BIO KEY INTERNATIONAL INC
Form 10-K
April 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year Ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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 or organization)	(IRS Employer Identification Number)

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

(Address of principal executive offices) (Zip Code)

(732) 359-1100

Registrant's telephone number, including area code.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of exchange on which registered**
Common Stock, $0.0001 par value per share	Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes   No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.   Yes   No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes   No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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
	(Do not check if a smaller reporting company)
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 in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the registrant's common stock held by non-affiliates was approximately $15.3 million based upon the closing price for shares of the registrant's common stock of $3.01 as reported by the Nasdaq Stock Market on that date.

As of March 27, 2018, the registrant had 9,493,174 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain sections of the registrant's Proxy Statement for its 2018 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2017.

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PRIVATE SECURITIES LITIGATION REFORM ACT

All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words “anticipate,” “believe,” “estimate,” “will,” “may,” “future,” “pla “intend” and “expect” and similar expressions generally identify forward-looking statements. Although we believe our plans, intentions, assumptions and expectations reflected in the forward-looking statements are reasonable, we cannot be sure they will be achieved. We caution that it is very difficult to predict the impact of known factors, it is impossible for us to anticipate all factors that could affect our actual results, and that actual results may differ materially and adversely from the forward-looking statements contained herein due to a number of factors, including but not limited to those factors set forth under the caption “Risk Factors” in Item 1A of this Annual Report and other filings with the Securities and Exchange Commission. 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.

PART I

ITEM 1. BUSINESS

BIO-key International, Inc., a Delaware corporation (the “Company,” “BIO-key,” “we,” or “us”), was founded in 1993 to develop and market advanced fingerprint biometric technology and related security software solutions. First incorporated as BBG Engineering, the company was renamed SAC Technologies in 1994 and renamed BIO-key International, Inc. in 2002.

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

We have developed what we believe is the most discriminating and effective commercially available finger-based biometric technology. Our primary focus is in marketing and selling this technology into commercial logical and physical privilege entitlement and access control markets. Our primary market focus includes enterprise security, mobile payments and credentialing, healthcare records and data security, among other things. Our secondary focus includes government markets, large scale identity projects such as voter’s registration, driver’s license, national ID programs, and SIM card registration.

In 2015, we entered into the fingerprint hardware device business through a strategic relationship with China Goldjoy Group (“CGG”), an entity that is affiliated with one of our directors. We market and sell through distributors and directly to end users via Amazon, our SideSwipe™, EcoID™ and SideTouch™ finger readers which can be used on any laptop, tablet or other device which contains a USB port. We also market and sell a variety of biometric and Bluetooth enabled padlocks, luggage locks, and bicycle locks.

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

Products

Finger-based Biometric Identification and Personal Identity Verification

We are a leader in finger-based biometric identification and personal identity verification, as well as authentication-transaction security. Stand-alone, or in partnerships with OEMs, integrators, and solution providers, we provide biometric security solutions to private and public sector customers. We help customers reduce risk by providing the ability to control access to facilities and services, in either the logical or physical domain. Our solutions positively identify individuals and verify, or confirm, their identity before granting access to, among other things, corporate resources, subscribed data and services, web portals, applications, physical locations or assets.

We also develop and distribute hardware components that are used in conjunction with our software, and sell third-party hardware components with our software in various configurations required by our customers. Our products are interoperable with all major fingerprint reader and hardware manufacturers, enabling application developers, value added resellers ("VARs"), and channel partners to integrate our fingerprint biometrics into their applications, while dramatically reducing maintenance, upgrade and life-cycle costs. Our core technology supports interoperability on over 40 different commercially available fingerprint readers and is interoperable across Windows, Linux, and the Android mobile operating systems. This interoperability is unique in the industry, is a key differentiator for our products in the biometric market and, in our opinion, makes our technology more viable than competing technologies and expands the size of the overall market for our products.

In November 2015, we entered into a license agreement with CGG pursuant to which we obtained a license to certain software from CGG, known as FingerQ, which has been integrated into our core WEB-key® platform and can be used in a number of application areas, including mobile payments and personal identity devices for the Asia Pacific markets. In 2016, the software has been integrated into our line of finger scanners that are marketed to consumers and enterprise users worldwide.

Our biometric identification technology improves both the accuracy and speed of screening individuals, for identification purposes or for personal identity verification, by extracting unique data from a fingerprint and comparing it to existing similar fingerprint data. The technology has been built to be scalable and to handle databases containing millions of fingerprints. We achieve the highest levels of discrimination without requiring any other identifying data (multi-factor) such as a user ID, smart ID cards, or tokens, although our technology can be used in conjunction with such additional factors. Users of our technology have the option of on device or cloud authentication. This flexible authentication option in conjunction with our interoperable capabilities, is another key differentiator of our biometric identification solutions.

We support industry standards, such as FIDO, BioAPI, and have received National Institute of Standards and Technology independent laboratory certification of our ability to support Homeland Security Presidential Directive #12 (HSPD-12) and ANSI/INCITS-378 templates, as well as validation of our fingerprint match speed and accuracy in large database environments.

Our finger identification algorithm, Vector Segment Technology (VST™), is the core intellectual property behind our full suite of biometric products that include:

Vector Segment Technology SDK (VST)—Our biometric software development kit ("SDK") provides developers with the ability to incorporate our biometric capabilities into their respective product offerings or infrastructure. VST is available as a low level SDK for incorporation into any application architecture to increase security while not sacrificing convenience. VST runs on Windows and Linux as well as within WEB-key® on iOS and Android systems.

Intelligent Image Indexing®—Our biometric identification solution offers both large-scale one-to-many and one-to-one user identification. This solution enables customers to perform false alias and fast entry checks, including preventing fraudulent access to systems and privileges. Intelligent image indexing scales identification capabilities from thousands to millions of users. The solution runs on commercially available hardware making it scalable for any size system.

Biometric Service Provider—We provide support for the BioAPI (a standards-based solution meeting worldwide needs) for a compliant interface to applications using biometrics for verification and identification. We enhance the traditional use of BioAPI by adding 64-bit support and other advanced features, supporting identification calls and also providing a single user interface for multiple fingerprint readers.

ID Director™—Our Single Sign On (SSO) is a suite of solutions for integration with CA Technologies SiteMinder, Oracle's Fusion Middleware SSO, IBM Tivoli Access Manager as well as ISAM and other solutions, utilizing the power and security of WEB-key. This solution provides a simple to implement, custom authentication scheme for companies looking to enhance authentication. ID Director is designed to add a level of security and convenience to the transaction level of any application. Versions of ID Director include ID Director for Windows that provides

enterprise customers the ability to integrate our biometric solutions into their MS Active Directory platform, and ID Director for Epic and Allscripts that allows healthcare customers to utilize our biometrics with the leading EMR EHR platforms.

In 2015, Microsoft announced native support for biometrics in the Windows 8.1 and Windows 10 Operating platforms as well as Office 2016. With Microsoft Hello, any user can replace their PIN or password to access their device without any special software downloads by using our finger scanners, SideSwipe, SideTouch and EcoID, which are plug and play compatible with the Microsoft platforms. We have been the exclusive partner, in particular at the Microsoft “Ignite your Business” Windows 10 and Office 2016 launch events, which has generated a number opportunities for both our hardware and software offerings. In 2016, our finger scanners were introduced and are currently sold in the Microsoft stores nationwide, as well as through their on-line channel.

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

In 2018, we introduced OmniPass Consumer, a secure biometric-enabled application to manage multiple passwords for online apps, services or accounts.

Authentication Transaction Security

Our authentication-transaction security technology, WEB-key®, provides the ability to conduct identification and identity verification transactions in potentially insecure environments, including the World Wide Web or in off-site cloud environments.

WEB-key makes cloud-based biometric user-authentication viable and eliminates technology constraints on online service providers, who are otherwise dependent on handset provider hardware and software platform decisions. It extends all features and functionalities of the VST algorithm to customers looking to add an enhanced level of security to their thin client and client/server applications. WEB-key is currently supported by both Windows and Linux operating systems. Clients are available on Windows and Android operating systems.

Intellectual Property Rights

We develop and own significant intellectual property and believe that our intellectual property is fundamental to our biometric operation:

Patents

We own patented technologies and trade secrets developed or acquired by us.

In May 2005, the U.S. Patent & Trademark Office issued patent 6,895,104 for our Vector Segment fingerprint technology (VST), our core biometric analysis and identification technology. With the payment of all maintenance fees, this patent will expire on March 4, 2023.

On October 3, 2006, we announced that our patent for a biometric authentication security framework had been granted by the U.S. Patent & Trademark Office. The patent No. 7,117,356 was issued to us for a biometric authentication security framework that enhances commercial and civil biometric use. Our authentication security framework protects privacy and security of cloud or network based authentications while also facilitates ease of use of biometric systems. The technology that this patent is based on is the foundation for the authentication security incorporated in our WEB-key product line. WEB-key is a mature enterprise authentication solution that functions in a wide variety of application environments. The solution supports a variety of implementation alternatives including card technologies for “two-factor” authentication and also supports “single-factor” authentication. Partners and customers implementing our WEB-key software to provide convenient and secure user identity include a number of institutions including the Allscripts Healthcare Solutions, Computer Associates Site Minder, Oracle Access Manager and many other enterprise and solutions based systems. With the payment of all maintenance fees, this patent will expire on May 20, 2023.

On December 26, 2006, we were issued US patent No. 7,155,040 covering our unique image processing technology, which is critical for enhancing information used in the extraction of biometric minutiae. The issued patent protects a critical part of an innovative four-phase image enhancement process developed by us. With the payment of all

maintenance fees, this patent will expire on January 29, 2025.

On April 15, 2008, we were issued US patent No. 7,359,553 covering our image enhancement and data extraction core algorithm components. The solution protected under this patent provides the capability to quickly and accurately transform a fingerprint image into a computer image that can be analyzed to determine the critical data elements. With the payment of all maintenance fees, this patent will expire on January 3, 2025.

On August 19, 2008, we were issued US patent No. 7,415,605 for our "Biometric Identification Network Security" method. The solution protected under this patent provides a defense against hackers and system attacks, while leveraging the industry standard Trusted Platform Module (TPM) specification for encryption key management. With the payment of all maintenance fees, this patent will expire on May 20, 2023.

On November 18, 2008, we were issued US patent No. 7,454,624 for our "Match Template Protection within a Biometric Security System" method. The solution protected under this patent limits the scope of enrollment templates usage and also eliminates the need for revocation or encryption processes, which can be expensive and time consuming. With the payment of all maintenance fees, this patent will expire on May 17, 2025.

On March 10, 2009, we were issued US patent No. 7,502,938 for our "Trusted Biometric Device" which covers a simple, yet secure method of protecting a user's biometric information. It covers the transmission of information from the point the information is collected at the biometric reader until the data reaches the computer or device that is authenticating the user's identity. With the payment of all maintenance fees, this patent will expire on October 25, 2025.

On May 26, 2009, we were issued US patent No. 7,539,331 for our "Image Identification System" method for improving the performance and reliability of image analysis within an image identification system. With the payment of all maintenance fees, this patent will expire on March 22, 2022.

On November 8, 2011, we were issued US Patent No. 8,055,027 for our "Generation of Directional Information in the Context of Image Processing" method for image enhancement and processing. With the payment of all maintenance fees, this patent will expire on October 10, 2027.

On July 3, 2012, we were issued US Patent No. 8,214,652 for our "Biometric Identification Network Security", an expanded method of network and related network authentication security systems utilizing hardware based support for encryption and key management for authentication purposes. With the payment of all maintenance fees, this patent will expire on April 24, 2024.

On May 3, 2017, we were issued US Patent No. 9,646,146 for our "Utilization of Biometric Data", a method enables existing small area sensors to capture substantially more fingerprint surface area, leading to a higher degree of accuracy when performing a match. With the payment of all maintenance fees, this patent will expire on March 6, 2035.

We have also been granted parallel patents to the US Patent portfolio to certain of our patents in many foreign countries offering protection of our intellectual property rights around the world.

Licensed Technology

In the fourth quarter of 2015, we entered into a license agreement with affiliates of CGG. The license agreement provides for the grant to our subsidiary, BIO-key Hong Kong Limited ("Bio-key Hong Kong"), of a perpetual, irrevocable, exclusive, worldwide, fully-paid license to all software and documentation regarding the software code, toolkit, electronic libraries and related technology currently known as or offered under the Finger Q name, together with perpetual license under all related patents held by the licensors and any other intellectual property rights owned by the licensors related to the forgoing software. This portfolio includes 16 patents focused on, among other things, mobile payment systems and mobile payment methods based on biometric authentication as well finger print authentication systems and a finger print authentication method based on near field communication ("NFC"). The license agreement grants us the exclusive right to reproduce, create derivative works and distribute copies of the FingerQ software and documentation, create new FingerQ related products, and grant sublicenses of the licensed technology to end users. In addition, in the event the licensors make any derivatives or improvement in the FingerQ software or make any product or service that may compete with or which includes functionality similar to the FingerQ technology, they are required to license such derivative, improvement, product or service to us on the terms set forth in the license agreement at no additional charge. The license arrangement also allows us to create new, innovative solutions to address the growing demand for secure mobile transactions.

Trademarks

We have registered our trademarks "BIO-key", "True User Identification", "Intelligent Image Indexing", "WEB-key", "SideSwipe" and "EcoID" with the U.S. Patent & Trademark Office, as well as many foreign countries, protecting our companies name and key technology offering names.

Copyrights and trade secrets

We take measures to ensure copyright and license protection for our software releases prior to distribution. When possible, the software is licensed in an attempt to ensure that only licensed and activated software functions to its full potential. We also take measures to protect the confidentiality of our trade secrets.

Markets

Identity Management, User Authentication, Privilege Entitlement and Access Control

Our products reduce risk of theft, fraud, loss and attack by limiting access to valuable assets, privileges, data, services, networks and places, to only authorized individuals. Conversely, our products enhance the monetary value and/or viability of privileged assets, places and services by ensuring only subscribers and otherwise entitled holders can enjoy full access to their privileges. In effect, our products replace traditional credentialing systems, which utilize a physical or electronic credential document to represent the holder's privilege entitlement, and access control systems that guard access to such privileges. Examples of such privileges include, but are not limited to: international travel and immigration privileges; employment ID, campus ID and corporate ID privileges; healthcare service privileges; citizen entitlement privileges such as Medicare, Medicaid and Social Security; and bank, credit account and financial transaction privileges such as checking accounts, debit and credit cards, payments, online services and subscription privileges. Examples of access points include doorways, gates, computers, point-of-sale terminals, smart-phones or web-portals and automobiles. In our opinion, the market for advanced user authentication, including fingerprint biometrics, is conceptually enormous, represented by virtually any doorway, gate, computer network or internet end-point like smart-phones, desktops, laptops PCs and tablets, and compounded by the number of individuals privileged to access something guarded by those access points. We believe the market opportunity for our products is massive, global and growing encompassing nearly all privilege entitlement and access control systems.

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

Upon introducing a series of compact fingerprint readers, we saw an immediate increase in inquiries from both large commercial companies seeking an alternative to passwords, and from consumers recognizing that they could use SideSwipe or EcoID to replace their Windows password.

In October 2015, we established BIO-key Hong Kong for purposes of establishing relationships and conducting business is the Asia Pacific Region. Through our Hong Kong subsidiary, we support the growing demand for secure identification and authentication in the region.

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

Corporate network access control, corporate campuses, computer networks, and applications.

Consumer mobile credentialing, including mobile payments, credit and payment card programs, data and application access, and commercial loyalty programs.

Demand for BIO-key hardware products from Windows 10 users and Fortune 500 companies.

Government services and highly regulated industries including, Medicare, Medicaid, Social Security, Drivers Licenses, Campus and School ID, Passports/Visas.

Growth in the Asia Pacific region.

Biometric based consumer products.

Business Model

Our business model for 2018 and beyond is focused on the following key areas:

Market Drivers	The primary drivers for fingerprint authentication are identity theft, data breaches, and compliance in highly regulated industries such as government, financial services, and healthcare. However, the number one driver might be the world's dissatisfaction with passwords. Introduced as a way to offer a personal layer of security when the Internet was first launched, and long before the term "hacker" was coined, the password was a great solution to protect access to email accounts and basic internet activities. Yet, none of us could envision that the internet and smart mobile devices would expose us to a new boundary-less world, one that would require a much better understanding of cybersecurity.

Education has been an important factor in the growth of the biometric industry. Expanded utilization provides use cases and helps increase awareness. Even as myths about the technology are discussed, eventually, industry leaders educate the public about the facts versus fiction. BIO-key has taken a keen focus on championing biometric technology across all verticals and is viewed as a thought leader in the space. We have been featured in the national media and participate in national and international trade conferences commenting on key topics and issues within the industry

OEM Customers	We will continue to prioritize securing agreements with OEM customers. The history of success supporting NCR, McKesson and LexisNexis provides an established footprint that we intend to build upon. As OEM customers embed BIO-key solutions within their products, the customer benefits from the enhanced security and workflow. OEM customers ordering patterns are more predictable and OEM customers generally require lower service and support resourcing.
Highly Regulated Industries	Government projects and healthcare, including hospitals, clinics, private practices and blood centers provide a significant opportunity for BIO-key. In healthcare, we anticipate that patient identification will emerge as a highly regulated requirement for all healthcare organizations and we are developing our software to accommodate this need. The financial services industry in the U.S. has been slow to adopt biometric authentication while Asia and Europe have been more receptive to incorporating biometrics. We anticipate that the U.S. market will grow rapidly once the first major institution adopts a biometric solution.

Partner Model	We remain committed to a partner sales model. In the Identity and Access Management (IAM) space, we have adjusted our targets to include working with resellers, and are developing a security assertion markup language (SAML) solution for ease of installation purposes. In healthcare, HealthCast and other partners, such as Caradigm and Aventura, identified and sold our solutions to a number of new customers in 2016.
Consumer Market	We are working with Amazon and developing packaging so that our compact fingerprint readers can be featured and sold through retail outlets directly to consumers. This channel has been very successful and continues to grow for us.
Microsoft Partnership	In November of 2015, we established a partnership with Microsoft initiated by our participation at the "Ignite your Business" Windows 10 – Hello twelve city launch tour. BIO-key was featured as the exclusive biometric technology vendor during the launch and we continue to leverage this unique status.
Hardware	Almost immediately after launching SideSwipe, we witnessed an increase in inquiries inspiring us to develop a series of compact readers with different features and form factors. Hardware has played a significant role in increasing the visibility of our company and has become a catalyst for our software. By offering hardware to customers, we offer a more full and complete solution and eliminate the need for us to engage a hardware vendor on certain projects, which can sometimes inhibit the process and margins. In 2017, we expanded our offerings to include Bluetooth and biometric enabled padlocks, TSA approved luggage locks, and bicycle locks. These products have been well received by consumers and are currently selling in both Asia Pacific and U.S. markets. We are continuing to develop new products and grow our base of distributors and retail outlets for our products.

Customer Concentration

During 2017, a nationally recognized telecommunications company accounted for 54% and 34% of our revenue in 2017 and 2016, respectively.

Research and Development

We concentrate our research and development efforts on enhancing the functionality, reliability and integration of our current products as well as developing new and innovative products and solutions. Although we believe that our identification technology is one of the most advanced and discriminating fingerprint technologies available today, the markets in which we compete are characterized by rapid technological change and evolving standards. In order to maintain our position in the market, we will continue to upgrade and refine our existing technologies. We have also licensed mobile platform software from CGG which we have integrated with our core WEB-key offerings and introduced to the Asian markets in 2016. This presents a significant opportunity for us going forward. During the years ended December 31, 2017 and 2016, we spent $1,659,875 and $2,008,942, respectively, on research and

development.

Products On Demand (POD)

Our technology and development team welcomes the opportunity to develop customer specific solutions if they are funded. Our strategy to support POD is to utilize internal resources, outsource support services and strategic partners to satisfy unique customer requirements. Our flexible, nimble business model and interoperable capabilities are key differentiators.

Competition

In addition to companies that provide existing commonplace methods of restricting access to facilities and logical access points such as pass cards, PIN numbers, passwords, locks and keys, there are numerous companies involved in the development, manufacturing and marketing of fingerprint biometrics products to commercial, government, law enforcement and prison markets. These companies include, but are not limited to, 3M (Cogent), NEC, and MorphoTrak.

The majority of sales for automated fingerprint identification products in the market to date have been deployed for government agencies, healthcare facilities, and law enforcement applications. The consumer and commercial markets represent areas of significant growth potential for biometrics, led by the use of mobile devices.

The epidemic of security and data breaches reported over the past few years is one of the driving factors for identifying new methods of protecting valuable data. After attempting to create a more sophisticated password or more efficient token or PIN, it has become apparent that each of these methods are easily compromised, and the downside risks are significant.

With respect to competing biometrics technologies, each has its strengths and weaknesses and none has emerged as a market leader:

Fingerprint identification is generally viewed as very accurate, inexpensive and non-intrusive and is the dominant biometric in use today and will be for the foreseeable future;

Palm Vein scanning is expensive, technique-sensitive, and offers mobility challenges;

Iris scanning is viewed as accurate, but the hardware is significantly more expensive; and

Facial recognition can have accuracy limitations and is typically highly dependent on ambient lighting conditions, angle of view, and other factors.

Government Regulations

We are not currently subject to direct regulation by any government agency, other than regulations generally applicable to businesses or related to specific project requirements. In the event of any international sales, we would be subject to various domestic and foreign laws regulating such exports and export activities.

Environmental Regulations

As of the date of this report, we have not incurred any material expenses relating to our compliance with federal, state, or local environmental laws and do not expect to incur any material expenses in the foreseeable future.

Employees, Contractors, and Consultants

As of March 28, 2018, we employed nineteen individuals on a full-time basis as follows: (i) nine in engineering, customer support, research and development; (ii) four in finance and administration; and (iii) six in sales and marketing. We also use the services of two consultants (part-time) who provide engineering and technical services. Additionally, our Hong Kong subsidiary employs six individuals on a full-time basis as follows: (i) one in research and development, (ii) one in finance and administration, (iii) one in logistics and supply chain management; and (iv) three in sales and marketing. We also use the services of sixteen factory contractors (full-time) in China.

ITEM 1A. RISK FACTORS

Set forth below are the risks that we believe are material to our investors. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements appearing just before the section captioned "Business" in Item 1. above. Effective December 29, 2016, we implemented a reverse stock split of our outstanding common stock at a ratio of 1-for-12 shares. All share figures are reflected on a post-split basis.

Business and Financial Risks

Based on our lack of sufficient revenue since inception and recurring losses from operations, our independent registered public accounting firm has included an explanatory paragraph in their opinion as to the substantial doubt about our ability to continue as a going concern.

Due to, among other factors, our history of losses and limited revenue, our independent registered public accounting firm has included an explanatory paragraph in their opinion for the year ended December 31, 2017 as to the substantial doubt about our ability to continue as a going concern. Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which contemplate that we will continue to operate as a going concern. Our financial statements do not contain any adjustments that might result if we are unable to continue as a going concern.

Since our formation, we have historically not generated significant revenue and have sustained substantial operating losses.

As of December 31, 2017, we had an accumulated deficit of approximately $67.1 million. In order to increase revenue, we have developed a direct sales force and anticipate the need to retain additional sales, marketing and technical support personnel and may need to incur substantial expenses. We cannot assure you that we will be able to secure these necessary resources, that a significant market for our technologies will develop, or that we will be able to achieve our targeted revenue. If we are unable to achieve revenue or raise capital sufficient to cover our ongoing operating expenses, we will be required to scale back operations, including marketing and research initiatives, or in

the extreme case, discontinue operations.

Our biometric technology has yet to gain widespread market acceptance and we do not know how large of a market will develop for our technology.

Biometric technology has received only limited market acceptance, particularly in the private sector. Our technology represents a novel security solution and we have not yet generated significant sales. Although recent security concerns relating to identification of individuals and appearance of biometric readers on popular consumer products, including the Apple iPhone, have increased interest in biometrics generally, it remains an undeveloped, evolving market. Biometric based solutions compete with more traditional security methods including keys, cards, personal identification numbers and security personnel. Acceptance of biometrics as an alternative to such traditional methods depends upon a number of factors including:

national or international events which may affect the need for or interest in biometric solutions;

the performance and reliability of biometric solutions;

marketing efforts and publicity regarding these solutions;

public perception regarding privacy concerns;

costs involved in adopting and integrating biometric solutions;

proposed or enacted legislation related to privacy of information; and

competition from non-biometric technologies that provide more affordable, but less robust, authentication (such as tokens and smart cards).

For these reasons, we are uncertain whether our biometric technology will gain widespread acceptance in any commercial markets or that demand will be sufficient to create a market large enough to produce significant revenue or earnings. Our future success depends, in part, upon business customers adopting biometrics generally, and our solution specifically.

Biometric technology is a new approach to Internet security, which must be accepted in order for our WEB-key ® solution to generate significant revenue.

Our WEB-key authentication initiative represents a new approach to Internet security, which has been adopted on a limited basis by companies that distribute goods, content or software applications over the Internet. The implementation of our WEB-key solution requires the distribution and use of a finger scanning device and integration of database and server side software. Although we believe our solutions provide a higher level of security for information transmitted over the Internet than existing traditional methods, unless business and consumer markets embrace the use of a scanning device and believe the benefits of increased accuracy outweigh implementation costs, our solution will not gain market acceptance.

The market for our solutions is still developing and if the biometrics industry adopts standards or a platform different from our standards or platform, our competitive position would be negatively affected.

The market for identity solutions is still developing. The evolution of this market may result in the development of different technologies and industry standards that are not compatible with our current solutions, products or technologies. Several organizations set standards for biometrics to be used in identification and documentation. Although we believe that our biometric technologies comply with existing standards, these standards may change and any standards adopted could prove disadvantageous to or incompatible with our business model and current or future solutions, products and services.

Our software products may contain defects which will make it more difficult for us to establish and maintain customers.

Although we have completed the development of our core biometric technology, it has only been used by a limited number of business customers. Despite extensive testing during development, our software may contain undetected design faults and software errors, or “bugs” that are discovered only after it has been installed and used by a greater number of customers. Any such defect or error in new or existing software or applications could cause delays in delivering our technology or require design modifications. These could adversely affect our competitive position and cause us to lose potential customers or opportunities. Since our technologies are intended to be utilized to secure physical and electronic access, the effect of any such bugs or delays will likely have a detrimental impact on us. In addition, given that biometric technology generally, and our biometric technology specifically, has yet to gain widespread acceptance in the market, any delays would likely have a more detrimental impact on our business than if we were a more established company.

In order to generate revenue from our biometric products, we are dependent upon independent original equipment manufacturers, system integrators and application developers, which we do not control. As a result, it may be more difficult to generate sales.

We market our technology through licensing arrangements with:

- Original equipment manufacturers, system integrators and application developers which develop and market products and applications which can then be sold to end users;

- Companies which distribute goods, services or software applications over the Internet

As a technology licensing company, our success will depend upon the ability of these manufacturers and developers to effectively integrate our technology into products and services which they market and sell. We have no control over these licensees and cannot assure you that they have the financial, marketing or technical resources to successfully develop and distribute products or applications acceptable to end users or generate any meaningful revenue for us. These third parties may also offer the products of our competitors to end users. While we have commenced a significant sales and marketing effort, we have only begun to develop a significant distribution channel and may not have the resources or ability to sustain these efforts or generate any meaningful sales.

We face intense competition and may not have the financial and human resources necessary to keep up with rapid technological changes, which may result in our technology becoming obsolete.

The Internet, facility access control and information security markets are subject to rapid technological change and intense competition. We compete with both established biometric companies and a significant number of startup enterprises as well as providers of more traditional methods of access control. Most of our competitors have substantially greater financial and marketing resources than we do and may independently develop superior technologies, which may result in our technology becoming less competitive or obsolete. We may not be able to keep pace with this change. If we are unable to develop new applications or enhance our existing technology in a timely manner in response to technological changes, we will be unable to compete in our chosen markets. In addition, if one or more other biometric technologies such as voice, face, iris, hand geometry or blood vessel recognition are widely adopted, it would significantly reduce the potential market for our fingerprint identification technology.

We introduced our products in Asian markets in 2016. Our financial performance will be subject to risks associated with changes in the value of the U.S. dollar versus local currencies.

Our primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar-denominated sales and operating expenses worldwide. Weakening of foreign currencies relative to the U.S. dollar will adversely affect the U.S. dollar value of our foreign currency-denominated sales and earnings, if any, and could lead to us raising international pricing, potentially reducing the demand for our products. In addition, margins on sales of our products in foreign countries and on sales of products that include components obtained from foreign suppliers could be materially adversely affected by foreign currency exchange rate fluctuations.

We depend on key employees and members of our management team, including our Chairman of the Board and Chief Executive Officer and our Chief Technology Officer, in order to achieve our goals. We cannot assure you that we will be able to retain or attract such persons.

Our employment contracts with Michael W. DePasquale, our Chairman of the Board and Chief Executive Officer, and Mira LaCous, our Chief Technology Officer, expire annually, and renew automatically for successive one year periods unless notice of non-renewal is provided by the Company. Although the contracts do not prevent them from resigning, they do contain confidentiality and non-compete clauses, which are intended to prevent them from working for a competitor within one year after leaving our Company. Our success depends on our ability to attract, train and retain employees with expertise in developing, marketing and selling software solutions. In order to successfully market our technology, we will need to retain additional engineering, technical support and marketing personnel. The market for such persons remains highly competitive and our limited financial resources will make it more difficult for us to recruit and retain qualified persons.

We cannot assure you that the intellectual property protection for our core technology provides a sustainable competitive advantage or barrier to entry against our competitors.

Our success and ability to compete is dependent in part upon proprietary rights to our technology. We rely primarily on a combination of patent, copyright and trademark laws, trade secrets and technical measures to protect our propriety rights. We have filed a patent application relating to both the optic technology and biometrics solution components of our technology wherein several claims have been allowed. The U.S. Patent and Trademark Office has issued us a series of patents for our Vector Segment fingerprint technology (VST), and our other core biometric analysis and identification technologies. However, we cannot assure you that we will be able to adequately protect our technology or other intellectual property from misappropriation in the U.S. and abroad. Any patent issued to us could be challenged, invalidated or circumvented or rights granted thereunder may not provide a competitive advantage to us. Furthermore, patent applications that we file may not result in issuance of a patent or, if a patent is issued, the patent may not be issued in a form that is advantageous to us. Despite our efforts to protect our intellectual property rights, others may independently develop similar products, duplicate our products or design around our patents and other rights. In addition, it is difficult to monitor compliance with, and enforce, our intellectual property rights on a worldwide basis in a cost-effective manner. In jurisdictions where foreign laws provide less intellectual property protection than afforded in the U.S. and abroad, our technology or other intellectual property may be compromised, and our business would be materially adversely affected. If any of our proprietary rights are misappropriated or we are forced to defend our intellectual property rights, we will have to incur substantial costs. Such litigation could result in substantial costs and diversion of our resources, including diverting the time and effort of our senior management, and could disrupt our business, as well as have a material adverse effect on our business, prospects, financial condition and results of operations. We can provide no assurance that we will have the financial resources to oppose any actual or threatened infringement by any third party. Furthermore, any patent or copyrights that we may be granted may be held by a court to infringe on the intellectual property rights of others and subject us to the payment of damage awards.

We may be subject to claims with respect to the infringement of intellectual property rights of others, which could result in substantial costs and diversion of our financial and management resources.

Third parties may claim that we are infringing on their intellectual property rights. We may violate the rights of others without our knowledge. We may expose ourselves to additional liability if we agree to indemnify our customers against third party infringement claims. While we know of no basis for any claims of this type, the existence of and ownership of intellectual property can be difficult to verify and we have not made an exhaustive search of all patent filings. Additionally, most patent applications are kept confidential for twelve to eighteen months, or longer, and we would not be aware of potentially conflicting claims that they make. We may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternative technology or obtain other licenses. In addition, we may incur substantial expenses in defending against these third party infringement claims and be diverted from devoting time to our business and operational issues, regardless of the merits of any such claim.

In addition, in the event that we recruit employees from other technology companies, including certain potential competitors, and these employees are engaged in the development of portions of products which are similar to the development in which they were involved at their former employers, we may become subject to claims that such employees have improperly used or disclosed trade secrets or other proprietary information. If any such claims were to arise in the future, litigation or other dispute resolution procedures might be necessary to retain our ability to offer our current and future services, which could result in substantial costs and diversion of our financial and management resources. Successful infringement or licensing claims against us may result in substantial monetary damages, which may materially disrupt the conduct of our business and have a material adverse effect on our reputation, business, financial condition and results of operations. Even if intellectual property claims brought against us are without merit, they could result in costly and time consuming litigation, and may divert our management and key personnel from operating our business.

If we are unable to effectively protect our intellectual property rights on a worldwide basis, we may not be successful in the international expansion of our business.

Access to worldwide markets depends in part on the strength of our intellectual property portfolio. There can be no assurance that, as our business expands into new areas, we will be able to independently develop the technology, software or know-how necessary to conduct our business or that we can do so without infringing the intellectual property rights of others. To the extent that we have to rely on licensed technology from others, there can be no assurance that we will be able to obtain licenses at all or on terms we consider reasonable. The lack of a necessary license could expose us to claims for damages and/or injunction from third parties, as well as claims for indemnification by our customers in instances where we have a contractual or other legal obligation to indemnify them against damages resulting from infringement claims. With regard to our own intellectual property, we actively enforce and protect our rights. However, there can be no assurance that our efforts will be adequate to prevent the misappropriation or improper use of our protected technology in international markets.

We face inherent product liability or other liability risks that could result in large claims against us.

We have inherent risk of exposure to product liability and other liability claims resulting from the use of our products, especially to the extent customers may depend on our products in public safety situations that may involve physical harm or even death to individuals, as well as exposure to potential loss or damage to property. Despite quality control systems and inspection, there remains an ever-present risk of an accident resulting from a faulty manufacture or maintenance of products, or an act of an agent outside of our or our supplier's control. Even if our products perform properly, we may become subject to claims and costly litigation due to the catastrophic nature of the potential injury and loss. A product liability claim, or other legal claims based on theories including personal injury or wrongful death, made against us could adversely affect operations and financial condition. Although we may have insurance to cover product liability claims, the amount of coverage may not be sufficient.

We expect that we will need to obtain additional financing to execute our business plan over the long-term, which may not be available. If we are unable to raise additional capital or generate significant revenue, we may not be able to continue operations.

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 $592,000 per month to conduct our operations and pay dividend obligations, a monthly amount that we have been unable to consistently achieve through revenue generation. During 2017, we generated approximately $6,303,000 of revenue, which is below our average monthly requirements. If we are unable to generate sufficient revenue to cover operating expenses and fund our business plan, we will need to obtain additional third-party financing to (i) conduct the sales, marketing and technical support necessary to execute our plan to substantially grow operations, increase revenue and serve a significant customer base; and (ii) provide working capital. We may, therefore, need to obtain additional financing through the issuance of debt or equity securities. We cannot assure you that we will be able to secure any such additional financing on terms acceptable to us or at all. If we cannot obtain such financing, we will not be able to execute our business plan, will be required to reduce operating expenses, and in the extreme case, discontinue operations.

We may not achieve sustainable profitability with respect to the biometric component of our business if we are unable to maintain, improve our offerings.

We believe that our future business prospects depend in part on our ability to maintain and improve our current services and to develop new ones on a timely basis. Our services will have to achieve market acceptance, maintain technological competitiveness, and meet an expanding range of customer requirements. As a result of the complexities inherent in our service offerings, major new wireless data services and service enhancements require long development and testing periods. We may experience difficulties that could delay or prevent the successful development, introduction or marketing of new services and service enhancements. Additionally, our new services

and service enhancements may not achieve market acceptance. If we cannot effectively develop and improve services, we may not be able to recover our fixed costs or otherwise become profitable.

If we fail to adequately manage our resources, it could have a severe negative impact on our financial results or stock price.

We could be subject to fluctuations in technology spending by existing and potential customers. Accordingly, we will have to actively manage expenses in a rapidly changing economic environment. This could require reducing costs during economic downturns and selectively growing in periods of economic expansion. If we do not properly manage our resources in response to these conditions, our results of operations could be negatively impacted.

Our business could be negatively impacted by security threats, including cybersecurity threats, and other disruptions.

As a technology company, we face various security threats, including cybersecurity threats to gain unauthorized access to sensitive information. Although we utilize various procedures and controls to monitor these threats and mitigate our exposure to such threats, there can be no assurance that these procedures and controls will be sufficient in preventing security threats from materializing. If any of these events were to materialize, they could lead to losses of sensitive information, critical infrastructure, personnel or capabilities, essential to our operations and could have a material adverse effect on our reputation, financial position, results of operations, or cash flows.

Cybersecurity attacks in particular are evolving and include but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. These events could damage our reputation and lead to financial losses from remedial actions, loss of business or potential liability.

Risks Related To Our Common Stock

We have issued a substantial number of securities that are convertible into shares of our common stock which could result in substantial dilution to the ownership interests of our existing shareholders.

As of the date of this report, approximately 6,406,440 shares of our common stock were reserved for issuance upon exercise or conversion of outstanding stock options, convertible preferred stock, and warrants. Our Series A-1 and Series B-1 Convertible Preferred Stock and certain warrants, contain "blocker provisions" which prohibit the conversion or exercise of such securities if such conversions would result in the holder of such securities beneficially owing in excess of 9.99% of our outstanding shares. The sole holder of shares of our Series A-1 Convertible Preferred Stock has increased the blocker provision cap to 34.99%, and subsequent year end a holder of our Series B-1 Convertible Preferred Stock has increased the blocker provision cap to 19.99%. The exercise or conversion of these securities will result in a significant increase in the number of outstanding shares and substantially dilute the ownership interests of our existing stockholders.

The availability of a substantial number of shares of our common stock for public sale may cause the price of our common stock to decline.

Our most recent registration statements, which were declared effective in January 2017, cover the public resale of 6,314,830 shares of our common stock, including 516,667 shares of common stock issued in our November 2016 private placement, 1,738,778 shares of common stock issuable upon conversion of Series A-1 Convertible Preferred Stock issued in our October 2015 and November 2015 private offerings, 2,916,667 shares of common stock issuable upon conversion of Series B-1 Convertible Preferred Stock issued in our November 2015 private offering, and 1,142,718 shares of common stock underlying warrants issued in our July 2013 and November 2014 private offerings. The shares of common stock being offered by the selling security holders represent approximately 82% of our outstanding shares. The availability of these shares for sale to the public, whether or not sales have occurred or are occurring, and the sale of such shares in the public markets could have an adverse effect on the market price of our common stock. Such an adverse effect on the market price would make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

An active trading market for our common stock may not be sustained.

Although our common stock is listed on the Nasdaq Capital Market "Nasdaq", an active trading market for our shares may not be developed and if developed, sustained. If an active market for our common stock is not developed or sustained, it may be difficult for you to sell your shares without depressing the market price for the shares or sell your

shares at all. Any inactive trading market for our common stock may also impair our ability to raise capital to continue to fund our operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

If we fail to comply with the continued minimum closing bid requirements of the Nasdaq or other requirements for continued listing, our Common Stock may be delisted and the price of our Common Stock and our ability to access the capital markets could be negatively impacted.

Our Common Stock is listed for trading on Nasdaq. We must satisfy Nasdaq's continued listing requirements, including, among other things, a minimum closing bid price requirement of $1.00 per share for 30 consecutive business days. A delisting of our Common Stock from Nasdaq could materially reduce the liquidity of our Common Stock and result in a corresponding material reduction in the price of our Common Stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, employees and fewer business development opportunities.

We intend to raise additional funds in the future through issuances of securities and such additional funding may be dilutive to stockholders or impose operational restrictions.

We expect that we will need to raise additional capital in the future to help fund our operations through sales of shares of our common stock or securities convertible into shares of our common stock, as well as issuances of debt. Such additional financing may be dilutive to our stockholders, and debt financing, if available, and may involve restrictive covenants which may limit our operating flexibility. If additional capital is raised through the issuance of shares of our common stock or securities convertible into shares of our common stock, the percentage ownership of existing stockholders will be reduced. These stockholders may experience additional dilution in net book value per share and any additional equity securities may have rights, preferences and privileges senior to those of the holders of our common stock.

Because we do not expect to pay dividends for the foreseeable future, investors seeking cash dividends should not purchase our shares of common stock.

We have never declared or paid any cash dividends on our common stock. Our Series A-1 Convertible Preferred Stock accrues dividends at the rate of 6% per annum payable quarterly on April 1, July 1, October 1 and January 1 of each year, in cash or kind through the issuance of additional shares of common stock. Our Series B-1 Convertible Preferred Stock accrues dividends at the rate of 2.5% per annum payable quarterly on April 1, July, 1, October 1, and January 1 of each year payable in cash. Following the payment of dividends on our Series A-1 and B-1 Convertible Preferred Stock, we currently intend to retain future earnings, if any, to finance the expansion of our business. As a result, we do not anticipate paying any cash dividends on our common stock in the foreseeable future. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements

that we may be a party to at the time. Accordingly, investors seeking cash dividends should not purchase shares of our common stock.

Our share ownership is highly concentrated which will limit your ability to influence corporate matters.

Our directors, officers and principal stockholders, beneficially own approximately 47% of our common stock and will continue to have significant influence over the outcome of all matters submitted to the stockholders for approval, including the election of our directors and approval of significant corporate transactions. This concentration of ownership will limit your ability to influence corporate matters, and as a result, actions may be taken that you may not view as beneficial.

Provisions of our certificate of incorporation, bylaws and Delaware law may make a contested takeover of our Company more difficult.

Certain provisions of our certificate of incorporation, bylaws and the General Corporation Law of the State of Delaware ("DGCL") could deter a change in our management or render more difficult an attempt to obtain control of us, even if such a proposal is favored by a majority of our stockholders. For example, we are subject to the provisions of the DGCL that prohibit a public Delaware corporation from engaging in a broad range of business combinations with a person who, together with affiliates and associates, owns 15% or more of the corporation’s outstanding voting shares (an "interested stockholder") for three years after the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Our certificate of incorporation also includes undesignated preferred stock, which may enable our board of directors to discourage an attempt to obtain control of us by means of a tender offer, proxy contest, merger or otherwise. Finally, our bylaws include an advance notice procedure for stockholders to nominate directors or submit proposals at a stockholders meeting. Delaware law and our charter may, therefore, inhibit a takeover.

The trading price of our common stock may be volatile.

The trading price of our shares has from time to time fluctuated widely and in the future may be subject to similar fluctuations. The trading price may be affected by a number of factors including the risk factors set forth in this prospectus as well as our operating results, financial condition, announcements of innovations or new products by us or our competitors, general conditions in the biometrics and access control industries, and other events or factors. We cannot assure you that any of the broker-dealers that currently make a market in our common stock will continue to serve as market makers or have the financial capability to stabilize or support our common stock. A reduction in the number of market makers or the financial capability of any of these market makers could also result in a decrease in the trading volume of and price of our shares. In recent years broad stock market indices, in general, and the securities of technology companies, in particular, have experienced substantial price fluctuations. Such broad market fluctuations may adversely affect the future-trading price of our common stock.

ITEM 2. DESCRIPTION OF PROPERTY

We do not own any real estate. We conduct operations from leased premises in Eagan, Minnesota (5,544 square feet), and Wall, New Jersey (4,517 square feet), as well as in several home-office locations across the country. Internationally, we conduct operations from leased premises in Tsuen Wan, Hong Kong (1,098 square feet), and Jiangmen, China (3,267 square feet).

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of December 31, 2017, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of our operations.

ITEM 4. MINE SAFETY DISCLOSURES

None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock currently trades on the Nasdaq Capital Market under the symbol "BKYI". The following table sets forth the range of high and low bid prices per share of our common stock for each of the calendar quarters identified below as reported by Nasdaq, and previously the OTCQB Marketplace. These quotations represent inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions. The quotations for all periods reflect the 1-for-12 reverse stock split which was effective December 29, 2016.

2017:	**High**	**Low**
Quarter ended December 31, 2017	$2.90	$1.20
Quarter ended September 30, 2017	3.67	2.52
Quarter ended June 30, 2017	3.08	1.75
Quarter ended March 31, 2017	3.50	2.00

2016:	**High**	**Low**
Quarter ended December 31, 2016	$3.60	$1.56
Quarter ended September 30, 2016	3.24	1.44
Quarter ended June 30, 2016	3.72	1.44
Quarter ended March 31, 2016	2.28	1.32

The last price of our common stock as reported on the Nasdaq Stock Market as of March 27, 2018 was $1.91.

Holders

As of March 27, 2018, the number of stockholders of record of our common stock was 143.

Dividends

We have not paid any cash dividends on our common stock to date, and have no intention of paying any cash dividends on our common stock in the foreseeable future. The declaration and payment of dividends on our common stock is also subject to the discretion of our Board of Directors and certain limitations imposed under the DGCL. The timing, amount and form of dividends, if any, will depend on, among other things, our results of operations, financial condition, cash requirements and other factors deemed relevant by our Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

Not Applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion And Analysis Of Financial Condition And Results Of Operations, and other parts of this Report contain forward-looking statements that involve risks and uncertainties. All forward-looking statements included in this Report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in the section captioned "**RISK FACTORS**" in Item 1A and elsewhere in this Report. The following should be read in conjunction with our audited financial statements included elsewhere herein.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help you understand the Company. The MD&A is provided as a supplement to and should be read in conjunction with our financial statements and the accompanying notes. Effective December 29, 2016, we implemented a reverse stock split of our outstanding common stock at a ratio of 1-for-12 shares. All share figures are reflected on a post-split basis.

OVERVIEW

We develop and market advanced fingerprint biometric identification and identity verification technologies, as well as related identity management and credentialing fingerprint biometric hardware and software solutions. We were pioneers in developing automated, finger identification technology that supplements or compliments other methods of identification and verification, such as personal inspection identification, passwords, tokens, smart cards, ID cards, PKI, credit card, passports, driver's licenses, OTP or other form of possession or knowledge-based credentialing. Advanced BIO-key technology has been and is used to improve both the accuracy and speed of competing finger-based biometrics. Our solutions are used by many customers in every sector of our economy including government, retail, healthcare and financial services.

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

In 2016, we began to sell through distribution and directly to consumers and commercial users our SideSwipe, SideTouch and EcoID products. SideSwipe, SideTouch and EcoID are stand-alone fingerprint readers that can be used on any laptop, tablet or other device with a USB port. In 2017, we expanded our consumer product line to include biometric and blue tooth enabled pad locks, TSA approved luggage locks, and bicycle locks. In 2018, we introduced OmniPass Consumer, a secure biometric-enabled application to manage multiple passwords for online apps, services or accounts.

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

STRATEGIC OUTLOOK

Historically, our largest market has been access control within highly regulated industries such as healthcare. However, we believe the mass adoption of advanced smart-phone and hand-held wireless devices have caused commercial demand for advanced user authentication to emerge as viable. The introduction of smart-phone

capabilities, like mobile payments and credentialing, could effectively require biometric user authentication on mobile devices to reduce risks of identity theft, payment fraud and other forms of fraud in the mobile or cellular based world wide web. As more services and payment functionalities, such as mobile wallets and near field communication (NFC), migrate to smart-phones, the value and potential risk associated with such systems should grow and drive demand and adoption of advanced user authentication technologies, including fingerprint biometrics and BIO-key solutions.

As devices with onboard fingerprint sensors continue to deploy to consumers, we expect that third party application developers will demand the ability to authenticate users of their respective applications (app's) with the onboard fingerprint biometric. We further believe that authentication will occur on the device itself for potentially low-value, and therefore low-risk, use-transactions and that user authentication for high-value transactions will migrate to the application provider's authentication server, typically located within their supporting technology infrastructure, or Cloud. We have developed our technology to enable, on-device authentication as well as network or cloud-based authentication and believe we may be the only technology vendor capable of providing this flexibility and capability. Our core technology works on over 40 commercially available fingerprint readers, across both Windows and Linux platforms, and Apple iOS and Android mobile operating systems. This interoperability, coupled with the ability to authentic users via the device or cloud, is unique in the industry, provides a key differentiator for us, and in our opinion, makes our technology more viable than competing technologies and expands the size of the overall market for our products.

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

Corporate network access control, including corporate campuses, computer networks and applications;

Consumer mobile credentialing, including mobile payments, credit and payment card programs, data and application access, and commercial loyalty programs;

Government services and highly regulated industries including, Medicare, Medicaid, Social Security, drivers licenses, campus and school ID, passports/visas;

Direct sales of fingerprint readers to consumers and commercial customers; and

Growth in the Asia Pacific region.

Biometric based consumer products.

In the near-term, we expect to grow our business within government services and highly-regulated industries in which we have historically had a strong presence, such as the healthcare industry. We believe that continued heightened security and privacy requirements in these industries will generate increased demand for security solutions, including biometrics. In addition, we expect that the integration of our technology into Windows 10, will accelerate the demand for our computer network log-on solutions and fingerprint readers. Finally, our entry into the Asian market and licensing arrangement with CGG has further expanded our business by opening new markets along with the new and innovative hardware offerings. We expect our SideSwipe, EcoID and SideTouch finger readers, and our biometric and Bluetooth enabled padlocks, luggage locks, and bicycle locks to continue to drive incremental revenue and growth.

We intend to expand our business into the cloud and mobile computing industries. The emergence of cloud computing and mobile computing are primary drivers of commercial and consumer adoption of advanced authentication applications, including biometric and BIO-key authentication capabilities. As the value of assets, services and transactions increases on such networks, we expect that security and user authentication demand should rise proportionately. Our integration partners include major web and network technology providers, who we believe will deliver our cloud-applicable solutions to interested service-providers. These service-providers could include, but are not limited to, financial institutions, web-service providers, consumer payment service providers, credit reporting services, consumer data service providers, healthcare providers and others. Additionally, our integration partners include major technology component providers and OEM manufacturers, who we believe will deliver our device-applicable solutions to interested hardware manufacturers. Such manufacturers could include cellular handset and smartphone manufacturers, tablet manufacturers, laptop and PC manufacturers, among other hardware manufacturers. Our recently introduced SAML and Open ID solutions will create new opportunities for us in 2018.

RESULTS OF OPERATIONS

Consolidated Results of Operations

Two Year % trend

	Years ended December 31,	
	2017	**2016**
Revenues		
Services	19 %	28 %
License fees and other	51 %	40 %
Hardware	30 %	32 %
	100%	100 %

Costs and other expenses		
Cost of services	7 %	7 %
Cost of license, hardware and other	44 %	18 %
	51 %	25 %
Gross Profit	49 %	75 %
Operating expenses		
Selling, general and administrative	91 %	148 %
Research, development and engineering	26 %	68 %
	117 %	216 %
Operating loss	68 %	141 %
Other income (deductions)		
Total other income (deductions)	0 %	0 %
Net loss	-68 %	-141 %

Revenues and Costs of goods sold

			2017 - 2016	
	2017	**2016**	**$ Chg**	**% Chg**
Revenues				
Service	$1,193,190	$821,178	$372,012	45 %
License & other	3,220,371	1,189,089	2,031,282	171 %
Hardware	1,889,423	965,489	923,934	96 %
Total Revenue	$6,302,984	$2,975,756	$3,327,228	112 %
Cost of goods sold				
Service	$439,291	$216,465	$222,826	103 %
License, hardware & other	2,802,860	513,218	2,289,642	446 %
Total COGS	$3,242,151	$729,683	$2,512,468	344 %

<u>Revenues</u>

Revenue increased $3,327,228 or 112% to $6,302,984 in 2017 as compared to $2,975,756 in 2016. As described more fully below, the increase was due primarily to one large software order received in the fourth quarter, increased sales of our fingerprint readers, and the introduction of our biometric locks.

For the years ended December 31, 2017 and 2016, service revenues included approximately $501,000 and $722,000, respectively, of recurring maintenance and support revenue, and approximately $692,000 and $99,000, respectively, of non-recurring custom services revenue. Recurring service revenue decreased 31% from 2016 to 2017 due to the non-renewal of two large maintenance contracts, offset by several smaller orders from new customers. We expect the recurring revenue to increase going forward based on the receipt of the large software order received in the fourth quarter of 2017. Non-recurring custom services increased 599% in 2017 as a result of a special software requirement from an existing customer which we do not expect to continue.

For the years ended December 31, 2017 and 2016, license and other revenue (royalty) increased 171% to $3,220,371 due primarily to one large software order from an existing customer, offset by a decrease in royalty income of approximately $21,000 during the corresponding period in 2016, as an OEM agreement was completed and was not renewed in the second quarter of 2016.

Hardware sales increased by approximately $924,000, or 96%, to $1,889,423 as a result of increases in existing and new customer deployments, and retail sales. Fingerprint reader sales increased approximately $573,000, or 59%, while the introduction of our new line of biometric locks generated revenue of approximately $351,000 in 2017.

Costs of goods sold

For the year ended December 31, 2017, cost of service increased approximately 103% to $439,291, due to added resources and reallocated research and development personnel to support the custom services revenue.

License, hardware and other costs for the year ended December 31, 2017 increased approximately 446% to $2,802,860. The increase was primarily attributable to the amortization of the software rights in the approximate amount of $1,510,000 as well as costs associated with the hardware mix.

Selling, general and administrative

		2017 - 2016	
2017	**2016**	**$ Chg**	**% Chg**
$5,676,323	$4,438,950	$1,237,373	28 %

Selling, general and administrative costs for year ended December 31, 2017 were $5,676,323 representing a 28% increase from the corresponding period in 2016. The increases included additional expenses related to our Hong Kong subsidiary, including payroll, non-cash, share-based compensation expenses, commitment fees related to the Nasdaq uplisting, and increased commission expenses related to higher revenue. These amounts were offset by a decrease in factoring, legal fees, and contractors.

Research, development and engineering

		2017 - 2016	
2017	**2016**	**$ Chg**	**% Chg**
$1,659,875	$2,008,942	$(349,067)	-17 %

For the year ended December 31, 2017, research, development and engineering costs were $1,659,875 representing a 17% decrease over the corresponding period in 2016, as a result of decreased temporary outside services and recruiting expenses, and reallocation of research and development personnel to support the custom services revenue. These amounts were offset by an increase in total personnel and related costs, purchases, costs related to our Hong Kong subsidiary, and non-cash compensation costs.

Other income and expense

			2017 - 2016	
	2017	**2016**	**$ Chg**	**% Chg**
Interest income	$ 27	$30	$-3	-10 %
Gain on derivative liabilities	-	12,085	(12,085)	-100%
	$ 27	$12,115	$(12,088)	-100%

Interest income for the years ended December 31, 2017 and 2016 consisted of bank interest.

During the fourth quarters of 2013 and 2014 and third quarter of 2015, we issued various warrants that contained derivative liabilities. Such derivative liabilities are required to be marked-to-market each reporting period. In 2016, we determined the warrant liability recorded during the third quarter of 2015 did not meet the criteria to record a derivative liability and, therefore, the related cumulative loss on the derivative was reversed.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities overview

Net cash used for operations during the year ended December 31, 2017 was approximately $2,465,000. Items of note included:

Negative cash flows related to changes in prepayments, accounts receivable, deferred revenue, and inventory of approximately $1,643,000, due to working capital management, and

Net positive cash flows related to the adjustments for non-cash expenses for depreciation, amortization, share-based compensation, and an increase in allowance for doubtful accounts of approximately $3,049,000.

Investing activities overview

Net cash used for investing activities during the year ended December 31, 2017 was approximately $227,000 and consisted of capital expenditures.

Financing activities overview

Net cash provided by financing activities during the year ended December 31, 2017 was approximately $1,920,000 and attributable primarily to the following:

Positive cash flows from the issuance of shares of common stock of approximately $2,000,000, less financing costs of approximately $80,000.

CAPITAL RESOURCES

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

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

As of December 2011, we entered into a 24-month accounts receivable factoring arrangement with a financial institution (the “Factor”) which has since been extended through October 31, 2018. 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, to be forwarded to us once the Factor collects the full accounts receivable balance from the customer. In addition, from time to time, we receive over advances from the Factor. Factoring fees range from 2.75% to 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.

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

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

On May 2, 2017, we entered into a committed equity facility pursuant to which it may issue and sell up to $5.0 million worth of shares of common stock, subject to certain limitations and satisfaction of certain conditions, over a 36-month term following the effectiveness of a registration statement covering the public resale of the shares of common stock issued under the facility. As of the date of this report, the registration statement has not been filed. From time to time over the term of the facility, we may issue requests to the investor to purchase a specified dollar amount of shares up to a maximum of $100,000 over a five trading day period based on the daily volume weighted average price of the Company’s common stock (VWAP) to the extent the VWAP equals or exceeds the greater of a formula amount or $3.83 per share. The per share purchase price for the shares issued under the facility will be equal to 94% of the lowest VWAP that equals or exceeds $3.83 per share. Aggregate sales under the facility are limited to 19.99% of the total

outstanding shares of the Company's common stock as of May 2, 2017, unless stockholder approval is obtained, and sales under the facility are prohibited if such a sale would result in beneficial ownership by the investor of more than 9.99% of the Company's common stock.

On September 22, 2017, we issued to Wong Kwok Fong, a director, executive officer and principal stockholder of the Company, 427,778 shares of common stock and warrants to purchase 138,889 shares of common stock for an aggregate purchase price of $1,540,000, or $3.60 per share. The purchase consisted of a cash payment of $1,000,000 and the conversion of accrued dividends payable on the Company's Series A-1 Convertible Preferred Stock of $540,000.

LIQUIDITY OUTLOOK

At December 31, 2017, our total cash and cash equivalents were approximately $289,000, as compared to approximately $1,061,000 at December 31, 2016.

As discussed above, we have historically financed our operations through access to the capital markets by issuing secured and convertible debt securities, convertible preferred stock, common stock, and through factoring receivables. We currently require approximately $592,000 per month to conduct our operations and pay dividend obligations, a monthly amount that we have been unable to consistently achieve through revenue generation. During 2017, we generated approximately $6,303,000 of revenue, which is below our average monthly requirements.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that have, or are in the opinion of management reasonably likely to have, a current or future effect on our financial condition or results of operations.

CRITICAL ACCOUNTING POLICIES

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates under different assumptions or conditions. There have been no material changes to these estimates for the periods presented in this Annual Report on Form 10-K.

We believe that of our significant accounting policies, which are described in Note A of the notes to our consolidated financial statements included in this Annual Report on Form 10-K, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

1. Revenue Recognition

Revenues from software licensing are recognized in accordance with ASC 985-605, “Software Revenue Recognition." Accordingly, revenue from software licensing is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable.

We intend to enter into arrangements with end users for items which may include software license fees, and services or various combinations thereof. For each arrangement, revenues will be recognized when evidence of an agreement has been documented, the fees are fixed or determinable, collection of fees is probable, delivery of the product has occurred and no other significant obligations remain.

Multiple-Element Arrangements: For multiple-element arrangements, we apply the residual method in accordance with ASC 985-605. The residual method requires that the portion of the total arrangement fee attributable to the undelivered elements be deferred based on its Vendor Specific Objective Evidence “VSOE” of fair value and subsequently recognized as the service is delivered. The difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements, which is generally the software license. VSOE of fair value for all elements in an arrangement is based upon the normal pricing for those products and services when sold separately. VSOE of fair value for support services is additionally determined by the renewal rate in customer contracts. We have established VSOE of fair value for support as well as consulting services.

License Revenues: Amounts allocated to license revenues are recognized at the time of delivery of the software and all other revenue recognition criteria discussed above have been met.

Revenue from licensing software, which requires significant customization and modification, is recognized using the percentage of completion method, based on the hours of effort incurred by us in relation to the total estimated hours to complete. In instances where third party hardware, software or services form a significant portion of a customer’s contract, we recognize revenue for the element of software customization by the percentage of completion method described above. Otherwise, third party hardware, software, and services are recognized upon shipment or acceptance as appropriate. If we make different judgments or utilize different estimates of the total amount of work expected to be required to customize or modify the software, the timing and revenue recognition, from period to period, and the margins on the project in the reporting period, may differ materially from amounts reported. Anticipated contract losses are recognized as soon as they become known and are estimable.

Service Revenues: Revenues from services are comprised of maintenance and consulting and implementation services. Maintenance revenues include providing for unspecified when-and-if available product updates and customer telephone support services, and are recognized ratably over the term of the service period. Consulting services are generally sold on a time-and-materials basis and include a range of services including installation of software and assisting in the design of interfaces to allow the software to operate in customized environments. Services are generally separable from other elements under the arrangement since performance of the services are not essential to the functionality of any other element of the transaction and are described in the contract such that the total price of the arrangement would be expected to vary as the result of the inclusion or exclusion of the services. Revenues from services are generally recognized as the services are performed.

We provide customers, free of charge or at a minimal cost, testing kits which potential licensing customers may use to test compatibility/acceptance of our technology with the customer's intended applications.

Costs and other expenses: Includes professional compensation and other direct contract expenses, as well as costs attributable to the support of client service professional staff, depreciation and amortization costs related to assets used in revenue-generating activities, and other costs attributable to serving our client base. Professional compensation consists of payroll costs and related benefits including stock-based compensation and bonuses. Other direct contract expenses include costs directly attributable to client engagements, such as out-of-pocket costs including travel and subsistence for client service professional staff, costs of hardware and software and costs of subcontractors. The allocation of lease and facilities charges for occupied offices is included in costs of service.

We account for our warranties under the FASB ASC 450 "Contingencies." We generally warrant that our products are free from defects in material and workmanship for a period of one year from the date of initial delivery to its customers. The warranty does not cover any losses or damage that occurs as a result of improper installation, misuse or neglect or repair or modification by anyone other than the Company or its authorized repair agent. Our policy is to accrue anticipated warranty costs based upon historical percentages of items returned for repair within one year of the initial sale. Our repair rate of products under warranty has been minimal, and a historical percentage has not been established. Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe upon a third party's intellectual property rights. We have not provided for any reserves for warranty liabilities as it was determined to be immaterial.

2. Impairment or Disposal of Long Lived Assets, including Intangible Assets

We review our long-lived assets, including intangible assets subject to amortization, whenever events or changes in circumstances indicate that the carrying amount of such an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amount to the future undiscounted cash flows the assets are expected to generate. If such assets are considered impaired, the impairment to be recognized is equal to the amount by which the carrying value of the assets exceeds their fair value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique. In assessing recoverability, we must make assumptions regarding estimated future cash flows and discount factors. If these estimates or related assumptions change in the future, we may be required to record impairment charges. Intangible assets with determinable lives are amortized over their estimated useful lives, based upon the pattern in which the expected benefits will be realized, or on a straight-line basis, whichever is greater. We did not record any impairment charges in any of the years presented.

3. Research and Development Expenditures

Research and development expenses include costs directly attributable to the conduct of research and development programs primarily related to the development of our software products and improving the efficiency and capabilities of our existing software. Such costs include salaries, payroll taxes, employee benefit costs, materials, supplies, depreciation on research equipment, services provided by outside contractors, and the allocable portions of facility costs, such as rent, utilities, insurance, repairs and maintenance, depreciation and general support services. All costs associated with research and development are expensed as incurred.

4. Income Taxes

The provision for, or benefit from, income taxes includes deferred taxes resulting from the temporary differences in income for financial and tax purposes using the liability method. Such temporary differences result primarily from the differences in the carrying value of assets and liabilities. Future realization of deferred income tax assets requires sufficient taxable income within the carryback, carryforward period available under tax law. We evaluate, on a quarterly basis whether, based on all available evidence, it is probable that the deferred income tax assets are realizable. Valuation allowances are established when it is more likely than not that the tax benefit of the deferred tax asset will not be realized. The evaluation, as prescribed by ASC 740-10, "Income Taxes," includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused. Because of our historical performance and estimated future taxable income a full valuation allowance has been established.

5. Accounting for Stock-Based Compensation

We account for share based compensation in accordance with the provisions of ASC 718-10, "Compensation — Stock Compensation," which requires measurement of compensation cost for all stock awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. The majority of our share-based compensation arrangements vest over either a three or four year vesting schedule. We expense our share-based compensation under the ratable method, which treats each vesting tranche as if it were an individual grant. The fair value of stock options is determined using the Black-Scholes valuation model, and requires the input of highly subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (the "expected option term"), the estimated volatility of our common stock price over the option's expected term, the risk-free interest rate over the option's expected term, and our expected annual dividend yield. Changes in these subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized as an expense in the consolidated statements of operations. As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, are likely to change our valuation assumptions used to value employee stock-based awards granted in future periods. The values derived from using the Black-Scholes model are recognized as expense over the service period, net of estimated forfeitures (the number of individuals that will ultimately not complete their vesting requirements). The estimation of stock awards that will ultimately vest requires significant judgment. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, may differ substantially from our current estimates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See financial statements appearing at pages 25-50 of this Annual Report on Form 10-K

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None,

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of December 31, 2017, our CEO and CFO concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, the risk. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we have conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017, based upon the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2017.

As we are a smaller reporting company, this annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the company to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. – OTHER INFORMATION

None.

ITEM 10. – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be set forth under "Proposal No. 1: Election of Directors" in the 2018 Proxy Statement and incorporated herein by reference.

ITEM 11. – EXECUTIVE COMPENSATION

The information required by this item will be set forth under “Executive and Director Compensation” in the 2018 Proxy Statement and incorporated herein by reference.

ITEM 12. – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 403 of Regulation S-K regarding security ownership of certain beneficial owners and management will be set forth under “Stock Ownership” in the 2018 Proxy Statement and incorporated herein by reference.

The Equity Compensation Plan Information table required pursuant to Item 201(d) of Regulation S-K will be set forth in the 2018 Proxy Statement and incorporated herein by reference.

ITEM 13. – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be set forth under “Transactions with Related Persons” and “Director Independence” in the 2018 Proxy Statement and incorporated herein by reference.

ITEM 14. – PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be set forth under “Ratification of Rotenberg Meril Solomon Bertiger & Guttilla, P.C. as Independent Registered Public Accounting Firm for 2018” in the 2018 Proxy Statement and incorporated herein by reference.

ITEM 15. – EXHIBITS

(a) The following documents are filed as part of this Report. Portions of Item 15 are submitted as separate sections of this Report:

(1) Financial statements filed as part of this Report:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as at December 31, 2017 and 2016

Consolidated Statements of Operations—Years ended December 31, 2017 and 2016

Consolidated Statement of Stockholders' Equity—Years ended December 31, 2017 and 2016

Consolidated Statements of Cash Flows—Years ended December 31, 2017 and 2016

Notes to Consolidated Financial Statements—December 31, 2017 and 2016

(b) The exhibits listed in the Exhibits Index immediately preceding such exhibits are filed as part of this Report

ITEM 16. – FORM 10-K SUMMARY

None.

ITEM 8—FINANCIAL STATEMENTS

The following financial statements of BIO-key International, Inc. are included herein at the indicated page numbers:

Report of Independent Registered Public Accounting Firm	25
Consolidated Balance Sheets as at December 31, 2017 and 2016	26
Consolidated Statements of Operations—Years ended December 31, 2017 and 2016	27
Consolidated Statements of Stockholders' Equity—Years ended December 31, 2017 and 2016	28
Consolidated Statements of Cash Flows—Years ended December 31, 2017 and 2016	29
Notes to the Consolidated Financial Statements—December 31, 2017 and 2016	31

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of

BIO-key International, Inc.

Wall, NJ

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of BIO-key International, Inc. and Subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included

examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As disclosed in the consolidated financial statements, the Company has suffered substantial net losses in recent years, has an accumulated deficit at December 31, 2017 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. Management’s plans regarding these matters are disclosed in Note A. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have served as the Company's auditor since 2010.

/s/ Rotenberg Meril Solomon Bertiger & Guttilla, P.C.
ROTENBERG MERIL SOLOMON BERTIGER &
GUTTILLA, P.C.
Saddle Brook, New Jersey
April 2, 2018

BIO-key International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2017	**2016**
ASSETS		
Cash and cash equivalents	$ *288,721*	$ *1,061,307*
Accounts receivable, net	*2,875,946*	*1,563,246*
Due from factor	*109,865*	*53,638*
Inventory	*946,847*	*465,428*
Resalable software license rights	*2,640,000*	*1,560,000*
Prepaid expenses and other	*152,654*	*206,677*
Total current assets	*7,014,033*	*4,910,296*
Resalable software license rights, net of current portion	*7,933,808*	*10,598,411*
Accounts receivable, net of current portion	*760,000*	*1,570,000*
Equipment and leasehold improvements, net	*181,165*	*67,814*
Deposits and other assets	*8,712*	*8,712*
Intangible assets, net	*181,104*	*134,132*
Total non-current assets	*9,064,789*	*12,379,069*
TOTAL ASSETS	$ *16,078,822*	$ *17,289,365*
LIABILITIES		
Accounts payable	$ *499,230*	$ *466,842*
Accrued liabilities	*688,023*	*335,323*
Dividends payable on preferred stock	*630,408*	*401,250*
Deferred revenue	*507,866*	*633,062*
Total current liabilities	*2,325,527*	*1,836,477*
TOTAL LIABILITIES	*2,325,527*	*1,836,477*
Commitments and Contingencies		
STOCKHOLDERS' EQUITY		
Series A-1 convertible preferred stock: authorized, 100,000 (liquidation preference of $100 per share); issued and outstanding 62,596 and 90,000 of $.0001 par value at December 31, 2017 and December 31, 2016, respectively	*6*	*9*
Series B-1 convertible preferred stock: authorized, 105,000 (liquidation preference of $100 per share); issued and outstanding 105,000 of $.0001 par value at December 31, 2017 and December 31, 2016	*11*	*11*
Common stock — authorized, 170,000,000 shares; issued and outstanding; 7,691,324 and 6,093,843 of $.0001 par value at December 31, 2017 and December 31, 2016, respectively	*769*	*609*
Additional paid-in capital	*80,829,001*	*78,253,413*
Accumulated deficit	*(67,076,492)*	*(62,801,154)*
TOTAL STOCKHOLDERS' EQUITY	*13,753,295*	*15,452,888*

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$*16,078,822*	$*17,289,365*

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

The accompanying notes are an integral part of these statements.

BIO-key International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,	
	2017	**2016**
Revenues		
Services	$ *1,193,190*	$ *821,178*
License fees and other	*3,220,371*	*1,189,089*
Hardware	*1,889,423*	*965,489*
Total revenues	*6,302,984*	*2,975,756*
Costs and other expenses		
Cost of services	*439,291*	*216,465*
Cost of license fees and other	*2,802,860*	*513,218*
Total costs and other expenses	*3,242,151*	*729,683*
Gross Profit	*3,060,833*	*2,246,073*
Operating expenses		
Selling, general and administrative	*5,676,323*	*4,438,950*
Research, development and engineering	*1,659,875*	*2,008,942*
Total operating expenses	*7,336,198*	*6,447,892*
Operating loss	*(4,275,365)*	*(4,201,819)*
Other income		
Interest income	*27*	*30*
Gain on derivative liabilities	-	*12,085*
Total other income	*27*	*12,115*
Net loss	*(4,275,338)*	*(4,189,704)*
Convertible preferred stock dividends	*(769,158)*	*(802,500)*
Net loss available to common stockholders	*(5,044,496)*	*(4,992,204)*
Basic and Diluted Loss per Common Share	$ *(0.76)*	$ *(0.89)*
Weighted Average Shares Outstanding:		
Basic and Diluted	*6,638,382*	*5,587,144*

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

The accompanying notes are an integral part of these statements.

BIO-key International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Series A-1 Preferred Stock		**Series B-1 Preferred Stock**		**Common Stock**		**Additional Paid-in**	**Accumulated**	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Capital**	**Deficit**	**Total**
Balance as of December 31, 2015	***90,000***	**$** ***9***	***105,000***	**$** ***11***	***5,508,261***	**$** ***551***	**$** ***76,760,796***	**$** ***(58,611,450)***	**$** ***18,149,917***
Issuance of common stock for directors' fees and CEO stock award					*27,248*	*2*	*61,998*		*62,000*
Issuance of common stock pursuant to securities purchase agreement					*516,667*	*52*	*1,859,948*		*1,860,000*
Dividends declared on preferred stock							*(802,500)*		*(802,500)*
Issuance of stock for consultants					*41,667*	*4*	*104,996*		*105,000*
Stock issuance costs							*(84,866)*		*(84,866)*
Reclassification of derivative liability							*92,199*		*92,199*
Share-based compensation							*260,842*		*260,842*
Net loss								*(4,189,704)*	*(4,189,704)*
Balance as of December 31, 2016	***90,000***	**$** ***9***	***105,000***	**$** ***11***	***6,093,843***	**$** ***609***	**$** ***78,253,413***	**$** ***(62,801,154)***	**$** ***15,452,888***
Issuance of common stock					*11,244*	*1*	*32,029*		*32,030*

for directors' fees									
Issuance of common stock pursuant to securities purchase agreement					*555,556*	*56*	*1,999,944*		*2,000,000*
Dividends declared on preferred stock							*(769,158)*		*(769,158)*
Conversion of dividends payable on A-1 preferred stock					*150,000*	*15*	*539,985*		*540,000*
Conversion of A-1 preferred stock to common stock	*(27,404)*	*(3)*			*761,222*	*76*	*(73)*		-
Issuance of stock for consultants					*117,849*	*12*	*354,573*		*354,585*
Stock issuance costs							*(80,366)*		*(80,366)*
Exercise of stock options					*1,610*	-	-		-
Share-based compensation							*498,654*		*498,654*
Net loss								*(4,275,338)*	*(4,275,338)*
Balance as of December 31, 2017	***62,596***	**$ *6***	***105,000***	**$ *11***	***7,691,324***	**$ *769***	**$*80,829,001***	**$*(67,076,492)***	**$*13,753,295***

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

The accompanying notes are an integral part of these statements.

BIO-key International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2017	**2016**
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	$(4,275,338)	$(4,189,704)
Adjustments to reconcile net loss to cash used for operating activities:		
Provision for losses on accounts receivable	500,000	500,000
Depreciation	52,709	49,038
Amortization of Intangible assets	13,726	13,606
Amortization of Software license rights	1,510,051	21,589
Share and warrant-based compensation for employees and consultants	940,734	260,842
Gain on derivative liabilities	-	(12,085)
Stock based fees to Directors and consultants	32,030	167,000
Change in assets and liabilities:		
Accounts receivable	(1,002,700)	(241,841)
Due from factor	(56,227)	(16,217)
Inventory	(481,419)	(296,783)
Software license rights	74,552	-
Prepaid expenses and other	(33,472)	(109,474)
Accounts payable	32,388	(691,713)
Accrued liabilities	352,700	(157,745)
Deferred revenue	(125,196)	256,657
Net cash used for operating activities	(2,465,462)	(4,446,830)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Patents	(60,698)	-
Capital expenditures	(166,060)	(52,975)
Net cash used for investing activities	(226,758)	(52,975)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Preferred dividends paid	-	(535,100)
Proceeds from issuances of common stock	2,000,000	1,860,000
Stock issuance costs	(80,366)	(84,866)
Net cash provided by financing activities	1,919,634	1,240,034
NET DECREASE IN CASH AND CASH EQUIVALENTS	(772,586)	(3,259,771)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,061,307	4,321,078
CASH AND CASH EQUIVALENTS, END OF YEAR	$288,721	$1,061,307

The accompanying notes are an integral part of these statements.

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SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION

	Years ended December 31,	
	2017	**2016**
Cash paid for:		
Interest	$ -	$ -
Noncash investing and financing activities:		
Accrual of unpaid preferred dividends	$ *630,408*	$ *401,250*
Conversion of A-1 preferred dividends payable to common stock	*540,000*	-
Conversion of A-1 preferred stock to common stock	*2,740,400*	-
Reclassification of derivative liability to additional paid-in capital	-	*92,199*
Issuance of common stock as a commitment fee for the Equity facility	*198,000*	-
Issuance of common stock as consulting services for the Equity facility	*244,084*	-

The accompanying notes are an integral part of these statements.

BIO-key International, Inc. and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A —THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company, founded in *1993,* develops and markets proprietary fingerprint identification biometric technology and software solutions. 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 card, 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 Company has incurred significant losses to date, and at *December 31, 2017,* it had an accumulated deficit of approximately *$67.1* million. In addition, broad commercial acceptance of the Company's technology is critical to the Company's success and ability to generate future revenues. At *December 31, 2017,* total cash and cash equivalents were approximately *$289,000,* as compared to approximately *$1,061,000* at *December 31, 2016.*

As discussed below, the Company has financed itself in the past through access to the capital markets by issuing secured and convertible debt securities, convertible preferred stock, common stock, and through factoring receivables. The Company currently requires approximately *$592,000* per month to conduct operations and pay dividend obligations, a monthly amount that it has been unable to achieve through revenue generation.

If the Company is unable to generate sufficient revenue to meet our goals, it will need to obtain additional *third*-party financing to (i) conduct the sales, marketing and technical support necessary to execute its plan to substantially grow operations, increase revenue and serve a significant customer base; and (ii) provide working capital. *No* assurance can be given that any form of additional financing will be available on terms acceptable to the Company, that adequate

financing will be obtained by the Company in order to meet its needs, or that such financing would *not* be dilutive to existing shareholders.

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

Effective *December 29, 2016,* the Company implemented a reverse stock split of its outstanding common stock at a ratio of *1* for *12* shares. All share figures and results are reflected on a post-split basis.

Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

1. Basis of Consolidation

The accompanying consolidated financial statements include the accounts of BIO-key International, Inc. and its wholly-owned subsidiaries (collectively, the "Company"). Intercompany accounts and transactions have been eliminated in consolidation.

2. Use of Estimates

Our consolidated financial statements are prepared in accordance with GAAP as set forth in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) and consider the various staff accounting bulletins and other applicable guidance issued by the U.S. Securities and Exchange Commission (SEC). These accounting principles require us to make certain estimates, judgments and assumptions. The Company believes that the estimates, judgments and assumptions upon which it relies are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, its consolidated financial statements will be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does *not* require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would *not* produce a materially different result.

3. Revenue Recognition

Revenues from software licensing are recognized in accordance with ASC *985-605,* "Software Revenue Recognition." Accordingly, revenue from software licensing is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable.

The Company intends to enter into arrangements with end users for items which *may* include software license fees, and services or various combinations thereof. For each arrangement, revenues will be recognized when evidence of an agreement has been documented, the fees are fixed or determinable, collection of fees is probable, delivery of the product has occurred and *no* other significant obligations remain.

Multiple-Element Arrangements: For multiple-element arrangements, the Company applies the residual method in accordance with ASC *985-605.* The residual method requires that the portion of the total arrangement fee attributable to the undelivered elements be deferred based on its vendor-specific objective evidence ("VSOE") of fair value and subsequently recognized as the service is delivered. The difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements, which is generally the software license. VSOE of fair value for all elements in an arrangement is based upon the normal pricing for those products and services when sold separately. VSOE of fair value for support services is additionally determined by the renewal rate in customer contracts. The Company has established VSOE of fair value for support as well as consulting services.

License Revenues: Amounts allocated to license revenues are recognized at the time of delivery of the software and all other revenue recognition criteria discussed above have been met.

Revenue from licensing software, which requires significant customization and modification, is recognized using the percentage of completion method, based on the hours of effort incurred by the Company in relation to the total estimated hours to complete. In instances where *third* party hardware, software or services form a significant portion of a customer's contract, the Company recognizes revenue for the element of software customization by the percentage of completion method described above. Otherwise, *third* party hardware, software, and services are recognized upon shipment or acceptance as appropriate. If the Company makes different judgments or utilizes different estimates of the total amount of work expected to be required to customize or modify the software, the timing and revenue recognition, from period to period, and the margins on the project in the reporting period, *may* differ materially from amounts reported. Anticipated contract losses are recognized as soon as they become known and are estimable.

Service Revenues: Revenues from services are comprised of maintenance and consulting and implementation services. Maintenance revenues include providing for unspecified when-and-if available product updates and customer telephone support services, and are recognized ratably over the term of the service period. Consulting services are generally sold on a time-and-materials basis and include a range of services including installation of software and assisting in the design of interfaces to allow the software to operate in customized environments. Services are generally separable from other elements under the arrangement since performance of the services are *not* essential to the functionality of any other element of the transaction and are described in the contract such that the total price of the arrangement would be expected to vary as the result of the inclusion or exclusion of the services. Revenues from services are generally recognized as the services are performed.

The Company provides customers, free of charge or at a minimal cost, testing kits which potential licensing customers *may* use to test compatibility/acceptance of the Company's technology with the customer's intended applications.

Costs and other expenses: Includes professional compensation and other direct contract expenses, as well as costs attributable to the support of client service professional staff, depreciation and amortization costs related to assets used in revenue-generating activities, and other costs attributable to serving the Company's client base. Professional compensation consists of payroll costs and related benefits including stock-based compensation and bonuses. Other direct contract expenses include costs directly attributable to client engagements, such as out-of-pocket costs including travel and subsistence for client service professional staff, costs of hardware and software and costs of subcontractors. The allocation of lease and facilities charges for occupied offices is included in costs of service.

The Company accounts for its warranties under the FASB ASC *450,* "Contingencies." The Company generally warrants that its products are free from defects in material and workmanship for a period of *one* year from the date of initial receipt by its customers. The warranty does *not* cover any losses or damage that occurs as a result of improper installation, misuse or neglect or repair or modification by anyone other than the Company or its authorized repair agent. The Company's policy is to accrue anticipated warranty costs based upon historical percentages of items returned for repair within *one* year of the initial sale. The Company's repair rate of products under warranty has been minimal, and a historical percentage has *not* been established. The Company's software license agreements generally include certain provisions for indemnifying customers against liabilities if the Company's software products infringe upon a *third* party's intellectual property rights. The Company has *not* provided for any reserves for warranty liabilities as it was determined to be immaterial.

4. Cash Equivalents

Cash equivalents consist of liquid investments with original maturities of *three* months or less. At *December 31, 2017* and *2016,* cash equivalents consisted of a money market account.

5. Accounts Receivable

Accounts receivable are carried at original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful receivables by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. During the quarter ended *September 30, 2016,* the Company reclassified a past due receivable to non-current, as management concluded that collection *may not* occur in the near term. As a result of the payment delays, at *December 31, 2017* the Company has reserved *$1,000,000,* which represents *57%* of the remaining balance owed under the contract. Recoveries of accounts receivable previously written off are recorded when received. Accounts receivable at *December 31, 2017* and *2016* consisted of the following:

	December 31,	
	2017	**2016**
Accounts receivable - current	$*2,889,731*	$*1,577,031*
Accounts receivable - non current	*1,760,000*	*2,070,000*
	4,649,731	*3,647,031*
Allowance for doubtful accounts - current	*(13,785*)	*(13,785*)
Allowance for doubtful accounts - non current	*(1,000,000*)	*(500,000*)
	(1,013,785)	*(513,785*)

Accounts receivable, net of allowances for doubtful accounts	$*3,635,946*	$*3,133,246*

The allowance for doubtful accounts for the years ended *December 31, 2017* and *2016* is as follows:

	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions From Reserves	Balance at End of Year
Year Ended December 31, 2017				
Allowance for Doubtful Accounts	$*513,785*	$*500,000*	$ -	$*1,013,785*
Year Ended December 31, 2016				
Allowance for Doubtful Accounts	$*13,785*	$*500,000*	$ -	$*513,785*

The bad debt expense is recorded in selling, general, and administrative expense.

6. Software License Rights

Software license rights acquired for re-sale to end users are recorded as assets when purchased and are stated at the lower of cost or estimated net realizable value.

The cost of the software license rights has been initially allocated pro-rata to the maximum number of resalable end-user licenses in the rights contract. Licenses are amortized to cost of sales over the greater of the following: *1*) an estimate of the economic use of such license rights over a *10* year period with weighting towards the beginning of the term, *2*) straight line method over *ten* years or *3*) ratably at cost basis as each end user license is resold to a customer. Management re-evaluates the total sub-licenses it expects to sell during the proceeding *twelve* months and will adjust the allocation of the current portion vs. non-current portion of software rights.

The rights are also evaluated by management on a periodic basis to determine if estimated future net revenues, on a per sub-license basis, support the recorded basis of each license. If the estimated net revenues are less than the current carrying value of the capitalized software license rights, the Company will reduce the rights to their net realizable value.

7. Equipment and Leasehold Improvements, Intangible Assets and Depreciation and Amortization

Equipment and leasehold improvements are stated at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over the estimated service lives, principally using straight-line methods. Leasehold improvements are amortized over the shorter of the life of the improvement or the lease term, using the straight-line method.

The estimated useful lives used to compute depreciation and amortization for financial reporting purposes are as follows:

	Years
Equipment and leasehold improvements	
Equipment (years)	*3 - 5*
Furniture and fixtures (years)	*3 - 5*
Software (years)	*3*
Leasehold improvements	life or lease term

Intangible assets consist of patents. Patent costs are capitalized until patents are awarded. Upon award, such costs are amortized using the straight-line method over their respective economic lives. If a patent is denied, all costs are charged to operations in that year.

8. Impairment or Disposal of Long Lived Assets, including Intangible Assets

The Company reviews long-lived assets, including intangible assets subject to amortization, whenever events or changes in circumstances indicate that the carrying amount of such an asset *may not* be recoverable. Recoverability of these assets is measured by comparison of their carrying amount to the future undiscounted cash flows the assets are expected to generate. If such assets are considered impaired, the impairment to be recognized is equal to the amount by which the carrying value of the assets exceeds their fair value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique. In assessing recoverability, the Company must make assumptions regarding estimated future cash flows and discount factors. If these estimates or related assumptions change in the future, the Company *may* be required to record impairment charges. Intangible assets with determinable lives are amortized over their estimated useful lives, based upon the pattern in which the expected benefits will be realized, or on a straight-line basis, whichever is greater. The Company did *not* record any impairment charges in any of the years presented.

9. Advertising Expense

The Company expenses the costs of advertising as incurred. Advertising expenses for *2017* and *2016* were approximately *$386,000* and *$299,000,* respectively.

10. Deferred Revenue

Deferred revenue includes customer advances and amounts that have been billed per the contractual terms but have *not* been recognized as revenue. 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* months from the date the customer is delivered the products.

11. Research and Development Expenditures

Research and development expenses include costs directly attributable to the conduct of research and development programs primarily related to the development of our software products and improving the efficiency and capabilities of our existing software. Such costs include salaries, payroll taxes, employee benefit costs, materials, supplies, depreciation on research equipment, services provided by outside contractors, and the allocable portions of facility costs, such as rent, utilities, insurance, repairs and maintenance, depreciation and general support services. All costs associated with research and development are expensed as incurred.

12. Earnings Per Share of Common Stock ("EPS")

The Company's EPS is calculated by dividing net income (loss) applicable to common stockholders by the weighted-average number of common shares outstanding during the reporting period. Diluted EPS includes the effect from potential issuances of common stock, such as stock issuable pursuant to the conversion of preferred stock, exercise of stock options and warrants, when the effect of their inclusion is dilutive. See Note R - Earnings Per Share "EPS" for additional information.

13. Accounting for Stock-Based Compensation

The Company accounts for share based compensation in accordance with the provisions of ASC *718-10,* "Compensation — Stock Compensation," which requires measurement of compensation cost for all stock awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. The majority of its share-based compensation arrangements vest over either a *three* or *four* year vesting schedule. The Company expenses its share-based compensation under the ratable method, which treats each vesting tranche as if it were an individual grant. The fair value of stock options is determined using the Black-Scholes valuation model, and requires the input of highly subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (the "expected option term"), the estimated volatility of its common stock price over the option's expected term, the risk-free interest rate over the option's expected term, and the Company's expected annual dividend yield. Changes in these subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized as an expense in the consolidated statements of operations. As required under the accounting rules, the Company reviews its valuation assumptions at each grant date and, as a result, the Company is likely to change its valuation assumptions used to value employee stock-based awards granted in future periods. The values derived from using the Black-Scholes model are recognized as expense over the service period, net of estimated forfeitures (the number of individuals that will ultimately *not* complete their vesting requirements). The estimation of stock awards that will ultimately vest requires significant judgment. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, *may* differ substantially from current estimates.

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

	Year ended December 31,	
	2017	**2016**

Selling, general and administrative	$*864,036*	$*353,056*
Research, development and engineering	*108,728*	*74,786*
	$*972,764*	$*427,842*

Valuation Assumptions for Stock Options

For *2017* and *2016, 1,234,167* and *27,087* stock options were granted, respectively. The fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Year ended December 31,	
	2017	**2016**
Weighted average Risk free interest rate	*1.92*%	*1.11*%
Expected life of options (in years)	*4.51*	*4.50*
Expected dividends	*0* %	*0* %
Weighted average Volatility of stock price	*138* %	*93* %

The stock volatility for each grant is determined based on the review of the experience of the weighted average of historical daily price changes of the Company's common stock over the expected option term. The expected term was determined using the simplified method for estimating expected option life, which qualify as "plain-vanilla" options; and the risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

14. Derivative Liabilities

In connection with the issuances of equity instruments or debt, the Company *may* issue options or warrants to purchase common stock. In certain circumstances, these options or warrants *may* be classified as liabilities, rather than as equity. In addition, the equity instrument or debt *may* contain embedded derivative instruments, such as conversion options or listing requirements, which in certain circumstances *may* be required to be bifurcated from the associated host instrument and accounted for separately as a derivative liability instrument. The Company early-adopted the new provisions issued *July 2017,* for derivative liability instruments under FASB ASU *2017-11,* Earnings Per Share (Topic *260*), Distinguishing Liabilities from Equity (Topic *480*) and Derivatives and Hedging (Topic *815*): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception. Under ASU *2017-11,* down round features do *not* meet the criteria for derivative accounting and *no* liability is to be recorded until an actual issuance of securities triggers the down-round feature. Prior to these provisions, the liabilities were recorded without the actual issuance of the securities triggering the down-round feature.

15. Income Taxes

The provision for, or benefit from, income taxes includes deferred taxes resulting from the temporary differences in income for financial and tax purposes using the liability method. Such temporary differences result primarily from the differences in the carrying value of assets and liabilities. Future realization of deferred income tax assets requires sufficient taxable income within the carryback, carryforward period available under tax law. The Company evaluates, on a quarterly basis whether, based on all available evidence, if it is probable that the deferred income tax assets are realizable. Valuation allowances are established when it is more likely than *not* that the tax benefit of the deferred tax asset will *not* be realized. The evaluation, as prescribed by ASC *740-10,* "Income Taxes," includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which *may* be employed to prevent an operating loss or tax credit carryforward from expiring unused. Because of the Company's historical performance and estimated future taxable income, a full valuation allowance has been established.

The Company accounts for uncertain tax provisions in accordance with ASC *740-10-05,* "Accounting for Uncertainty in Income Taxes." The ASC clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The ASC prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The ASC provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

16. Recent Accounting Pronouncements

In *May 2014*, FASB issued ASU *No. 2014-09,* Revenue from Contracts with Customers: Topic *606* (“ASC *606”*), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The standard contains a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods and services. The FASB has issued several amendments to the standard, including clarifications on disclosure of prior-period performance obligations and remaining performance obligations.

The Company will adopt ASC *606* effective *January 1, 2018* using the modified retrospective transition method. While the Company is finalizing the impact this standard has on its consolidated financial statements and related disclosures, the Company expects the new standard will *not* have a material impact on the timing of its revenue recognition. The Company expects that certain contract acquisition costs such as sales commissions, will be amortized over an expected benefit period that is longer than the Company’s current policy of expensing these amounts over either the contract term or up-front, depending on the size of the order. The Company does *not* expect the adoption of ASC *606* to have any impact on its operating cash flows.

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

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

In *August 2014,* the FASB issued ASU *No. 2014-15,* "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". Prior to ASU *2014-15,* a definition for substantial doubt did *not* exist. However, the new guidance says that substantial doubt exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within *one* year after the date that the financial statements are available to be issued. The FASB's definition could be perceived as a higher threshold than current practice as the term "probable" means likely to occur. Under the new standard, management should evaluate all relevant known conditions, or those that can be reasonably expected to happen as of the date the financial statements are to be issued. This evaluation should be both qualitative and quantitative in nature, and should include conditions that might give rise to substantial doubt. ASU *2014-15* is effective for fiscal years beginning after *December 15, 2016,* including interim periods within those fiscal years. The Company adopted ASU *2014-15* as of *January 1, 2017.*

In *March 2016,* the FASB issued Accounting Standards Update *2016-09,* "Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting" ("ASU *2016-09"*). ASU *2016-09* requires, among other things, that excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement rather than as additional paid-in capital, changes the classification of excess tax benefits from a financing activity to an operating activity in the statement of cash flows, and allows forfeitures to be accounted for when they occur rather than estimated. ASU *2016-09* is effective for public companies for interim and annual periods beginning after *December 15, 2016.* The Company will continue to estimate forfeitures at each reporting period, rather than electing an accounting policy change to record the impact of such forfeitures as they occur. The adoption did *not* have a material impact on the Company's consolidated financial statements.

In *July 2017,* the FASB issued ASU *2017-11,* Earnings Per Share (Topic *260*), Distinguishing Liabilities from Equity (Topic *480*) and Derivatives and Hedging (Topic *815*): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception. Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Under ASU *2017-11,* down round features do *not* meet the criteria for derivative accounting and *no* liability is to be recorded

until an actual issuance of securities triggers the down-round feature. Part II of this update addresses the difficulty of navigating Topic *480,* Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable non-controlling interests. The amendments in Part II of this update do *not* have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after *December 15, 2018,* with early adoption permitted. The adoption of ASU *2017-11,* during the fiscal *2017* year did *not* have any impact on the condensed consolidated financial statements, however our disclosures with respect to equity instruments with down round features have been updated. See Note N for updated disclosures.

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.

17. Reclassifications

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

NOTE B—FACTORING

Due from factor consisted of the following as of *December 31:*

	Original Invoice Value	Factored Amount	Factored Balance due
Year Ended December 31, 2017			
Factored accounts receivable	$*423,349*	$*313,484*	$*109,865*
Year Ended December 31, 2016			
Factored accounts receivable	$*214,556*	$*160,918*	$*53,638*

As of *December 2011,* the Company entered into a *24* month accounts receivable factoring arrangement with a financial institution (the "Factor") which has been extended to *October 31, 2018.* 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 to be forwarded to the Company once the Factor collects the full accounts receivable balance from the customer. In addition, the Company, from time to time, receives over advances from the factor. Factoring fees range from *2.75%* to *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:

	Years Ended December 31,	
	2017	**2016**
Factoring fees	$*224,142*	$*341,023*

NOTE C—FAIR VALUES OF FINANCIAL INSTRUMENTS

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

NOTE D—CONCENTRATION OF RISK

Financial instruments which potentially subject the Company to risk primarily consist of cash and accounts receivables.

The Company maintains its cash and cash equivalents with various financial institutions, which, at times *may* exceed the amounts insured by the Federal Deposit Insurance Corporation. The exposure to the Company is solely dependent upon daily bank balances and the respective strength of the financial institutions. The Company has *not* incurred any losses on these accounts. At *December 31, 2017* and *2016,* amounts in excess of insured limits were approximately *$0* and *$811,000,* respectively.

The Company extends credit to customers on an unsecured basis in the normal course of business. The Company's policy is to perform an analysis of the recoverability of its receivables at the end of each reporting period and to establish allowances where appropriate. The Company analyzes historical bad debts and contract losses, customer concentrations, and customer credit-worthiness when evaluating the adequacy of the allowances.

The Company had certain customers whose revenue individually represented *10%* or more of the Company's total revenue, as follows:

	Years Ended December 31,	
	2017	**2016**
Customer A	*54 %*	*34 %*
Customer B	*	*12 %*

* Less than *10%* of total revenue

The Company had certain customers whose accounts receivable balances individually represented *10%* or more of the Company's total accounts receivable, as follows:

	As of December 31, 2017	**2016**
Customer A	*55 %*	*35 %*
Customer B	*37 %*	*56 %*

Customer B's receivable of *$1,760,000* has been past due per the terms of the invoice for *thirty* months as of *December 31, 2017.* The Company has reserved *$1,000,000* which represents *57%* of the remaining balance owed under the contract.

NOTE E—INVENTORY

Inventory is stated at the lower of cost, determined on a *first* in, *first* out basis, or realizable value, and consists primarily of fabricated assemblies and finished goods. Inventory is comprised of the following as of *December 31:*

	2017	**2016**
Current		
Finished goods	*487,858*	*381,762*
Fabricated assemblies	*458,989*	*83,666*
Total current inventory	$*946,847*	$*465,428*

NOTE F—RESALABLE SOFTWARE LICENSES RIGHTS

On *November 11, 2015,* the Company entered into a license agreement for the rights to all software and documentation regarding the technology currently known as or offered under the FingerQ name. The license agreement grants the Company the exclusive right to reproduce, create derivative works and distribute copies of the FingerQ software and documentation, create new FingerQ related products, and grant sub-licenses of the licensed technology to end users. The license rights have been granted to the Company in perpetuity, with a stated number of end-user resale sub-licenses allowed under the contract for a total of *$12,000,000.* The cost of sub-license rights expected to be amortized in the following *12* months is *$2,640,000* and is classified as a current asset, and the balance as non-current.

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

The remaining license rights are to be amortized over the greater of the following: *1*) an estimate of the economic use of such license rights, *2*) straight line method over *ten* years or *3*) the actual usage of such rights. The Company believes categorizing the amortization expense under Cost of Sales more closely reflects the nature of the license right arrangement and the use of the technology. A total of *$1,556,687* and *$1,909* was expensed during the *2017* and *2016* years, respectively. Since the license purchase, a cumulative amount of *$1,558,596* has been expensed, with a carrying

balance of *$10,441,404* as of *December 31, 2017.* The *2017* amortization expense was based on the economic use model as this was the greater of the *three* methods.

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 same methodology described above with the greatest of the *three* approaches being the amortization for the periods. A total of *$35,916* and *$19,680* was expensed for actual sales during the *2017* and *2016* years, respectively. Since the license purchase, the actual per unit cost (actual usage) of such license rights in the cumulative amount of *$47,596* has been expensed, with a carrying balance of *$132,404* as of *December 31, 2017.* During *2017,* the Company also purchased *$8,000* of another *third*-party software licenses. The Company has classified these balances as non-current until a larger deployment occurs. Software license rights is comprised of the following as of:

	2017	**2016**
Current software license rights	$*2,640,000*	$*1,560,000*
Non-current software license rights	*7,933,808*	*10,598,411*
Total software license rights	$*10,573,808*	$*12,158,411*

During the year ended *December 31, 2017,* there were *no* events or changes in circumstances that indicated the carrying amount of the software license rights *may not* be recoverable from their undiscounted cash flows. Consequently, we did *not* perform an impairment test. The Company did *not* record an impairment loss related to the software license rights during the years ended *December 31, 2017* and *2016.*

Estimated amortization expense based on economic use of the software license rights for each of the next *five* years and thereafter approximates the following:

Years ending December 31	
2018	*2,640,000*
2019	*3,000,000*
2020	*2,400,000*
2021	*1,200,000*
2022	*720,000*
Thereafter	*613,808*

NOTE G—EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consisted of the following as of *December 31:*

	2017	**2016**
Equipment	$*567,473*	$*403,425*
Furniture and fixtures	*164,079*	*162,067*
Software	*32,045*	*32,045*
Leasehold improvements	*23,403*	*23,403*
	787,000	*620,940*
Less accumulated depreciation and amortization	(*605,835*)	(*553,126*)
Total	$*181,165*	$*67,814*

Depreciation was *$52,709* and *$49,038* for *2017* and *2016,* respectively. Amounts are recorded in Selling, General, and Administrative Expense and Cost of Services.

NOTE H—INTANGIBLE ASSETS

Intangible assets consisted of the following as of *December 31:*

	2017 Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**2016 Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Patents and patents pending	$*347,946*	$ *(166,842*)	$*181,104*	$*287,248*	$ *(153,116*)	$*134,132*
Total	$*347,946*	$ *(166,842*)	$*181,104*	$*287,248*	$ *(153,116*)	$*134,132*

Aggregate amortization expense for *2017* and *2016* was *$13,726* and *$13,606,* respectively. Amounts are recorded in Research, Development and engineering expense. The estimated aggregate amortization expense of intangible assets for the years following *December 31, 2017* is approximately *$14,000* per year for *2018* through *2022,* and approximately *$111,000* thereafter.

NOTE I—ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of *December 31:*

	2017	**2016**
Compensation	$*341,884*	$*66,152*
Compensated absences	*164,132*	*154,368*
Accrued legal and accounting fees	*85,633*	*79,633*
Sales tax payable	*5,614*	*26,988*
Factoring fees	*32,357*	*3,600*
Other	*58,403*	*4,582*
Total	$*688,023*	$*335,323*

NOTE J—RELATED PARTY

Licensing Agreement with Subsidiaries of China Goldjoy Group Limited.

On *November 11, 2015*, BIO-key Hong Kong Limited, a subsidiary of the Company, entered into a license purchase agreement with certain subsidiaries of China Goldjoy Group Limited ("CGG"). The license agreement provides for the grant of a perpetual, irrevocable, exclusive, worldwide, fully-paid license to all software and documentation regarding the software code, toolkit, electronic libraries and related technology currently known as or offered under the Finger Q name, together with perpetual license under all related patents held by the licensors and any other intellectual property rights owned by the licensors related to the forgoing software. The Company made a *one*-time payment of *$12,000,000* to the licensors. Mr. Yao Jianhu is the chairman and chief executive officer of CGG and a director of the Company. Mr. Wong Kwok Fong served as the chief technology officer of CGG through *October 2016* and is the beneficial owner of *33.2%* of the Company's common stock, and a director and executive officer of the Company.

Securities Purchase Agreements with Wong Kwok Fong

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

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

On *September 22, 2017,* the Company issued to Wong Kwok Fong, a director and executive officer of the Company, *427,778* shares of common stock and warrants to purchase *138,889* shares of common stock for the aggregate purchase price of *$1,540,000,* or *$3.60* per share. The purchase price was paid via a cash payment of *$1,000,000* for *277,778* shares of common stock, and the conversion of an accrued dividend payable in the amount of *$540,000* on the Company's Series A-*1* Convertible Preferred Stock for *150,000* shares of common stock.

On *August 7, 2017,* the Company received written notice from Wong Kwok Fong, the holder of an aggregate of *90,000* shares of the Company's Series A-*1* Convertible Preferred Stock, of his desire to increase the maximum percentage of shares of common stock issuable upon conversion of the Series A-*1* Convertible Preferred Stock from *9.99%* to *35%.* The Company waived a standstill provision to permit such increase. In accordance with the Certificate

of Designation of the Series A-*1* Shares, such notice became effective on the *61st* day following the date such notice was provided to the Company. On *October 17, 2017,* Wong Kwok Fong converted *27,404* of the Series A-*1* Shares at a conversion price of *$3.60* per share resulting in the acquisition of *761,222* shares of the Company's Common Stock

NOTE K—DEFERRED REVENUE

Deferred revenue represents unearned revenue on maintenance contracts. Maintenance contracts include provisions for unspecified when-and-if available product updates and customer telephone support services, and are recognized ratably over the term of the service period. At *December 31, 2017* and *2016,* amounts in deferred revenue were approximately *$508,000* and *$633,000,* respectively.

NOTE L—SEGMENT INFORMATION

The Company has determined that its continuing operations are *one* discrete segment consisting of Biometric products. Geographically, North American sales accounted for approximately *87%* and *78%* of the Company's total revenues for *2017* and *2016,* respectively.

NOTE M—COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company does *not* own any real estate but conducts operations from *three* leased premises. These non-cancelable operating leases expire at various dates through *2020.* In addition to base rent, the Company pays for property taxes, maintenance, insurance and other occupancy expenses according to the terms of the individual leases.

Future minimum rental commitments of non-cancelable operating leases are approximately as follows:

Years ending December 31,	
2018	*148,862*
2019	*45,033*
2020	*31,898*
	$*225,793*

Rental expense was approximately *$221,000* and *$193,000* during *2017* and *2016,* respectively. Amounts are recorded in Selling, General, and administrative expenses.

Litigation

From time to time, we *may* be involved in litigation relating to claims arising out of our operations in the normal course of business. As of *December 31, 2017,* there were *no* pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of our operations.

NOTE N— EQUITY

1. Preferred Stock

Within the limits and restrictions provided in the Company's Certificate of Incorporation, the Board of Directors has the authority, without further action by the shareholders, to issue up to *5,000,000* shares of preferred stock, *$.0001* par value per share, in *one* or more series, and to fix, as to any such series, any dividend rate, redemption price, preference on liquidation or dissolution, sinking fund terms, conversion rights, voting rights, and any other preference or special rights and qualifications. As of *December 31, 2017, 100,000* shares of preferred stock have been designated as Series A-*1* Convertible Preferred Stock, of which *62,596* shares are issued and outstanding, and *105,000* shares of preferred stock have been designated as Series B-*1* Convertible Preferred Stock, all of which are outstanding.

Series A-1 Convertible Preferred Stock

On *October 22* and *29, 2015,* the Company issued *84,500* shares of Series A-*1* Convertible Preferred Stock at a purchase price of *$100.00* per share, for aggregate gross proceeds of *$8,450,000.* On *November 11, 2015, 5,500* additional shares of Series A-*1* Convertible Preferred Stock were issued at a purchase price of *$100.00* per share, for gross cash proceeds of *$550,000.* Shares of the Series A-*1* Convertible Preferred Stock are convertible at any time at the option of the holder into shares of common stock by dividing the Series A-*1* Original Issue Price by the conversion price of *$3.60* per share, subject to adjustment for stock dividends, stock splits, combinations, and reclassifications of the Company's capital stock, and subject to a "blocker provision" which prohibits conversion if such conversion would result in the holder being the beneficial owner of in excess of *9.99%* of the Company's common stock. These provisions have been waived on *61* days' written notice which have been received from Series A-*1* holder on *August 7, 2017.* The Series A-*1* Shares accrue dividends at the rate of *6%* per annum payable quarterly on *April 1, July, 1, October 1,* and *January 1* of each year. Until *October 1, 2017,* the dividends are payable in cash provided that if payment in cash would be prohibited under applicable Delaware corporation law or cause the Company to breach any agreement for borrowed money, such dividends are payable in kind through the issuance of additional shares of common stock having a value equal to the volume weighted average trading price of the Company's common stock for the *ten* (*10*) days preceding the applicable dividend payment date. Commencing *January 1, 2018,* dividends are payable at the option of the Company in cash or kind through the issuance of additional shares of common valued as described above.

The holders of the Series A-*1* shares are entitled to designate *one* person to serve on the Board of Directors of the Company. The holders of the Series A-*1* Shares are entitled to vote on an as converted to common stock basis together with the holders of common stock on all matters presented to the Company's stockholders. Upon any liquidation or dissolution of the Company, any merger or consolidation involving the Company or any subsidiary of the Company in which the shares of capital stock of the Company outstanding immediately prior to such merger or consolidation do *not* represent immediately following such merger or consolidation at least a majority of the voting power of the capital stock of the resulting or surviving corporation, or the sale of all or substantially all assets in a single transaction or a series of related transactions, unless the holders of at least a majority of the outstanding Series A-*1* Shares elect otherwise, holders of Series A-*1* Shares shall be entitled to receive prior to any payment to any holders of the Company's common stock an amount per share equal to *$100.00* per share plus any declared and unpaid dividends (pari-passu with the Series B-*1* holders).

On *September 22, 2017,* the holder of the Series A-*1* Shares elected to convert *$540,000* in accrued dividends payable into *150,000* shares of common stock at a conversion price of *$3.60.* On *October 17, 2017, t*he holder of the Series A-*1* Shares converted *27,404* Series A-*1* Shares into *761,222* shares of common stock at a conversion price of *$3.60*

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As of *December 31, 2017, $236,658* was accrued for the holder of the Series A-*1* Shares, for *October 1, 2017* and *January 1, 2018* dividends. As of *December 31, 2016, $270,000* of dividends were accrued for the holder of the Series A-*1* shares for *October 1, 2016* and *January 1, 2017* dividends.

The Series A-*1* Preferred Stock contains options that based on an evaluation of FASB ASC *815-15,* "Embedded Derivatives" and FASB ASC *815-40-15,* "Contracts in Entity's Own Equity - Scope and Scope Exceptions," are considered embedded features: Preferred Stock's conversion option: The Series A-*1* Preferred Stock is convertible at the holder's option at any time at the fixed conversion price of *$3.60* per share; Quarterly Dividend Conversion Option: From issuance until *December 31, 2017,* the holders of a majority of the outstanding Series A-*1* Shares had the right to elect to have the quarterly dividend payment made in shares of Common Stock, having a value equal to the volume weighted average trading price of the Common Stock during the *ten* (*10*) trading day period preceding the applicable dividend payment date. These features were analyzed by the Company and determined that they were *not* required to be bifurcated from the preferred stock and recorded as derivatives as they are clearly and closely related to an equity host.

Series B-1 Convertible Preferred Stock

On *November 11, 2015,* the Company issued *105,000* shares of Series B-*1* Convertible Preferred Stock at a purchase price of *$100.00* per share, for gross proceeds of *$10,500,000.* Shares of the Series B-*1* Convertible Preferred Stock are convertible at any time at the option of the holder into shares of common stock by dividing the Series B-*1* Original Issue Price by the conversion price of *$3.60* per share, subject to adjustment for stock dividends, stock splits, combinations, and reclassifications of the Company's capital stock, and subject to a "blocker provision" which prohibits conversion if such conversion would result in the holder being the beneficial owner of in excess of *9.99%* of the Company's common stock. The Series B-*1* Shares accrue dividends at the rate of *2.5%* per annum payable quarterly on *April 1, July, 1, October 1,* and *January 1* of each year payable in cash provided that if payment in cash would be prohibited under applicable Delaware corporation law or cause the Company to breach any agreement for borrowed money, or if the holders of a majority of the outstanding shares of the Series B-*1* Shares elect otherwise, such dividends are payable in kind through the issuance of additional shares of common stock having a value equal to the volume weighted average trading price of the Company's common stock for the *ten* (*10*) days preceding the applicable dividend payment date.

The holders of the Series B-*1* Shares are entitled to designate *one* person to serve on the Board of Directors of the Company. The holders of the Series B-*1* Shares are entitled to vote on an as converted to common stock basis together with the holders of our common stock on all matters presented to the Company's stockholders. Upon any liquidation or dissolution of the Company, any merger or consolidation involving the Company or any subsidiary of the Company in which the shares of capital stock of the Company outstanding immediately prior to such merger or consolidation do *not* represent immediately following such merger or consolidation at least a majority of the voting power of the capital stock of the resulting or surviving corporation, or the sale of all or substantially all assets in a single transaction or a series of related transactions, unless the holders of at least a majority of the outstanding Series B-*1* Shares elect otherwise, holders of Series B-*1* Shares shall be entitled to receive prior to any payment to any holders of the

Company's common stock an amount per share equal to *$100.00* per share plus any declared and unpaid dividends (pari-passu with the Series A-*1* holders). As of *December 31, 2017, $393,750* was accrued for the holders of the Series A-*1* Shares, for *October 1, 2016, January 1, 2017, April 1, 2017, July 1, 2017, October 1, 2017* and *January 1, 2018* dividends. As of *December 31, 2016 $131,250* of dividends were accrued for the holders of the Series B-*1* shares for *October 1, 2016* and *January 1, 2017* dividends.

The Series B-*1* Preferred Stock contains options that based on an evaluation of FASB ASC *815-15,* "Embedded Derivatives" and FASB ASC *815-40-15,* "Contracts in Entity's Own Equity - Scope and Scope Exceptions," are considered embedded features: Preferred Stock's conversion option: The Series B-*1* Preferred Stock is convertible at the holder's option at any time at the fixed conversion price of *$3.60* per share; Quarterly Dividend Conversion Option: The holders of the majority of the outstanding Series B-*1* shares *may* elect to have the Stock's Quarterly dividend payment made in shares of Common Stock, having a value equal to the volume weighted average trading price of the Common Stock during the *ten* (*10*) trading day period preceding the applicable dividend payment date. These features were analyzed by the Company and determined that they were *not* required to be bifurcated from the preferred stock and recorded as derivatives as they are clearly and closely related to an equity host.

Stock Issuance Costs

Costs of approximately *$80,000* were incurred during *2017* in relation to the issuance of common and preferred stock.

2. Common Stock

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

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.

Issuances of Common Stock

Pursuant to a Securities Purchase Agreement, dated *November 11, 2016,* by and between the Company and Wong Kwok Fong the Company issued *516,667* shares of common stock for aggregate gross proceeds of *$1,860,000.*

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

On *May 2, 2017,* the Company entered into a committed equity facility pursuant to which it *may* issue and sell up to *$5.0* million worth of shares of common stock, subject to certain limitations and satisfaction of certain conditions, over a *36*-month term following the effectiveness of a registration statement covering the public resale of the shares of common stock issued under the facility. As of *December 31, 2017,* the registration statement has *not* been filed. From time to time over the term of the facility, the Company *may* issue requests to the investor to purchase a specified dollar amount of shares up to a maximum of *$100,000* over a *five* trading day period based on the daily volume weighted average price of the Company's common stock (VWAP) to the extent the VWAP equals or exceeds the greater of a formula amount or *$3.83* per share. The per share purchase price for the shares issued under the facility will be equal to *94%* of the lowest VWAP that equals or exceeds *$3.83* per share. Aggregate sales under the facility are limited to *19.99%* of the total outstanding shares of the Company's common stock as of *May 2, 2017,* unless stockholder approval is obtained, and sales under the facility are prohibited if such a sale would result in beneficial ownership by the investor of more than *9.99%* of the Company's common stock.

On *September 22, 2017,* the Company issued to Wong Kwok Fong, a director, executive officer and principal stockholder of the Company, *427,778* shares of common stock and warrants to purchase *138,889* shares of common stock for an aggregate purchase price of *$1,540,000,* or *$3.60* per share. The purchase price was paid via a cash payment of *$1,000,000* for *277,778* shares and conversion of an accrued dividend payable on the Company's Series A-*1* Convertible Preferred Stock of *$540,000* into *150,000* shares.

Also on *September 22, 2017,* Wong Kwok Fong converted *27,404* Series A-*1* Shares into *761,222* shares of common stock at a conversion price of *$3.60*

Issuances to Directors, Executive Officers and Consultants

On *March 15, 2017,* the Company issued *1,895* shares of common stock to its directors in payment of board fees, valued at *$5,003.*

On *May 11, 2017,* the Company issued *1,925* shares of common stock to its directors in payment of board fees, valued at *$5,005.*

In *May 2017,* the Company issued *55,000* shares of common stock in payment of a commitment fee for the equity facility of *$198,000.* The Company immediately expensed the fee as it relates to the contingent use of the equity committed equity facility.

In *May 2017,* the Company issued *61,667* shares of common stock to a consultancy firm in lieu of payment for services with respect to the equity facility agreement. The fair value at issuance averaged *$2.54* per share, with the total amount of *$156,584.* The Company deferred the cost to prepaid expense and is amortizing the expense over the length of the consultancy service agreement which has been fully amortized as of *December 31, 2017.*

On *August 9, 2017,* the Company issued *5,148* shares of common stock to its directors in payment of board fees valued at *$18,017.*

On *November 13, 2017,* the Company issued *2,276* shares of common stock to its directors in payment of board fees valued at *$4,005.*

During the year ended *December 31, 2016,* the Company issued *18,914* shares of common stock to its directors in lieu of payment of board fees, valued at *$45,000,* and issued *8,334* shares of common stock to the Chief Executive Officer as compensation, valued at *$17,000.*

During the year ended *December 31, 2016*, the Company issued *41,667* shares of common stock to a consultancy firm in lieu of payment for services. The fair value at issuance was calculated at *$2.52* per share, with the total amount of *$105,000* to be expensed over the period of the services.

Employees' exercise options

During *2017, 4,167* employee stock options were exercised resulting in the cashless issuance of *1,610* shares of common stock. There were *no* stock options exercised during *2016.*

Derivative Liabilities

In connection with the issuances of equity instruments or debt, the Company *may* issue options or warrants to purchase common stock. In certain circumstances, these options or warrants *may* be classified as liabilities, rather than as equity. In addition, the equity instrument or debt *may* contain embedded derivative instruments, such as conversion options or listing requirements, which in certain circumstances *may* be required to be bifurcated from the associated host instrument and accounted for separately as a derivative liability instrument. The Company early-adopted the new provisions issued *July 2017,* for derivative liability instruments under FASB ASU *2017-11,* Earnings Per Share (Topic *260*), Distinguishing Liabilities from Equity (Topic *480*) and Derivatives and Hedging (Topic *815*): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception. Under ASU *2017-11,* down round features do *not* meet the criteria for derivative accounting and *no* liability is to be recorded until an actual issuance of securities triggers the down-round feature. Prior to these provisions, the liabilities were recorded without the actual issuance of the securities triggering the down-round feature.

A) Securities Purchase Agreements dated *October 25, 2013* and *November 8, 2013*

Pursuant to a series of Private Investors Securities Purchase Agreements, on *October 25, 2013* and *November 8, 2013,* the Company issued to certain private investors an aggregate of *1,026,972* units consisting of *1,026,972* shares of common stock and warrants to purchase an additional *1,026,972* shares of common stock for an aggregate purchase price of *$3,697,100.* The warrants were immediately exercisable at an exercise price of *$6.00* per share, and had a term of *three* years which expired in *2016.*

In connection with the share issuances described above, and pursuant to a placement agency letter agreement, the Company paid the placement agent cash commissions equal to *8%* of the gross proceeds of the offering, reimbursed the placement agent for its reasonable out of pocket expenses, and issued to the placement agent warrants to purchase an aggregate of *82,158* shares of common stock. The placement agent warrants have substantially the same terms as the warrants issued to the investors, except the placement agent warrants were immediately exercisable on a cashless basis.

The cashless exercise features contained in the warrants were considered to be derivatives and the Company recorded warrant liabilities on the consolidated balance sheet. The Company initially recorded the warrant liabilities equal to their estimated fair value of *$325,891.* Such amount was also recorded as a reduction of additional paid-in capital. The Company is required to mark-to-market the warrant liabilities at the end of each reporting period. For the year ended *December 31, 2016,* the Company recorded a gain on the change in the fair value of the cashless exercise feature of *$7,478.* As of *December 31, 2016,* the fair value of the cashless exercise features was *$0* as the underlying warrants expired during the *fourth* quarter of *2016.*

B) Securities Purchase Agreement dated *November 13, 2014*

Pursuant to a Securities Purchase Agreement, dated *November 13, 2014,* by and between the Company and a number of private and institutional investors (the *"November 2014* Private Investor SPA"), the Company issued to certain private investors *664,584* shares of common stock and warrants to purchase an additional *996,877* shares of common stock for aggregate gross proceeds of *$1,595,000.*

The common stock had a purchase price reset feature. If at any time prior to the *two* year anniversary of the effective date of the registration statement covering the public resale of such shares (*January 29, 2015),* the Company sold or issued shares of common stock or securities that are convertible into common stock at a price lower than *$2.40* per share, the Company would have been required to issue additional shares of common stock for *no* additional consideration.

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

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

The warrants have a term of *five* years and an exercise price of *$3.60* per share, and have been fully exercisable since *February 2015.* The warrants have customary anti-dilution protections including a "full ratchet" anti-dilution adjustment provision which are triggered in the event the Company sells or grants any additional shares of common stock, options, warrants or other securities that are convertible into common stock at a price lower than *$3.60* per share. The anti-dilution adjustment provision is *not* triggered by certain "exempt issuances" which among other issuances, includes the issuance of shares of common stock, options or other securities to officers, employees, directors, consultants or service providers.

As a result of the early adoption of ASU *2017-11* referred to in Note A – Recently Issued Accounting Pronouncements, the "full ratchet" anti-dilution feature is *no* longer a determinant for derivative liability accounting. As the "full ratchet" anti-dilution feature was determined to have *no* value in the past, the adoption had *no* effect on the balance sheets or statements of operations.

C) Securities Purchase Agreement dated *September 23, 2015*

On *September 23, 2015,* the Company issued a warrant to purchase *69,445* shares of common stock in connection with the issuance of a promissory note. The warrants are immediately exercisable at an exercise price of *$3.60* per share

and have a term of *five* years.

The warrants have customary anti-dilution protections including a "full ratchet" anti-dilution adjustment provision which are triggered in the event the Company sells or grants any additional shares of common stock, options, warrants or other securities that are convertible into common stock at a price lower than *$3.60* per share. The anti-dilution adjustment provision is *not* triggered by certain "exempt issuances" which among other issuances, includes the issuance of shares of common stock, options or other securities to officers, employees, directors, consultants or service providers.

As a result of the early adoption of ASU *2017-11* referred to in Note A – Recently Issued Accounting Pronouncements, the “full ratchet” anti-dilution feature is *no* longer a determinant for derivative liability accounting. As the “full ratchet” anti-dilution feature was determined to have *no* value in the past, the adoption had *no* effect on the balance sheets or statements of operations.

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

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3. Warrants

The Company has issued warrants to certain creditors, investors, investment bankers and consultants. A summary of warrant activity is as follows:

	Total Warrants	**Weighted average exercise price**	**Weighted average remaining life (in years)**	**Aggregate intrinsic value**
Outstanding, as of January 1, 2016	*1,704,628*	*4.40*	*3.02*	
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	*(444,548*)	*6.00*		
Outstanding, as of December 31, 2016	*1,260,080*	*3.84*	*2.78*	—
Granted	*138,889*	*3.60*		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Outstanding, as of December 31, 2017	*1,398,969*	*3.81*	*2.06*	—
Vested or expected to vest at December 31, 2017	*1,398,969*	*3.81*	*2.06*	—
Exercisable at December 31, 2017	*1,398,969*	*3.81*	*2.06*	—

On *September 22, 2017,* the Company issued to Wong Kwok Fong, a director and executive officer of the Company, warrants to purchase *138,889* shares of Common Stock in connection with the purchase of *427,778* shares of common stock by Mr. Fong. The warrants are immediately exercisable at an exercise price of *$3.60* per share and have a term of *five* years.

NOTE O—STOCK OPTIONS

2004 Stock Option Plan

On *October 12, 2004,* the Board of Directors of the Company approved the *2004* Stock Option Plan (the *2004* Plan). The *2004* Plan was *not* presented to stockholders for approval and thus incentive stock options were *not* available under this plan. Under the terms of this plan, *166,667* shares of common stock were reserved for issuance to employees, officers, directors, and consultants of the Company at exercise prices which *may not* be below *85%* of fair market value. The term of stock options granted *may not* exceed *ten* years. Options issued under the *2004* Plan vest pursuant to the terms of stock option agreements with the recipients. In the event of a change in control, as defined, all options outstanding vest immediately. The *2004* Plan expired in *October 2014.*

2015 Stock Option Plan

On *January 27, 2016,* the shareholders approved the *2015* Equity Incentive Plan (the *2015* Plan). Under the terms of this plan, *666,667* shares of common stock are reserved for issuance to employees, officers, directors, and consultants of the Company at exercise prices which *may not* be below *100-110%* of fair market value. The term of stock options granted *may not* exceed *ten* years. Options issued under the *2015* Plan vest pursuant to the terms of stock option agreements with the recipients. In the event of a change in control, certain stock awards issued under this plan *may* be subject to additional acceleration of vesting as *may* be provided in the participants' written agreement. The *2015* Plan expires in *December 2025.*

Non-Plan Stock Options

Periodically, the Company has granted options outside of the *2004* and *2015* Plans to various employees and consultants. In the event of change in control, as defined, certain of the non-plan options outstanding vest immediately.

Stock Option Activity

Information summarizing option activity is as follows:

	Number of Options					Weighted average exercise price	Weighted average remaining life (in years)	Aggregate intrinsic value
	1999 Plan	2004 Plan	2015 Plan	Non Plan	Total			
Outstanding, as of December 31, 2015	***20,834***	***85,008***	**—**	***259,088***	***364,930***	**$ *3.87***		
Granted	—	—	*27,087*	—	*27,087*	*2.74*		
Exercised	—	—	—	—	—			
Forfeited	—	—	*(2,084*)	*(8,335*)	*(10,419*)	*2.16*		
Expired	*(20,834*)	*(15,628*)	—	*(3,473*)	*(39,935*)	*2.50*		
Outstanding, as of December 31, 2016	—	***69,380***	***25,003***	***247,280***	***341,663***	**$ *3.99***	***4.23***	**$ *53,936***
Granted	—	—	*64,167*	*1,170,000*	*1,234,167*	*2.69*		
Exercised	—	—	—	*(4,167*)	*(4,167*)	*2.16*		
Forfeited	—	—	*(7,084*)	*(65,140*)	*(72,224*)	*2.62*		
Expired	—	*(17,084*)	—	*(4,862*)	*(21,946*)	*8.86*		
Outstanding, as of December 31, 2017	—	***52,296***	***82,086***	***1,343,111***	***1,477,493***	**$ *2.91***	***5.64***	**$ *0***
Vested or expected to vest at December 31, 2017					***1,083,691***	**$ *2.98***	***5.43***	**$ *0***
Exercisable at December 31, 2017					***261,294***	**$ *3.96***	***3.09***	**$ *0***

The options outstanding and exercisable at *December 31, 2017* were in the following exercise price ranges:

Options Outstanding	Options Exercisable

Range of exercise prices	Number of shares	Weighted average exercise price	Weighted average remaining life (in years)	Number exercisable	Weighted average exercise price
$1.90-2.50	87,064	$ 2.16	4.65	56,422	$ 2.16
2.51-3.50	1,207,296	2.70	6.15	21,740	3.23
3.51-5.04	183,132	4.60	2.77	183,132	4.60
$1.90-5.04	1,477,493			261,294	

The aggregate intrinsic value in the table above represents the total intrinsic value, based on the Company's closing stock price of *$1.77* as of *December 31, 2017,* which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of *December 31, 2017* was *0.*

The weighted average fair value of options granted during the years ended *December 31, 2017* and *2016* was *$2.32* and *$1.86* per share, respectively. The total intrinsic value of options exercised during the years ended *December 31, 2017* and *2016* was *$5,667* and *$0,* respectively. The total fair value of shares vested during the years ended *December 31, 2017* and *2016* was *$197,281* and *$285,430* respectively.

As of *December 31, 2017,* future compensation cost related to nonvested stock options is *$1,634,611* and will be recognized over an estimated weighted average period of *2.19* years.

NOTE P—INCOME TAXES

There was *no* provision for federal or state taxes as at *December 31, 2017* and *2016.*

In *December 22, 2017,* the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act significantly impacts the future ongoing U.S. corporate income tax by, among things, lowering the U.S. corporate income tax rates from *34%* to *21%,* providing for unlimited net operating loss carry-forward periods, and implementing a territorial tax system. The reduction of the U.S. corporate tax rate required the Company to revalue its U.S. deferred tax assets and liabilities and valuation allowances to the recently enacted federal rate of *21%.* This transitional impact resulted in a provisional reduction of certain of the Company's US deferred tax assets which are offset by a full valuation allowance.

The Company has deferred taxes due to income tax credits, net operating loss carryforwards, and the effect of temporary differences between the carrying values of certain assets and liabilities for financial reporting and income tax purposes. Significant components of deferred taxes are as follows at *December 31:*

	2017	**2016**
Current asset:		
Accrued compensation	$*118,000*	$*67,000*
Accounts receivable allowance	*277,000*	*202,000*
Non-current asset (liability):		
Stock-based compensation	*387,000*	*360,000*
Basis differences in fixed assets	*(18,000*)	*(8,000*)
Basis differences in intangible assets	*46,000*	*60,000*
Net operating loss and credit carryforwards	*12,052,000*	*18,597,000*
Valuation allowances	*(12,862,000*)	*(19,278,000*)
	$—	$—

The Company has a valuation allowance against the full amount of its net deferred taxes due to the uncertainty of realization of the deferred tax assets due to operating loss history of the Company. The Company currently provides a valuation allowance against deferred taxes when it is more likely than *not* that some portion, or all of its deferred tax assets will *not* be realized. The valuation allowance could be reduced or eliminated based on future earnings and future estimates of taxable income. Similarly, income tax benefits related to stock options exercised have *not* been recognized in the financial statements.

As of *December 31, 2017,* the Company has federal net operating loss carryforwards of approximately *$57,064,000* subject to expiration between *2021* and *2037.* These net operating loss carryforwards are subject to the limitations under Section *382* of the Internal Revenue Code due to changes in the equity ownership of the Company.

A reconciliation of the effective income tax rate on operations reflected in the Statements of Operations to the US Federal statutory income tax rate is presented below.

	2017	**2016**
Federal statutory income tax rate	*34* %	*34* %
Permanent differences	—	—
Change in tax laws/tax rate	*(13*)	-
Effect of net operating loss	*(21*)	*(34*)
Effective tax rate	— %	— %

The Company has *not* been audited by the Internal Revenue Service ("IRS") or any states in connection with income taxes. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The periods from *2014* through *2017* remain open to examination by the IRS and state jurisdictions. The Company believes it is *not* subject to any tax audit risk beyond those periods. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company does *not* have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any significant interest expense recognized during the years ended *December 31, 2017* and *2016.*

NOTE Q—PROFIT SHARING PLAN

The Company has established a savings plan under section *401*(k) of the Internal Revenue Code. All employees of the Company, after completing *one* day of service, are eligible to enroll in the *401*(k) plan. Participating employees *may* elect to defer a portion of their salary on a pre-tax basis up to the limits as provided by the IRS Code. The Company is *not* required to match employee contributions but *may* do so at its discretion. The Company made *no* contributions during the years ended *December 31, 2017* and *2016.*

NOTE R—EARNINGS PER SHARE (EPS)

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

The reconciliation of the numerator of the basic and diluted EPS calculations, due to the inclusion of preferred stock dividends was as follows for the following fiscal years ended *December 31:*

	2017	**2016**
Basic Numerator:		
Loss from continuing operations	$*(4,275,338*)	$*(4,189,704*)
Convertible preferred stock dividends	*(769,158*)	*(802,500*)
Net loss available to common stockholders (basic and diluted EPS)	$*(5,044,496*)	$*(4,992,204*)

The following table summarizes the weighted average securities that were excluded from the diluted per share calculation because the effect of including these potential shares was antidilutive.

	Years ended December 31,	
	2017	**2016**

Preferred stock	*5,264,422*	*5,416,667*
Stock options	*15,529*	*17,657*
Warrants	*2,109*	*1,018*
Potentially dilutive securities	*5,282,060*	*5,435,342*

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

	Years ended December 31,	
	2017	**2016**
Stock options	*1,390,428*	*235,845*
Warrants	*1,351,052*	*1,212,163*
Total	*2,741,480*	*1,448,008*

NOTE S—SUBSEQUENT EVENTS

On *March 23, 2018,* holders of shares of the Company's Series B-*1* Convertible Preferred Stock (the "Series B-*1* Preferred") converted *60,240* shares of Series B-*1* Preferred into *1,678,334* shares of common stock.

On *March 23, 2018,* the Company issued *115,857* shares of common stock to holders of shares of Series B-*1* Preferred in consideration of the conversion of *$417,084* of accrued dividends payable on the Series B-*1* Preferred resulting in a per share purchase price of *$3.60.* In connection with the forgoing transaction, the Company waived a standstill provision to permit a holder of shares of Series B-*1* Preferred to increase its conversion limitation to *19.99%* of the Company's issued and outstanding shares of common stock to be effective *61* days after such waiver.

On *March 23, 2018,* the Company issued *7,659* shares of common stock to its directors in payment of board and board committee fees.

On *March 23, 2018,* the Company issued options to purchase *9,000* shares of common stock to *six* non-employee members of the Board of Directors. The options have a *three* year vesting period, *seven* year term, and exercise price of *$1.96.*

On *March 23, 2018,* the Company issued options to purchase *212,918* shares of the Company's common stock to certain officers, employees, and contractors. The options have a *three* year vesting period, *seven* year term, and exercise price of *$1.96.*

On *March 28, 2018,* the Company issued *762* shares of common stock to its directors in payment of committee fees.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: April 2, 2018 By: /s/ MICHAEL W. DEPASQUALE
Michael W. DePasquale
CHIEF EXECUTIVE OFFICER

(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities on the dates indicated.

Signature	Title	Date
/s/ MICHAEL W. DEPASQUALE Michael W. DePasquale	Chairman of the Board of Directors, Chief Executive Officer and Director (Principal Executive Officer)	April 2, 2018
/s/ CECILIA WELCH Cecilia Welch	Chief Financial Officer (Principal Financial and Accounting Officer)	April 2, 2018
/s/ROBERT J. MICHEL Robert J. Michel	Director	April 2, 2018
/s/ THOMAS E. BUSH III Thomas E. Bush	Director	April 2, 2018
/s/ THOMAS GILLEY Thomas Gilley	Director	April 2, 2018
/s/ WONG KWOK FONG	Director	

Wong Kwok Fong		April 2, 2018
/s/ YAO JIANHUI Yao Jianhui	Director	April 2, 2018
/s/ FABIAN SHIN Fabian Shin	Director	April 2, 2018
/s/ PIETER KNOOK Pieter Knook	Director	April 2, 2018

EXHIBIT INDEX

Exhibit No.	Exhibit
3.1	Certificate of Incorporation of BIO-key International, Inc., a Delaware corporation (incorporated by reference to Exhibit 3.1 to the current report on Form 8-K, filed with the SEC on January 5, 2005)
3.2	Bylaws (incorporated by reference to Exhibit 3.3 to the current report on Form 8-K, filed with the SEC on January 5, 2005)
3.3	Certificate of Amendment to Certificate of Incorporation (incorporated by reference to Appendix A to the definitive proxy statement, filed with the SEC on January 18, 2006)
3.4	Certificate of Amendment of Certificate of Incorporation of Bio-key International, Inc., a Delaware corporation (incorporated by reference to Exhibit 3.4 to the annual report on Form 10-K, filed with the SEC on March 31, 2015)
3.5	Certificate of Elimination of BIO-key International, Inc. filed October 6, 2015 (incorporated by reference to Exhibit 3.5 to the registration statement on Form S-1 File No. 333-208747 filed with the SEC on December 23, 2015)
3.6	Certificate of Designation of Preferences, Rights and Limitations of Series A-1 Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the current report on Form 8-K, filed with the SEC on November 2, 2015)
3.7	Certificate of Designation of Preferences, Rights and Limitations of Series B-1 Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the quarterly report on Form 10-Q, filed with the SEC on November 16, 2015)
3.8	Certificate of Amendment of Certificate of Incorporation of Bio-key International, Inc., a Delaware corporation (incorporated by reference to Exhibit 3.1 to the current report on Form 8-K, filed with the SEC on December 28, 2016)
4.1	Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 to the registration statement on Form SB-2, File No. 333-16451)
10.1	Employment Agreement by and between BIO-key International, Inc. and Mira LaCous dated November 20, 2001 (incorporated by reference to Exhibit 10.39 to the current report on Form 8-K, filed with the SEC on January 22, 2002)
10.2	BIO-key International, Inc. 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.48 to amendment no. 1 the registrant's registration statement on Form SB-2, File No. 33-120104, filed with the SEC on December 14, 2004)
10.3	

	Employment Agreement, effective March 25, 2010, by and between the Company and Michael W. DePasquale (incorporated by reference to Exhibit 10.93 to the annual report on Form 10-K, filed with the SEC on March 26, 2010)
10.4	Form of Warrant (incorporated by reference to Exhibit 10.30 to the registration statement on Form S-1, filed with the SEC on July 26, 2013)
10.5	Employment Agreement by and between BIO-key International, Inc. and Cecilia Welch dated May 15, 2013 (incorporated by reference to Exhibit 10.42 to the annual report on Form 10-K, filed with the SEC on March 31, 2014)
10.6	Third Amendment to Lease Agreement by and between BIO-key International, Inc. and Victor AOP, Inc. dated June 30, 2013 (incorporated by reference to Exhibit 10.43 to the annual report on Form 10-K, filed with the SEC on March 31, 2014)
10.7	First Amendment to Lease Agreement by and between BIO-key International, Inc. and BRE/DP MN LLC dated September 12, 2013 (incorporated by reference to Exhibit 10.44 to the annual report on Form 10-K, filed with the SEC on March 31, 2014)
10.8	Form of Investor Warrant, by and between the Company and certain investors dated November 13, 2014 (incorporated by reference to Exhibit 10.2 to the quarterly report on Form 10-Q, filed with the SEC on November 14, 2014)
10.9	Form of Convertible Preferred Stock Purchase Agreement (incorporated by reference to Exhibit 10.1 to the current report on Form 8-K, filed with the SEC on November 2, 2015)
10.10	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 to the current report on Form 8-K, filed with the SEC on November 2, 2015)

10.11	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the quarterly report on Form 10-Q, filed with the SEC on November 16, 2015)
10.12	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 to the quarterly report on Form 10-Q, filed with the SEC on November 16, 2015)
10.13	BIO-key International, Inc. 2015 Equity Incentive Plan (incorporated by reference to Appendix A to the definitive proxy statement filed with the SEC on December 15, 2015)
10.14	Software License Purchase Agreement Dated November 11, 2015 by and among BIO-key Hong Kong Limited, Shining Union Limited, WWTT Technology China, Golden Vast Macao Commercial Offshore Limited, Giant Leap International Limited (incorporated by reference to Exhibit 10.36 to the registration statement on Form S-1 File No. 333-208747 filed with the SEC on December 23, 2015)**
10.15	Securities Purchase Agreement dated November 11, 2016 by and between Registrant and Wong Kwok Fong (Kelvin) (incorporated by reference to Exhibit 10.1 to the quarterly report on Form 10-Q, filed with the SEC on November 14, 2016)
10.16	Securities Purchase Agreement dated April 28, 2017 by and between Registrant and Wong Kwok Fong (Kelvin) (incorporated by reference to Exhibit 10.1 to the quarterly report on Form 8-K, filed with the SEC on May 5, 2017)
10.17	Common Stock Purchase Agreement dated May 2, 2017 by and between Registrant and Xanthe Holdings Ltd. (incorporated by reference to Exhibit 10.2 to the quarterly report on Form 8-K, filed with the SEC on May 5, 2017)
10.18	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.3 to the current report on Form 8-K, filed with the SEC on May 5, 2017)
10.19	Form Non-Plan Option Agreement between the Company and certain of its directors, officers, employees and contractors (incorporated by reference to Exhibit 10.4 to the quarterly report on Form 10-Q filed with the SEC on May 15, 2017)
21.1	List of subsidiaries of BIO-key International, Inc. (incorporated by reference to Exhibit 21.1 to the annual report on Form 10-K, filed with the SEC on March 30, 2016)
23.1*	Consent of RMSBG
31.1*	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS* XBRL Instance

101.SCH* XBRL Taxonomy Extension Schema

101.CAL* XBRL Taxonomy Extension Calculation

101.DEF* XBRL Taxonomy Extension Definition

101.LAB* XBRL Taxonomy Extension Labels

101.PRE* XBRL Taxonomy Extension Presentation

* filed herewith

** Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted sections have been filed separately with the Securities and Exchange Commission