

REFINITIV

## DELTA REPORT

10-Q

BKYI - BIO KEY INTERNATIONAL INC

10-Q - MARCH 31, 2023 COMPARED TO 10-Q - SEPTEMBER 30, 2022

The following comparison report has been automatically generated

**TOTAL DELTAS** 942

■ CHANGES	58
■ DELETIONS	311
■ ADDITIONS	573

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2022-09-30  
0001019034  
us-gaap:CommonStockMember  
srt:DirectorMember  
2021-07-01  
2021-09-30  
0001019034  
us-gaap:CommonStockMember  
srt:DirectorMember  
2021-01-01  
2021-09-30  
0001019034  
us-gaap:SalesRevenueNetMember  
us-gaap:CustomerConcentrationRiskMember  
2022-07-01  
2022-09-30  
0001019034  
us-gaap:SalesRevenueNetMember  
us-gaap:CustomerConcentrationRiskMember  
bkyi:OneCustomerMember  
2022-07-01  
2022-09-30  
0001019034  
us-gaap:SalesRevenueNetMember

us-gaap:CustomerConcentrationRiskMember  
2021-07-01  
2021-09-30  
0001019034  
us-gaap:SalesRevenueNetMember  
us-gaap:CustomerConcentrationRiskMember  
bkyi:OneCustomerMember  
2021-07-01  
2021-09-30  
0001019034  
us-gaap:SalesRevenueNetMember  
us-gaap:CustomerConcentrationRiskMember  
2022-01-01  
2022-09-30  
0001019034  
us-gaap:SalesRevenueNetMember  
us-gaap:CustomerConcentrationRiskMember  
bkyi:OneCustomerMember  
2022-01-01  
2022-09-30  
0001019034  
us-gaap:SalesRevenueNetMember  
us-gaap:CustomerConcentrationRiskMember  
2021-01-01  
2021-09-30  
0001019034  
us-gaap:SalesRevenueNetMember  
us-gaap:CustomerConcentrationRiskMember  
bkyi:OneCustomerMember  
2021-01-01  
2021-09-30  
0001019034  
us-gaap:AccountsReceivableMember  
us-gaap:CustomerConcentrationRiskMember  
bkyi:OneCustomerMember  
2022-01-01  
2022-09-30  
0001019034  
us-gaap:AccountsReceivableMember  
us-gaap:CustomerConcentrationRiskMember  
2021-01-01  
2021-12-31  
0001019034  
us-gaap:AccountsReceivableMember  
us-gaap:CustomerConcentrationRiskMember  
bkyi:ThreeCustomersMember  
2021-01-01  
2021-12-31  
0001019034  
us-gaap:SubsequentEventMember  
srt:DirectorMember  
2022-11-10  
2022-11-10  
0001019034  
us-gaap:SubsequentEventMember  
2022-11-10  
0001019034  
bkyi:FactoredAccountsReceivableMember  
2022-01-01  
2022-09-30  
0001019034

us-gaap:NotesReceivableMember  
2022-01-01  
2022-09-30

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**

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

For the quarterly period ended **September 30, 2022**

or

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

March 31, 2023

**□ 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

(Exact Name of Registrant as Specified in Its Charter)

Delaware 41-1741861

(State or Other Jurisdiction of Incorporation of Organization) (IRS Employer Identification Number)

Delaware 41-1741861  
(State or Other Jurisdiction of Incorporation of Organization) (IRS Employer Identification Number)  
3349 HIGHWAY 138, BUILDING A, SUITE E, WALL, NJ 07719  
(Address)  
(Address of Principal Executive Offices)  
(732) 359-1100  
(732)

)  
359-1100  
(Registrant's telephone number, including area code)  
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	BKYI	Nasdaq Capital Market

Title of each class	Trading Symbol	Name of each exchange on which registered
---------------------	----------------	---

Common Stock, par value \$0.0001 per share	BKYI	Nasdaq Capital Market
--	------	-----------------------

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 period indicated by the check mark.  
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T.  
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 definition 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 reporting requirements under Section 13(a) of the Exchange Act.  Yes  No

Number of shares of Common Stock, \$.0001 par value per share, outstanding as of November 11, 2022, is

8,465,211

June 8, 2023 was 9,234,833.

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARIES

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## PART I — FINANCIAL INFORMATION

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## PART

### I -- FINANCIAL INFORMATION

#### BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARIES

##### Subsidiaries

#### CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30,	DECEMBER 31,
	2022	2021
	(UNAUDITED)	
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 2,774,617	\$ 7,754,046
ACCOUNTS RECEIVABLE, NET	1,808,036	970,626
DUE FROM FACTOR	49,500	49,500
NOTE RECEIVABLE, NET OF ALLOWANCE	-	82,000
INVENTORY	4,892,667	4,940,660
PREPAID EXPENSES AND OTHER	357,726	216,041
TOTAL CURRENT ASSETS	9,882,546	14,012,873
RESALABLE SOFTWARE LICENSE RIGHTS	41,286	48,752
INVESTMENT DEBT SECURITY, NET	262,821	452,821
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET	125,824	69,168
CAPITALIZED CONTRACT COSTS, NET	298,673	249,012

5

Mar  
2  
(Una)

<b>ASSETS</b>	
Cash and cash equivalents	\$ 3
Accounts receivable, net	3
Due from factor	
Inventory, net of reserve	4
Prepaid expenses and other	
Total current assets	8
Equipment and leasehold improvements, net	
Capitalized contract costs, net	
Deposits and other assets	
Operating lease right-of-use assets	
Intangible assets, net	1
Total non-current assets	2
<b>TOTAL ASSETS</b>	\$ 11
 <b>LIABILITIES</b>	
Accounts payable	\$ 1
Accrued liabilities	
Convertible note payable	2
Government loan - BBVA Bank - current portion	
Deferred revenue - current	
Operating lease liabilities, current portion	
Total current liabilities	5
Deferred revenue - net of current portion	
Deferred tax liability	
Government loan - BBVA Bank - net of current portion	
Operating lease liabilities, net of current portion	
Total non-current liabilities	
<b>TOTAL LIABILITIES</b>	5
 Commitments and Contingencies (Note 7)	
 <b>STOCKHOLDERS' EQUITY</b>	
Common stock — authorized, 170,000,000 shares; issued and outstanding; 9,226,058 and 9,190,504 of \$.0001 par value at March 31, 2023 and December 31, 2022, respectively	
Additional paid-in capital	122
Accumulated other comprehensive income	1
Accumulated deficit	(116)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	5
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ 11

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

**BIO-key International, Inc. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Uaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
<b>Revenues</b>				
Services	\$ 371,956	\$ 318,500	\$ 1,202,866	\$ 985,163
License fees	918,260	870,459	3,540,592	2,011,610
Hardware	83,333	109,870	518,377	1,182,784
<b>Total revenues</b>	<b>1,373,549</b>	<b>1,298,829</b>	<b>5,261,835</b>	<b>4,179,557</b>
<b>Costs and other expenses</b>				
Cost of services	162,632	176,976	554,222	511,360
Cost of license fees	173,310	45,986	604,677	133,328
Cost of hardware	57,841	71,712	296,278	656,190
<b>Total costs and other expenses</b>	<b>393,783</b>	<b>294,674</b>	<b>1,455,177</b>	<b>1,300,878</b>
<b>Gross profit</b>	<b>979,766</b>	<b>1,004,155</b>	<b>3,806,658</b>	<b>2,878,679</b>
<b>Operating Expenses</b>				
Selling, general and administrative	2,510,706	1,385,534	6,315,277	4,276,016
Research, development and engineering	829,506	612,597	2,418,855	1,545,200
<b>Total Operating Expenses</b>	<b>3,340,212</b>	<b>1,998,131</b>	<b>8,734,132</b>	<b>5,821,216</b>
<b>Operating loss</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>
	2,360,446	993,976	4,927,474	2,942,537
<b>Other income (expense)</b>				
Interest income	8	329	216	3,776
<b>Loss on foreign currency transactions</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>
	50,000			
<b>Investment-debt security reserve</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>
	40,000	30,000	190,000	30,000
<b>Noncash interest expense</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>
	18,000			
<b>Interest expense</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>
	2,071	3,611		
<b>Total other income (expense), net</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>	<b>( )</b>
	42,063	29,671	193,395	94,224
<b>Net loss</b>	<b>\$ ( )</b>	<b>\$ ( )</b>	<b>\$ ( )</b>	<b>\$ ( )</b>
	2,402,509	1,023,647	5,120,869	3,036,761
<b>Comprehensive loss:</b>				
Net loss	\$ ( )	\$ ( )	\$ ( )	\$ ( )
	2,402,509	1,023,647	5,120,869	3,036,761
<b>Other comprehensive loss</b>	<b>Foreign currency translation adjustment</b>	<b>( )</b>	<b>-</b>	<b>( )</b>
	119,269	229,350		
<b>Net loss available to common stockholders</b>	<b>\$ ( )</b>	<b>\$ ( )</b>	<b>\$ ( )</b>	<b>\$ ( )</b>
	2,521,778	1,023,647	5,350,219	3,036,761
<b>Basic and Diluted Loss per Common Share</b>	<b>\$ ( )</b>	<b>\$ ( )</b>	<b>\$ ( )</b>	<b>\$ ( )</b>
	0.29	0.13	0.64	0.39
<b>Weighted Average Common Shares Outstanding:</b>				
<b>Basic and diluted</b>	<b>8,148,848</b>	<b>7,790,778</b>	<b>8,054,207</b>	<b>7,788,734</b>

## See

	Three months ended March 31,	
	2023	2022
Revenues		
Services	\$ 532,522	\$ 395,804
License fees	2,478,556	1,460,183
Hardware	72,689	85,184
Total revenues	<u>3,083,767</u>	<u>1,941,171</u>
Costs and other expenses		
Cost of services	154,801	210,913
Cost of license fees	620,881	73,230
Cost of hardware	44,592	53,298
Total costs and other expenses	<u>820,274</u>	<u>337,441</u>
Gross Profit	<u>2,263,493</u>	<u>1,603,730</u>
Operating expenses		
Selling, general and administrative	1,931,732	1,797,998
Research, development and engineering	690,159	805,266
Total operating expenses	<u>2,621,891</u>	<u>2,603,264</u>
Operating loss	<u>(358,398)</u>	<u>(999,534)</u>
Other income (expense)		
Interest income	4	131
Loss on foreign currency transaction	(15,000)	-
Change in fair value of convertible note	141,991	-
Interest expense	(56,919)	-
Total other income (expense)	<u>70,076</u>	<u>131</u>
Net loss	<u>\$ (288,322)</u>	<u>\$ (999,403)</u>
Comprehensive loss:		
Net loss	\$ (288,322)	\$ (999,403)
Other comprehensive income – Foreign currency translation adjustment	72,146	55,802
Comprehensive loss	<u>\$ (216,176)</u>	<u>\$ (943,601)</u>
Basic and Diluted Loss per Common Share	<u>\$ (0.03)</u>	<u>\$ (0.13)</u>
Weighted Average Shares Outstanding:		
Basic and Diluted	8,944,485	7,885,008

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

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BIO-KEY INTERNATIONAL,  
INC. AND SUBSIDIARIES

**BIO-key International, Inc. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Uaudited)

	Common	Additional	Accumulated	Accumulated		
	Stock	Paid-in	Other			
	Shares	Amount	Capital	Income	Deficit	Total
				(Loss)		
Balance as of	7,853,759	\$ 786	\$ 120,190,139	\$ -	\$ ( )	\$ 15,615,455
January 1, 2022					104,575,470	
Issuance of common stock	9,382	1	22,019	-	-	22,020
for directors fees						
Issuance of common stock pursuant	269,060	27	599,977	-	-	600,004
to Swivel purchase agreement						
Issuance of restricted common	274,250	27	( )	-	-	-
stock to employees and directors				27		
Foreign currency	-	-	-	55,802	-	55,802
translation adjustment						
Share-based	-	-	87,677	-	-	87,677
compensation						
Net	-	-	-	( )	( )	
loss				999,403		999,403
Balance as of	8,406,451	\$ 841	\$ 120,899,785	\$ 55,802	\$ ( )	\$ 15,381,555
March 31, 2022					105,574,873	
Issuance of common stock	9,117	1	18,005	-	-	18,006
for directors fees						
Issuance of restricted	1,250	-	-	-	-	-
common stock to employees						
Restricted stock	( )	-	-	-	-	-
forfeited	1,250					
Issuance of common stock for	26,006	2	39,123	-	-	39,125
Employee stock purchase plan						
Share based compensation	-	-	8,314	-	-	8,314
for employee stock plan						
Foreign currency	-	-	-	( )	-	( )
translation adjustment				165,883		165,883
Share-based	-	-	57,379	-	-	57,379
compensation						
Net	-	-	-	( )	( )	
loss				1,718,957		1,718,957
Balance as of	8,441,574	\$ 844	\$ 121,022,606	\$ ( )	\$ ( )	\$ 13,619,539
June 30, 2022				110,081	107,293,830	
Issuance of common stock	8,547	1	18,008	-	-	18,009
for directors fees						
Issuance of restricted	2,500	-	-	-	-	-
common stock to employees						
Foreign currency	-	-	-	( )	-	( )
translation adjustment				119,269		119,269
Share-based	-	-	82,738	-	-	82,738
compensation						
Net	-	-	-	( )	( )	
loss				2,402,509		2,402,509
Balance as of	8,452,621	\$ 845	\$ 121,123,352	\$ ( )	\$ ( )	\$ 11,198,508

September 30, 2022

229,350 109,696,339

See

	Accumulated					
	Common Stock		Additional		Other	
	Shares	Amount	Paid-in	Capital	Comprehensive	Accumulated
Balance as of January 1, 2023	9,190,504	\$ 919	\$ 122,028,612	\$ (242,602 )	\$ (116,485,373 )	\$ 5,301,556
Issuance of common stock for directors' fees	15,388	1	12,001	-	-	12,002
Issuance of common stock to employees	40,000	4	-	-	-	4
Restricted stock forfeited	(19,834 )	(2 )	(3,103 )	-	-	(3,105 )
Foreign currency translation adjustment				72,146	-	72,146
Share-based compensation	-	-	62,474	-	-	62,474
Net loss	-	-	-	-	(288,322 )	(288,322 )
Balance as of March 31, 2023	9,226,058	\$ 922	\$ 122,099,984	\$ (170,456 )	\$ (116,773,695 )	\$ 5,156,755

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

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BIO-KEY INTERNATIONAL,

INC. AND SUBSIDIARIES

## BIO-key International, Inc. and Subsidiaries

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)

(Unaudited)

	Common Stock		Additional		Accumulated	
	Paid-in		Shares	Amount	Capital	Deficit
	Shares	Amount				
Balance as of January 1, 2021	7,814,572	\$ 782	\$ 119,844,026	\$ ( )	\$ 20,335,119	
			99,509,689			
Issuance of common stock for directors fees	2,091	-	7,510	-	7,510	
Legal and commitment fees	-	-	( )	-	( )	
			2,709		2,709	
Issuance of restricted common stock to employees	1,250	-	-	-	-	
Share-based compensation	-	-	133,638	-	133,638	
Net loss	-	-	( )	( )		
			851,431	851,431		
Balance as of March 31, 2021	7,817,913	\$ 782	\$ 119,982,465	\$ ( )	\$ 19,622,127	
			100,361,120			
Issuance of common stock for directors fees	1,748	-	5,505	-	5,505	
Legal and commitment fees	-	-	( )	-	( )	
			2,519	2,519		
Issuance of restricted common stock to employees	1,250	-	-	-	-	
Restricted stock forfeited	( )	-	-	-	-	
			1,250			
Share-based compensation	-	-	35,618	-	35,618	
Net loss	-	-	( )	( )		

			1,161,683	1,161,683
Balance as of June 30, 2021	7,819,661	\$ 782	\$ 120,021,069	\$ ( ) \$ 18,499,048
			101,522,803	
Issuance of common stock for directors fees	1,888	-	6,008	- 6,008
Issuance of restricted common stock to employees	3,750	1	-	- 1
Share-based compensation	-	-	52,041	- 52,041
Net loss	-	-	( )	( )
			1,023,647	1,023,647
Balance as of September 30, 2021	7,825,299	\$ 783	\$ 120,079,118	\$ ( ) \$ 17,533,451
			102,546,450	

See

	Accumulated					
	Common Stock		Additional	Other	Comprehensive	Accumulated
	Shares	Amount	Paid-in Capital	Income	Deficit	Total
Balance as of January 1, 2022	7,853,759	\$ 786	\$ 120,190,139	\$ -	\$ (104,575,470)	\$ 15,615,455
Issuance of common stock for directors' fees	9,382	1	22,019	-	-	22,020
Issuance of common stock pursuant to Swivel purchase agreement	269,060	27	599,977	-	-	600,004
Issuance of restricted common stock to employees and directors	274,250	27	(27)	-	-	-
Foreign currency translation adjustment				55,802	-	55,802
Share-based compensation	-	-	87,677	-	-	87,677
Net loss	-	-	-	-	\$ (999,403)	\$ (999,403)
Balance as of March 31, 2022	8,406,451	\$ 841	\$ 122,099,785	\$ 55,802	\$ (105,574,873)	\$ 15,381,555

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

6

#### BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARIES

#### BIO-key International, Inc. and Subsidiaries CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Nine Months Ended September 30,		
	2022	2021
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ ( )	\$ ( )
	5,120,869	3,036,761
<b>Adjustments to reconcile net loss to net cash used for operating activities:</b>		
Depreciation	33,813	48,210
Amortization of intangible assets	216,806	169,639
Amortization of capitalized contract costs	80,019	78,477
Operating leases right-of-use assets	87,903	173,718
Loss on foreign currency transactions	-	50,000
Reserve for Investment debt security	190,000	30,000
Allowance for note receivable	40,000	100,000

<b>Share and warrant-based compensation for employees and consultants</b>	<b>236,108</b>	<b>221,298</b>
Stock based directors fees	58,035	19,023
Bad debts	130,111	-
<b>Amortization of debt discount</b>	<b>-</b>	<b>18,000</b>
<b>Change in assets and liabilities:</b>		
Accounts receivable	( <b>)</b>	( <b>)</b>
	<b>264,635</b>	<b>1,043,190</b>
Due from factor	-	6,953
Capitalized contract costs	( <b>)</b>	( <b>)</b>
	<b>120,968</b>	<b>131,758</b>
Inventory	<b>47,993</b>	( <b>)</b>
		<b>4,303,888</b>
Resaleable software license rights	<b>7,466</b>	-
Prepaid expenses and other	( <b>)</b>	( <b>)</b>
	<b>120,977</b>	<b>749,045</b>
Accounts payable	<b>239,227</b>	<b>1,192,887</b>
Accrued liabilities	( <b>)</b>	<b>190,935</b>
		<b>6,882</b>
Deferred revenue	<b>43,351</b>	<b>31,048</b>
Operating lease liabilities	( <b>)</b>	( <b>)</b>
	<b>104,904</b>	<b>173,668</b>
<b>Net cash used for operating activities</b>	<b>(<b>)</b></b>	<b>(<b>)</b></b>
	<b>4,328,403</b>	<b>7,108,122</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Swivel Secure, net of cash acquired of \$729,905	( <b>)</b>	-
		<b>543,578</b>
Receipt of cash from note receivable	<b>9,000</b>	-
Receipt of cash from Employee stock purchase plan	<b>39,125</b>	-
Capital expenditures	( <b>)</b>	( <b>)</b>
	<b>31,066</b>	<b>37,883</b>
<b>Net cash used for investing activities</b>	<b>(<b>)</b></b>	<b>(<b>)</b></b>
	<b>526,519</b>	<b>37,883</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Costs to issue convertible notes	-	( <b>)</b>
		<b>5,228</b>
Repayment of convertible note	-	( <b>)</b>
		<b>250,000</b>
<b>Net cash used for financing activities</b>	<b>-</b>	<b>(<b>)</b></b>
		<b>255,228</b>
Effect of exchange rate changes	( <b>)</b>	-
	<b>124,507</b>	
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(<b>)</b></b>	<b>(<b>)</b></b>
	<b>4,979,429</b>	<b>7,401,233</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>7,754,046</b>	<b>16,993,096</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 2,774,617</b>	<b>\$ 9,591,863</b>

See

Three Months Ended

March 31,

2023

2022

CASH FLOW FROM OPERATING ACTIVITIES:

Net loss	\$ (288,322 )	\$ (999,403 )
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	13,242	11,220
Amortization of intangible assets	81,237	54,231
Change in fair value of convertible note	(141,991 )	-
Amortization of capitalized contract costs	37,529	35,658
Amortization of operating leases right-of-use assets	66,132	51,587
Stock based directors' fees	12,002	22,020
Share based compensation for employees and consultants	59,373	87,677
Bad debts	-	25,111
Change in assets and liabilities:		
Accounts receivable	(1,798,881 )	(904,930 )
Due from factor	(33,000 )	(2,350 )
Capitalized contract costs	(8,739 )	(66,435 )
Inventory	6,554	(15,812 )
Resalable software license rights	-	2,505
Prepaid expenses and other	2,219	(124,616 )
Accounts payable	88,040	175,341
Accrued liabilities	(135,417 )	45,669
Deferred revenue	178,755	220,874
Operating lease liabilities	(67,544 )	(52,722 )
Net cash used in operating activities	(1,928,811 )	(1,434,375 )
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of Swivel Secure, net of cash acquired of \$729,905	-	(543,578 )
Receipt of cash from note receivable	-	3,000
Capital expenditures	-	(4,459 )
Net cash used in investing activities	-	(545,037 )
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment of government loan	(34,289 )	-
Net cash used in financing activities	(34,289 )	-
Effect of exchange rate changes	49,913	26,487
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,913,187 )	(1,952,925 )
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,635,522	7,754,046
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 722,335	\$ 5,801,121

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

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARIES

**BIO-key International, Inc. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION

Nine Months Ended September 30,

2022 2021

Cash paid for:

Interest \$ 3,661 \$ 18,000

Noncash investing and financing activities

Accounts receivable acquired from Swivel Secure \$ 702,886 \$ -

Equipment acquired from Swivel Secure \$ 65,640 \$ -

Other assets acquired from Swivel Secure \$ 20,708 \$ -

Intangible assets acquired from Swivel Secure \$ 762,860 \$ -

Goodwill resulting from the acquisition from Swivel Secure \$ 1,067,372 \$ -

Accounts payable and accrued expenses acquired from Swivel Secure \$ 431,884 \$ -

Government loan acquired from Swivel Secure \$ 544,000 \$ -

Common stock issued for acquisition of Swivel Secure \$ 600,004 \$ -

Operating lease right-of-use asset and liability for new lease \$ 105,893 \$ -

See

Three Months Ended

March 31,

	2023	2022
Cash paid for:		
Interest	\$ 56,919	\$ -
Noncash Investing and financing activities		
Accounts receivable acquired from Swivel Secure	\$ —	\$ 702,886
Equipment acquired from Swivel Secure	\$ —	\$ 65,640
Other assets acquired from Swivel Secure	\$ —	\$ 20,708
Estimated intangible assets acquired from Swivel Secure	\$ —	\$ 1,379,589
Estimated goodwill resulting from the acquisition from Swivel Secure	\$ —	\$ 450,643
Accounts payable and accrued expenses acquired from Swivel Secure	\$ —	\$ 431,884
Government loan acquired from Swivel Secure	\$ —	\$ 544,000
Common stock issued for acquisition of Swivel Secure	\$ —	\$ 600,004

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

8

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARIES

International Inc., and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022

March 31, 2023 (Unaudited)

## 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

## 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

### *Nature of Business*

The Company, founded in 1993, develops and markets proprietary fingerprint identification biometric technology and software solutions enterprise-ready identity access management. *Basis of Presentation*

The accompanying unaudited interim condensed consolidated financial statements include the accounts of BIO-key International, Inc. and its wholly-owned subsidiaries (collectively, "BIO-key"). In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all necessary adjustments, consisting only of those of a recurring nature, necessary for a fair presentation of the financial position and results of operations in accordance with *GAAP*. These unaudited interim condensed consolidated financial statements should be read in conjunction with the financial statements and notes to the audited financial statements for the fiscal year ended **December 31, 2021** **December 31, 2022**, filed with the SEC on **April 1, 2022** **June 1, 2023**.

### *Foreign Currency*

#### *Currencies*

The Company accounts for foreign currency transactions pursuant to ASC 830, *Foreign Currency Matters* ("ASC 830"). The functional currency of the Company is the U.S. dollar, which is the currency of the primary economic environment in which it operates. In accordance with ASC 830, monetary balances denominated in or linked to foreign currency are stated on the basis of the exchange rates prevailing at the applicable balance sheet date. For foreign currency transactions included in the statement of operations, the exchange rates applicable on the relevant transaction dates are used. Gains or losses arising from changes in the exchange rates used in the translation of such transactions and from the remeasurement of the monetary balance sheet items are recorded as gain (loss) on foreign currency transactions.

The functional currency of Swivel Secure Europe, SA is the Euro. Under ASC 830, all assets and liabilities are translated into U. S. dollars using the current exchange rate at the end of each reporting period.

### *Goodwill and acquired intangible assets*

Goodwill is not amortized, but is evaluated for impairment annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company has determined that there is a single reporting unit for the purpose of conducting this goodwill impairment assessment. For purposes of assessing potential impairment, the Company estimates the fair value of the reporting unit, based on the Company's market capitalization, and compares this amount to the carrying value of the reporting unit. If the Company determines that the carrying value of the reporting unit exceeds its fair value, an impairment charge would be required. The annual goodwill impairment test will be performed as of December 31st of each year. To date, the Company has not identified any impairment to goodwill.

9

Intangible assets acquired in a business combination are recorded at their

estimated fair values at the date of acquisition. The Company amortizes acquired definite-lived intangible assets over their estimated useful lives based on the pattern of consumption of the economic benefits or, if that pattern cannot be readily determined, on a straight-line basis.

income (loss).

#### *Recently Issued Accounting Pronouncements*

*In  
June 2016,*

Effective January 1, 2023, the FASB issued Company adopted ASU 2016

13,

2016-13, *Financial Instruments-Credit Losses (Topic 326*

) 326), referred to herein as ASU 2016

13, 2016-13, which significantly changes how entities will account for credit losses for most financial assets and certain other instruments that are not measured at fair value through

13 2016-13 replaces the existing incurred loss model with an expected credit loss model that requires entities to estimate an expected lifetime credit loss on most financial assets and

13 2016-13 credit impairment is recognized as an allowance for credit losses, rather than as a direct write-down of the amortized cost basis of a financial asset. The impairment allowar In August 2020, the Financial Accounting Standards Board issued ASU 2020-06, Debt - 13.

*Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) ("ASU 2016*

13 2020-06") to simplify accounting for certain financial instruments. ASU 2020-06 eliminates the current models that require separation of beneficial conversion and cash conversion periods, beginning after

December 15, 2022

for smaller reporting companies. Early adoption is permitted, the Company on January 1, 2024 and should be applied on a full or modified retrospective basis. The Company is current

13 2020-06 will have on its consolidated financial statements and plans to assess assets

by year end.

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 cons

2.

#### **2. GOING CONCERN**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which contemplate stock, common stock, recoverability and through factoring receivables. The classification of recorded assets or the amounts and classification of liabilities that might be necessary shc requires approximately \$

814,000

per month to conduct operations, a monthly amount that it has been be unable to consistently achieve through revenue generation. During the

first

nine

months of

2022,

the Company generated \$ 5,261,835 of revenue, which is below its average monthly requirements. Given the uncertainty of the duration and severity of the current COVID-19 pandemic and the conflict between Ukraine and Russia and their effects on the Company's business operations, sales cycles, personnel, and the geographic markets in which the Company operates, and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature, the related financial impact cannot be reasonably estimated at this time. As of the date of this report, the Company does not have enough cash for twelve months of operations. The history of significant losses, the negative cash flow from operations, but year-end. Our total cash balance as of September 30, 2022, was approximately \$ 2.8 million, with an additional \$ 1,808,036 in trade accounts receivables, which we expect to collect by the beginning of December. Company's ability to obtain additional financing to fund its operations after the current cash resources are exhausted raises substantial doubt about the Company's 4.9 million in inventory which the Company expects to convert 50 % to cash over the ensuing 6 months. With the addition of the Swivel Secure Europe, SA (Swivel Secure), the Company expects to generate additional cash flows in excess of \$ 1 million annually (see Note 4), based on Swivel Secure's current recurring revenue and expense projections.

### 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

In accordance with ASC 606, Revenue from Contracts with Customers (ASC 606), revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services. To achieve this core principle, the Company applies the following five steps:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to performance obligations in the contract

Recognize revenue when or as the Company satisfies a performance obligation

10

cash.

### 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

#### *Disaggregation of Revenue*

The following table summarizes revenue from contracts with customers for the three

month periods ended

September 30, 2022

and

September 30, 2021:

	North	Africa	EMESA*	Asia	September 30,
	2022				
Services	\$ 280,192	\$ 22,677	\$ 69,087	\$ -	\$ 371,956
License fees	468,090	-	450,170	-	918,260
Hardware	48,226	13,800	11,412	9,895	83,333
Total Revenues	\$ 796,508	\$ 36,477	\$ 530,669	\$ 9,895	\$ 1,373,549

	North	Africa	EMESA*	Asia	September 30,
	2021				
Services	\$ 259,965	\$ 42,000	\$ 12,759	\$ 3,776	\$ 318,500
License fees	534,775	308,000	20,678	7,006	870,459
Hardware	84,445	13,425	-	12,000	109,870
Total Revenues	\$ 879,185	\$ 363,425	\$ 33,437	\$ 22,782	\$ 1,298,829

The following table summarizes revenue from contracts with customers for the

nine

month periods ended

September 30, 2022

and

September 30, 2021:

	North	Africa	EMESA*	Asia	September 30,
	2022				
Services	\$ 936,910	\$ 60,629	\$ 205,274	\$ 53	\$ 1,202,866
License fees	1,436,704	517,161	1,507,051	79,676	3,540,592
Hardware	323,338	25,833	18,342	150,864	518,377
Total Revenues	\$ 2,696,952	\$ 603,623	\$ 1,730,667	\$ 230,593	\$ 5,261,835

North America	Africa	EMESA*	Asia	September 30, 2021
<hr/>				
Services	\$ 891,856	\$ 42,000	\$ 41,109	\$ 10,198
License fees	1,307,265	557,484	72,205	74,656
Hardware	176,414	698,264	265,996	42,110
Total Revenues	\$ 2,375,535	\$ 1,297,748	\$ 379,310	\$ 126,964
				\$ 4,179,557

\*EMESA three-month period:

	North America	Africa	EMESA*	Asia	March 31, 2023
License fees	\$ 408,530	\$ 552,630	\$ 1,446,746	\$ 70,650	\$ 2,478,556
Hardware	24,781	-	47,008	900	72,689
Services	263,858	23,787	239,927	4,950	532,522
Total Revenues	\$ 697,169	\$ 576,417	\$ 1,733,681	\$ 76,500	\$ 3,083,767
	North America	Africa	EMESA*	Asia	March 31, 2022
License fees	\$ 473,070	\$ 517,161	\$ 390,277	\$ 79,675	\$ 1,460,183
Hardware	71,900	12,033	1,251	-	85,184
Services	355,632	15,275	24,844	53	395,804
Total Revenues	\$ 900,602	\$ 544,469	\$ 416,372	\$ 79,728	\$ 1,941,171

\*EMESA – Europe, Middle East, South America

#### Software licenses

Software license revenue consist of fees for perpetual and subscription licenses for one or more of the Company's biometric fingerprint solutions or identity access management solutions. Revenue is recognized at a point in time once the software is available to the customer for download. Software license contracts are generally invoiced in full on execution of the arrangement.

#### Hardware

Hardware revenue consists of fees for associated equipment sold with or without a software license arrangement, such as servers, FIDO keys, and fingerprint readers. Customers are not obligated to buy third party hardware from the Company and may procure these items from a number of suppliers. Revenue is recognized at a point in time once the hardware is shipped to the customer. Hardware items are generally invoiced in full on execution of the arrangement.

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#### Support and Maintenance

Support and maintenance revenue consists of fees for unspecified upgrades, telephone assistance and bug fixes. The Company satisfies its support and maintenance performance obligation by providing stand-ready assistance as required over the contract period. The Company records deferred revenue (contract liability) at time of prepayment until the term of the contract ends. Revenue is recognized over time on a ratable basis over the contract term.

Support and maintenance contracts are from

one  
to  
five

years in length and are generally invoiced in advance at the beginning of the term. Support and maintenance revenue for subscription licenses is carved out of the total license cost at

18

% and recognized on a ratable basis over the license term.

#### Professional Services

Professional services revenue consist primarily of fees for deployment and optimization services, as well as training. The majority of the Company's consulting contracts are billed on a time and materials basis, and revenue is recognized based on the amount billable to the customer in accordance with practical expedient ASC

606  
-  
10  
-  
55  
-  
18.

For other professional services contracts, the Company utilizes an input method and recognizes revenue based on labor hours expended to date relative to the total labor hours expected to be required to satisfy its performance obligation.

#### Contracts with Multiple Performance Obligations

Some contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The standalone selling prices are determined based on overall pricing objectives, taking into consideration market conditions and other factors, including the value of the contracts, the cloud applications sold, customer demographics, geographic locations, and the number and types of users within the contracts.

The Company considered several factors in determining that control transfers to the customer upon shipment of hardware and availability of download of software. These factors include that legal title transfers to the customer, the Company has a present right to payment, and the customer has assumed the risks and rewards of ownership upon shipment of hardware and availability of download of software.

Accounts receivable from customers are typically due within

30  
days of invoicing. The Company does  
not

record a reserve for product returns or warranties as amounts are deemed immaterial based on historical experience.

#### Costs to Obtain and Fulfill a Contract

Costs to obtain and fulfill a contract are predominantly sales commissions earned by the sales force and are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized over a period of benefit determined to be four years. These costs are included as capitalized contract costs on the balance sheet. The period of benefit was determined by taking into consideration customer contracts, technology, and other factors based on historical evidence. Amortization expense is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

#### Transaction Price Allocated to the Remaining Performance Obligations

ASC  
606

requires that the Company disclose the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as of September 30, 2022. The Companys contracts satisfy the following applicable guidance that limits this requirement:

The performance obligation is part of a contract that has an original expected duration of one year or less, in accordance with ASC 606 - 10 - 50 - 14.

Deferred revenue represents the Companys remaining performance obligations related to prepaid support and maintenance, all of which is expected to be recognized from one to five years.

All of the Company's performance obligations, and associated revenue, are generally transferred to customers at a point in time, with the exception of support and maintenance, and professional services, which are generally transferred to the customer over time.

#### Deferred Revenue

Deferred revenue includes customer advances and amounts that have been paid by customer for which the contractual maintenance terms have not yet occurred. The majority of th

12

-

60 12-60 months. Maintenance revenue which would be recognized based on contract

periods that extend beyond Contracts greater than 12 months from the balance sheet date, is are segregated as long term deferred revenue. Maintenance contracts include provision  
676,000 \$693,000 and \$

633,000

,\$515,000, respectively. Revenue recognized during the three months ended March 31, 2023 and nine

-months ended

September 30, 2022 2022 from amounts included in deferred revenue at the beginning of the period was approximately\$

62,000 approximately \$223,000 and \$

448,000

, respectively. Revenue recognized during the

three

and

nine

-months ended

September 30, 2021

from amounts included in deferred revenue at the beginning of the period was

approximately\$

72,000

and \$

502,000

,\$234,000, respectively. The Company did not recognize any revenue from performance obligations satisfied in prior periods.

12

#### 4. SWIVEL SECURE EUROPE, SA ACQUISITION

On

March 8, 2022,

the Company completed the acquisition of

100

% of the issued and outstanding capital stock of Swivel Secure based in

Madrid, Spain, pursuant to the terms of a stock purchase agreement. The

aggregate purchase price consisted of a base purchase price of \$

1.75

million, subject to closing adjustments based on the closing date working

capital, indebtedness and unpaid transaction expenses, and an earn-out of\$

500,000

. The earn-out is payable based on Swivel Secure generating \$

3,000,000

of revenue and \$

1,000,000

of operating profit during an earn-out period commencing on the closing date

and ending on

January 31, 2023.

The earn-out payment, if any, will be paid at the Company's option, in cash or

shares of Company common stock priced at the

20

day volume-weighted average price of the Company's common stock immediately prior to the payment date as reported on the Nasdaq Capital Market. At the closing, the Company made a cash payment of \$

1.27 million and issued

269,060

shares of common stock of which

89,687

shares were held back by the Company to secure certain indemnification obligations under the stock purchase agreement. The shares of Company common stock were priced at \$

2.23 , the contractual

20

day volume-weighted average price of the Company's common stock immediately prior to the payment date as reported on the Nasdaq Capital Market.

The business combination has been accounted for as an acquisition and, in accordance with ASC 805.

The Company recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. The following table summarizes the purchase price allocation, assuming the earnout will be paid:

**Purchase consideration:**

Total cash paid, including working capital adjustment	\$ 1,273,483
Earnout payable	500,000
Common stock issued	600,004
<b>Total purchase price consideration</b>	<b>\$ 2,373,487</b>

**Fair value of assets acquired and liabilities assumed:**

Cash and cash equivalents	\$ 729,905
Accounts receivable	702,886
Equipment acquired	65,640
Other assets	20,708
Intangible assets	762,860
Goodwill	1,067,372
<b>Total estimated assets acquired</b>	<b>3,349,371</b>
Accounts payable and accrued expenses	431,884
Government loan	544,000
<b>Total liabilities assumed</b>	<b>975,884</b>
<b>Total estimated fair value of assets acquired and liabilities assumed</b>	<b>\$ 2,373,487</b>

The fair value of the assets acquired and liabilities assumed was less than the purchase price, resulting in the recognition of goodwill. The goodwill reflected the value of the synergies the Company expected to realize and the assembled workforce.

The significant intangible asset identified in the purchase price allocation discussed above include Customer Relationships. To value the Customer Relationships, with a useful life between six

to  
eight

years, the Company utilized the Excess Earnings Method, which isolates the value of the specific intangible asset by discounting its income stream to present value.

The government loan was issued through BBVA Bank during the COVID-19

pandemic. The loan bears interest at the rate of

1.75

% per annum and is payable in monthly installments of approximately \$

11,900

inclusive of interest from

May 2022

through

April 2026.

The installment payments have been paid monthly as per the schedule, as of the date of this report.

## 5. ACCOUNTS RECEIVABLE

### 4. ACCOUNTS RECEIVABLE

Accounts receivable are carried at original amount less an estimate made for doubtful receivables credit losses based on a review of all outstanding amounts on a monthly basis. Man

13

Accounts receivable at September 30, 2022 March 31, 2023 and December 31, 2021 December 31, 2022 consisted of the following:

	September 30, 2022	December 31, 2021
Accounts receivable - current	\$ 2,131,821	\$ 1,234,411
Loss on foreign currency	( )	( )
	50,000	50,000
Allowance for doubtful account	( )	( )
	273,785	213,785
Accounts receivable, net of allowances for doubtful accounts	\$ 1,808,036	\$ 970,626

## 6. SHARE BASED COMPENSATION

	<b>March 31,</b>	<b>December 31,</b>
	<b>2023</b>	<b>2022</b>
Accounts receivable	\$ 3,985,988	\$ 2,096,569
Allowance for credit losses	(623,785 )	(573,785 )
Accounts receivable, net of allowance for credit losses	<u><u>\$ 3,362,203</u></u>	<u><u>\$ 1,522,784</u></u>

Bad debt expenses (if any) are recorded in selling, general, and administrative expense.

##### 5. SHARE BASED COMPENSATION

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

Three Months Ended September 30,		
2022	2021	
Selling, general and administrative	\$ 77,542	\$ 47,694
Research, development and engineering	23,204	10,356
	<b>\$ 100,746</b>	<b>\$ 58,050</b>

Nine Months Ended September 30,		
2022	2021	
Selling, general and administrative	\$ 236,120	\$ 207,342
Research, development and engineering	58,023	32,979
	<b>\$ 294,143</b>	<b>\$ 240,321</b>

##### 7. FACTORING

Due from factor consisted of the following as of:

September 30, December 31,		
2022	2021	
Original invoice value	\$ 99,000	\$ 99,000
Factored amount	( )	( )
	49,500	49,500
Due from factor	<b>\$ 49,500</b>	<b>\$ 49,500</b>

The Company entered into an accounts receivable factoring arrangement with a financial institution (the Factor) which has been extended to

October 31,  
2023.

Pursuant to the terms of the arrangement, the Company, from time to time, sells to the Factor a minimum of \$ 150,000

per quarter of 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, 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

15

% of the face value of the invoice factored and are determined by the number of days required for collection of the invoice. The cost of factoring is included in selling, general and administrative expenses. The cost of factoring was as follows:

Three Months ended

September 30,

2022 2021

Factoring fees \$ 11,821 \$ 1,055

14

Nine Months ended

September 30,

2022 2021

Factoring fees \$ 51,348 \$ 33,302

## 8. NOTE RECEIVABLE

During the  
third  
quarter  
2020,

the Company loaned \$

295,000

as an advance to Technology Transfer Institute (TTI) to aid in fulfilling the African contracts. The note does not bear any interest if paid within the nine (

9

) monthly installments beginning December 31, 2020. The note bears a default rate of 5%. Due to the ongoing delays in payment, the Company reserved \$140,000 of the note as an allowance. On February 17, 2022, the Company amended the note to modify the payment terms to provide for lower monthly payments, with an updated maturity date on or before December 6, 2023. On May 5, 2022, the Company amended the note to modify the payment terms to eight biweekly installments of \$1,000 beginning February 25, 2022, nineteen consecutive monthly installments of \$15,000 beginning on July 6, 2022, and \$2,000 on or before February 6, 2024. Currently, the payments are three months behind schedule. Due to the delay in payments, the Company has increased the allowance and reclassified the remaining balance to noncurrent. A member of our board of directors served as Chief Executive Officer of TTI until

August 12, 2020.

	September 30, 2022	December 31, 2021
Note receivable	\$ 295,000	\$ 295,000
Repayment of note	( )	-
	9,000	
Allowance for doubtful account	( )	( )
	140,000	100,000
Note receivable, net of allowance	146,000	195,000
Current portion, net of allowance	\$ -	\$ 82,000
Noncurrent portion, net of allowance	\$ 146,000	\$ 113,000

## 9. INVENTORY

	Three Months Ended	
	March 31,	
	2023	2022
Selling, general and administrative	\$ 55,453	\$ 92,426
Research, development and engineering	<u>15,922</u>	<u>17,271</u>
	<u><u>\$ 71,375</u></u>	<u><u>\$ 109,697</u></u>

## 6. INVENTORY

Inventory is stated at the lower of cost, determined on a first in, first out basis, or **net realizable value**. The Company periodically evaluates inventory items and establishes reserves if

	September 30, December 31,	
	2022	2021
Finished goods	\$ 4,792,023	\$ 4,798,203
Fabricated assemblies	100,644	142,457
Total inventory	<b>\$ 4,892,667</b>	<b>\$ 4,940,660</b>

## 10. RESALABLE SOFTWARE LICENSE RIGHTS

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 the total cost over the greater of actual unit cost of licenses sold or the straight line method over 10 years with the greater of the two approaches being the actual unit cost per license sold. A total of \$ 2,481 and \$ 2,579 was expensed during the three month periods ended September 30, 2022 and 2021, respectively. A total of \$ 7,465 and \$ 7,588

was expensed during the  
nine  
month periods ended  
September 30, 2022  
and  
2021,  
respectively. Since the license purchase, the cumulative amount of \$  
138,714  
has been expensed, with a carrying balance of \$  
41,286  
and \$  
48,752  
as of  
September 30, 2022  
and  
December 31, 2021,  
respectively.

The Company has classified the balance as non-current until a larger  
deployment occurs.

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Estimated minimum amortization expense based on straight-line amortization of  
the software license rights over the remaining useful life approximates the  
following:

Years ending December 31	
2022 (three months remaining)	\$ 10,613
2023	18,000
2024	12,673
Total	\$ 41,286

## 11. INVESTMENT IN DEBT SECURITY

The Company purchased a  
4,000,000  
Hong Kong dollar denominated Bond Certificate with a financial institution in  
Hong Kong in  
September 2020.  
The Bond Certificate translated to \$  
512,821  
U.S. Dollars, based on the exchange rate at the purchase date. The Company can  
invest up to  
20,000,000  
Hong Kong dollars under the terms of the certificate, bearing interest at  
5

% per annum. The investment was originally recorded at amortized cost and was scheduled to mature in June 2021. The Company has yet to receive the proceeds and accrued interest from the investment and as such, the debt security, due to the delay in the receipt of the proceeds, recorded a \$250,000 reserve.

## 12. COMMITMENTS

### Sales Incentive Agreement with TTI

On March 25, 2020, the Company entered into a sales incentive agreement with TTI. Terms of the agreement include the following:

1. The original term of the agreement was one year unless notice to terminate (as defined) was given. The agreement is automatically extended for additional one -year terms unless terminated.

2. For each \$5,000,000 in revenue (up to a maximum of \$20,000,000) TTI generates during the first year that generates net income of at least 20% (as defined), the Company will pay TTI a sales incentive fee of \$500,000 payable by the issuance of 62,500 shares of common stock.

3. In the event that TTI generates revenue in excess of \$20,000,000 during the first year, the Company will issue TTI a five -year warrant to purchase 12,500

shares of Common Stock at an exercise price of \$ 12.00 per share for each \$1,000,000 of revenue in excess of \$20,000,000 (up to a maximum of \$ 25,000,000 ).

In no

event will the Company be obligated to issue more than 250,000 shares of common stock or warrants to purchase more than 62,500 shares of common stock pursuant to this agreement.

There has been no revenue generated from this agreement.

	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Finished goods	\$ 4,758,089	\$ 4,764,643
Fabricated assemblies	69,726	69,726
Reserve on finished goods	<u>(400,000 )</u>	<u>(400,000 )</u>
<b>Total inventory</b>	<b>\$ 4,427,815</b>	<b>\$ 4,434,369</b>

## 7. COMMITMENTS AND CONTINGENCIES

### Distribution Agreement

Swivel Secure has a distribution agreement with Swivel Secure Limited (SSL). Terms of the agreement include the following:

1. The initial term of the agreement ends on January 31, 2027 and will be automatically extended for additional one -year terms thereafter unless either party provides written notice to the other party not later than 30 days before the end of the term that it does not wish to extend the term.

2. SSL appoints Swivel Secure as the exclusive distributor of SSL's products, to market, sell and distribute in the EMEA (Europe, Middle East and Africa), excluding the United Kingdom and Republic of Ireland, for a defined discount on the sale price.

3. Swivel Secure is expected to generate a certain minimum level of orders of SSL products each year during the term of the agreement. If the Company fails to meet such minimum level of orders in any year, the exclusive distribution rights will terminate and the Company will serve as a non-exclusive distributor of SSL Products.

1. The initial term of the agreement ends on January 31, 2027 and will be automatically extended for additional one-year terms thereafter unless either party provides written notice.
2. SSL appoints Swivel Secure as the exclusive distributor of SSL's products, to market, sell and distribute in the EMEA (Europe, Middle East and Africa), excluding the United Kingdom.
3. Swivel Secure is expected to generate a certain minimum level of orders of SSL products each year during the term of the agreement. If Swivel Secure fails to meet such minimum level of orders in any year, the exclusive distribution rights will terminate.

The Company expects the revenue targets to continue to be agreed to, met based on historical negotiations performance and increasing distribution by Swivel Secure.

#### Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of **September 30, 2022** March 31, 2023, there were no material legal proceedings.

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#### **13. LEASES**

##### **8. LEASES**

The Company leases office space in New Jersey, and Minnesota, New Hampshire, Madrid and Hong-Kong with lease termination dates in 2023 Minnesota with and 2024. The Company leases office space in New Jersey, and Minnesota, New Hampshire, Madrid and Hong-Kong with lease termination dates in 2023 Minnesota with and 2024. The Company leases office space in New Jersey, and Minnesota, New Hampshire, Madrid and Hong-Kong with lease termination date in 2022.

The leases include non-lease components with variable payments, formal agreement. The following tables present the components of lease expense and supplemental balance sheet information.

	<b>3 Months ended</b>		<b>3 Months ended</b>	
	<b>March 31, 2023</b>	<b>March 31, 2022</b>	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Lease cost				
Total lease cost	\$ 63,139	\$ 55,219	\$ 131,223	\$ 197,355
Balance sheet information				
Operating right-of-use assets			\$ 96,584	\$ 159,665
Operating lease liabilities, current portion			\$ 33,366	\$ 37,829
Operating lease liabilities, non-current portion			\$ 129,950	\$ 197,494
Total operating lease liabilities				
Weighted average remaining lease term (in years) – operating leases			0.66	0.96
Weighted average discount rate – operating leases			5.50 %	5.50 %
Supplemental cash flow information related to leases were as follows:				
Cash paid for amounts included in the measurement of operating lease liabilities for the three months ended March 31, 2023 and 2022:	\$ 69,821	\$ 65,108		
Maturities of operating lease liabilities were as follows as of March 31, 2023:				
2023 (9 months remaining)	\$ 95,911			

2024	38,808
Total future lease payments	\$ 134,719
Less: imputed interest	(4,769 )
<b>Total</b>	<b>\$ 129,950</b>

## 9. CONVERTIBLE NOTE PAYABLE

### Securities Purchase Agreement dated December 22, 2022

On December 22, 2022, the Company entered into and closed a securities purchase agreement (the "Purchase Agreement") which issued a \$2,200,000 principal amount senior secured Note. The principal amount of the Note is due six months following the date of issuance, subject to one six-month extension by the Company. Interest under the Note accrues at a rate of 12% per annum. In connection with the issuance of the Note, the Company issued to the investor 700,000 shares of Common Stock (the "Commitment Shares") valued at \$1.00 per share and a warrant to purchase 700,000 shares of Common Stock. Upon issuance, the Note is not convertible into common stock or any other securities of the Company. Only after a date that is six (6) months following the issuance date of the Note, the Note becomes convertible into common stock of the Company at a conversion rate of 1.5 shares of Common Stock for every \$1.00 of principal amount of the Note. The aggregate number of shares of common stock issuable in the forgoing transaction consisting of the Commitment Shares, the Warrant Shares, and the Conversion Shares are capped at 2,200,000 shares. The Company elected the fair value measurement option for the Note as the Note had embedded derivatives that required bifurcation, and nine months ended as of:

	3 Months ended September 30, 2022	3 Months ended September 30, 2021	9 Months ended September 30, 2021	9 Months ended September 30, 2021
Lease cost				
Operating lease cost	\$ 62,619	\$ 63,973	\$ 163,401	\$ 191,919
<b>Total lease cost</b>	<b>\$ 62,619</b>	<b>\$ 63,973</b>	<b>\$ 163,401</b>	<b>\$ 191,919</b>

Balance sheet	September 30,	December 31,
information	2022	2021
Operating	\$ 263,377	\$ 254,100
right-of-use assets		
Operating lease liabilities,	\$ 178,277	\$ 177,188
current portion		
Operating lease liabilities,	86,874	86,974
non-current portion		
<b>Total operating lease liabilities</b>	<b>\$ 265,151</b>	<b>\$ 264,162</b>
Weighted average remaining lease term (in years) operating leases	1.16	1.45
Weighted average discount rate operating leases	5.50 %	5.50 %

Cash paid for amounts included recorded the entire hybrid financing instrument at fair value under the guidance of ASC 825, Financial Instruments. As a result, the Note was recorded as a liability for operations. See Note 13.

As of March 31, 2023 and December 31, 2022, the nine months ended September 30, 2022 Note with principal balance of \$2,200,000, at fair value, was recorded at \$2,454,212 and 2021:

Maturities of operating lease liabilities were as follows as of September 30, 2022:

2022 (3 months remaining)	\$ 68,048
2023	166,160
2024	38,809
Total future lease payments	\$ 273,017
Less: imputed interest	( )
	7,866
Total	\$ 265,151

#### 14. EARNINGS (LOSS) PER SHARE - COMMON STOCK (EPS)

\$2,596,203, respectively.

#### 10. 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. 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.

Three Months	Three Months Ended	
	March 31,	
	2023	2022
Stock options	202,996	212,461
Warrants	4,872,025	4,689,387
Total	<u>5,075,021</u>	<u>4,901,848</u>

#### 11. STOCKHOLDERS' EQUITY

##### Issuances of Common Stock

During the three-month periods ended Nine Months ended

September 30,		September 30,	
2022	2021	2022	2021
Stock options	203,257	212,545	203,257
Warrants	4,672,025	4,689,387	4,672,025
Total	4,875,282	4,901,932	4,875,282

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#### 15. STOCKHOLDER EQUITY

1.

##### Preferred Stock

Within the limits and restrictions provided in the Companys 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 March 31, 2023, there have not been 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.

2.

## Common Stock

Holders of common stock have equal rights to receive dividends when, as and if declared by the Board of Directors, out of funds legally available therefor.

Holders of common stock have one vote for each share held of record and do not have cumulative voting rights.

Holders of common stock are entitled, upon liquidation of the Company, to share ratably in the net assets available for distribution, subject to the rights, if any, of holders of any preferred stock then outstanding. Shares of common stock are not redeemable and have no preemptive or similar rights. All outstanding shares of common stock are fully paid and nonassessable.

issued to anyone outside the Company, except as noted below under Issuances of Common Stock

### to Directors, Executive Officers & Consultants

On March 8, 2022, the Company issued 269,060 shares of common stock of which 89,687 shares were held back by the Company to secure certain indemnification obligations under

600,004

\$600,004, priced at \$

2.23

\$2.23, based on the contractual 20 day volume-weighted average price of the Companys Company's common stock immediately prior to the payment date as reported on the Nasd

On

June 18, 2021,

the stockholders approved the Employee Stock Purchase Plan. Under the terms of this plan,

789,000

shares of common stock are reserved for issuance to employees and officers of the Company at a purchase price equal to

85

% of the lower of the closing price of the common stock on the first

day or the last day of the offering period as reported on the Nasdaq Capital Market. Eligible employees are granted an option to purchase shares under the plan funded by payroll deductions. The Board

may suspend or terminate the plan at any time, otherwise the plan expires June 17, 2031. On December 31, 2021, 19,484 shares were issued to employees which resulted in a \$ 10,680 non-cash compensation expense for the Company. On June 30, 2022, 26,006 shares were issued to employees which resulted in a \$ 8,314 non-cash compensation expense for the Company.

#### Issuances of Restricted Stock

Restricted stock consists of shares of common stock that are subject to restrictions on transfer and risk of forfeiture until the fulfillment of specified conditions. The fair value of nonvested restricted stock is determined at the date of grant. The Company issued restricted common stock to non-employees during the nine-month three-month periods ended September 30, 2022, March 31, 2023 and 2021, 2022, the Company issued 278,000, 40,000 and 6,250, 274,250 shares of restricted common stock to non-employees during the nine-year three-year period from the date of grant and had a fair value on the date of issuance of \$ 597,500, \$31,200 and \$ 18,456, \$18,456, \$589,638, respectively.

During the nine-month periods ended September 30, 2022 and 2021, 1,250 and 1,250 shares of restricted common stock were forfeited, respectively.

Restricted stock compensation for the three-month periods three-month period ended September 30, 2022, March 31, 2023 and 2021, 2022 was \$ 65,836, \$59,056 and \$ 18,360, \$39,840, respectively.

Restricted stock compensation for the nine-month periods ended September 30, 2022 and 2021, was \$ 156,880 and \$ 52,081, respectively.

#### Issuances to Directors, Executive Officers & Consultants

During the three

and

nine

-month three-month periods ended September 30, 2022, March 31, 2023 and 2022 the Company issued 8,547 15,388 and 27,046 9,382 shares of common stock to its directors in lieu of 18,008 \$12,002 and \$ 58,034, \$20,020, respectively.

#### Employees' exercise options

During the three

and

nine

-month three-month periods ended September 30, 2021, the Company issued

1,888 March 31, 2023 and 5,727

shares of common stock to its directors in lieu of payment of board and

committee fees valued at \$

6,008

and \$

19,023

, respectively.

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#### Employees

##### exercise options

During the

three

and

nine

-month periods ended

September 30, 2022

and

2021, 2022, no employee stock options were exercised.

##### 3. Warrants

There were no warrants issued during the three

and

nine

-month three-month periods ended September 30, 2022 March 31, 2023 and 2021.

## 16. FAIR VALUES OF FINANCIAL INSTRUMENTS

2022.

### 12. FAIR VALUES OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts receivable, due from factor, accounts payable and accrued liabilities are carried at, or approximate, fair value because of their short-term nature. government Company's notes and loan payable approximates payables approximated fair value as the interest rate rates related to the financial instruments approximated market.

## 17. MAJOR CUSTOMERS AND ACCOUNTS RECEIVABLE

### 13. FAIR VALUE MEASUREMENT OF CONVERTIBLE NOTE PAYABLE

Fair value is defined as the price that would be received for sale of an asset or paid for transfer of a liability, in an orderly transaction between market participants at the measurement date.

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active or inputs which are observable either directly or indirectly for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The following tables summarize the Note measured at fair value at March 31, 2023 and December 31, 2022:

March 31, 2023	Total	Level 1	Level 2	Level 3
Convertible note at fair value	\$ 2,454,212	\$ -	\$ -	\$ 2,454,212
December 31, 2022	Total	Level 1	Level 2	Level 3
Convertible note at fair value	\$ 2,596,203	\$ -	\$ -	\$ 2,596,203

The Company estimated the fair value of the convertible note using a probability-weighted discounted cash flow model with the following assumptions and significant terms of the note:

1. Face amount - \$2,200,000
2. Nominal interest rate - 10% - 12%
3. Default interest rate - 18%
4. Increase in principal upon a default - 30%
5. Present value discount rate - 15.04% at March 31, 2023 and 15.18% at December 31, 2022
6. Likelihood of default - estimated to be 50% at the extended maturity date

The following table shows the changes in fair value measurements for the convertible note using significant unobservable inputs (Level 3) during the three months ended March 31, 2023:

Beginning balance	\$ 2,596,203
Purchases and issuances	-
Change in fair value	(141,991 )
Ending balance	\$ 2,454,212

### 14. MAJOR CUSTOMERS AND ACCOUNTS RECEIVABLE

For the three month periods ended September 30, 2022, March 31, 2023 and 2021,

one

customer 2022, two customers accounted for 16

% 48% and one customer accounted for 28

% 27% of revenue, revenues, respectively. For the

nine

month periods ended

September 30, 2022,

and

2021,

one

customer Two customers accounted for 11

% and

one

customer accounted for

16

% of revenue, respectively.

One

customer accounted for

19

% 45% of current accounts receivable at September 30, 2022 as of March 31, 2023. At December 31, 2021 December 31, 2022, three one customers accounted for 87% 35% of current accounts receivable.

## 18. INCOME TAXES

### 15. INCOME TAXES

The Company recorded no income tax expense for the three and nine months ended September 30, 2022 March 31, 2023 and 2021 2022 because the estimated annual effective tax rate was zero. In determining the estimated annual effective income tax As of September 30, 2022, March 31, 2023 and December 31, 2021 December 31, 2022, the Company provided a full valuation allowance against its net deferred tax assets since the Co

## 19. SUBSEQUENT EVENTS

### 16. SUBSEQUENT EVENTS

On November 10, 2022 May 5, 2023, the Company issued 12,590 2,858 shares of common stock to its directors in payment of board meeting and committee meeting fees. All fees.

On May 5, 2023, 14,375 shares of restricted common stock were cancelled as a result of employees leaving the Company before the vesting period was completed.

On May 11, 2023, the Company issued 17,392 shares were of common stock to its directors in payment of board fees.

On May 11, 2023, the Company issued at \$

1.43

the closing price on

November 10, 2022,

as reported on the Nasdaq Capital Market.

The Company has reviewed subsequent events through the date 2,900 shares of this filing.

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common stock to its directors in payment of board committee fees.

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future financial position, business strategy, believe, should, estimate, will, may, future, plan, intend "anticipate," "believe," "should," "estimate," "will," "may," "future," "plan," "intend" and expect "expect" and similar expressions; duration and severity of the current coronavirus COVID-19 pandemic and its effect on our business operations, sales cycles, personnel, and the geographic markets in which we operate; the duration and extent of continued hostilities in Ukraine and its impact on our European customers; delays in the development of products, statements these forward-looking statements, which speak only as of the date made, general or specific factors that may affect us. It should be recognized that other factors these forward-looking statements, statement, whether as a result of new information, future events or otherwise.

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

## OPERATIONS.

This Management's Discussion and Analysis of Financial Condition and Results of Operations is provided as a supplement to and should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes thereto. The following discussion and analysis should be read in conjunction with the audited financial statements and the accompanying notes thereto.

Overview

BIO-key International, Inc. (the "Company", "BIO-key", "we," "Company," "BIO-key," "we," or "us") is a leading identity and access management (IAM) platform provider enabling secure v

Built to leverage BIO-keys world-class biometric core platform among 16 other

strong authentication factors,

BIO-key PortalGuard and hosted PortalGuard IDaaS are platforms that enable our customers to securely and easily assure that only the right people can access the right systems. P

With our recent acquisition of Swivel Secure, we have added AuthControl  
Sentry, AuthControl Enterprise, and AuthControl MSP product lines to our  
solutions set. The software includes a patented one-time-code extraction  
technology, helping enterprises manage the increasing data security risks  
posed by cloud services and bring your own device policies.

Millions of people

Our customers use BIO-key every day to securely access a variety of cloud, mobile and web applications, on-premise and cloud-based servers from all of their devices. Employees, cor  
Large-scale customer and civil ID customers use our scalable biometric management platform and FBI-certified scanner hardware to manage enrollment, de-duplication and authent

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PortalGuard and hosted PortalGuard IDaaS are platforms that enable our customers to securely and easily assure that only the right people can access the right systems by utilizing o  
PortalGuard and IBB deliver unique value to enterprises who find that mainstream MFA solutions do not adequately address their workforce use cases. PortalGuard operates as a si  
Security-conscious software developers leverage our platform APIs and federation interfaces to securely and efficiently embed biometric and MFA identity capabilities into their softw  
In 2022, we expanded our product offerings and customer base when we acquired Swivel Secure, a Madrid, Spain based provider of IAM solutions. Swivel Secure is the exclusive distr  
We operate a SaaS business model with customers subscribing to term use of our software for annual recurring revenue. We sell our products directly through our field and inside sa

PortalGuard is used by our customers to manage and secure IT access by their  
employees, contractors and partners, which we call workforce identity.  
PortalGuard is also used to manage and secure the identities of an  
organizations customers through integration of APIs we have developed and  
industry-standard federation standards, which we call customer identity. We  
invoice customers in advance in annual and multi-year prepaid installments for  
subscriptions to our platforms.

## Strategic Outlook

Historically, our largest market has been access control within highly  
regulated industries such as government, financial services, and healthcare. In  
2019 we became the go-to biometric authentication provider for board of  
election offices which continue to deploy our hardware and software to secure  
internal access to the voter registration database. Upon acquiring PortalGuard  
in 2020, we now serve the higher education vertical. We have and expect to  
continue to extend this footprint in 2022 and beyond.

In 2020, we announced that we had secured two contracts with our partner  
Technology Transfer Institute. The contracts are for large-scale identification  
projects in Africa and Nigeria. Under the first contract, we will provide  
biometric authentication to support the infrastructure of a new e-commerce  
project developed with the expectation to generate more than one million jobs  
in Nigeria. The second contract provides for BIO-key hardware and software to  
be used by a leading African telecommunications company to secure internal  
access to customer data. Currently Africa and the surrounding regions are  
receiving government funding to expand the use of biometric authentication

solutions to help establish trustworthy government programs and reduce fraud. We received our first purchase order related to these contracts in the fourth quarter of 2020 which we shipped in the first quarter of 2021. The COVID-19 pandemic has and may continue to delay the rollout of these programs.

We plan to have a more significant role in the IAM market which continues to expand. We ~~plan~~ plan to offer customers a suite of authentication options that complement our biometric solutions. We expect to grow our business within government services and ~~highly-regulated~~ and highly-regulated industries in which we have historically had a strong presence including financial services and healthcare. Our primary sales strategies are focused on (i) increased marketing efforts into the IAM market, (ii) dedicated pursuit of large-scale identification projects across the globe and (iii) growth in the biometric market. A second component of our growth strategy is to pursue strategic acquisitions of select businesses and assets in the IAM space. In furtherance of this strategy, we are active in the in

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#### Recent Developments.

On March 8, 2022, we expanded our sales and support operation into Europe, Africa and the Middle East (EMEA) by acquiring Swivel Secure Europe, SA ("Swivel Secure") for up to \$2.25 million. Swivel Secure is a Madrid, Spain based provider of IAM solutions serving over 300 customers through a network of channel partners throughout EMEA. Swivel Secure is the exclusive distributor of AuthControl Sentry, AuthControl Enterprise, and AuthControl MSP product line in EMEA, excluding the United Kingdom and Ireland. Swivel Secure maintains a direct sales force with offices in Madrid, Spain and Lisbon, Portugal. There can be no assurance that we will be able to manage Swivel Secure's business or successfully integrate the business with our historic operations without substantial costs, delays or other operational or financial challenges.

Given the uncertainty of the duration and severity of the current COVID-19 pandemic and the conflict between Ukraine and Russia and their effects on our business operations, sales cycles, personnel, and the geographic markets in which we operate, and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature, the related financial impact cannot be reasonably estimated at this time.

The complications caused by COVID-19 forced organizations to quickly adapt to a work from home remote business model. This increases the risk of unauthorized users, phishing attacks, and hackers who are eager to take advantage of the challenges of securing remote workers. We believe that biometrics should continue to play a key role in remote user authentication.

#### Critical Accounting Policies and Estimates

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, 2021. 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 accounting pronouncements, see Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

#### RESULTS OF OPERATIONS

**THREE MONTHS ENDED SEPTEMBER 30, 2022 MARCH 31, 2023 AS COMPARED TO SEPTEMBER 30, 2021**

**MARCH 31, 2022**

## Consolidated Results of Operations- Percent Trend

<b>Three Months Ended September 30,</b>		
	<b>2022</b>	<b>2021</b>
<b>Revenues</b>		
Services	27 %	25 %
License fees	67 %	67 %
Hardware	6 %	8 %
<b>Total Revenues</b>	<b>100 %</b>	<b>100 %</b>
<b>Costs and other expenses</b>		
Cost of services	12 %	14 %
Cost of license fees	13 %	4 %
Cost of hardware	4 %	5 %
<b>Total Cost of Goods Sold</b>	<b>29 %</b>	<b>23 %</b>
<b>Gross profit</b>	<b>71 %</b>	<b>77 %</b>
<b>Operating expenses</b>		
Selling, general and administrative	183 %	107 %
Research, development and engineering	60 %	47 %
<b>Total Operating Expenses</b>	<b>243 %</b>	<b>154 %</b>
<b>Operating loss</b>	<b>-172 %</b>	<b>-77 %</b>
<b>Other expense</b>	<b>-3 %</b>	<b>-2 %</b>
<b>Net loss</b>	<b>-175 %</b>	<b>-79 %</b>

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	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Revenues		
Services	17 %	20 %
License fees	81 %	75 %
Hardware	2 %	5 %
Total Revenues	100 %	100 %
Costs and other expenses		
Cost of services	5 %	10 %
Cost of license fees	20 %	4 %
Cost of hardware	1 %	3 %
Total Cost of Goods Sold	26 %	17 %
Gross profit	74 %	83 %
Operating expenses		
Selling, general and administrative	63 %	93 %
Research, development and engineering	22 %	41 %
Total Operating Expenses	85 %	134 %
Operating loss	-11 %	-51 %

Other income (expenses)	2 %	- %
Net loss	-9 %	-51 %

**Revenues and cost of goods sold**

<b>Three months ended</b>		<b>September 30,</b>		<b>March 31,</b>			
<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>	<b>2023</b>	<b>2022</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Revenues</b>							
<b>Service</b>							
	\$ 532,522	\$ 395,804	\$ 136,718		35 %		
<b>License</b>							
	2,478,556	1,460,183	1,018,373		70 %		
<b>Hardware</b>							
	72,689	85,184	(12,495)		-15 %		
<b>Total Revenue</b>	<b>\$ 3,083,767</b>	<b>\$ 1,941,171</b>	<b>\$ 1,142,596</b>		<b>59 %</b>		
<b>Cost of goods sold</b>							
<b>Service</b>							
	\$ 154,801	\$ 210,913	\$ (56,112)		-27 %		
<b>License</b>							
	620,881	73,230	547,651		748 %		
<b>Hardware</b>							
	44,592	53,298	(8,706)		-16 %		
<b>Total Cost of goods sold</b>	<b>\$ 820,274</b>	<b>\$ 337,441</b>	<b>\$ 482,833</b>		<b>143 %</b>		
<b>Revenues</b>							
<b>Service</b>	<b>\$ 371,956</b>	<b>\$ 318,500</b>	<b>\$ 53,456</b>	<b>17 %</b>			
<b>License</b>	<b>918,260</b>	<b>870,459</b>	<b>47,801</b>	<b>5 %</b>			
<b>Hardware</b>	<b>83,333</b>	<b>109,870</b>	<b>(26,537)</b>	<b>-24 %</b>			
<b>Total Revenue</b>	<b>\$ 1,373,549</b>	<b>\$ 1,298,829</b>	<b>\$ 74,720</b>	<b>6 %</b>			

<b>Three months ended</b>		<b>September 30,</b>		<b>March 31,</b>			
<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>	<b>2023</b>	<b>2022</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Cost of Goods Sold</b>							
<b>Service</b>							
	\$ 162,632	\$ 176,976	\$ (14,344)	-8 %			
<b>License</b>							
	173,310	45,986	127,324	277 %			
<b>Hardware</b>							
	57,841	71,712	(13,871)	-19 %			
<b>Total COGS</b>	<b>\$ 393,783</b>	<b>\$ 294,674</b>	<b>\$ 99,109</b>	<b>34 %</b>			

**Revenues**

For the three months ended September 30, March 31, 2023 and 2022, and 2021, service revenues included approximately \$304,000, \$292,000 and \$245,000, \$317,000 respectively, of which was first quarter of 2023 as compared to the first quarter of 2022 due largely to the additional service recognition of annual SaaS revenue from Swivel Secure customers versus maintenance renewal contracts. Non-recurring custom services decreased 8% related increased due to reduced upgrades from on-premise to cloud deployments for the quarter, services provided by Swivel Secure. As our customer base continues to grow, we expect the service revenue to increase.

For the three months ended September 30, 2022 March 31, 2023, license revenue increased \$47,801 or 5% 70% to \$918,260 \$2,478,556 from \$870,459 in \$1,460,183 during the corresponding period, which generated 63% of its license revenue from a customer in Central America, one large SaaS renewal, and cloud migrations.

Hardware sales decreased \$12,495 during the three months ended March 31, 2023 to \$72,689 from \$85,184 during the three months ended March 31, 2022. The decrease was attributed to a decrease in sales of the company's hardware products.

#### **Costs of goods sold**

For the three months ended September 30, 2022, hardware sales decreased by 19% to \$57,841 from \$71,712 in the corresponding period in 2021. The decrease was due largely to reduced new hardware deployments, as compared to 2021.

#### **Costs of goods sold**

For the three months ended September 30, 2022 March 31, 2023, cost of service decreased approximately \$14,000 \$56,000 or 8% 27% to \$162,632 due to the decreased customization costs to support PortalGuard deployments, compared to \$154,801 from \$210,913 for the three months ended September 30, 2021 March 31, 2022 due to reduced personnel costs associated with software the costs related to the license for the Swivel Secure licenses product line. For the three months ended September 30, 2022 March 31, 2023, hardware costs decreased to \$57,841 \$44,592 from \$71,712 \$53,298 during the three months ended September 30, 2021 March 31, 2022, due to corresponding to decreased the decrease in hardware revenue.

#### **Selling, general and administrative**

<b>Three months ended</b>				
<b>September 30,</b>				
<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>	
<b>Selling, general and administrative</b>	<b>\$ 2,510,706</b>	<b>\$ 1,385,534</b>	<b>\$ 1,125,172</b>	<b>81 %</b>

	<b>Three months ended</b>			
	<b>March 31,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2023</b>	<b>2022</b>		
Selling, general and administrative	\$ 1,931,732	\$ 1,797,998	\$ 133,734	7 %
Selling, general and administrative expenses for the three months ended September 30, 2022, March 31, 2023 increased 81% from 5% to \$1,931,732 as compared to \$1,797,998 for the increase included sales costs related to 2022. This increase was attributable largely to a full quarter of Swivel Secure operations, increased tradeshow sales expenses share based compensation, travel, and wages a reserve for doubtful accounts of \$50,000. These increases were offset, in part, by decreases in marketing personnel for new employees.				

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expenses, and non-cash compensation.

#### **Research, development and engineering**

<b>Three months ended</b>				
<b>September 30,</b>				
<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>	
<b>Research, development, and engineering</b>	<b>\$ 829,506</b>	<b>\$ 612,597</b>	<b>\$ 216,909</b>	<b>35 %</b>

	<b>Three months ended</b>			
	<b>March 31,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2023</b>	<b>2022</b>		
Research, development and engineering	\$ 690,159	\$ 805,266	\$ (115,107)	-14 %

For the three months ended **September 30, 2022** **March 31, 2023**, research, development and engineering costs increased 35% expenses decreased 14% to **\$829,506** **\$690,159** as compared to **September 30, 2021** **March 31, 2022**. Other income (expense) increased 553,931% to **\$69,945** from **\$131**.

**Other income (expense)**

<b>Three months ended</b>		<b>September 30,</b>			
<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>		
Other income (expenses)					
Interest income	\$ 4	\$ 131	\$ (127)	-97 %	
Loss on foreign currency transactions	(15,000 )	-	(15,000 )	-100 %	
Change in fair value of convertible note	141,991	-	141,991	100 %	
Interest expense	(56,919 )	-	(56,919 )	-100 %	
Other income (expense)	<b>\$ 70,076</b>	<b>\$ 131</b>	<b>\$ 69,945</b>	<b>553,931 %</b>	
Other income (expense)					
Interest income	\$ 8	\$ 329	\$ (321)	-98 %	
Investment-debt security reserve	(40,000 )	(30,000 )	(10,000 )	-33 %	
Interest expense	(2,071 )	-	(2,071 )	100 %	
Other expense	<b>\$ (42,063 )</b>	<b>\$ (29,671 )</b>	<b>\$ (12,392 )</b>	<b>42 %</b>	

The amounts for other income (expense) for the three month period ended **September 30, 2022** **March 31, 2023** consisted of interest income of \$8, a reserve of \$54,999 on the investment of \$40,000, and interest expense of \$2,071 on the government loan through the BBVA bank. The amounts for the three months ended September 30, 2021, consisted of interest income of \$329, a reserve on the investment in the debt security due to a delay in receiving the funds in the amount of \$30,000.

**NINE MONTHS ENDED SEPTEMBER 30, 2022 AS COMPARED TO SEPTEMBER 30, 2021**

**Consolidated Results of Operations**

**Percent Trend**

<b>Nine Months Ended September 30,</b>		
<b>2022</b>	<b>2021</b>	
Revenues		
Services	23 %	24 %
License fees	67 %	48 %
Hardware	10 %	28 %
Total Revenues	100 %	100 %
Costs and other expenses		
Cost of services	11 %	12 %
Cost of license fees	11 %	3 %
Cost of hardware	6 %	16 %
Total Cost of Goods Sold	28 %	31 %
Gross profit	72 %	69 %

Operating expenses		
Selling, general and administrative	120 %	102 %
Research, development and engineering	46 %	37 %
Total Operating Expenses	166 %	139 %
Operating loss	-94 %	-70 %
Other expense	-3 %	-2 %
Net loss	-97 %	-72 %

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#### Revenues and cost of goods sold

Nine months ended				
September 30,				
2022	2021	\$ Change	% Change	
Revenues				
Service	\$ 1,202,866	\$ 985,163	\$ 217,703	22 %
License	3,540,592	2,011,610	1,528,981	76 %
Hardware	518,377	1,182,784	(664,407)	-56 %
Total Revenue	\$ 5,261,835	\$ 4,179,557	\$ 1,082,278	26 %
Cost of Goods Sold				
Service	554,222	511,360	42,862	8 %
License	604,677	133,328	471,349	354 %
Hardware	296,278	656,190	(359,912)	-55 %
Total COGS	\$ 1,455,177	\$ 1,300,878	\$ 154,299	12 %

#### Revenues

For the nine months ended September 30, 2022, and 2021, service revenues included approximately \$944,000 and \$818,000, respectively, of recurring maintenance and support revenue, and approximately \$259,000 and \$167,000, respectively, of non-recurring custom services revenue. Recurring service revenue increased 15% in the first nine months of 2022 due largely to the additional service revenue from PistolStar customers. Non-recurring custom services increased 55% in the first nine months of 2022 due largely to the additional service revenue from Swivel Secure customers. As our customer base continues to grow, we expect the service revenue to increase in future periods.

For the nine months ended September 30, 2022, license revenue increased 76% to \$3,540,592 from \$2,011,610 during the corresponding period in 2021. We increased both the variation and number of customers, including additional revenue from the Swivel Secure customers, and PistolStar cloud migrations primarily in the higher education market.

Hardware sales decreased \$664,407 during the nine months ended September 30, 2022, to \$518,377 from \$1,182,784 during the nine months ended September 30, 2021. The decrease was attributable largely to Q1 2021 sales in Nigeria to an

international government agency in the first quarter of 2021, which did not recur in 2022, due to delayed roll out of the government project.

#### Costs of goods sold

For the nine months ended September 30, 2022, cost of service increased \$42,862 or 8% to \$554,222 due to the increased costs to support the PortalGuard and Swivel Secure deployments, compared to the nine months ended September 30, 2021. For the nine months ended September 30, 2022, license fees increased to \$604,677 from \$133,328 during the nine months ended September 30, 2021, due largely to an increase in revenue and third-party software for the Swivel Secure licenses. For the nine months ended September 30, 2022, hardware costs decreased to \$296,278 from \$656,190 during the nine months ended September 30, 2021, corresponding to decreased hardware revenue.

#### Selling, general and administrative

Nine months ended				
September 30,				
2022	2021	\$ Change	% Change	
Selling, general and administrative	\$ 6,315,277	\$ 4,276,016	\$ 2,039,261	48 %

Selling, general and administrative expenses for the nine months ended September 30, 2022, increased 48% from the corresponding period in 2021. The increases included sales expenses related to Swivel Secure operations, expenses for trade show expenses, share based compensation, legal and professional fees and other fees and expenses incurred in connection with the acquisition of Swivel Secure and increased sales and marketing personnel costs.

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#### Research, development and engineering

Nine months ended				
September 30,				
2022	2021	\$ Change	% Change	
Research, development and engineering	\$ 2,418,855	\$ 1,545,200	\$ 873,655	57 %

For the nine months ended September 30, 2022, research, development and engineering costs increased 57% from \$1,545,200 to \$2,418,855. Included in the increase were personnel costs associated with retaining outside services related to the development of our MobileAuth application, and wages and benefits for new employees.

#### Other income (expense)

Nine months ended				
September 30,				
2022	2021	\$ Change	% Change	
Interest income (expense)				
Interest income	\$ 216	\$ 3,776	\$ (3,560)	-94 %
Loss on foreign currency transactions	- (50,000)	50,000		-100 %
Investment-debt security reserve	(190,000)	(30,000)	(160,000)	533 %
Non-cash interest expense	- (18,000)	18,000		100
Interest expense	(3,611)	- (3,611)		-100 %
Other expense	\$ (193,395)	\$ (94,224)	\$ (99,171)	105 %

The amounts for other income (expense) for the nine month period ended September 30, 2022 consisted of interest income of \$216, a reserve on the investment in the debt security due to a delay in receiving the funds of \$190,000, and interest expense on secured note payable plus the government loan through the BBVA bank for \$3,661, net of interest income, change in fair value of \$141,991 on the cash on the investment in the debt security due to a delay in receiving the funds, ended March 31, 2022 consisted of interest expense from the amortization of debt discounts, and a foreign currency adjustment to an accounts receivable invoice, offset by interest income.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

#### **Operating activities overview**

Net cash used by operations during the nine months ended September 30, 2022 March 31, 2023 was \$4.3 million. \$1,928,811. Items of note included:

Net positive cash flows related to adjustments for non-cash expenses of approximately \$985,000.

Net positive cash flows related to inventory, accounts payable and deferred revenue of approximately \$331,000.

Negative cash flows related to changes in accounts receivable, prepayments and accrued liabilities of approximately \$392,000, due to working capital management.

### Investing

- Net positive cash flows related to accounts payable, prepayments, inventory and deferred revenue of approximately \$276,000.
- Net positive cash flows related to adjustments for non-cash expenses of approximately \$128,000

□ Negative cash flows related to changes in accounts receivable, amount due from factor, and accrued liabilities of approximately \$2.3 million, due to working capital management.

#### **Financing activities overview**

Net cash used for financing during the three months ended March 31, 2023 was \$34,289 for repayment of the government loan through the BBVA bank. We did not use or generate any cash for investing activities during the nine months ended September 30, 2022 was \$527,000. This consisted of approximately \$31,000 of capital expenditures, \$9,000 of receipts from notes receivable, \$544,000 (net of cash acquired and currency adjustment) to fund the cash portion of the purchase price for Swivel Secure, and \$39,000 for sales of common stock under the employee stock purchase plan.

March 31, 2023.

### 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

The following sets forth our primary sources of capital during the previous two years:

In December 2022, we entered into and closed a securities purchase agreement (the "Purchase Agreement") with AJB Capital Investments, LLC under which we issued a \$2,200,000 prior to the closing of the Purchase Agreement.

In March 2022, in connection with the acquisition of Swivel Secure, we assumed a €500,000 government loan that was issued through BBVA Bank during the COVID-19 pandemic.

## Under

We entered into an accounts receivable factoring arrangement with a financial institution (the "Factor") which has been extended to October 31, 2023 and may be discontinued at the make an earn-out payment \$150,000 per quarter of \$500,000 in the event that Swivel Secure generates \$3,000,000 of revenue and \$1,000,000 of operating profit during an earn-out period commencing on the closing date and ending on January 31, 2023. The earn-out payment, if any, will be paid at our option, in cash or shares of common stock priced at the 20 day volume-weighted average price certain of our common stock immediately prior to 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 to the Market.

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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 1

### **Liquidity outlook**

At September 30, 2022 March 31, 2023, our total cash and cash equivalents were approximately

\$2,775,000, \$722,335, as compared to approximately \$7,754,000, \$2,635,522 at December 31, 2021, December 31, 2022. At September 30, 2022 March 31, 2023, we had working capital of

\$3,511,000.

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. If we are unable to generate sufficient revenue to fund current operations and execute our business plan, we may need to obtain additional third-party financing. As our secured not report, existing inventory, we do not expect that we will need to obtain additional financing during the next twelve months.

months to be used in part to repay our outstanding secured note.

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

**ITEM 4.**

## CONTROLS AND PROCEDURES

**ITEM 4. CONTROLS AND PROCEDURES.**

### *Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer (**CEO**) ("CEO") and Chief Financial Officer (**CFO**) ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report in accordance with Rule 13a-15 under the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance regarding the reliability of our financial reporting and the controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or furnish under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or furnish under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms.

not effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act was recorded, processed, summarized and reported, in a manner that ensures that the information can be reasonably expected to be accurately, fairly, clearly, and completely presented, communicated or explained, in accordance with the applicable rules and regulations of the SEC.

*No change*

As reported in our 10-K for the year ended December 31, 2022, in connection with the audit of our financial statements as of and for the year ended December 31, 2022, our manager We are currently in the process of engaging a consultant to review transactions for appropriate technical accounting, reconcile accounts, review significant transactions and assist wit

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## ITEM 6. EXHIBITS

Exhibit	Description
No.	
31.1	

## PARTII — OTHER INFORMATION

### ITEM 6. Exhibits

The following exhibits are being filed or furnished with this quarterly report on Form 10-Q.

Exhibit	Description
No.	
31.1*	<a href="#">Certificate of CEO of Registrant required under Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended</a>
31.2*	<a href="#">Certificate of CFO of Registrant required under Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended</a>
32.1*	<a href="#">Certificate of CEO of Registrant required under 18 U.S.C. Section 1350</a>
32.2*	<a href="#">Certificate of CFO of Registrant required under 18 U.S.C. Section 1350</a>
101.INS	Inline XBRL Instance
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation
101.DEF	Inline XBRL Taxonomy Extension Definition
101.LAB	Inline XBRL Taxonomy Extension Labels
101.PRE	Inline XBRL Taxonomy Extension Presentation
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith.

+ Certain portions of CEO of this exhibit (indicated by "[\*\*]") have been omitted as the Registrant required under Rule 13a-15(f) under has determined that such portions are (a) not

31.2 Certificate of CFO of Registrant required under Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended

32.1 Certificate of CEO of Registrant required under 18 U.S.C. Section 1350

32.2 Certificate of CFO of Registrant required under 18 U.S.C. Section 1350

101.INS Inline XBRL Instance

101.SCH Inline XBRL Taxonomy Extension Schema

101.CAL Inline XBRL Taxonomy Extension Calculation

101.DEF Inline XBRL Taxonomy Extension Definition

101.LAB Inline XBRL Taxonomy Extension Labels

101.PRE Inline XBRL Taxonomy Extension Presentation

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BIO-Key International,

Inc.

Dated: November 14, 2022 /s/ Michael W. DePasquale

Michael W. DePasquale

Chief Executive Officer

(Principal Executive Officer)

Dated: November 14, 2022 /s/ Cecilia C. Welch

Cecilia C. Welch

Chief Financial Officer

(Principal Financial Officer)

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Dated: June 9, 2023

Dated: June 9, 2023

**BIO-Key International, Inc.**

/s/ MICHAEL W. DEPASQUALE

Michael W. DePasquale

Chief Executive Officer

/s/ CECILIA C. WELCH

Cecilia C. Welch

Chief Financial Officer

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Exhibit 31.1

## CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

Dated: November 14, 2022

/s/ Michael W. DePasquale

Michael W. DePasquale

Chief Executive Officer

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, in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company;
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;
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))
  - (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 required to be disclosed in the reports we file under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Exchange Act rules and regulations;
  - (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 that the information required to be disclosed in the reports we file under the Exchange Act is accumulated and communicated to me, or to other members of our management, as appropriate, to allow timely decisions regarding required disclosure;
  - (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 of the Company as of the end of the period covered by this report;
  - (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 quarter) 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, all significant deficiencies 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;

(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: June 9, 2023

/s/ Michael W. DePasquale

CERTIFICATION

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

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

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

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

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

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

(c) Evaluated the effectiveness of the Company's disclosure controls and

procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Dated: November 14, 2022

/s/ Cecilia C. Welch

Cecilia C. Welch

Chief Financial Officer

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 in which the statements were made;

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;

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)) that:

- (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 required to be disclosed by the Company in the reports that we file or furnish under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms; and
- (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 that the information required to be disclosed by the Company in the reports that we file or furnish under the Securities Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure;
- (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 of the Company as of the end of the period covered by this report;
- (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 quarter) 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 audited financial statements:

- (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 data;
- (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: June 9, 2023

/s/ Cecilia C. Welch

Cecilia C. Welch

Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of BIO-key International, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2022 March 31, 2023, as of the date hereof, I, Michael W. DePasquale, Chief Executive Officer of the Company, certify, under penalty of perjury, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

BIO-KEY INTERNATIONAL, INC.

By: /s/ Michael W. DePasquale

Michael W. DePasquale

Chief Executive Officer

Dated: November 14, 2022



Chief Financial Officer

Dated: June 9, 2023

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