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BIO KEY INTERNATIONAL INC

FORM 10-Q
(Quarterly Report)

Filed 11/20/23 for the Period Ending 09/30/23

Address	101 CRAWFORDS CORNER RD SUITE 4116 HOLMDEL, NJ, 07733
Telephone	7323591100
CIK	0001019034
Symbol	BKYI
SIC Code	7372 - Services-Prepackaged Software
Industry	Electronic Equipment & Parts
Sector	Technology
Fiscal Year	12/31

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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2023
or

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

For the Transition Period from to

Commission file number 1-13463

BIO-KEY INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

101 CRAWFORDS CORNER ROAD, SUITE 4116, HOLMDEL, NJ 07733

(Address of Principal Executive Offices)

(732) 359-1100
(Registrant's telephone number, including area code)

Securities registered pursuance 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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller Reporting Company ☒
	Emerging growth company ☐

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

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

Number of shares of Common Stock, $.0001 par value per share, outstanding as of November 17, 2023, is 13,731,669

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I -- FINANCIAL INFORMATION

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

	September 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
Cash and cash equivalents	$ 307,086	$ 2,635,522
Accounts receivable, net	2,799,218	1,522,784
Due from factor	62,572	49,500
Inventory	4,289,213	4,434,369
Prepaid expenses and other	362,250	342,706
Total current assets	7,820,339	8,984,881
Equipment and leasehold improvements, net	69,202	107,413
Capitalized contract costs, net	264,348	283,069
Deposits and other assets	-	8,712
Deferred offering costs	25,434	-
Operating lease right-of-use assets	50,465	197,355
Intangible assets, net	1,519,592	1,762,825
Total non-current assets	1,929,041	2,359,374
TOTAL ASSETS	$ 9,749,380	$ 11,344,255
LIABILITIES		
Accounts payable	$ 1,656,107	$ 1,108,279
Accrued liabilities	1,080,032	1,009,123
Income taxes payable	162,811	-
Convertible note payable	2,331,497	2,596,203
Government loan – BBVA Bank, current portion	135,308	120,000
Deferred revenue, current	610,451	462,418
Operating lease liabilities, current portion	51,746	159,665
Total current liabilities	6,027,952	5,455,688
Deferred revenue, long term	32,354	52,134
Deferred tax liability	152,998	170,281
Government loan – BBVA Bank – net of current portion	221,625	326,767
Operating lease liabilities, net of current portion	-	37,829
Total non-current liabilities	406,977	587,011
TOTAL LIABILITIES	6,434,929	6,042,699
Commitments and Contingencies		
STOCKHOLDERS' EQUITY		
Common stock — authorized, 170,000,000 shares; issued and outstanding; 9,501,669 and 9,190,504 of $.0001 par value at September 30, 2023 and December 31, 2022, respectively	950	919
Additional paid-in capital	122,263,106	122,028,612
Accumulated other comprehensive loss	(115,208)	(242,602)
Accumulated deficit	(118,834,397)	(116,485,373)
TOTAL STOCKHOLDERS' EQUITY	3,314,451	5,301,556
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,749,380	$ 11,344,255

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Revenues				
Services	$ 587,893	$ 371,956	$ 1,740,880	$ 1,202,866
License fees	950,015	918,260	4,664,341	3,540,592
Hardware	279,200	83,333	424,583	518,377
Total revenues	1,817,108	1,373,549	6,829,804	5,261,835
Costs and other expenses				
Cost of services	125,039	162,632	639,996	554,222
Cost of license fees	203,891	173,310	1,022,919	604,677
Cost of hardware	147,674	57,841	240,074	296,278
Total costs and other expenses	476,604	393,783	1,902,989	1,455,177
Gross profit	1,340,504	979,766	4,926,815	3,806,658
Operating Expenses				
Selling, general and administrative	1,547,376	2,510,706	5,422,272	6,315,277
Research, development and engineering	558,686	829,506	1,807,026	2,418,855
Total Operating Expenses	2,106,062	3,340,212	7,229,298	8,734,132
Operating loss	(765,558)	(2,360,446)	(2,302,483)	(4,927,474)
Other income (expense)				
Interest income	5,917	8	5,944	216
Loss on foreign currency transactions	-	-	(15,000)	-
Investment-debt security reserve	-	(40,000)	-	(190,000)
Change in fair value of convertible note	167,283	-	264,706	-
Interest expense	(45,655)	(2,071)	(159,379)	(3,611)
Total other income (expense), net	127,545	(42,063)	96,271	(193,395)
Loss before provision for income tax	(638,013)	(2,402,509)	(2,206,212)	(5,120,869)
Provision for (income tax) tax benefit	189	-	(142,811)	-
Net loss	$ (637,824)	$ (2,402,509)	$ (2,349,023)	$ (5,120,869)
Comprehensive loss:				
Net loss	$ (637,824)	$ (2,402,509)	$ (2,349,023)	$ (5,120,869)
Other comprehensive income (loss) – Foreign currency translation adjustment	35,364	(119,269)	127,394	(229,350)
Comprehensive loss	$ (602,460)	$ (2,521,778)	$ (2,221,629)	$ (5,350,219)
Basic and Diluted Loss per Common Share	$ (0.07)	$ (0.29)	$ (0.26)	$ (0.64)
Weighted Average Common Shares Outstanding:				
Basic and diluted	9,081,873	8,148,848	9,042,319	8,054,207

See accompanying notes to the condensed consolidated financial statements.

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated Deficit	Total
		Amount				
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**
Issuance of common stock for directors' fees	23,150	2	16,000	-	-	16,002
Issuance of restricted common stock to employees		-	-	-	-	-
Restricted stock forfeited	(14,375)	(1)	1	-	-	-
Issuance of common stock for Employee stock purchase plan	28,020	3	13,931	-	-	13,934
Share based compensation for employee stock plan	-	-	3,563	-	-	3,563
Foreign currency translation adjustment	-	-	-	19,884	-	19,884
Share-based compensation	-	-	57,831	-	-	57,831
Net loss	-	-	-	-	(1,422,878)	(1,422,878)
Balance as of June 30, 2023	**9,262,853**	**$ 926**	**$ 122,191,310**	**$ (150,572)**	**$ (118,196,573)**	**$ 3,845,091**
Issuance of common stock for directors' fees	16,874	2	11,000	-	-	11,002
Restricted stock forfeited	(33,333)	(3)	-	-	-	(3)
Issuance of restricted common stock to employees and directors	255,275	25	(25)	-	-	-
Share based compensation for employee stock plan	-	-	10,398	-	-	10,398
Foreign currency translation adjustment	-	-	-	35,364	-	35,364
Share-based compensation	-	-	50,423	-	-	50,423
Net loss	-	-	-	-	(637,824)	(637,824)
Balance as of September 30, 2023	**9,501,669**	**$ 950**	**$ 122,263,106**	**$ (115,208)**	**$ (118,834,397)**	**$ 3,314,451**

See accompanying notes to the condensed consolidated financial statements.

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated Deficit	Total
		Amount				
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**	**$ 120,899,785**	**$ 55,802**	**$ (105,574,873)**	**$ 15,381,555**
Issuance of common stock for directors' fees	9,117	1	18,005	-	-	18,006
Issuance of restricted common stock to employees	1,250	-	-	-	-	-
Restricted stock forfeited	(1,250)	-	-	-	-	-
Issuance of common stock for Employee stock purchase plan	26,006	2	39,123	-	-	39,125
Share based compensation for employee stock plan	-	-	8,314	-	-	8,314
Foreign currency translation adjustment	-	-	-	(165,883)	-	(165,883)
Share-based compensation	-	-	57,379	-	-	57,379
Net loss	-	-	-	-	(1,718,957)	(1,718,957)
Balance as of June 30, 2022	**8,441,574**	**$ 844**	**$ 121,022,606**	**$ (110,081)**	**$ (107,293,830)**	**$ 13,619,539**
Issuance of common stock for directors' fees	8,547	1	18,008	-	-	18,009
Issuance of restricted common stock to employees	2,500	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	(119,269)	-	(119,269)
Share-based compensation	-	-	82,738	-	-	82,738
Net loss	-	-	-	-	(2,402,509)	(2,402,509)
Balance as of September 30, 2022	**8,452,621**	**$ 845**	**$ 121,123,352**	**$ (229,350)**	**$ (109,696,339)**	**$ 11,198,508**

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	$ (2,349,023)	$ (5,120,869)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	38,213	33,813
Amortization of intangible assets	217,978	216,806
Amortization of capitalized contract costs	126,057	80,019
Operating leases right-of-use assets	146,890	87,903
Reserve for Investment – debt security	-	190,000
Allowance for note receivable		40,000
Share and warrant-based compensation for employees and consultants	163,584	236,108
Stock based directors' fees	39,006	58,035
Change in fair value of convertible note	(264,706)	-
Deferred income tax benefit	(20,000)	-
Bad debts	150,000	130,111
Change in assets and liabilities:		
Accounts receivable	(1,334,989)	(264,635)
Due from factor	(13,072)	-
Capitalized contract costs	(107,336)	(120,968)
Inventory	145,156	47,993
Resalable software license rights	-	7,466
Prepaid expenses and other	(51,831)	(120,977)
Accounts payable	488,416	239,227
Accrued liabilities	327,131	(6,882)
Income taxes payable	62,811	-
Deferred revenue	128,253	43,351
Operating lease liabilities	(154,460)	(104,904)
Net cash used for operating activities	(2,261,922)	(4,328,403)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Swivel Secure, net of cash acquired of $729,905	-	(543,578)
Receipt of cash from note receivable	-	9,000
Capital expenditures	-	(31,066)
Net cash used for investing activities	-	(565,644)
CASH FLOW FROM FINANCING ACTIVITIES:		
Deferred offering costs	(25,434)	-
Receipt of cash from Employee stock purchase plan	13,934	39,125
Repayment of government loan	(113,885)	-
Net cash provided by (used in) financing activities	(125,385)	39,125
Effect of exchange rate changes	58,871	(124,507)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,328,436)	(4,979,429)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,635,522	7,754,046
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 307,086	$ 2,774,617

See accompanying notes to the condensed consolidated financial statements.

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

SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION

	Nine Months Ended September 30,	
	2023	**2022**
Cash paid for:		
Interest	$ 159,379	$ 3,661
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 accompanying notes to the condensed consolidated financial statements.

BIO-KEY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2023 (Unaudited)

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 solutions to commercial, government and education customers throughout the United States and internationally. The Company was a pioneer in developing automated, finger identification technology that supplements or compliments other methods of identification and verification, such as personal inspection identification, passwords, tokens, smart cards, ID cards, PKI, credit cards, passports, driver's licenses, OTP or other form of possession or knowledge-based credentialing. Additionally, advanced BIO-key® technology has been, and is, used to improve both the accuracy and speed of competing finger-based biometrics.

Basis of Presentation

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

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all necessary adjustments, consisting only of those of a recurring nature, and disclosures to present fairly the Company's financial position and the results of its operations and cash flows for the periods presented. The balance sheet at December 31, 2022 was derived from the audited financial statements, but does not include all of the disclosures required by GAAP. These unaudited interim condensed consolidated financial statements should be read in conjunction with the financial statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on June 1, 2023.

Foreign 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, all assets and liabilities are translated into U. S. dollars using the current exchange rate at the end of each fiscal period. Revenues and expenses are translated using the average exchange rates prevailing throughout the respective periods. All transaction gains and losses from the measurement of monetary balance sheet items denominated in Euros are reflected in the statement of operations as appropriate. Translation adjustments are included in accumulated other comprehensive income (loss).

Recently Issued Accounting Pronouncements

Effective January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments-Credit Losses* (Topic 326), referred to herein as ASU 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 net income. ASU 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 certain other instruments. Under ASU 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 allowance is a valuation account deducted from the amortized cost basis of financial assets to present the net amount expected to be collected on the financial asset. Once the new pronouncement is adopted by the Company, the allowance for credit losses must be adjusted for management's current estimate at each reporting date. The new guidance provides no threshold for recognition of impairment allowance. Therefore, entities must also measure expected credit losses on assets that have a low risk of loss. For instance, trade receivables that are either current or not yet due may not require an allowance reserve under currently generally accepted accounting principles, but under the new standard, the Company will have to estimate an allowance for expected credit losses on trade receivables under ASU 2016-13. The adoption of ASU 2016-13 did not have a material effect on the consolidated financial statements of the Company.

In August 2020, the Financial Accounting Standards Board issued ASU 2020-06, Debt - *Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)* ("ASU 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 features from convertible instruments and simplifies the derivative scope exception guidance pertaining to equity classification of contracts in an entity's own equity. The new standard also introduces additional disclosures for convertible debt and freestanding instruments that are indexed to and settled in an entity's own equity. ASU 2020-06 amends the diluted earnings per share guidance, including the requirement to use the if-converted method for all convertible instruments. ASU 2020-06 is effective for the Company on January 1, 2024 and should be applied on a full or modified retrospective basis. The Company is currently assessing the impact ASU 2020-06 will have on its consolidated financial statements.

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

2. GOING CONCERN

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which contemplate continuation of the Company as a going concern, and assumes continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has suffered substantial net losses and negative cash flows from operations in recent years and is dependent on debt and equity financing to fund its operations all of which raise substantial doubt about the Company's ability to continue as a going concern. Recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon the Company's ability to increase its revenue and meet its financing requirements on a continuing basis and become profitable in its future operations. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

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, the limited cash resources on hand and the dependence by the Company on its ability to obtain additional financing to fund its operations after the current cash resources are exhausted raises substantial doubt about the Company's ability to continue as a going concern. In recent periods, the Company has reduced its marketing, research and development, and rent expenses. In addition, the Company has purchased inventory for projects in Nigeria, which have been delayed in deployment, and is currently exploring other markets and opportunities to sell or return the product to generate additional 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, 2023 and September 30, 2022:

	North America	Africa	EMESA*	Asia	September 30, 2023
Services	$ 294,581	$ 26,009	$ 267,303	$ -	$ 587,893
License fees	426,059	-	523,956	-	950,015
Hardware	48,057	-	231,143	-	279,200
Total Revenues	$ 768,697	$ 26,009	$ 1,022,402	$ -	$ 1,817,108

	North America	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

The following table summarizes revenue from contracts with customers for the nine month periods ended September 30, 2023 and September 30, 2022:

	North America	Africa	EMESA*	Asia	September 30, 2023
Services	$ 840,045	$ 75,806	$ 812,654	$ 12,375	$ 1,740,880
License fees	1,614,971	552,630	2,426,090	70,650	4,664,341
Hardware	134,390	-	278,293	11,900	424,583
Total Revenues	$ 2,589,406	$ 628,436	$ 3,517,037	$ 94,925	$ 6,829,804

	North America	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

*EMESA – Europe, Middle East, South America

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 these amounts are related to maintenance contracts for which the revenue is recognized ratably over the applicable term, which generally is 12-60 months. Contracts greater than 12 months are segregated as long term deferred revenue. Maintenance contracts include provisions for unspecified when-and-if available product updates and customer telephone support services. At September 30, 2023 and December 31, 2022, amounts in deferred revenue were approximately $642,000 and $515,000, respectively. Revenue recognized during the three and nine-months ended September 30, 2023 from amounts included in deferred revenue at the beginning of the period was approximately $67,000 and $402,000, respectively. Revenue recognized during the three and nine-months ended September 30, 2022 from amounts included in deferred revenue at the beginning of the period was approximately $62,000 and $448,000, respectively. The Company did not recognize any revenue from performance obligations satisfied in prior periods.

4. ACCOUNTS RECEIVABLE

Accounts receivable are carried at original amount less an estimate made for credit losses based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for credit losses by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, current economic conditions and other relevant factors, including specific reserves for certain accounts. Accounts receivable are written off when deemed uncollectible.

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

	September 30, 2023	December 31, 2022
Accounts receivable	$ 3,423,003	$ 2,096,569
Allowance for credit losses	(623,785)	(573,785)
Accounts receivable, net of allowances for credit losses	$ 2,799,218	$ 1,522,784

Bad debt expenses are recorded in selling, general, and administrative expense.

5. SHARE BASED COMPENSATION

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

	Three Months Ended September 30,	
	2023	2022
Selling, general and administrative	$ 56,414	$ 66,152
Research, development and engineering	15,406	17,547
	$ 71,820	$ 83,699

	Nine Months Ended September 30,	
	2023	2022
Selling, general and administrative	$ 171,833	$ 158,578
Research, development and engineering	48,758	34,818
	$ 220,591	$ 193,396

6. INVENTORY

Inventory is stated at the lower of cost, determined on a first in, first out basis, or realizable value. The Company periodically evaluates inventory items and establishes reserves for obsolescence accordingly. The Company also reserves for excess quantities, slow moving goods, and for other impairment of value based upon assumptions of future demand and market conditions. The $400,000 reserve on inventory is due to slow moving inventory purchased for projects in Nigeria. The Company is exploring other markets and opportunities to sell or return the product. Inventory is comprised of the following as of:

	September 30, 2023	December 31, 2022
Finished goods	$ 4,619,487	$ 4,764,643
Fabricated assemblies	69,726	69,726
Reserve on finished goods	(400,000)	(400,000)
Total inventory	$ 4,289,213	$ 4,434,369

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 Swivel Secure fails to meet such minimum level of orders in any year, the exclusive distribution rights will terminate and Swivel Secure will serve as a non-exclusive distributer of SSL Products.

The Company expects the revenue targets to continue to be met based on historical 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, 2023, the Company was not a party to any pending lawsuits.

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8. LEASES

The Company's leases office space in New Jersey, Minnesota, New Hampshire, Madrid and Hong-Kong with lease termination dates in 2023 and 2024. On August 11, 2023, the Company signed a new one-year lease starting September 1, 2023 for office space in New Jersey. The property leased in China is paid monthly as used, without a formal agreement. The following tables present the components of lease expense and supplemental balance sheet information related to the operating leases were:

	3 Months ended September 30, 2023	3 Months ended September 30, 2022
Lease cost		
Total lease cost	$ 34,145	$ 63,973

	9 Months ended September 30, 2023	9 Months ended September 30, 2022
Lease cost		
Total lease cost	$ 145,828	$ 163,401

Balance sheet information	September 30, 2023	December 31, 2022
Operating right-of-use assets	$ 50,465	$ 197,355
Operating lease liabilities, current portion	$ 51,746	$ 159,665
Operating lease liabilities, non-current portion	-	37,829
Total operating lease liabilities	$ 51,746	$ 197,494
Weighted average remaining lease term (in years) – operating leases	0.93	0.96
Weighted average discount rate – operating leases	5.50%	5.50%
Cash paid for amounts included in the measurement of operating lease liabilities for the nine months ended September 30, 2023 and 2022:	$ 197,946	$ 144,985

Maturities of operating lease liabilities were as follows as of September 30, 2023:

2023 (3 months remaining)	$ 14,553
2024	38,808
Total future lease payments	$ 53,361
Less: imputed interest	(1,615)
Total	$ 51,746

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") and issued a $2,200,000 principal amount senior secured promissory note (the "Note"). At closing, a total of $2,002,000 was funded, with the proceeds to be used for general working capital.

The principal amount of the Note was due six months following the date of issuance, subject to one six-month extension by the Company. The Company elected to extend the due date to December 22, 2023. Interest under the Note accrued at a rate of 10% per annum through month six and accrues at a rate of 12% per annum in months seven through twelve, payable monthly. The Note is secured by a lien on substantially all of the Company's assets and properties can be prepaid in whole or in part without penalty at any time.

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 (the "Warrant") to purchase 200,000 shares of common stock (the "Warrant Shares") at an exercise price of $3.00 per share, exercisable commencing on the date of issuance with a term of five years.

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Upon issuance, the Note was 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 and upon the occurrence of any events of default (as defined) and expiration of any applicable cure periods, all amounts due under the Note will immediately and automatically become due and payable in full, interest will accrue at the higher of 18% per annum or the maximum amount permitted by applicable law, the outstanding principal amount due under the Note will be increased by 30%, and the Investor will have the right to convert all amounts due under the Note into shares of common stock (the "Conversion Shares") at a conversion price equal to the 10 day volume weighted average sales price of the Company's common stock on the date of conversion, subject to the Share Cap described in the paragraph below.

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 1,684,576 which is 19.9% of the Company's issued and outstanding shares of common stock on December 22, 2022, the date the definitive transaction documents were executed (the "Share Cap").

The Company elected the fair value measurement option for the Note as the Note had embedded derivatives that required bifurcation and recorded the entire hybrid financing instrument at fair value under the guidance of ASC 825, Financial Instruments. As a result, the Note was recorded at fair value upon issuance and is subsequently remeasured at each reporting date until settled or converted. The Company reports interest expense, including accrued interest, related to the Note under the fair value option, separately from within the change in fair value of the Note in the accompanying consolidated statement of operations. See Note 13.

As of September 30, 2023 and December 31, 2022, the Note with principal balance of $2,200,000, at fair value, was recorded at $2,331,497 and $2,596,203, respectively. See note 16.

10. EARNINGS (LOSS) PER SHARE - COMMON STOCK ("EPS")

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

The following table sets forth options and warrants which were excluded from the diluted per share calculation because the exercise price was greater than the average market price of the common shares:

	Three Months ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock options	166,234	203,257	166,234	203,257
Warrants	4,864,150	4,672,025	4,872,025	4,672,025
Total	5,030,384	4,875,282	5,038,259	4,875,282

11. STOCKHOLDERS' EQUITY

Issuances of Common Stock

During the nine-month periods ended September 30, 2023, there have not been any shares of common stock issued to anyone outside the Company.

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 September 30, 2023, 28,020 shares were issued to employees which resulted in a $3,563 non-cash compensation expense for the Company. On September 30, 2022, 26,006 shares were issued to employees which resulted in a $8,314 non-cash compensation expense for the Company.

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 the Swivel Secure stock purchase agreement. The shares of Company common stock were issued at a total cost of $600,004, priced at $2.23, based on 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

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 shares is determined based on the market price of the Company's common stock on the grant date. Nonvested stock is expensed ratably over the term of the restriction period.

During the nine-month periods ended September 30, 2023 and 2022, the Company issued 295,275 and 275,000 shares of restricted common stock, respectively, to certain employees and directors. These shares vest in equal annual installments over a three-year period from the date of grant and had a fair value on the date of issuance of $170,974 and $592,075, respectively.

During the nine-month periods ended September 30, 2023 and 2022, 67,542 and 1,250 shares of restricted common stock were forfeited, respectively.

Restricted stock compensation for the three-month periods ended September 30, 2023 and 2022, was $50,422 and $65,836, respectively.

Restricted stock compensation for the nine-month periods ended September 30, 2023 and 2022, was $164,259 and $156,880, respectively.

Issuances to Directors

During the three and nine-month periods ended September 30, 2023, the Company issued 16,874 and 55,4128 shares of common stock to its directors in lieu of payment of board and committee fees valued at $11,002 and $39,006, respectively.

During the three and nine-month periods ended September 30, 2022, the Company issued 8,547 and 27,046 shares of common stock to its directors in lieu of payment of board and committee fees valued at $18,009 and $58,035, respectively.

Employees' exercise options

During the three and nine-month periods ended September 30, 2023 and 2022, no employee stock options were exercised.

3. Warrants

There were no warrants issued during the three and nine-month periods ended September 30, 2023 and 2022. Subsequently, warrants were issued October 31, 2023 as part of the units' issue in the public offering.

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. The carrying value of the Company's government loan payable approximates fair value as the interest rate related to the financial instruments approximated market.

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. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These tiers include:

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 September 30, 2023 and December 31, 2022:

September 30, 2023	Total	Level 1	Level 2	Level 3
Convertible note at fair value	$ 2,331,497	$ -	$ -	$ 2,331,497

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 at both September 30, 2023 and December 31, 2022:

1. Face amount - $2,200,000
2. Nominal interest rate – 14.03% at September 30, 2023 and 10% at December 31, 2022
3. Default interest rate – 18%
4. Increase in principal upon a default – 30%
5. Present value discount rate – 14.03% at September 30, 2023, and 15.18% at December 31, 2022
6. Likelihood of default – estimated to be between 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 September 30, 2023:

Beginning balance	$	2,596,203
Purchases and issuances		-
Change in fair value for the three months ended March 31, 2023		(141,991)
Balance at March 31, 2023	$	2,454,212
Change in fair value for the three months ended June 30, 2023		44,568
Balance at June 30, 2023	$	2,498,780
Change in fair value for the three months ended September 30, 2023		(167,283)
Ending balance at September 30, 2023	$	2,331,497

14. MAJOR CUSTOMERS AND ACCOUNTS RECEIVABLE

During each of the three month periods ended September 30, 2023, and 2022, two customers accounted for 33% and one customer accounted for 16% of the revenue, respectively. For the nine month periods ended September 30, 2023, and 2022, two customers accounted for 23% and one customer accounted for 11% of revenue, respectively.

Three customers accounted for 77% of current accounts receivable at September 30, 2023. At December 31, 2022, one customer accounted for 35% of current accounts receivable.

15. INCOME TAXES

United States, Hong Kong and Nigeria

The Company recorded no income tax expense for the three and nine months ended September 30, 2023 and 2022 because the estimated annual effective tax rate was zero. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company's annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, the ability to use tax credits and net operating loss carry forwards, and available tax planning alternatives.

As of September 30, 2023 and December 31, 2022, the Company provided a full valuation allowance against its net deferred tax assets since the Company believes it is more likely than not that its deferred tax assets will not be realized.

Spain

The provision for income taxes amounted to $142,811. Current income taxes totaled $162,811 and deferred tax benefit totaled $20,000. The deferred tax liability presented on the condensed consolidated balance sheet relates to intangible assets from the acquisition of Swivel Secure.

16 SUBSEQUENT EVENTS

On October 30, 2023, the Company entered into a securities purchase agreement (the "Purchase Agreement") with certain investors in connection with a public offering of the Company's securities (the "Offering"). At the closing of Offering on October 31, 2023, the Company issued and sold 21,430,000 units (the "Units"), consisting of 4,230,000 share of common stock, par value $0.0001 per share (the "Common Stock"), 17,200,000 pre-funded warrants to purchase shares of Common Stock (the "Pre-Funded Warrants"), and 21,430,000 warrants to purchase share of Common Stock (the "Common Warrants" and, together with the Pre-Funded Warrants, the "Warrants"). Each Unit was sold at a public offering price of $0.175. The Common Warrants are immediately exercisable at an exercise price of $0.175 per share and expire on the five-year anniversary of the date of issuance. The Pre-Funded Warrants are immediately exercisable at an exercise price of $0.001 per share. The Offering was made pursuant to the Company's Registration Statement on Form S-1. The net proceeds from the offering were approximately $3.3 million, after deducting the placement agent fees and offering expenses. The Company used $1,400,000 of the net proceeds to partially repay outstanding indebtedness due under the Note and the balance is being used for general corporate and working capital purposes.

The Company is not currently in compliance with the continued listing requirement of the Nasdaq Stock Market to maintain a minimum bid price of $1.00 per share. If the Company does not regain compliance by January 8, 2024, it will be subject to immediate delisting from Nasdaq. On November 14, 2023, the Company filed a Preliminary Proxy Statement with the SEC to solicit stockholder approval of a reverse stock split in an effort to regain compliance with the minimum bid requirement. The Preliminary Proxy Statement also seeks stockholder approval of the BIO-key International, Inc. 2023 Stock Incentive Plan.

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

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 and plans and objectives of management for future operations, are forward-looking statements. The words “anticipate,” “believe,” “should,” “estimate,” “will,” “may,” “future,” “plan,” “intend” and “expect” and similar expressions generally identify forward-looking statements. These statements are not guarantees of future performance or events and are subject to risks and uncertainties that may cause actual results to differ materially from those included within or implied by such forward-looking statements. These risks and uncertainties include, without limitation, our history of losses and limited revenue; our ability to raise additional capital to satisfy debt repayment obligations and working capital needs; our ability to continue as a going concern; our ability to protect our intellectual property; changes in business conditions; changes in our sales strategy and product development plans; changes in the marketplace; continued services of our executive management team; security breaches; competition in the biometric technology and identity access management industries; market acceptance of biometric products generally and our products under development; our ability to convert sales opportunities to customer contracts; our ability to expand into Asia, Africa and other foreign markets; our ability to integrate the operations and personnel of Swivel Secure into our business; fluctuations in foreign currency and exchange rates; the duration and extent of continued hostilities in Ukraine and its impact on our European customers; delays in the development of products, statements of assumption underlying any of the foregoing, and numerous other matters of national, regional and global scale, including those set forth under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022 and other filings with the Securities and Exchange Commission (“SEC”). These factors are not intended to represent a complete list of the general or specific factors that may affect us. It should be recognized that other factors, including general economic factors and business strategies, may be significant, presently or in the future. Except as required by law, we undertake no obligation to update any forward-looking 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

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 related information contained herein and our audited financial statements as of December 31, 2022.

Overview

BIO-key International, Inc. (the “Company,” “BIO-key,” “we,” or “us”) is a leading identity and access management, or IAM, platform provider enabling secure work-from-anywhere for enterprise, education, and government customers. Our vision is to enable any organization to secure streamlined and passwordless workforce, employee, customer, student and citizen access to any online service, workstation, or mobile application, without a requirement to use tokens or phones. Our products include PortalGuard® and PortalGuard Identity-as-a-Service (IDaaS) enterprise IAM, AuthControl Sentry, AuthControl Enterprise, AuthControl MSP, WEB-key® biometric civil and large-scale ID infrastructure, and accessory hardware to provide a complete solution for our customers.

Millions of people use BIO-key multi-factor-authentication, or MFA, solutions every day to securely access a variety of cloud, mobile and web applications, on-premise and cloud-based servers from all of their devices. We go beyond passwordless to offer phone-less and token-less authentication methods. This critical differentiator is particularly effective for retail, call center, manufacturing, shop-floor, and healthcare environments which utilize roving workers and shared workstations. Unlike most digital identity solutions, BIO-key also plays a role in securing in-person identity. For example, a banking customer has enrolled over 22 million of its customers’ biometrics with BIO-key as part of their know your customer, or KYC process, and then uses BIO-key fingerprint technology each time their customers access bank services to ensure positive identification before transacting with them.

BIO-key PortalGuard and hosted PortalGuard IDaaS authentication platforms enable our customers to assure that only the right people can access the right systems by utilizing our world-class biometric capabilities, among 17 other available authentication methods. PortalGuard goes beyond traditional MFA solutions by allowing roving users to biometrically authenticate at any workstation without using their phones or tokens which addresses sizeable security gaps, including eliminating unauthorized account delegation, detecting duplicate users, and accommodating in-person identification.

Our customers use PortalGuard to manage and secure digital systems access by their employees, contractors and partners, which we call workforce identity. PortalGuard is also used to manage and secure the identities of an organization’s customers through integration of APIs we have developed and industry-standard federation standards, which we call customer identity. By using PortalGuard, our customers can securely collaborate with their supply chain and partners, and provide their customers with flexible, resilient user experiences online or in-person.

In 2022, we expanded our product offerings and customer base when we acquired Swivel Secure Europe, a Madrid, Spain based provider of IAM solutions. Swivel Secure Europe is the exclusive distributer of the AuthControl Sentry, AuthControl Enterprise, and AuthControl MSP product line in Europe, Africa and the Middle East, or EMEA, excluding the United Kingdom and Ireland. These solutions include PINsafe, 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.

Large-scale customer and civil ID customers use our scalable biometric management platform and FBI-certified scanner hardware to manage enrollment, de-duplication and authentication for millions of users.

We sell our branded USB fingerprint and FIDO authentication hardware as accessories to our IAM platforms, so that customers can have a single vendor providing all components of their IAM solution. Our fingerprint biometric platform is certified by NIST and unique among fingerprint platforms in that it supports mixing and matching of different manufactures’ fingerprint scanners in a deployment. This provides our customers with the flexibility to select the right scanner for their specific use case, without mandating the use of a particular scanner.

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 sales teams, as well as indirectly through our network of channel partners including resellers, system integrators, master agents and other distribution partners. Our subscription fees include a term license of hosted or on-premise product and technical support and maintenance of our platform. We base subscription fees primarily on the products used and the number of users enrolled in our platform. We generate subscription fees pursuant to noncancelable contracts with a weighted average duration of approximately one year.

Strategic Outlook

Historically, our largest market has been authentication within highly regulated industries such as government, financial services, and healthcare. With the adoption of MFA as a cybersecurity requirement, nearly all enterprises are beginning to adopt MFA for their user bases. Our ability to add value to or replace the first-generation MFA solutions deployed by these enterprises with our phone-less and token-less biometrics sets us apart from a crowded field of phone- and token-based MFA solutions. We believe that as enterprises experience the lifecycle costs associated with managing tokens and passwords, they will have an economic incentivize to consider adding BIO-key PortalGuard to their IAM solution. PortalGuard will allow them to continue to use their existing FIDO devices, while selectively augmenting their authentication options with tokenless and phoneless biometric choices.

We expect to grow our business within government services and highly-regulated industries in which we have historically had a strong presence including financial services, higher education, and healthcare. We believe that continued heightened security and privacy requirements in these industries, and as colleges and universities continue operating in remote environments, we will generate increased demand for security solutions, including biometrics. In addition, we expect that the compatible, yet superior portable biometric user experience offered by our technology for Windows 10 users will accelerate the demand for our computer network log-on solutions and fingerprint readers. Through value add-offerings via direct sales, resellers, and strategic partnerships with leading higher education platform providers, we will continue to grow our installed base.Through Swivel Secure Europe, we also expect to grow our business in EMEA.

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) growing our channel alliance program which we have grown to more than one hundred and fifty participants and continues to generate incremental revenues.

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 industry and regularly evaluate businesses that we believe will either provide an entry into new market verticals or be synergistic with our existing operations and in either case, be accretive to earnings. We cannot provide any assurance as to whether we will be able to complete any acquisition and if completed, successfully integrate any business we acquire into our operations.

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, 2022. There have been no material changes to our critical accounting policies and estimates from those disclosed in our most recent Annual Report on Form 10-K.

Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2023 AS COMPARED TO SEPTEMBER 30, 2022

Consolidated Results of Operations - Percent Trend

	Three Months Ended September 30,	
	2023	**2022**
Revenues		
Services	32%	27%
License fees	52%	67%
Hardware	16%	6%
Total Revenues	100%	100%
Costs and other expenses		
Cost of services	7%	12%
Cost of license fees	11%	13%
Cost of hardware	8%	4%
Total Cost of Goods Sold	26%	29%
Gross profit	74%	71%
Operating expenses		
Selling, general and administrative	85%	183%
Research, development and engineering	31%	60%
Total Operating Expenses	116%	243%
Operating loss	-42%	-172%
Other expense	7%	-3%
Loss before provision for income tax	-35%	-175%
Provision for income tax	0%	0%
Net loss	-35%	-175%

Revenues and cost of goods sold

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	$ Change	% Change
Revenues				
Service	$ 587,893	$ 371,956	$ 215,937	58%
License	950,015	918,260	31,755	3%
Hardware	279,200	83,333	195,867	235%
Total Revenue	$ 1,817,108	$ 1,373,549	$ 443,559	32%

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	$ Change	% Change
Cost of Goods Sold				
Service	$ 125,039	$ 162,632	$ (37,593)	-23%
License	203,891	173,310	30,581	18%
Hardware	147,674	57,841	89,833	155%
Total COGS	$ 476,604	$ 393,783	$ 82,821	21%

Revenues

For the three months ended September 30, 2023, and 2022, service revenues included approximately $297,000 and $304,000, respectively, of recurring maintenance and support revenue, and approximately $291,000 and $68,000 respectively, of non-recurring custom services revenue. Recurring service revenue decreased $7,000 or 2% in 2023 which was due to the timing of certain quarter end renewals. Non-recurring custom services increased 326% due to additional new customer customizations and upgrades. As our customer base continues to grow, we expect the service revenue to increase in future periods.

For the three months ended September 30, 2023, license revenue increased $31,755 or 3% to $950,015 from $918,260 in the corresponding period in 2022. We increased both the variation and number of customers, including additional revenue from Swivel Secure customers and customers in the higher education market.

For the three months ended September 30, 2023, hardware sales increased 235% to $279,200 from $83,333 in the corresponding period in 2022. The increase was due largely to add-on orders from an existing customer in 2023, compared to reduced new hardware deployments in 2022
.

Costs of goods sold

For the three months ended September 30, 2023, cost of service decreased approximately $38,000 or 23% to $125,039 from $162,632 in the three months ended September 30, 2022, due to reduced costs to support the PortalGuard and new Swivel Secure deployments. For the three months ended September 30, 2023, license fees increased to $203,891 from $173,310 in the three months ended September 30, 2022, due largely to an increase in license fees for third-party software included in our Swivel Secure offerings. For the three months ended September 30, 2023, hardware costs increased to $147,674 from $57,841 in the three months ended September 30, 2022, related to costs associated with increased hardware revenue.

Selling, general and administrative

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	$ Change	% Change
Selling, general and administrative	$ 1,547,376	$ 2,510,706	$ (963,330)	-38%

Selling, general and administrative expenses for the three months ended September 30, 2023, decreased 38% from the corresponding period in 2022. The decreases included reductions in administration, sales and marketing personnel costs and marketing shows and expenses.

Research, development and engineering

	Three Months Ended September 30, 2023	2022	$ Change	% Change
Research, development, and engineering	$ 558,686	$ 829,506	$ (270,820)	-33%

For the three months ended September 30, 2023, research, development, and engineering costs decreased 33% to $558,686 as compared to $829,506 in the corresponding period in 2022. The decrease consisted primarily of reductions in personnel costs and reductions in outside services related to the development of our MobileAuth application which we completed in 2022.

Other income (expense)

	Three Months Ended September 30, 2023	2022	$ Change	% Change
Interest income	$ 5,917	$ 8	$ 5,909	73863%
Investment-debt security reserve	-	(40,000)	40,000	100%
Change in fair value of convertible note	167,283	-	167,283	100%
Interest expense	(45,655)	(2,071)	(43,584)	-2104%
Other income (expense)	$ 127,545	$ (42,063)	$ 169,608	403%

Other income (expense) for the three months ended September 30, 2023 consisted of interest income of $5,917, interest expense of $45,655 on the secured note payable and the government loan through the BBVA bank net of interest and change in fair value of $167,283 on the convertible note payable. Other income(expense) for the three months ended September 30, 2022 consisted of interest income of $8, a reserve on the investment-debt security as adjustment for collections in the amount of $40,000, and interest expense of $2,071 on the government loan through the BBVA bank.

	Three Months Ended September 30, 2023	2022	$ Change	% Change
Provision for income tax	$ 189	$ -	$ 189	-100%

The provision for income taxes for the three months ended September 30, 2023 consisted of current income taxes of $6,811 for our Swivel Secure subsidiary, and deferred tax benefit of $7,000 relating to intangible assets from the acquisition of Swivel Secure.

NINE MONTHS ENDED SEPTEMBER 30, 2023 AS COMPARED TO SEPTEMBER 30, 2022

Consolidated Results of Operations -Percent Trend

	Nine Months Ended September 30, 2023	2022
Revenues		
Services	25%	23%
License fees	68%	67%
Hardware	7%	10%
Total Revenues	100%	100%
Costs and other expenses		
Cost of services	9%	11%
Cost of license fees	15%	11%
Cost of hardware	4%	6%
Total Cost of Goods Sold	28%	28%
Gross profit	72%	72%
Operating expenses		
Selling, general and administrative	79%	120%
Research, development and engineering	26%	46%
Total Operating Expenses	105%	166%
Operating loss	-33%	-94%
Other expense	1%	-4%
Loss before provision for income tax	-32%	-97%
Provision for income tax	-2%	0%

Net loss	-34%	-97%

Revenues and cost of goods sold

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	$ Change	% Change
Revenues				
Service	$ 1,740,880	$ 1,202,866	$ 538,014	45%
License	4,664,341	3,540,592	1,123,749	32%
Hardware	424,583	518,377	(93,794)	-18%
Total Revenue	$ 6,829,804	$ 5,261,835	$ 1,567,969	30%
Cost of Goods Sold				
Service	639,996	554,222	85,774	15%
License	1,022,919	604,677	418,242	69%
Hardware	240,074	296,278	(56,204)	-19%
Total COGS	$ 1,902,989	$ 1,455,177	$ 447,812	31%

Revenues

For the nine months ended September 30, 2023, and 2022, service revenues included approximately $899,000 and $944,000, respectively, of recurring maintenance and support revenue, and approximately $842,000 and $259,000, respectively, of non-recurring custom services revenue. Recurring service revenue decreased 5% in the first nine months of 2023 due to the timing of certain quarter end renewals. Non-recurring custom services revenue increased 225% in the first nine months of 2023 due largely to the additional service revenue from Swivel Secure customers during the entire period in 2023. As our customer base continues to grow, we expect the service revenue to increase in future periods.

For the nine months ended September 30, 2023, license revenue increased 32% to $4,664,341 from $3,540,592 in the corresponding period in 2022. We increased both the variation and number of customers, including additional revenue from the Swivel Secure customers, and customers in the higher education market.

Hardware sales decreased $93,794 during the nine months ended September 30, 2023, to $424,583 from $518,377 in the nine months ended September 30, 2022. The decrease was attributable largely to the absence of any new large deployments in 2023, as compared a large order for our Pocket 10 product from a new customer in 2022.

Costs of goods sold

For the nine months ended September 30, 2023, cost of service increased $85,774 or 46% from $554,222 in the nine months ended September 30, 2022, due to the increased costs to support the new Swivel Secure deployments. For the nine months ended September 30, 2023, license fees increased to $1,022,919 from $604,677 in the nine months ended September 30, 2022, due largely to an increase in revenue and third-party software for the Swivel Secure licenses. For the nine months ended September 30, 2023, hardware costs decreased to $240,074 from $296,278 during the nine months ended September 30, 2022, corresponding to decreased hardware revenue.

Selling, general and administrative

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	$ Change	% Change
Selling, general and administrative	$ 5,422,272	$ 6,315,277	$ (893,005)	-14%

Selling, general and administrative expenses for the nine months ended September 30, 2023, decreased 14% from the corresponding period in 2022. The decreases included reductions in administration, sales and marketing personnel costs and marketing shows and expenses.

Research, development and engineering

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	$ Change	% Change
Research, development and engineering	$ 1,807,026	$ 2,418,855	$ (611,829)	-25%

For the nine months ended September 30, 2023, research, development and engineering costs decreased 25% from $2,418,855 to $1,807,026. The decrease consisted primarily of reductions in personnel costs and in outside services related to the development of our MobileAuth application which was completed in 2022.

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Other income (expense)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	$ Change	% Change
Interest income	$ 5,944	$ 216	$ 5,728	2652%
Loss on foreign currency transactions	(15,000)	-	(15,000)	-100%
Investment-debt security reserve	-	(190,000)	190,000	100%
Change in fair value of convertible note	264,706	-	264,706	-100%
Interest expense	(159,379)	(3,611)	(155,768)	-4314%
Other income (expense)	$ 96,271	$ (193,395)	$ 289,666	150%

Other income (expense) for the nine month period ended September 30, 2023 consisted of interest income of $5,944, a loss on foreign currency of $15,000, a change in fair value of $264,706 on the convertible note payable, and interest expense of $159,379 on the secured note payable and the government loan through the BBVA bank. Other income (expense) for the nine months ended September 30, 2022 consisted of interest income of $216, a reserve on the investment-debt security as adjustment for collections of such security of $190,000, and interest expense of $3,611 on the government loan through the BBVA bank.

Provision for income tax

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	$ Change	% Change
Provision for income tax	$ (142,811)	$ -	$ (142,811)	-100%

The provision for income taxes for the six months ended September 30, 2023 consisted of current income taxes of $162,811 for our Swivel Secure subsidiary, and deferred tax benefit of $20,000 relating to intangible assets from the acquisition of Swivel Secure.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Operating activities overview

Net cash used by operations during the nine months ended September 30, 2023 was $2,326,417. Items of note included:

- Net positive cash flows related to adjustments for non-cash expenses of approximately $622,000.
- Net positive cash flows related to inventory, accounts payable, accrued liabilities, income tax payable and deferred revenue of approximately $1,080,000.
- Negative cash flows related to changes in accounts receivable, due from factor and prepaid expenses of approximately $1,730,000, due to working capital management.

Financing activities overview

Net cash used for financing during the nine months ended September 30, 2023 was $125,386 for repayment of the government loan through the BBVA bank and $25,434 for deferred offering costs. Net cash received from financing during the nine months ended September 30, 2023 was $13,934 of proceeds from sales of common stock under the employee stock purchase plan.

Investing activities overview

There were no investing activities during the nine months ended September 30, 2023.

Liquidity and Capital Resources

Since our inception, our capital needs have been met through proceeds from the sale of equity and debt securities, and revenue. We expect capital expenditures to be less than $100,000 during the next twelve months.

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

On October 30, 2023, we completed a public offering of units consisting of shares of common stock, pre-funded warrants to purchase shares of common stock, and warrants to purchase share of common stock. Each Unit was sold at a public offering price of $0.175. resulting in net proceeds of $3.3 million, after deducting the placement agent fees and offering expenses.

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 principal amount senior secured promissory note (the "Note"). The principal amount of the Note was due six months following the date of issuance, subject to one six-month extension. We elected to extend the maturity date of the note to December 22, 2023. Interest under the Note accrued at a rate of 10% per annum, payable monthly through month six and currently accrues at the rate of 12% per annum in months seven through twelve, payable monthly. The Note is secured by a lien on substantially all of our assets and properties and can be prepaid in whole or in part without penalty at any time. We recently prepaid $1,400,000 of the principal amount due under the Note from the proceeds of the public offering.

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. 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 maturity in April 2026. Upon closing of the acquisition, Swivel Secure had cash equal to the outstanding balance.

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 that time. Pursuant to the terms of the arrangement, from time to time, we sell to the Factor a minimum of $150,000 per quarter of certain of our accounts receivable balances on a non-recourse basis for credit approved accounts. The Factor remits 35% of the foreign and 75% of the domestic accounts receivable balance to us (the "Advance Amount"), with the remaining balance, less fees, forwarded to us once the Factor collects the full accounts receivable balance from the customer. In addition, from time to time, we receive over advances from the Factor. Factoring fees range from 2.75% to 15% of the face value of the invoice factored and are determined by the number of days required for collection of the invoice. We expect to continue to use this factoring arrangement periodically to assist with our general working capital requirements due to contractual requirements.

Liquidity outlook

At September 30, 2023, our total cash and cash equivalents were $307,086, as compared to $2,635,522 at December 31, 2022. At September 30, 2023, we had working capital of approximately $1,792,000.

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, common stock, and through factoring receivables. We currently require approximately $710,000 per month to conduct our operations, a monthly amount that we have been unable to consistently achieve through revenue generation. During for the first nine months of 2023, we generated $6,829,804 of revenue, which did not generate enough cash to fully fund our average monthly requirements. We expect that Swivel Secure will generate positive cash flow in 2023. We also have approximately $3.8 million of inventory purchased for projects in Nigeria. We are exploring other markets and opportunities to sell or return the product to generate additional cash.

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. The approximate $800,000 outstanding balance of the Note is due on December 22, 2023. Unless we generate sufficient positive cash flow from operations or liquidation of existing inventory, we expect that we will need to obtain additional financing during the next twelve months to repay our outstanding secured note and support operations.

Our long-term viability and growth will depend upon the successful commercialization of our technologies and our ability to obtain adequate financing. To the extent that we require such additional financing, no assurance can be given that any form of additional financing will be available on terms acceptable to us, that adequate financing will be obtained to meet our needs, or that such financing would not be dilutive to existing stockholders. If available financing is insufficient or unavailable or we fail to continue to generate sufficient revenue, we may be required to further reduce operating expenses, delay the expansion of operations, be unable to pursue merger or acquisition candidates, or in the extreme case, not continue as a going concern.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2023. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of September 30, 2023, our CEO and CFO concluded that, as of such date, our disclosure controls and procedures were 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 within the time periods specified in the SEC's rules and forms. 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 management identified a material weakness relating to the effectiveness of management's review and controls over the income tax provision in our financial footnotes, such that management's review procedures were not operating at a level of precision to prevent or detect a potential material misstatement in our consolidated financial statements. We have also identified a lack of control over our foreign subsidiaries with respect to the filing of required tax returns on a timely basis. We are continuing to assess the actions that need to be taken to remedy each of these material weaknesses. Each of the material weaknesses noted will only be deemed to have been remediated after the new controls and procedures have been in place for a sufficient period and management has concluded through appropriate testing that the controls are operating effectively. We are in the process of implementing new controls designed to remediate the aforementioned material weaknesses. These efforts have included engaging a consultant to review income tax transactions for appropriate accounting treatment and assist with the preparation of financial statements.

Changes in Internal Control Over Financial Reporting

Other than the forgoing described above, there have been no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1	Certificate of CEO of Registrant required under Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended
31.2	Certificate of CFO of Registrant required under Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended
32.1	Certificate of CEO of Registrant required under 18 U.S.C. Section 1350
32.2	Certificate of CFO of Registrant required under 18 U.S.C. Section 1350
101.INS	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 20, 2023	/s/ Michael W. DePasquale
	Michael W. DePasquale Chief Executive Officer (Principal Executive Officer)
Dated: November 20, 2023	/s/ Cecilia C. Welch
	Cecilia C. Welch Chief Financial Officer (Principal Financial Officer)

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 20, 2023

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

Exhibit 31.2

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 20, 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, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael W. DePasquale, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

BIO-KEY INTERNATIONAL, INC.

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

Dated: November 20, 2023

Exhibit 32.2

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, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Cecilia Welch, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

BIO-KEY INTERNATIONAL, INC.

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

Dated: November 20, 2023