

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

BIO KEY INTERNATIONAL INC

Form: 10-Q

Date Filed: 2017-05-15

Corporate Issuer CIK: 1019034

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

☐ **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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller Reporting Company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 May 12, 2017 was 6,451,623.

INDEX

PART I. FINANCIAL INFORMATION

Item 1 — Condensed Consolidated Financial Statements:	
Balance Sheets as of March 31, 2017 (unaudited) and December 31, 2016	3
Statements of Operations for the three months ended March 31, 2017 and 2016 (unaudited)	4
Statements of Cash Flows for the three months ended March 31, 2017 and 2016 (unaudited)	5
Notes to Condensed Consolidated Financial Statements (unaudited)	7

Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations.	18
---	----

Item 4 — Controls and Procedures.	24
-----------------------------------	----

PART II. OTHER INFORMATION

Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds.	24
---	----

Item 6 — Exhibits.	24
--------------------	----

<u>Signatures</u>	25
-------------------	----

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BIO-KEY International, Inc. and Subsidiary
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 1,158,421	\$ 1,061,307
Accounts receivable, net	562,471	1,563,246
Due from factor	117,891	53,638
Inventory	570,955	465,428
Software license rights	1,830,000	1,560,000
Prepaid expenses and other	167,348	206,677
Total current assets	4,407,086	4,910,296
Software license rights, net	9,933,623	10,598,411
Accounts receivable, net	1,070,000	1,570,000
Equipment and leasehold improvements, net	59,995	67,814
Deposits and other assets	8,712	8,712
Intangible assets, net	144,623	134,132
Total non-current assets	11,216,953	12,379,069
TOTAL ASSETS	\$ 15,624,039	\$ 17,289,365
LIABILITIES		
Accounts payable	\$ 153,692	\$ 466,842
Accrued liabilities	380,015	335,323
Dividends payable	601,875	401,250
Deferred revenue	489,738	633,062
Total current liabilities	1,625,320	1,836,477
TOTAL LIABILITIES	1,625,320	1,836,477
STOCKHOLDERS' EQUITY:		
Commitments		
Series A-1 convertible preferred stock: authorized, 100,000 (liquidation preference of \$100 per share); issued and outstanding 90,000 of \$.0001 par value at March 31, 2017 and December 31, 2016, respectively	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 at March 31, 2017 and December 31, 2016, respectively	11	11
Common stock — authorized, 170,000,000 shares; issued and outstanding; 6,096,920 and 6,093,843 of \$.0001 par value at March 31, 2017 and December 31, 2016, respectively	610	609
Additional paid-in capital	78,155,431	78,253,413
Accumulated deficit	(64,157,342)	(62,801,154)
TOTAL STOCKHOLDERS' EQUITY	13,998,719	15,452,888
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 15,624,039	\$ 17,289,365

All BIO-key shares issued and outstanding for all periods reflect BIO-key's 1-for-12 reverse stock split, which was effective December 29, 2016.

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

BIO-KEY International, Inc. and Subsidiary
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,	
	2017	2016
Revenues		
Services	\$ 320,587	\$ 284,726
License fees and other	1,097,748	145,866
	<u>1,418,335</u>	<u>430,592</u>
Costs and other expenses		
Cost of services	38,820	55,782
Cost of license fees and other	622,114	56,066
	<u>660,934</u>	<u>111,848</u>
Gross Profit	<u>757,401</u>	<u>318,744</u>
Operating Expenses		
Selling, general and administrative	1,620,150	992,525
Research, development and engineering	493,444	489,401
Total Operating Expenses	<u>2,113,594</u>	<u>1,481,926</u>
Operating loss	<u>(1,356,193)</u>	<u>(1,163,182)</u>
Other income (expenses)		
Interest income	6	6
Loss on derivative liabilities	-	(38)
Total Other Income (Expenses)	<u>6</u>	<u>(32)</u>
Net loss	<u>(1,356,187)</u>	<u>(1,163,214)</u>
Convertible preferred stock dividends	<u>(200,625)</u>	<u>(200,625)</u>
Net loss available to common stockholders	<u>\$ (1,556,812)</u>	<u>\$ (1,363,839)</u>
Basic & Diluted Loss per Common Share	<u>\$ (0.26)</u>	<u>\$ (0.25)</u>
Weighted Average Shares Outstanding:		
Basic & Diluted	6,094,955	5,510,381

All BIO-key shares issued and outstanding for all periods reflect BIO-key's 1-for-12 reverse stock split, which was effective December 29, 2016.

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

BIO-KEY International, Inc. and Subsidiary
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,356,187)	\$ (1,163,214)
Adjustments to reconcile net loss to cash provided by (used for) operating activities:		
Allowance for doubtful accounts	500,000	-
Depreciation	7,819	11,518
Amortization of intangible assets	3,402	3,401
Amortization of software license rights	341,160	-
Loss on derivative liabilities	-	38
Stock based directors fees	5,003	16,000
Share and warrant-based compensation for employees and consultants	156,086	158,363
Change in assets and liabilities:		
Accounts receivable	1,000,775	1,167,758
Due from factor	(64,253)	(109,681)
Inventory	(105,527)	(110,208)
Software license rights	53,628	-
Prepaid expenses and other	(13,171)	(3,524)
Accounts payable	(313,150)	(529,924)
Accrued liabilities	44,692	(181,001)
Deferred revenue	(143,324)	78,886
Net cash provided by (used for) operating activities	116,953	(661,588)
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(13,893)	(19,287)
Net cash used for investing activities	(13,893)	(19,287)
CASH FLOW FROM FINANCING ACTIVITIES:		
Preferred dividends paid	-	(133,851)
Costs to issue preferred and common stock	(5,946)	(31,704)
Net cash used for financing activities	(5,946)	(165,555)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	97,114	(846,430)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,061,307	4,321,078
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,158,421	\$ 3,474,648

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

BIO-KEY International, Inc. and Subsidiary
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION

	Three Months Ended March 31,	
	2017	2016
Cash paid for:		
Interest	\$ —	\$ —
Noncash Investing and financing activities		
Accrual of preferred stock dividends	\$ 200,625	\$ 200,625

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

BIO-KEY International Inc., and Subsidiary
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017 (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 subsidiary (collectively, the "Company" or "BIO-key") 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 March 31, 2017 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, 2016, initially filed with the SEC on March 31, 2017.

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, 2017 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 beginning after December 15, 2017 including interim periods within that reporting period.

The Company is continuing to evaluate the standard's impact on its consolidated results of operations and financial condition. BIO-key has conducted initial analyses, developed a project management plan relative to the process of adopting this ASU, and is currently completing detailed contract reviews to determine potential adjustments to existing accounting policies as well as to support an evaluation of the standard's impact on the Company's consolidated results of operations and financial condition. For the majority of BIO-key's revenue arrangements, no significant impacts are expected. However, in addition to expanded disclosures regarding revenue, the ASU could, for example, impact the timing of revenue recognition in some arrangements for which software industry-specific guidance (which the ASU supersedes) is presently utilized. The Company currently anticipates utilizing the modified retrospective method of adoption on January 1, 2018.

In July 2015 the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" ("ASU 2015-11"). The amendments in ASU 2015-11 clarifies the measurement of inventory to be the lower of cost or realizable value and would only apply to inventory valued using the FIFO or average costing methods. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The reporting entity should apply the amendments prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The adoption of ASU 2015-11 did not materially impact the Company's consolidated financial statements.

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 February 2016, the FASB issued ASU 2016-02, "Leases". The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements, but expects that it will increase its assets and liabilities.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". Prior to ASU 2014-15, a definition for substantial doubt did not exist. However, the new guidance says that substantial doubt exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are available to be issued. The FASB's definition could be perceived as a higher threshold than current practice as the term "probable" means likely to occur. Under the new standard, management should evaluate all relevant known conditions, or those that can be reasonably expected to happen as of the date the financial statements are to be issued. This evaluation should be both qualitative and quantitative in nature, and should include conditions that might give rise to substantial doubt. ASU 2014-15 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company adopted ASU 2014-15 in the quarter March 31, 2017.

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. The adoption did not have a material impact 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 March 31, 2017 and had an accumulated deficit of approximately \$64 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 March 31, 2017, the Company's total cash and cash equivalents were approximately \$1,158,000, as compared to approximately \$1,061,000 at December 31, 2016.

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 \$592,000 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. ACCOUNTS RECEIVABLE

Accounts receivable are carried at original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful receivables by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. During the year ended December 31, 2016, the Company reclassified a past due receivable to non-current as management concluded that collection may not occur in the near term. As a result of the payment delays the Company had reserved \$500,000 at December 31, 2016 and in the current quarter the Company reserved an additional \$500,000. The total reserve represents 48% of the remaining balance owed at March 31, 2017. Recoveries of accounts receivable previously written off are recorded when received. Accounts receivable at March 31, 2017 and December 31, 2016 consisted of the following:

	March 31,	December 31,
	2017	2016
Accounts receivable - current	\$ 576,256	\$ 1,577,031
Accounts receivable - non current	2,070,000	2,070,000
	2,646,256	3,647,031
Allowance for doubtful accounts - current	(13,785)	(13,785)
Allowance for doubtful accounts - non current	(1,000,000)	(500,000)
Accounts receivable, net of allowances for doubtful accounts	<u>\$ 1,632,471</u>	<u>\$ 3,133,246</u>

4. SHARE BASED COMPENSATION

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

	Three Months Ended March 31,	
	2017	2016
Selling, general and administrative	\$ 112,856	\$ 145,878
Research, development and engineering	48,233	28,485
	<u>\$ 161,089</u>	<u>\$ 174,363</u>

5. FACTORING

Due from factor consisted of the following as of:

	March 31,	December 31,
	2017	2016
Original invoice value	\$ 471,562	\$ 214,556
Factored amount	(353,671)	(160,918)
Balance due from factor	<u>\$ 117,891</u>	<u>\$ 53,638</u>

As of December 2011, the Company entered into a 24 month accounts receivable factoring arrangement with a financial institution (the "Factor") which has been 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	
	March 31,	
	2017	2016
Factoring fees	<u>\$ 48,391</u>	<u>\$ 195,012</u>

6. 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:

	March 31, 2017	December 31, 2016
Finished goods	\$ 190,653	\$ 381,762
Fabricated assemblies	380,302	83,666
Total inventory	<u>\$ 570,955</u>	<u>\$ 465,428</u>

7. SOFTWARE LICENSES AND 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 \$1,830,000 and is classified as a current asset, and the balance as non-current.

The Company has determined the software license rights to be a finite lived intangible asset, and estimated that the software license rights shall be economically used over a 10 year period, with a weighting towards the beginning years of that time-frame. The license rights were acquired during the fourth quarter of 2015, but the usage of such rights in the Company's products was not generally available until January 2017. Accordingly, amortization began in the first quarter of 2017.

The remaining license rights are to be amortized over the greater of the following: 1) an estimate of the economic use of such license rights, 2) straight line method over ten years, or 3) the actual usage of such rights. The Company believes categorizing the amortization expense under Cost of Sales more closely reflects the nature of the license right arrangement and the use of the technology. During the period ended March 31, 2017 the Company sold licenses costing \$46,932 and amortized \$341,160.

On December 31, 2015, the Company purchased third party software licenses in the amount of \$180,000 in anticipation of a large pending deployment that has yet to materialize. The Company is amortizing over the same methodology described above with the greatest of the three approaches being the amortization for the periods. A total of \$6,696 was expensed for actual sales during the three months ended March 31, 2017. Since the license purchase, the actual per unit cost (actual usage) of such license rights in the cumulative amount of \$26,376 has been expensed. The Company has classified the balance as non-current until a larger deployment occurs.

	March 31, 2017	December 31, 2016
Current software license rights	\$ 1,830,000	\$ 1,560,000
Non-current software license rights	9,933,623	10,598,411
Total software license rights	<u>\$ 11,763,623</u>	<u>\$ 12,158,411</u>

8. EARNINGS PER SHARE ("EPS")

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

The reconciliation of the numerator of the basic and diluted EPS calculations was as follows for the three month periods ended March 31, 2017 and 2016:

	Three Months ended March 31,	
	2017	2016
Basic Numerator:		
Net loss	\$ (1,356,187)	\$ (1,163,214)
Convertible preferred stock dividends	(200,625)	(200,625)
Net loss available to common stockholders (basic and diluted)	<u>\$ (1,556,812)</u>	<u>\$ (1,363,839)</u>

The following table summarizes the weighted average securities that were excluded from the diluted per share calculation because the effect of including these potential shares was antidilutive due to the net losses for the three months ended March 31, 2017 and 2016:

	Three Months ended March 31,	
	2017	2016
Preferred stock	5,416,667	5,416,667
Stock options	54,512	500
Warrants	3,668	-
Total	<u>5,474,847</u>	<u>5,417,167</u>

The following table sets forth options and warrants which were 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 March 31,	
	2017	2016
Stock options	218,761	313,167
Warrants	1,212,163	1,704,629
Total	<u>1,430,924</u>	<u>2,017,796</u>

9. 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 March 31, 2017, 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 \$3.60 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. Unless holders of at least a majority of the outstanding shares of Series A-1 Preferred Stock elect otherwise by written notice to the Company, 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 March 31, 2017, \$405,000 was accrued for the holders of the Series A-1 shares, for October 1, 2016, January 1, 2017 and April 1, 2017 dividends. As of December 31, 2016, \$270,000 of dividends were accrued for the holders of the Series A-1 shares for October 1, 2016 and January 1, 2017 dividends.

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 \$3.60 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 \$3.60 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 March 31, 2017, \$196,875 was accrued for the holders of the Series B-1 shares, for October 1, 2016, January 1, 2017 and April 1, 2017 dividends. As of December 31, 2016, \$131,250 of dividends were accrued for the holders of the Series B-1 shares for October 1, 2016 and January 1, 2017 dividends.

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 \$3.60 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

Effective December 29, 2016, the Company implemented a reverse stock split of its outstanding common stock at a ratio of 1-for-12. The number of authorized shares and the par value of the Company's common stock and preferred stock were not affected by the reverse stock split. Stockholders who otherwise would be entitled to receive fractional shares were rounded up to the nearest whole share. The reverse stock split became effective on the OTCQB at the opening of trading on December 29, 2016.

On March 15, 2017, the Company issued 1,895 shares of common stock to its directors in payment of board fees, valued at \$5,003. On March 8, 2016, the Company issued 8,333 shares of common stock to its directors in payment of board fees valued at \$16,000.

Stock Issuance Costs

Costs of \$5,946 and \$31,704 were incurred during the three months ended March 31, 2017 and 2016 in relation to the issuance of stock.

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 1,026,972 units consisting of 1,026,972 shares of common stock (the "Shares") and warrants to purchase an additional 1,026,972 shares of common stock (the "Warrants") for an aggregate purchase price of \$3,697,100. The warrants were immediately exercisable at an exercise price of \$6.00 per share, and had a term of three years which expired in 2016.

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 82,158 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 were immediately exercisable on a cashless basis.

The cashless exercise features contained in the warrants were 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 March 31, 2016, the Company recorded a gain on the change in fair value of the cashless exercise features of \$2,337. As of December 31, 2016, the fair value of the cashless exercise features was \$0 as the underlying warrants expired during the fourth quarter of 2016.

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 664,584 shares of common stock and warrants to purchase an additional 996,877 shares of common stock for aggregate gross proceeds of \$1,595,000.

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 \$2.40 per share, the Company will be required to issue additional shares of common stock for no additional consideration.

The Company valued the purchase price reset feature using a Monte Carlo simulation at the date of issuance, and at quarterly reporting intervals until the expiration of the feature in January 2017, and determined that the purchase price reset feature had no value as the Company issued Series A-1 and Series B-1 preferred stock in October and November of 2015, at a conversion price of \$3.60, and issued common stock in November 2016 also at a price of \$3.60.

The warrants have a term of five years and an exercise price of \$3.60 per share, and have been fully exercisable since February 2015. The warrants have customary anti-dilution protections including a "full ratchet" anti-dilution adjustment provision which are triggered in the event the Company sells or grants any additional shares of common stock, options, warrants or other securities that are convertible into common stock at a price lower than \$3.60 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 purchase price reset feature on 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 warrants and accounted for as derivative liabilities.

The Company did not value the derivative liabilities. 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 or the purchase price reset 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 or purchase price reset feature. The Company's reason was based on the issuance of Series A-1 and Series B-1 preferred stock in October and November of 2015, issued at a conversion price of \$3.60, and the issuance of common stock in November 2016, at a price of \$3.60.

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 March 31, 2017. Such conclusion was based upon the discussion noted above.

Warrants

On March 9, 2015, the Company issued a warrant to purchase 47,917 shares of common stock to a consultant which vested in equal quarterly installments over one year and is exercisable at \$2.52 per share through March 8, 2020. For the three months ended March 31, 2016, the Company recorded an expense of \$11,625 related to the stock warrants, which completed the service period expense.

On September 23, 2015, the Company issued a warrant to purchase 69,445 shares of common stock in connection with the issuance of a promissory note. The warrants are immediately exercisable at an exercise price of \$3.60 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 \$3.60 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 warrants 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-1 and Series B-1 preferred stock in October and November of 2015, issued at a conversion price of \$3.60, and the issuance of common stock in November 2016, at a price of \$3.60.

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 in 2015. 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. For the quarter ended March 31, 2016 the Company recorded a loss on the change in fair value of the cashless exercise features of \$2,375. During 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 2016.

Issuances of Stock Options

On March 15, 2017, the Company issued options to purchase 40,000 shares of the Company's common stock to four non-employee members of the Board of Directors. On March 15, 2017, the Company also issued options to purchase 4,167 shares of the Company's common stock to an employee. The options have a three year vesting period, seven year term, and exercise price of \$2.64.

On March 16, 2017, the Board of Directors issued options to purchase 1,120,000 shares of the Company's common stock to certain officers, employees, and contractors. The options have a three year vesting period, seven year term, and exercise price of \$2.65.

The fair value of the options issued during the three months ended March 31, 2017 was estimated on the date of grant at \$2,660,122 using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate: 1.93%, expected life of options in years: 4.5, expected dividends: 0, volatility of stock price: 137.8%.

During the three months ended March 31, 2016, the Company did not grant any stock options.

10. SEGMENT INFORMATION

The Company has determined that it operates in one discrete segment consisting of biometric products. Geographically, North American sales accounted for approximately 83% and 82% of the Company's total sales for the three-month periods ended March 31, 2017 and 2016, respectively.

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

12. MAJOR CUSTOMERS AND ACCOUNTS RECEIVABLES

For the three months ended March 31, 2017 and 2016, three customers accounted for 70% of revenues and three customers accounted for 58% of revenues, respectively. Two customers accounted for 40% of current accounts receivable as of March 31, 2017. One customer accounted for 100% of non-current accounts receivable as of March 31, 2017 and December 31, 2016. Based on prior history with this customer, the Company believes the amount is fully collectable, however, the Company has reserved \$1,00,000 which represents 48% of the remaining balance owed under the contract, due to the length of time the receivable has been outstanding. At December 31, 2016, one customer accounted for 81% of current accounts receivable.

13. SUBSEQUENT EVENTS

On April 10, 2017, the Company issued options to purchase 10,000 shares of the Company's common stock to the newly appointed Director. The options have a three year vesting period, seven year term, and exercise price of \$2.64.

On April 28, 2017, the Company issued to Wong Kwok Fong, a director and executive officer of the Company, 277,778 shares of common stock at a purchase price of \$3.60 per share for gross cash proceeds of \$1,000,000.

On May 2, 2017, the Company entered into a committed equity facility pursuant to which it may issue and sell up to \$5.0 million worth of shares of common stock, subject to certain limitations and satisfaction of certain conditions, over a 36-month term following the effectiveness of a registration statement covering the public resale of the shares of common stock issued under the facility. From time to time over the term of the facility, the Company may issue requests to the investor to purchase a specified dollar amount of shares up to a maximum of \$100,000 over a five trading day period based on the daily volume weighted average price of the Company's common stock (VWAP) to the extent the VWAP equals or exceeds the greater of a formula amount or \$3.83 per share. The per share purchase price for the shares issued under the facility will be equal to 94% of the lowest VWAP that equals or exceeds \$3.83 per share. Aggregate sales under the facility are limited to 19.99% of the total outstanding shares of the Company's common stock as of May 2, 2017, unless stockholder approval is obtained, and sales under the facility are prohibited if such a sale would result in beneficial ownership by the investor of more than 9.99% of the Company's common stock. The Company issued 55,000 shares of common stock as a commitment fee.

On May 11, 2017, the Company issued 1,925 shares of common stock to its directors in payment of board fees.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical facts contained in this Report on Form 10-Q, 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; our ability to expand into the Asian market; 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, 2016 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. Our solutions are used by many customers in numerous sectors of our economy, including government, retail, healthcare and financial services.

In 2016, we began 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.

At Consumer Electronics Show 2017, we introduced a number of new products. These included TouchLock, fingerprint biometric and bluetooth enabled padlocks, FreePass, a wearable, mobile USB fingerprint reader, Q-180 Touch, a Micro USB compatible fingerprint reader for Android devices, and SidePass, a compact, square, touch reader for Windows devices. We expect to commence distribution in both the Asia Pacific and domestic markets in 2017.

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.

We continue to develop advancements in our capabilities, as well as explore potential strategic relationships, including business combinations and acquisitions, which could help us leverage our capability to deliver our solutions. We have built a direct sales force, and also utilize distributors, resellers, integrators and partners with substantial experience in selling technology solutions to government and corporate customers in their respective markets.

STRATEGIC OUTLOOK AND RECENT DEVELOPMENTS

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.

The introduction of the TouchLock, fingerprint biometric and bluetooth (cell phone) enabled padlocks, opens up an additional consumer market for us. As a security solution, we also have a version of the lock that is TSA compatible, to allow travelers to lock their luggage which TSA can open and relock.

We believe there is potential for significant market growth in six 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;
- Direct sales of biometric locks 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. We are also experiencing increased demand and interest in our hardware offerings as we continue to develop our products business. 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 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, 2016. 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 MARCH 31, 2017 AS COMPARED TO MARCH 31, 2016

Consolidated Results of Operations - Percent Trend

	Three Months Ended March 31,	
	2017	2016
Revenues		
Services	23%	66%
License fees and other	77%	34%
Total Revenues	100%	100%
Costs and other expenses		
Cost of services	3%	13%
Cost of license fees and other	44%	13%
Total Cost of Goods Sold	47%	26%
Gross profit	53%	74%
Operating expenses		
Selling, general and administrative	114%	230%
Research, development and engineering	35%	114%
Total Operating Expenses	149%	344%
Operating loss	-96%	-270%
Other income (expenses)	-%	-%
Net loss	-96%	-270%

Revenues and cost of goods sold

	Three months ended March 31,			
	2017	2016	\$ Change	% Change
Revenues				
Service	\$ 320,587	284,726	\$ 35,861	13%
License & other	1,097,748	145,866	951,882	653%
Total Revenue	\$ 1,418,335	\$ 430,592	\$ 987,743	229%
Cost of goods sold				
Service	\$ 38,820	55,782	(16,962)	-30%
License & other	622,114	56,066	566,048	1009%
Total COGS	\$ 660,934	\$ 111,848	\$ 549,086	491%

Revenues

For the three months ended March 31, 2017, service revenues were \$320,587 as compared to \$284,726 during the three months ended March 31, 2016, an increase of \$35,861, or 13%. The increase was due to non-recurring custom service revenue increasing to \$180,500 as compared to \$94,000 during the three months ended March 31, 2016. The increase was offset by recurring maintenance and support revenue decreasing to \$140,000 as compared to \$190,700 during the three months ended March 31, 2016.

For the three months ended March 31, 2017, license and other revenue (comprised of third party hardware and royalty) increased to \$1,097,748 from \$145,866, or 653%, from the three months ended March 31, 2016. The increase was the result of higher license and hardware sales. License sales increased to \$496,568 from \$24,207 for the three months ended March 31, 2016. During the three months ended March 31, 2017, we continued to ship products to Omnicell (formerly Aesynt) for the continued deployment of our identification technology in its AccuDose® product line, and for continued expansion of biometric ID deployments with commercial partners NCR, Educational Biometric Technology, Union Pacific, Identimetrix and expanded several healthcare facilities. Hardware sales increased by approximately \$500,000, or 495%, to \$601,180 with 48% of the increase attributable to sales in Asia Pacific. Our royalty income that was derived from an OEM agreement has been completed. As a result, there was no royalty income for the three months ended March 31, 2017 compared to \$20,584 for corresponding period in 2016.

Costs of goods sold

For the three months ended March 31, 2017, cost of service decreased approximately \$17,000 or 30% to \$38,820, as a result of less third party requirements for specific non-recurring custom services revenue. For the three months ended March 31, 2017, license and other costs increased to \$622,114 from \$56,066 during the three months ended March 31, 2016 of which \$280,954 was directly related to the increased hardware revenue, and \$341,160 was directly related to amortization of the software rights.

Selling, general and administrative

	Three months ended March 31,		\$ Change	% Change
	2017	2016		
Selling, general and administrative	\$ 1,620,150	\$ 992,525	\$ 627,625	63%

Selling, general and administrative expenses for the three months ended March 31, 2017 increased 63% to \$1,620,150 as compared to \$992,525 for the corresponding period in 2016. The increase is largely due to a bad debt expense related to a contract whose payments are behind schedule. As a result of the payment delays, we reserved \$500,000 which represents 24% of the remaining balance owed under the contract. Other increases resulted from additional expenses related to our Hong Kong subsidiary and increased commission expense related to higher revenue. These amounts were offset by a decrease in factoring fees and non-cash, share-based compensation expenses.

Research, development and engineering

	Three months ended March 31,		\$ Change	% Change
	2017	2016		
Research, development and engineering	\$ 493,444	\$ 489,401	\$ 4,043	1%

For the three months ended March 31, 2017, research, development and engineering expenses increased 1% to \$493,444 as compared to \$489,401 for the corresponding period in 2016. Increased personnel costs and costs related to additional activity in our Hong Kong subsidiary was offset by reductions in temporary contractor labor.

Other income and expense

	Three months ended March 31,		\$ Change	% Change
	2017	2016		
Interest income (expense)	\$ 6	\$ 6	\$ 0	0%
Loss on derivative liabilities	-	(38)	38	-100%
	<u>6</u>	<u>(32)</u>	<u>38</u>	<u>-118%</u>

Interest income for the quarters ended March 31, 2017 and March 31, 2016 consisted of bank interest.

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 2016, 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 provided by operations during the three months ended March 31, 2017 was approximately \$117,000. The cash provided in operating activities was primarily attributable to the following items:

- Net positive cash flows related to adjustments for non-cash expenses for allowance for doubtful accounts, depreciation, amortization, share-based compensation, and issuance of common stock to our non-employee directors of approximately \$961,000, and a decrease in accounts receivable of approximately \$1,000,000.
- Net negative cash flows related to payments for liabilities, inventory, and reductions of deferred revenue of approximately \$562,000.

Approximately \$14,000 was used for investing activities during the three months ended March 31, 2017 related to capital expenditures.

Approximately \$6,000 was used for issuance of stock costs during the three months ended March 31, 2017.

We had net working capital at March 31, 2017 of approximately \$2,782,000 as compared to net working capital of approximately \$3,074,000 at December 31, 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.

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.

On September 23, 2015, we issued a promissory note and a warrant to purchase 69,445 shares of common stock for an aggregate principal sum of \$250,000. The warrants have a term of five years and an exercise price of \$3.60 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 a conversion price of \$3.60 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, we issued 105,000 shares (the "Series B-1 Shares") of Series B-1 Convertible Preferred Stock at a purchase price of \$100.00 per share, for 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 a conversion price of \$3.60 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.

On November 18, 2016, we issued to Wong Kwok Fong (Kelvin), a director and executive officer of the Company, 516,667 shares of common stock at a purchase price of \$3.60 per share for gross cash proceeds of \$1,860,000.

On April 28, 2017, we issued to Wong Kwok Fong (Kelvin), a director and executive officer of the Company, 277,778 shares of common stock at a purchase price \$3.60 per share for gross cash proceeds of \$1,000,000.

On May 2, 2017, we entered into a committed equity facility pursuant to which we may issue and sell up to \$5.0 million worth of shares of common stock, subject to certain limitations and satisfaction of certain conditions, over a 36-month term following the effectiveness of a registration statement covering the public resale of the shares of common stock issued under the facility. From time to time over the term of the facility, we may in our sole discretion, issue requests to the investor to purchase a specified dollar amount of shares up to a maximum of \$100,000 over a five trading day period based on the daily volume weighted average price of our common stock (VWAP) to the extent the VWAP equals or exceeds the greater of a formula amount or \$3.83 per share. The per share purchase price for the shares issued under the facility will be equal to 94% of the lowest VWAP that equals or exceeds \$3.83 per share. Aggregate sales under the facility are limited to 19.99% of the total outstanding shares of the Company's common stock as of May 2, 2017, unless we obtain stockholder approval, and we are prohibited from making requests if the sale of shares pursuant to a request would result in beneficial ownership by the investor of more than 9.99% of our common stock.

Liquidity outlook

At March 31, 2017, our total cash and cash equivalents were approximately \$1,158,000, as compared to approximately \$1,061,000 at December 31, 2016.

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. We estimate that we currently require approximately \$592,000 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 quarter of 2017, we generated approximately \$1,418,000 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 in the extreme case, not 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 March 31, 2017. 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 March 31, 2017, 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 March 31, 2017, 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 March 15, 2017, we issued 1,895 shares of common stock and options to purchase 40,000 shares of common stock to certain of our non-employee directors in payment of directors' fees. The options are exercisable at \$2.64 per share, have a term of seven years, and vest-in in equal installments over a three-year period. 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 placement agent or brokerage fees to any person.

ITEM 6. EXHIBITS

The exhibits listed in the Exhibits 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: May 15, 2017

/s/ MICHAEL W. DEPASQUALE

Michael W. DePasquale
Chief Executive Officer

Dated: May 15, 2017

/s/ CECILIA C. WELCH

Cecilia C. Welch
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
10.1	Securities Purchase Agreement, dated as of April 28, 2017, by and between BIO-key International, Inc. and Wong Kwok Fong (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 3, 2017)
10.2	Common Stock Purchase Agreement, dated as of May 2, 2017, by and between BIO-key International, Inc. and Xanthe Holdings Ltd. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on May 3, 2017)
10.3	Registration Rights Agreement, dated as of May 2, 2017, by and between BIO-key International, Inc. and Xanthe Holdings Ltd. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on May 3, 2017)
10.4	Form Non-Plan Option Agreement between the Company and certain of its directors, officers, employees and contractors.
31.1	Certificate of CEO of Registrant required under Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
31.2	Certificate of CFO of Registrant required under Rule 13a-14(a) 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

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE SALE IS MADE IN ACCORDANCE WITH RULE 144, OR THE COMPANY RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF THESE SECURITIES, REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT.

OPTION TO PURCHASE COMMON STOCK
OF
BIO-key International, Inc.
Void after

This certifies that, for value received, ____ ("Holder"), is entitled, subject to the terms set forth below, to purchase from **BIO-key International, Inc.**, a Delaware corporation (the "Company"), shares of the common stock, \$.0001 par value per share, of the Company ("Common Stock"), as constituted on the date hereof (the "Option Issue Date"), with the Notice of Exercise attached hereto duly executed, and simultaneous payment therefor in lawful money of the United States or as otherwise provided in Section 3 hereof, at the Exercise Price then in effect. The number, character and Exercise Price of the shares of Common Stock issuable upon exercise hereof are subject to adjustment as provided herein.

1. **Term of Option.** Subject to compliance with the vesting provisions identified at Section 2.3 hereof, this Option shall be exercisable, in whole or in part, during the term commencing on the Option Issue Date and ending at 5:00 p.m. EST on ____ (the "Option Expiration Date") and shall be void thereafter.

2. **Number of Shares, Exercise Price and Vesting Provisions.**

2.1 **Number of Shares.** The number of shares of Common Stock which may be purchased pursuant to this Option shall be ____ shares (the "Shares"), subject, however, to adjustment pursuant to Section 11 hereof.

2.2 **Exercise Price.** The Exercise Price at which this Option, or portion thereof, may be exercised shall be \$ ____¹ per Share, subject, however, to adjustment pursuant to Section 11 hereof.

¹ The last sale price of the Company's common stock as reported on the OTCQB on the Option Issue Date.

2.3 **Vesting.** This Option shall vest in accordance with the following schedule:

- (i) ____ Shares shall vest on ____; and
- (ii) ____ Shares shall vest on ____; and
- (iii) ____ Shares shall vest on ____.

3. **Exercise of Option.**

3.1 **Payment of Exercise Price.** Subject to the terms hereof, the purchase rights represented by this Option are exercisable by the Holder in whole or in part, at any time, or from time to time, by the surrender of this Option and the Notice of Exercise annexed hereto duly completed and executed on behalf of the Holder, at the office of the Company (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company) accompanied by payment of the Exercise Price in full (i) in cash or by bank or certified check for the Shares with respect to which this Option is exercised; (ii) by delivery to the Company of shares of the Company's Common Stock having a Fair Market Value (as defined below) equal to the aggregate Exercise Price of the Shares being purchased which Holder is the record and beneficial owner of and which have been held by the Holder for at least six (6) months; (iii) if the Shares are eligible for public resale, by delivering to the Company a Notice of Exercise together with an irrevocable direction to a broker-dealer registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), to sell a sufficient portion of the Shares and deliver the sales proceeds directly to the Company to pay the Exercise Price; or (iv) by any combination of the procedures set forth in subsections (i), (ii) and (iii) of this Section 3.1.

3.2 **Fair Market Value.** If previously owned shares of Common Stock are tendered as payment of the Exercise Price, the value of such shares shall be the "Fair Market Value" of such shares on the trading date immediately preceding the date of exercise. For the purpose of this Agreement, the "Fair Market Value" shall be:

(a) If the Common Stock is admitted to quotation on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), the Fair Market Value on any given date shall be the average of the highest bid and lowest asked prices of the Common Stock as reported for such date or, if no bid and asked prices were reported for such date, for the last day preceding such date for which such prices were reported;

(b) If the Common Stock is admitted to trading on a United States securities exchange or the NASDAQ National Market System, the Fair Market Value on any date shall be the closing price reported for the Common Stock on such exchange or system for such date or, if no sales were reported for such date, for the last day preceding such date for which a sale was reported;

(c) If the Common Stock is traded in the over-the-counter market and not on any national securities exchange nor in the NASDAQ Reporting System, the Fair Market Value shall be the average of the mean between the last bid and ask prices per share, as reported by the National Quotation Bureau, Inc., or an equivalent generally accepted reporting service, or if not so reported, the average of the closing bid and asked prices for a share as furnished to the Company by any member of the National Association of Securities Dealers, Inc., selected by the Company for that purpose; or

(d) If the Fair Market Value of the Common Stock cannot be determined on the basis previously set forth in this definition on the date that the Fair Market Value is to be determined, the Board of Directors of the Company shall in good faith determine the Fair Market Value of the Common Stock on such date.

If the tender of previously owned shares would result in an issuance of a whole number of Shares and a fractional Share of Common Stock, the value of such fractional share shall be paid to the Company in cash or by check by the Holder.

3.3 Termination of Employment; Death.

(a) If Holder shall cease to be employed by the Company, all Options to which Holder is then entitled to exercise may be exercised only within ninety (90) days after the termination of employment and prior to the Option Termination Date or, if such termination was due to disability or retirement, within one (1) year after termination of employment and prior to the Option Termination Date. Notwithstanding the foregoing, in the event that any termination of employment shall be for Cause as that term is defined in any employment agreement by and between the Holder and the Company, then this Option shall forthwith terminate.

(b) If Holder shall die while employed by the Company and prior to the Option Termination Date, any Options then exercisable may be exercised only within one (1) year after Holder's death, prior to the Option Termination Date and only by the Holder's personal representative or persons entitled thereto under the Holder's will or the laws of descent and distribution.

(c) This Option may not be exercised for more Shares (subject to adjustment as provided in Section 11 hereof) after the termination of the Holder's employment or death, as the case may be, than the Holder was entitled to purchase thereunder at the time of the termination of the Holder's employment or death.

3.4 Exercise Date; Delivery of Certificates. This Option shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender for exercise as provided above, and Holder shall be treated for all purposes as the holder of record of such Shares as of the close of business on such date. As promptly as practicable on or after such date and in any event within ten (10) days thereafter, the Company at its expense shall issue and deliver to the Holder a certificate or certificates for the number of Shares issuable upon such exercise. In the event that this Option is exercised in part, the Company at its expense will execute and deliver a new Option of like tenor exercisable for the number of shares for which this Option may then be exercised.

4. **No Fractional Shares or Scrip.** No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Option. In lieu of any fractional share to which the Holder would otherwise be entitled, the Company shall make a cash payment equal to the Exercise Price multiplied by such fraction.

5. **Replacement of Option.** On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Option and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Option, the Company at its expense shall execute and deliver, in lieu of this Option, a new Option of like tenor and amount.

6. **Rights of Stockholder.** Except as otherwise contemplated herein, the Holder shall not be entitled to vote or receive dividends or be deemed the holder of Common Stock or any other securities of the Company that may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value, or change of stock to no par value, consolidation, merger, conveyance or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until the Option shall have been exercised as provided herein.

7. **Transfer of Option.**

7.1. **Non-Transferability.** This Option shall not be assigned, transferred, pledged or hypothecated in any way, nor subject to execution, attachment or similar process, otherwise than by will or by the laws of descent and distribution. Any attempted assignment, transfer, pledge, hypothecation or other disposition of this Option contrary to the provisions hereof, and the levy of an execution, attachment, or similar process upon the Option, shall be null and void and without effect.

7.2. **Compliance with Securities Laws; Restrictions on Transfers.** In addition to restrictions on transfer of this Option and Shares set forth in Section 7.1 above.

(a) The Holder of this Option, by acceptance hereof, acknowledges that this Option and the Shares to be issued upon exercise hereof are being acquired solely for the Holder's own account and not as a nominee for any other party, and for investment (unless such shares are subject to resale pursuant to an effective prospectus), and that the Holder will not offer, sell or otherwise dispose of any Shares to be issued upon exercise hereof except under circumstances that will not result in a violation of applicable federal and state securities laws. Upon exercise of this Option, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the Shares of Common Stock so purchased are being acquired solely for the Holder's own account and not as a nominee for any other party, for investment (unless such shares are subject to resale pursuant to an effective prospectus), and not with a view toward distribution or resale.

(b) Neither this Option nor any share of Common Stock issued upon exercise of this Option may be offered for sale or sold, or otherwise transferred or sold in any transaction which would constitute a sale thereof within the meaning of the 1933 Act, unless (i) such security has been registered for sale under the 1933 Act and registered or qualified under applicable state securities laws relating to the offer an sale of securities; (ii) exemptions from the registration requirements of the 1933 Act and the registration or qualification requirements of all such state securities laws are available and the Company shall have received an opinion of counsel satisfactory to the Company that the proposed sale or other disposition of such securities may be effected without registration under the 1933 Act and would not result in any violation of any applicable state securities laws relating to the registration or qualification of securities for sale, such counsel and such opinion to be satisfactory to the Company. The Holder of this Option, by acceptance hereof, acknowledges that the Company has no obligation to file a registration statement with the Securities and Exchange Commission or any state securities commission to register the issuance of the Shares upon exercise hereof or the sale or transfer of the Shares after issuance.

(c) All Shares issued upon exercise hereof shall be stamped or imprinted with a legend in substantially the following form (in addition to any legend required by state securities laws).

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE SALE IS MADE IN ACCORDANCE WITH RULE 144, OR THE COMPANY RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF THESE SECURITIES, REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT.

(d) Holder recognizes that investing in the Option and the Shares involves a high degree of risk, and Holder is in a financial position to hold the Option and the Shares indefinitely and is able to bear the economic risk and withstand a complete loss of its investment in the Option and the Shares. The Holder is a sophisticated investor and is capable of evaluating the merits and risks of investing in the Company. The Holder has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management, has been given full and complete access to information concerning the Company, and has utilized such access to its satisfaction for the purpose of obtaining information or verifying information and has had the opportunity to inspect the Company's operation. Holder has had the opportunity to ask questions of, and receive answers from the management of the Company (and any person acting on its behalf) concerning the Option and the Shares and the agreements and transactions contemplated hereby, and to obtain any additional information as Holder may have requested in making its investment decision.

(e) Holder acknowledges and represents: (i) that he has been afforded the opportunity to review and is familiar with the business prospects and finances of the Company and has based his decision to invest solely on the information contained therein and has not been furnished with any other literature, prospectus or other information except as included in such reports; (ii) he maintains his domicile and is not a transient or temporary resident at the address on the books and records of the Company; (iii) he understands that no federal or state agency has approved or disapproved the Option or Shares or made any finding or determination as to the fairness of the Option and Common Stock for investment; and (iv) that the Company has made no representations, warranties, or assurances as to (A) the future trading value of the Common Stock, (B) whether there will be a public market for the resale of the Common Stock or (C) the filing of a registration statement with the Securities and Exchange Commission or any state securities commission to register the issuance of the Shares upon exercise hereof or the sale or transfer of the Shares after issuance.

8. Reservation and Issuance of Stock; Payment of Taxes.

(a) The Company covenants that during the term that this Option is exercisable, the Company will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Shares upon the exercise of this Option, and from time to time will take all steps necessary to amend its Certificate of Incorporation to provide sufficient reserves of shares of Common Stock issuable upon the exercise of the Option.

(b) The Company further covenants that all shares of Common Stock issuable upon the due exercise of this Option will be free and clear from all taxes or liens, charges and security interests created by the Company with respect to the issuance thereof, however, the Company shall not be obligated or liable for the payment of any taxes, liens or charges of Holder, or any other party contemplated by Section 7, incurred in connection with the issuance of this Option or the Common Stock upon the due exercise of this Option. The Company agrees that its issuance of this Option shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the shares of Common Stock upon the exercise of this Option. The Common Stock issuable upon the due exercise of this Option, will, upon issuance in accordance with the terms hereof, be duly authorized, validly issued, fully paid and non-assessable.

(c) Upon exercise of the Option, the Company shall have the right to require the Holder to remit to the Company an amount sufficient to satisfy federal, state and local tax withholding requirements prior to the delivery of any certificate for Shares of Common Stock purchased pursuant to the Option, if in the opinion of counsel to the Company such withholding is required under applicable tax laws.

(d) If Holder is obligated to pay the Company an amount required to be withheld under applicable tax withholding requirements may pay such amount (i) in cash; (ii) in the discretion of the Board of Directors of the Company, through the delivery to the Company of previously-owned shares of Common Stock having an aggregate Fair Market Value equal to the tax obligation provided that the previously owned shares delivered in satisfaction of the withholding obligations must have been held by the Holder for at least six (6) months; (iii) in the discretion of the Board of Directors of the Company, through the withholding of Shares of Common Stock otherwise issuable to the Holder in connection with the Option exercise; or (iv) in the discretion of the Board of Directors of the Company, through a combination of the procedures set forth in subsections (i), (ii) and (iii) of this Section 8(d).

9. **Notices.**

(a) Whenever the Exercise Price or number of shares purchasable hereunder shall be adjusted pursuant to Section 11 hereof, the Company shall issue a certificate signed by its Chief Financial Officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Exercise Price and number of shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first-class mail, postage prepaid) to the Holder of this Option.

(b) All notices, advices and communications under this Option shall be deemed to have been given, (i) in the case of personal delivery, on the date of such delivery and (ii) in the case of mailing, on the third business day following the date of such mailing, addressed as follows:

If to the Company:

BIO-key International, Inc.
3349 Highway 138
Building A, Suite E
Wall, NJ 07719

With a copy to:

Fox Rothschild LLP
997 Lenox Drive, Building 3
Lawrenceville, NJ 08646
Attention: Vincent A. Vietti

and to the Holder:

Name: ____
Address: ____
City/State/Zip: ____

Either of the Company or the Holder may from time to time change the address to which notices to it are to be mailed hereunder by notice in accordance with the provisions of this Paragraph 9.

10. **Amendments.**

(a) Any term of this Option may be amended with the written consent of the Company and the Holder. Any amendment effected in accordance with this Section 10 shall be binding upon the Holder, each future holder and the Company.

(b) No waivers of, or exceptions to, any term, condition or provision of this Option, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

11. **Adjustments.** The number of Shares of Common Stock purchasable hereunder and the Exercise Price is subject to adjustment from time to time upon the occurrence of certain events, as follows:

11.1. **Reorganization, Merger or Sale of Assets.** If at any time while this Option, or any portion thereof, is outstanding and unexpired there shall be (i) a reorganization (other than a combination, reclassification, exchange or subdivision of shares otherwise provided for herein); or (ii) subject to Section 12 below, a merger or consolidation of the Company in which the shares of the Company's capital stock outstanding immediately prior to the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then, as a part of such reorganization, merger, or consolidation, lawful provision shall be made so that the holder of this Option shall upon such reorganization, merger, or consolidation, have the right by exercising such Option, to purchase the kind and number of shares of Common Stock or other securities or property (including cash) otherwise receivable upon such reorganization, merger or consolidation by a holder of the number of shares of Common Stock that might have been purchased upon exercise of such Option immediately prior to such reorganization, merger or consolidation. The foregoing provisions of this Section 11.1 shall similarly apply to successive reorganizations, consolidations or mergers. If the per-share consideration payable to the Holder hereof for shares in connection with any such transaction is in a form other than cash or marketable securities, then the value of such consideration shall be determined in good faith by the Company's Board of Directors. In all events, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Option with respect to the rights and interests of the Holder after the transaction, to the end that the provisions of this Option shall be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon exercise of this Option.

11.2. **Reclassification.** If the Company, at any time while this Option, or any portion thereof, remains outstanding and unexpired, by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Option exist into the same or a different number of securities of any other class or classes, this Option shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Option immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section 11.

11.3. **Split, Subdivision or Combination of Shares.** If the Company at any time while this Option, or any portion thereof, remains outstanding and unexpired shall split, subdivide or combine the securities as to which purchase rights under this Option exist, into a different number of securities of the same class, the Exercise Price and the number of shares issuable upon exercise of this Option shall be proportionately adjusted.

11.4. **Adjustments for Dividends in Stock or Other Securities or Property .** If while this Option, or any portion hereof, remains outstanding and unexpired the holders of the securities as to which purchase rights under this Option exist at the time shall have received, or, on or after the record date fixed for the determination of eligible Stockholders, shall have become entitled to receive, without payment therefor, other or additional stock or other securities or property (other than cash) of the Company by way of dividend, then and in each case, this Option shall represent the right to acquire, in addition to the number of shares of the security receivable upon exercise of this Option, and without payment of any additional consideration therefor, the amount of such other or additional stock or other securities or property (other than cash) of the Company that such holder would hold on the date of such exercise had it been the holder of record of the security receivable upon exercise of this Option on the date hereof and had thereafter, during the period from the date hereof to and including the date of such exercise, retained such shares and/or all other additional stock, other securities or property available by this Option as aforesaid during such period.

11.5 **Good Faith.** The Company will not, by any voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 11 and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder of this Option against impairment.

12. **Fundamental Transaction.** For purposes of this Section 12, a "Fundamental Transaction" shall mean (i) the dissolution or liquidation of the Company; (ii) a merger, reorganization or consolidation in which the Company is acquired by another person or entity (other than a holding company or subsidiary formed by the Company); (iii) the sale of all or substantially all of the assets of the Company to any person or persons; or (iv) the sale in a single transaction or a series of related transactions of voting stock representing more than fifty percent (50%) of the voting power of all outstanding shares of the Company to any person or persons. In the event of a Fundamental Transaction, this Option shall automatically become immediately exercisable in full, and shall be deemed to have attained such status immediately prior to the Fundamental Transaction. Holder shall be given at least 15 days prior written notice of a Fundamental Transaction and shall be permitted to exercise any vested Options during this 15 day period (including those Options vesting as a result of the provisions of this Section 12). In the event of a Fundamental Transaction, any Options which are neither assumed or substituted for in connection with the Fundamental Transaction nor exercised as of the date of the Fundamental Transaction, shall terminate and cease to be outstanding effective as of the date of the Fundamental Transaction, unless otherwise provided by the Board of Directors of the Company.

13. **Severability.** Whenever possible, each provision of this Option shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Option is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision of this Option in such jurisdiction or affect the validity, legality or enforceability of any provision in any other jurisdiction, but this Option shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

14. **Governing Law.** The corporate law of the State of Delaware shall govern all issues and questions concerning the relative rights of the Company and its stockholders. All other questions concerning the construction, validity, interpretation and enforceability of this Option and the exhibits and schedules hereto shall be governed by, and construed in accordance with, the laws of the State of Delaware, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware.

15. **Intentionally omitted.**

16. **Arbitration.** If a dispute arises as to interpretation of this Option, it shall be decided finally by three arbitrators in an arbitration proceeding conforming to the Rules of the American Arbitration Association applicable to commercial arbitration. The arbitrators shall be appointed as follows: one by the Company, one by the Holder and the third by the said two arbitrators, or, if they cannot agree, then the third arbitrator shall be appointed by the American Arbitration Association. The third arbitrator shall be chairman of the panel and shall be impartial. The arbitration shall take place in Monmouth County, New Jersey. The decision of a majority 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. Each party shall pay the fees and expenses of the arbitrator appointed by it, its counsel and its witnesses. The parties shall share equally the fees and expenses of the impartial arbitrator.

17. **Intentionally omitted.**

18. **Successors and Assigns.** This Option shall inure to the benefit of and be binding on the respective successors, assigns and legal representatives of the Holder and the Company.

IN WITNESS WHEREOF, the Company and Holder have caused this Option to be executed as of ____.

BIO-key International, Inc.

By: _____
Name: _____
Title: _____

AGREED AND ACCEPTED:

Holder: _____

Signature

NOTICE OF EXERCISE

TO: _____

(1) The undersigned hereby elects to purchase _____ shares of Common Stock of **Bio-key International, Inc.** pursuant to the terms of the attached Option, and tenders herewith payment of the purchase price for such shares in full in the following manner (please check one of the following choices):

- ☐ In Cash
- ☐ Cashless exercise through a broker; or
- ☐ Delivery of previously owned shares.

(2) In exercising this Option, the undersigned hereby confirms and acknowledges that the shares of Common Stock to be issued upon conversion thereof are being acquired solely for the account of the undersigned and not as a nominee for any other party, and for investment (unless such shares are subject to resale pursuant to an effective prospectus), and that the undersigned will not offer, sell or otherwise dispose of any such shares of Common Stock except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws.

(3) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned.

(Date)

(Signature)

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: May 15, 2017

/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: May 15, 2017

/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 March 31, 2017, 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: May 15, 2017

**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 March 31, 2017, 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: May 15, 2017