a one-time sensor sale in 2015, hardware revenue increased approximately 100%. There was a \$5,703 or 29% increase in core software. Royalty revenue decreased 100% as the OEM agreement was completed and was not renewed.

**Costs of goods sold**

During the three months ended September 30, 2016, cost of services increased approximately \$16,000 from the corresponding period in 2015 due to increased costs associated with third party software costs and personnel costs.

License and other costs for the three months ended September 30, 2015 decreased \$219,000 from the corresponding period in 2015 due to the sensors cost in 2015.

**Selling, general and administrative**

	Three months ended September 30,		\$ Change	% Change
	2016	2015		
<b>Selling, general and administrative</b>	\$ 925,939	\$ 1,013,778	\$ (87,839)	-9%

Selling, general and administrative expenses decreased 9% during the three months ended September 30, 2016 from the corresponding period in 2015. Decreases consisted of lower professional fees and costs related to the settlement of the LifeSouth lawsuit in 2015, and factoring fees, offset by higher marketing costs.

**Research, development and engineering**

	Three months ended September 30,		\$ Change	% Change
	2016	2015		
<b>Research, development and engineering</b>	\$ 528,554	\$ 368,788	\$ 159,766	43%

During the three months ended September 30, 2016, research, development and engineering costs increased 43% over the corresponding period in 2015, as a result of increased new personnel costs, temporary outside services, and non-cash compensation.

**Other income and expense**

	Three months ended September 30,		\$ Change	% Change
	2016	2015		
<b>Interest income</b>	6	1	5	500%
<b>Interest expense</b>	-	(20,000)	20,000	-100%
<b>Gain on derivative liabilities</b>	60,385	27,975	32,410	116%
<b>Total</b>	\$ 60,391	7,976	\$ 52,415	657%

Interest income for the quarter ended September 30, 2016 and September 30, 2015 consisted of bank interest.

Interest expense for the quarter ended September 30, 2015 represented 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. In the current quarter, we determined the warrant liability recorded during the third quarter of 2015 did not meet the criteria to record a derivative liability and therefore, the related cumulative loss on the derivative was reversed.

NINE MONTHS ENDED SEPTEMBER 30, 2016 AS COMPARED TO SEPTEMBER 30, 2015

**Consolidated Results of Operations - Percent Trend**

	Nine Months Ended September 30,	
	2016	2015
<b>Revenues</b>		
Services	54%	21%
License fees and other	46%	79%
	100%	100%
<b>Costs and other expenses</b>		
Cost of services	13%	4%
Cost of license fees and other	20%	14%
	33%	18%
Gross Profit	67%	82%
<b>Operating expenses</b>		
Selling, general and administrative	231%	84%
Research, development and engineering	124%	33%
	355%	117%
<b>Operating loss</b>	-288%	-35%
<b>Other income (deductions)</b>		
Total other income	1%	0%
<b>Net Income (loss)</b>	-288%	-37%

**Revenues and costs of goods sold**

	Nine months ended September 30,		\$ Change	% Change
	2016	2015		
<b>Revenues</b>				
Service	\$ 692,677	\$ 755,813	\$ (63,136)	-8%
License & other	585,192	2,835,662	(2,250,470)	-79%
<b>Total Revenue</b>	<b>\$ 1,277,869</b>	<b>\$ 3,591,475</b>	<b>\$ (2,313,606)</b>	<b>-64%</b>
<b>Cost of goods sold</b>				
Service	\$ 168,636	\$ 154,251	\$ 14,385	9%
License & other	251,485	505,339	(253,854)	-50%
<b>Total COGS</b>	<b>\$ 420,121</b>	<b>\$ 659,590</b>	<b>\$ (239,469)</b>	<b>-36%</b>

**Revenues**

For the nine months ended September 30, 2016 and 2015, service revenues included approximately \$593,000 and \$506,000, respectively, of recurring maintenance and support revenue, and approximately \$99,000 and \$250,000, respectively, of non-recurring custom services revenue. Recurring service revenue increased 17% from 2015 to 2016 as we continued to expand our customer base. The non-recurring custom services decreased 60% due to fewer customized sales.

For the nine months ended September 30, 2016, license and other revenue (comprised of third party hardware and royalty) decreased approximately 79% as a result of several contributing factors. Software license revenue decreased approximately \$2,016,000 or 94% primarily as a result of a single large order in 2015 without a comparable order in 2016. Hardware sales decreased by approximately \$177,000 or 29%, however, with the removal of the one-time sensor sale in 2015, hardware revenue increased approximately \$90,000 or 25%. Royalty income decreased 75% to approximately \$21,000 from \$81,000 during the corresponding period in 2015, as the OEM agreement was completed and was not renewed in the second quarter of 2016.

**Costs of goods sold**

For the nine months ended September 30, 2016, cost of service increased approximately \$14,000 from the corresponding period in 2015 primarily as a result of increased costs associated with third party software costs and personnel costs.

License and other costs for the nine months ended September 30, 2016 decreased approximately \$254,000 from the corresponding period in 2015, due to the decrease in hardware revenue specifically the one-time sensor sale.

**Selling, general and administrative**

	Nine months ended September 30,		\$ Change	% Change
	2016	2015		
<b>Selling, general and administrative</b>	<b>\$ 2,956,456</b>	<b>\$ 3,034,318</b>	<b>\$ (77,862)</b>	<b>-3%</b>

Selling, general and administrative expenses for the nine months ended September 30, 2016 decreased 3% from the corresponding period in 2015. Decreases included the legal fees for the LifeSouth settlement from 2015, marketing expenses and sales commission, offset by increases from new personnel in the Hong Kong subsidiary.

**Research, development and engineering**

	Nine months ended September 30,		\$ Change	% Change
	2016	2015		
<b>Research, development and engineering</b>	<b>\$ 1,584,403</b>	<b>\$ 1,169,427</b>	<b>\$ 414,976</b>	<b>35%</b>

During the nine months ended September 30, 2016, research, development and engineering costs increased 35% from the corresponding period in 2015, due to increased new personnel costs, temporary outside services, non-cash compensation and recruiting expenses.

**Other income and expense**

	Nine months ended September 30,		\$ Change	% Change
	2016	2015		
<b>Interest income</b>	<b>19</b>	<b>5</b>	<b>14</b>	<b>280%</b>
<b>Interest expense</b>	<b>-</b>	<b>(20,000)</b>	<b>(20,000)</b>	<b>-100%</b>
<b>Gain on derivative liabilities</b>	<b>10,879</b>	<b>42,228</b>	<b>(31,349)</b>	<b>-74%</b>
<b>Income taxes</b>	<b>(912)</b>	<b>(912)</b>	<b>-</b>	<b>0%</b>
<b>Total</b>	<b>\$ 9,986</b>	<b>\$ 21,321</b>	<b>\$ (11,335)</b>	<b>-53%</b>

Interest income for the period ended September 30, 2016 and September 30, 2015 consisted of bank interest.

Interest expense for the period ended September 30, 2015 represented 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. In the current quarter, we determined the warrant liability recorded during the third quarter of 2015 did not meet the criteria to record a derivative liability and therefore, the related cumulative loss on the derivative was reversed.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

Net cash used for operations during the nine months ended September 30, 2016 was approximately \$3,523,000. The cash used in operating activities was primarily attributable to the following items:

- Positive cash flows related to adjustments to depreciation, amortization, share-based compensation, and issuance of common stock to our non-employee directors and Chief Executive Officer of approximately \$329,000, a decrease in accounts receivable of approximately \$957,000, and a decrease in due from factor of approximately \$33,000.
- Negative cash flows related to an increase in inventory of approximately \$220,000, due to receipt of BIO-key brand fingerprint readers and fabricated assemblies with our Hong Kong subsidiary, and decreases in accrued expenses, deferred revenue, and accounts payable of approximately \$900,000.

Net cash used for investing activities during the nine months ended September 30, 2016 was approximately \$53,000 and related to capital expenditures.

Net cash used for financing activities during the nine months ended September 30, 2016 was approximately \$568,000, consisting of approximately \$535,000 in payment of dividends on preferred stock and approximately \$33,000 for issuance of stock costs.

Net working capital at September 30, 2016 was approximately \$1,921,000 as compared to net working capital of approximately \$10,930,000 at December 31, 2015. The decline in working capital is primarily due to the reclassification from current asset to long term of an account receivable from a foreign customer of approximately \$2.1 million, and a revised estimate in the current portion of software licenses to be sold (decrease of \$3 million) in the next twelve months, and cash used to fund operations during the nine months ended September 30, 2016.

### Liquidity and 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 during the previous two years:

As of December 2011, we entered into a 24-month accounts receivable factoring arrangement with a financial institution (the "Factor") which has since been extended through October 31, 2017. Pursuant to the terms of the 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 us (the "Advance Amount"), with the remaining balance, less fees, to be forwarded to us once the Factor collects the full accounts receivable balance from the customer. In addition, from time to time, we receive 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. We expect to continue to use this factoring arrangement periodically to assist with our general working capital requirements due to contractual requirements.

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, 2016, our total cash and cash equivalents were approximately \$177,000, as compared to approximately \$4,321,000 at December 31, 2015.

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 through factoring receivables. In that regard, we recently entered into a securities purchase agreement with Wong Kwok Fong (Kelvin), who serves on our board of directors, to purchase 6,200,000 shares of our common stock at a purchase price of \$1,860,000. We estimate that we currently require approximately \$579,000 per month to conduct our operations and pay dividend obligations, a monthly amount that we have been unable to consistently achieve through revenue generation. During the first nine months of 2016, we generated approximately \$1,278,000 of revenue, which is below our average monthly requirements.

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, 2016. 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, 2016, 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, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II — OTHER INFORMATION**

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

On November 7, 2016, we issued 48,148 shares of common stock to five non-employee directors in payment of directors' fees. The foregoing securities were issued in a private placement transaction pursuant to the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, without general solicitation or advertising of any kind and without payment of brokerage commissions 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" of SEC Form 8-K.

On November 11, 2016, we entered into a Securities Purchase Agreement with Wong Kwok Fong (Kelvin) for the purchase and sale of 6,200,000 shares of our common stock at an aggregate purchase price of \$1,860,000 or \$0.30 per share. Mr. Wong is a director of the Company. We expect to close the transaction during the next ten days.

### **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 14, 2016

/s/ Michael W. DePasquale

Michael W. DePasquale  
Chief Executive Officer  
(Principal Executive Officer)

Dated: November 14, 2016

/s/ Cecilia Welch

Cecilia Welch  
Chief Financial Officer  
(Principal Financial Officer)

## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Description</b>
10.1	Securities Purchase Agreement dated November 11, 2016, by and between the Registrant and Wong Kwok Fong (Kelvin)
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

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CONFORMED PERIOD OF REPORT: 20160930  
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DATE AS OF CHANGE: 20161114

FILER:

COMPANY DATA:

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CENTRAL INDEX KEY: 0001019034  
STANDARD INDUSTRIAL CLASSIFICATION: COMPUTER COMMUNICATIONS EQUIPMENT [3576]  
IRS NUMBER: 411761861  
STATE OF INCORPORATION: DE  
FISCAL YEAR END: 1231

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STREET 2: BUIDING A, SUITE E  
CITY: WALL  
STATE: NJ  
ZIP: 07719  
BUSINESS PHONE: 7323591100

MAIL ADDRESS:

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STREET 2: BUIDING A, SUITE E  
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**CONFIDENTIAL****SECURITIES PURCHASE AGREEMENT**

THIS SECURITIES PURCHASE AGREEMENT (this "Agreement") is entered into and effective simultaneously with the execution of this Agreement on this 11<sup>th</sup> day of November 2016, by and between BIO-key International, Inc., a Delaware corporation (the "Company") and Wong Kwok Fong (the "Purchaser").

**RECITALS:**

WHEREAS, subject to the terms and conditions of this Agreement and pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), 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. 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 6,200,000 shares (the "Shares") of the Company's common stock, \$0.0001 par value per share (the "Common Stock") at a purchase price of \$0.30 per Share. The aggregate purchase price payable by Purchaser for the Shares shall be \$1,860,000 (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 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.

(c) On the Closing Date, the Company shall deliver to the Purchaser:

- (i) this Agreement duly executed by the Company; and
- (ii) a certificate evidencing 6,200,000 Shares of Common Stock.

(d) On the Closing Date, the Purchaser shall deliver to the Company:

- (i) this Agreement executed by the Purchaser; and
  - (ii) the Aggregate Purchase Price in immediately available funds.
-

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

(a) No Conflict; Required Filings and Consents. Neither the execution and delivery of this Agreement by Purchaser nor the performance by such Purchaser of its obligations, hereunder will: (i) violate any statute, law, ordinance, rule or regulation, applicable to Purchaser or any of the properties or assets of Purchaser; or (ii) 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 or assets 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.

(b) 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.

(c) 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 this offering, or confirmed the accuracy of, determined the adequacy of, or reviewed this Agreement, the Shares or such other documents.

(d) 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.

(e) 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.

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(f) 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

(g) 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, 2015, the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, 2016 and June 30, 2016, and any Current Reports on SEC Form 8-K filed with the SEC after June 30, 2016 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.

(h) Reliance on Representations. Purchaser understands that the Shares 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 this Agreement.

(i) No General Solicitation. Purchaser is unaware of, and in deciding to participate in this offering is in no way relying upon, and did not become aware of this 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 this offering.

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(j) 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.

(k) 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 agent, or representative acting with authorization of Purchaser, 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 (B) to assist the Purchaser in connection with any actual or proposed transaction in connection with the operations of the Purchaser.

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

(iii) Purchaser (A) is not a person 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) has 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.

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(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.

(I) 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.

( m ) 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 5(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).

(n) 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.

(o) 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.

3. 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.

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(b) Authority; Validity and Effect of Agreement. The Company has the requisite corporate power and authority to execute and deliver this Agreement, perform its obligations hereunder, and conduct this offering. The execution and delivery of each of this Agreement by the Company, the performance by the Company of its obligations hereunder, the transactions contemplated hereby, this 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 this Agreement or this offering. This Agreement has been duly and validly executed and delivered by the Company and, assuming that it has been duly authorized, executed and delivered by Purchaser, 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 this Agreement by the Company nor the performance by the Company of its obligations hereunder 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) Issuance of the Shares. The Shares (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 2(e)) or any other security agreement or arrangement, or any agreement to create any of the foregoing.

#### 4. Other Agreements of the Parties.

##### (a) Transfer Restrictions.

(i) The Shares may only be disposed of in compliance with applicable federal and state securities laws. In connection with any transfer of Shares other than pursuant to an effective registration statement, 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 Shares 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 shall have the rights and obligations of Purchaser under this Agreement.

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(ii) Legends. The certificates and agreements evidencing the Shares 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 this Agreement. Except as provided in Section 5(b), Purchaser covenants that until such time as the transactions contemplated by this Agreement are publicly disclosed by the Company as described in this Section 4(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 ) Standstill. Reference is hereby made to those certain Securities Purchase Agreements dated October 29, 2015 and November 11, 2015 (collectively, the "Series A-1 Agreements") by and between the Company and the Purchaser, pursuant to which the Purchaser purchased 90,000 shares of the Company's Series A-1 Convertible Preferred Stock. The Series A-1 Agreements contain standstill provisions (the "Standstill Provisions"), which prevent the Purchaser, either alone or together with any other person, from acquiring additional shares of the Company's Common Stock or any of the Company's assets, soliciting proxies, or seeking further representation on the Company's board of directors. The Purchaser hereby acknowledges and agrees that: (i) the Company is hereby waiving the Standstill Provisions solely with respect to the Shares of Common Stock purchased hereby, and (ii) that notwithstanding the foregoing the Standstill Provisions remain in full force and effect.

## 5. 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 5(b), this Agreement 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 this Agreement; (iii) except as provided in Section 5(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 this Agreement, 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 5 and to be responsible for any breach of this Agreement by such representatives; and (v) except as provided in Section 5(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.

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(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 5 by any such person), or (iii) it comes into the public domain other than as a result of a breach by any party hereto.

6. 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 6(b).

7. 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.

8. 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.

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9. 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.

10. 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.

11. 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 neither party may assign its rights or delegate its obligations under this Agreement without the express prior written consent of the other party. Except as provided in Section 5, 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.

12. 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 2(a), 2(b), 2(n), 2(o), 3(a), and 3(b) 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.

13. 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.

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14. 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.

15. 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.

16. 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.

17. Arbitration. If a dispute arises as to the interpretation of this Agreement, it shall be decided in an arbitration proceeding conforming to the Rules of the American Arbitration Association applicable to commercial arbitration then in effect at the time of the dispute. The arbitration shall take place in the State of New Jersey. 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 the arbitration.

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18. 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.

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

**[Signature page follows]**

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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

Date: \_\_\_\_\_, 2016

\_\_\_\_\_  
By: \_\_\_\_\_  
Name: Wong Kwok Fong  
Address: \_\_\_\_\_  
\_\_\_\_\_  
Phone: \_\_\_\_\_  
Social Security  
or Tax ID No.: N/A

Number of  
Shares Purchased: 6,200,000

Aggregate Purchase Price: \$1,860,000  
(\$0.30 per Share)

Delivery Instructions (if different than Address):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

BIO-KEY INTERNATIONAL, INC.

Date: \_\_\_\_\_, 2016

By: \_\_\_\_\_  
Name: Michael W. DePasquale  
Title: Chief Executive Officer

## 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.

Dated: November 14, 2016

/s/ Michael W. DePasquale

Michael W. DePasquale  
Chief Executive Officer

## CERTIFICATION

I, Cecilia C. 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.

Dated: November 14, 2016

/s/ CECILIA C. WELCH

Cecilia C. 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, 2016, 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

Dated: November 14, 2016

**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, 2016, 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 C. WELCH

Cecilia C. Welch  
Chief Financial Officer

Dated: November 14, 2016