BIO KEY INTERNATIONAL INC
Form 10QSB
May 14, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

[X] Quarterly report under Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2003

[_] Transition Report Under Section 13 or 15(d)

of the Exchange Act

For the Transition Period

From _________ to __________

Commission file number 1-13463

BIO-KEY INTERNATIONAL, INC.
(Exact Name of Small Business Issuer as Specified in Its Charter)

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

1285 CORPORATE CENTER DRIVE,
SUITE # 175, EAGAN, MN 55121
(Address of Principal Executive Offices)

(651) 687-0414
(Issuer's Telephone Number)

APPLICABLE ONLY TO ISSUERS INVOLVED IN
BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date : There were 14,748,808 issued and outstanding shares of the registrant's common stock, par value $.01 per share, as of May 7, 2003.

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [X]

BIO-KEY INTERNATIONAL, INC.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BIO-key International, Inc.
(a Corporation in the Development Stage)

BALANCE SHEETS

		December 31, 2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	16,748

Accounts Receivable	67,998
Prepaid expenses	50,897
Total current assets	135,643
OTHER ASSETS	121,991
	$ 257,634

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES	
Current maturities of long-term obligations	$ 6,507,286
Accounts payable	354,694
Accrued liabilities	572,701
Total current liabilities	7,434,681
LONG-TERM OBLIGATIONS, net of discount, less current maturities	--
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIT	
Preferred stock - authorized, 5,000,000 shares of $ .01 par value (liquidation preference of $100 per share) Series B 9% Convertible; issued and outstanding, 18,430 shares	184
Common stock - authorized, 60,000,000 shares of $.01 par value; issued and outstanding, 14,377,406 shares	143,774
Additional contributed capital	16,284,399
Deficit accumulated during the development stage	(23,605,404)
	(7,177,047)
	$ 257,634

See accompanying notes to financial statements.

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BIO-key International, Inc.
(a Corporation in the Development Stage)
STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,		1 of
	2002	2003	
Revenues			

Product sales	$ --	$ 2,504	$
Licensing fees	--	25,000	
Reimbursed research and development	--	--	
Technical support and other services	--	--	
	--	27,504	
Costs and other expenses			
Cost of product sales	--	2,393	
Cost of technical support and other services	--	--	
Selling, general and administrative	504,731	568,499	
Research, development and engineering	287,462	221,107	
	792,193	791,999	
Operating loss	(792,193)	(764,495)	
Other income (deductions)			
Interest expense	(260,427)	(291,345)	
Sundry	1,045	554	
	(259,382)	(290,791)	
Loss before extraordinary gain	(1,051,575)	(1,055,286)	(
Extraordinary gain - troubled payable reduction	--	--	
NET LOSS	$ (1,051,575)	$ (1,055,286)	$
Net loss	$ (1,051,575)	$ (1,055,286)	$
Convertible preferred stock dividends and accretion	--	--	
Loss applicable to common stockholders	$ (1,051,575)	$ (1,055,286)	$
Basic and diluted loss per share			
Net loss before extraordinary gain	$ (.08)	$ (.07)	$
Extraordinary gain	--	--	
Net loss	(.08)	(.07)	
Convertible preferred stock dividends and accretion	--	--	
Loss per common share	$ (.08)	$ (.07)	$
Weighted average number of common shares outstanding	12,621,480	14,377,406	

See accompanying notes to financial statements

BIO-key International, Inc.
(a Corporation in the Development Stage)
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31, 2002	Three months ended March 31, 2003	
Cash flows from operating activities			
Net loss	$ (1,051,575)	$(1,055,286)	$
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	--	--	
Amortization			
Unearned compensation	--	--	
Deferred financing costs	--	--	
Discounts on convertible debt related to warrants and beneficial conversion features	153,954	138,546	
Write-down of inventory	--	--	
Write-down of deferred financing costs	--	--	
Gain on sale of Inter-Con/PC stock	--	--	
Revenues realized due to offset of billings against a stock repurchase	--	--	
Acquired research and development	--	--	
Options and warrants issued for services and other	94,397	156,000	
Other	--	--	
Change in assets and liabilities:			
Accounts receivable	--	56,803	
Inventories	--	--	
Prepaid expenses and other	(21,886)	(1,469)	
Accounts payable	142,091	(109,007)	
Accrued liabilities	149,723	159,474	
Net cash used in operations	(533,296)	(654,939)	
Cash flows from investing activities			
Capital expenditures	--	--	
Proceeds from sales of Inter-Con/PC stock	--	--	
Other	(255)	(1,971)	
Net cash used in investing activities	(255)	(1,971)	
Cash flows from financing activities			

Net borrowings under short-term borrowing agreements	--	--
Issuance of convertible bridge note	--	--
Issuance of convertible debentures and long-term notes	180,000	980,000
Issuance of warrants and discount on convertible debentures	--	--

Financing costs	(50,000)	--	
Exercise of stock options and warrants	--	--	
Sales of common stock	--	--	
Sale of preferred stock and assigned value of warrant	--	--	
Redemption of common stock	--	--	
Net cash provided by financing activities	130,000	980,000	
Net increase (decrease) in cash and cash equivalents	(403,551)	323,090	
Cash and cash equivalents, beginning of period	514,970	16,748	
Cash and cash equivalents, end of period	$ 111,419	$ 339,838	$

See accompanying notes to financial statements.

BIO-key International, Inc.
(a Corporation in the Development Stage)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002, and March 31, 2003 (Unaudited)

1. Unaudited Statements

The accompanying unaudited interim financial statements have been prepared by BIO-key International, Inc. (the Company) in accordance with accounting principles generally accepted in the United States, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted.

In the opinion of management, the accompanying unaudited interim financial statements contain all necessary adjustments, consisting only of those of a recurring nature, and disclosures to present fairly the financial position and the results of its operations and cash flows for the periods presented. It is suggested that these interim financial statements are read in conjunction with the financial statements and the related notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002.

2. Liquidity and Capital Resource Matters

Broad commercial acceptance of the Company's technology is critical to the Company's success and ability to generate revenues. The Company has had no significant revenues to date, and has accumulated losses since inception of approximately $23,414,000 of which approximately $1,055,000 was incurred during 2003. As of March 31, 2003 there was a stockholders' deficit of approximately $8,076,000.

The Company is in need of substantial additional capital. The Company is currently considering various alternatives related to raising additional capital including continued funding from an investment group and new funding from other sources. 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 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, which contemplate continuation of the Company as a going concern. 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 advancing beyond the development stage, which in turn is dependent upon the Company's ability to obtain additional financing, meet its financing requirements on a continuing basis, and succeed in its future operations. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue in existence.

3. Loss Per Common Share

Basic loss per share is calculated by dividing the net loss attributable to common stockholders by the number of weighted average common shares outstanding. Diluted earnings per share are calculated by dividing the net loss attributable to common stockholders by the weighted average common shares, and when dilutive, by including options, warrants and convertible securities outstanding using the treasury stock method. There was no difference between basic and diluted loss per share for all periods presented, because the impact of including options, warrants and convertible securities would be antidilutive.

BIO-key International, Inc.
(a Corporation in the Development Stage)

NOTES TO FINANCIAL STATEMENTS
December 31, 2002, and March 31, 2003 (Unaudited)

4. Prepaid Expenses

	December 31, 2002	March 31, 2003
Consulting fees and other	$ 24,274	$ 26,263
Insurance	26,673	26,103
	$ 50,897	$ 52,366

5. Other Assets

	December 31, 2002	March 31, 2003
Deferred offering costs	$ 81,900	$ 81,900
Patents pending	40,091	42,062
	$ 121,991	$ 123,962

Deferred offering costs

In March 2002, the Company engaged an investment banking firm to advise the Company regarding raising additional capital through the potential future issuance of the Company's equity, debt or convertible securities. The Company paid a nonrefundable retainer fee of $50,000 and granted a four year warrant to purchase 25,000 shares of the Company's common stock at an exercise price of $1.00 per share. The estimated value of the warrant is $17,000. These deferred costs shall be offset against any proceeds received from the sale of additional capital or charged to operations in the period this engagement terminates.

6. Accrued Liabilities

	December 31, 2002	March 31, 2003
Interest	$ 537,004	$ 689,803
Compensation	35,555	40,381
Other	142	1,991
	$ 572,701	$ 732,175

7. Long-term Obligations

As part of the Company's January 2003 funding transaction with an investor group (the Investor), the Investor agreed to provide additional financing (the Funding Agreement) in incremental monthly installments during the eleven-month period commencing January 27, 2003, subject to certain conditions. Currently conditions are not being met but the Investor has continued to fund. In the three months ended March 31, 2003 the Company has received $980,000 and issued notes payable to the Investor. The terms of the notes require the principal to be repaid on June 30,2004,interest to be accrued at 7%, payable in a single payment on June 30, 2004, and provide for conversion of principal and accrued interest into shares of the Company's common stock at a conversion price of $0.75 per share or shares of Series B Preferred stock at a conversion price of $100 per share.

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BIO-key International, Inc.
(a Corporation in the Development Stage)

NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and March 31, 2003 (Unaudited)

8. Stockholders Equity

Series B Convertible Preferred Stock Dividends

The Company's series B preferred stock accrues dividends at 9% payable semi-annually on June 15 and December 15. As of March 31, 2003 cumulative dividends in arrears were approximately $165,000. All of the Company's series B preferred stock are convertible into shares of the Company's common stock.

Options and Warrants

The following summarizes option and warrant activity since December 31, 2002:

	Number of Shares				
	1996 Plan	1999 Plan	Non-Plan	Warrants	Total
Balance, December 31, 2002	390,380	1,836,669	2,163,000	5,657,682	10,047,731
Granted	--	50,000	1,110,000	200,000	1,360,000
Cancelled	--	410,000	280,000	193,000	883,000
Balance, March 31, 2003	390,380	1,476,669	2,993,000	5,664,682	10,524,731
Available for future grants, March 31, 2003	266,620	523,331	--	--	789,951

9. Events Occurring Subsequent to March 31, 2003

Pursuant to the funding agreement with the Investor discussed in note 7, during May 2003 the Company obtained additional financing in the aggregate principal amount of $190,000.

On May 5, 2003, the Investor elected to convert 950 shares of Series B Preferred Stock and $13,040 of dividends in arrears and accrued interest thereon into 371,402 shares of the Company's common stock.

On April 3, 2003, the Company granted an employee of the Company a three-year option to purchase 100,000 shares of the Company's common stock at an exercise price of $.38 per share. The option provides for vesting of 9,090 shares quarterly in equal amounts over a thirty month period commencing July 7, 2003. The remaining 9,100 shares vest on January 7, 2006.

BIO-key International, Inc.
(a corporation in the Development Stage)

NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and March 31, 2003 (Unaudited)

10. Supplementary Disclosures of Cash Flow Information

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2003	January 7, 1993 (date of inception through March 31, 2003
Cash paid for:			
Interest	$ --	$ --	$ 28,544
Noncash Financing Activities:			
Conversion of short-term notes, accrued interest and penalties into long-term notes and debentures	--	--	4,567,546
Conversion of convertible debentures, bridge notes, and accrued interest into common stock	100,000	--	2,907,360
Accretion of preferred stock beneficial conversion feature	--	--	877,000
Issuance of Series B preferred stock in exchange for Series A preferred stock and cumulative dividends in arrears, thereon	--	--	281,049
Issuance of common stock in exchange for Series A and Series B preferred stock and cumulative dividends in			

arrears thereon	--	--	56,563
Issuance of preferred stock effected through reduction of debt	--	--	350,000
Unearned compensation reversal related to employee termination	--	--	227,111
Common stock repurchases effected through a reduction in receivable	--	--	170,174
Offset deferred offering costs against proceeds of initial public offering, and other	--	--	159,021
Issuance of warrants for reduction in payables	32,000	--	32,000

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

CAUTIONARY STATEMENT FOR FORWARD-LOOKING STATEMENTS

The information contained in this Report on Form 10-QSB and in other public statements by the Company and Company officers include or may contain certain forward-looking statements. The words "may", "intend", "will", "expect", "anticipate", "believe", "estimate", "project", and similar expressions used in this Report are intended to identify forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange of 1934. You should not place undue reliance on these forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly release the result of any revision of these forward-looking statements to reflect events or circumstances after the date they are made or to reflect the occurrence of unanticipated events. You should also know that such statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions. These factors include, but are not limited to, the Company's ability to successfully develop and market its technology and to obtain additional financing, as well as those risks described in detail in the Company's Annual Report on Form 10-KSB under the caption "Risk Factors" and other filings with the Securities and Exchange Commission. Should any of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, the actual results may differ materially from those included within the forward-looking statements.

OVERVIEW

The following should be read in conjunction with the financial statements of the Company included elsewhere herein.

BIO-key International, Inc. (the "Company") develops and markets proprietary fingerprint identification biometric technology and software solutions. These solutions are built around the advanced capabilities of the Company's proprietary patent pending VST(TM) (Vector Segment Technology(TM)) algorithm. The Company has pioneered the development of automated, finger identification technology that can be used without the aide of non-automated methods of identification such as a personal identification (PIN), password, token, smart card, ID card, credit card, passport, drivers license or other form of possession based or knowledge based identification. This advanced BIO-key(TM) identification technology improves both the accuracy and speed of finger-based biometrics and is the only finger identification algorithm that has been certified by the International Computer Security Association (ICSA).

Over the past three years, recognizing the growth in electronic commerce, private networks and related security concerns, the Company has actively positioned its technology for the licensing of a Web based biometric authentication software solution to e-commerce and other companies conducting business over the Internet. This integrated solution involves the licensing of client and server based software to provide for reliable and cost effective user authentication in connection with the processing of e-commerce transactions or securing access to private networks.

The Company has completed the development of its core technology, commenced the marketing of its technology in late 2002, and expects to continue to generate revenue from licensing arrangements during 2003.

Although the Company has developed significant identification technology, it has not gained any meaningful commercial acceptance and the Company has only generated minimal revenue since inception. The Company's business model, particularly the Web authentication initiative, represents a novel approach to Internet and network security which as of the date of this Report has not been adopted by any company conducting business over the Internet. Although recent security concerns relating to the identification of individuals has increased interest in biometrics generally, there can be no assurance that there will be a demand for such a solution or that the Company will have the financial or other resources necessary to successfully market such a software solution.

The Company believes its existing financial resources will only last through December 31, 2003. See "Liquidity and Capital Resources" below. Due to this and other uncertainties, the Company's independent auditors have included an explanatory paragraph in their opinion for the year ended December 31, 2002 as to the substantial doubt about the Company's ability to continue as a going concern. The Company's long-term viability and growth will depend upon the successful commercialization of its technologies and its ability to obtain adequate financing, among other matters, as to which there can be no assurances.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2003 AS COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

Revenues

The Company generated approximately $28,000 of revenue during the three months ended March 31, 2003 consisting of $25,000 from licensing fees and approximately $3,000 from reader sales and professional services. There was no revenue for the corresponding period in 2002.

Costs and Other Expenses

Cost of goods sold were approximately $2,400 during the three months ended March 31, 2003 as compared to $0 for the corresponding period in 2002.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased approximately $63,000 to approximately $568,000 during the three months ended March 31, 2003 as compared to approximately $505,000 for the corresponding period in 2002. Of the increase, approximately $56,000 was due to an increase in marketing costs as the Company focused on marketing its Web-based biometric authentication software solution, approximately $60,000 was due to an increase in executive personnel costs and approximately $38,000 was due to an increase in general administrative costs. These were offset by an approximate $85,000 decrease in outside consulting costs and an approximate $6,000 decrease in professional fees.

Research, Development, and Engineering Expenses

Research, development, and engineering expenses decreased approximately $66,000 to approximately $221,000 during the three months ended March 31, 2003 as compared to approximately $287,000 for the corresponding period in 2002. Of the decrease, approximately $55,000 was due to a decrease in wages for development personnel and approximately $35,000 was due to a decrease in general development expenses. These were offset by an approximate $24,000 increase in software subcontracting costs.

Other Income and Expense

Other income and expense increased approximately $31,000 to approximately $291,000 during the three months ended March 31, 2003 as compared to approximately $260,000 for the corresponding period in 2002. The increase was primarily due to an increase in interest expense associated with new long-term borrowings.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities during the three months ended March 31, 2003 was approximately $655,000 compared to approximately $533,000 during the three months ended March 31, 2002. The primary use of cash for both years was to fund the net loss. Net cash used in investing activities for the three months ended March 31, 2003 was approximately $2,000 compared to net cash used in investing activities of approximately $300 for the same period in 2002. Net cash provided by financing activities during the three months ended March 31, 2003 was $980,000 compared to $130,000 in the same period in 2002 and consisted primarily of long-term borrowing.

Working capital increased approximately $79,000 during the three months ended March 31, 2003 to a deficit of approximately $7,220,000 as compared to a deficit of approximately $7,299,000 as of December 31, 2002. This increase is primarily due to operating losses being offset by approximately $980,000 of new long-term debt.

Pursuant to a recapitalization transaction in November, 2001, all then existing promissory notes payable to the Investor together with all accrued and unpaid interest due thereon ($3,027,920) were cancelled and converted into a secured convertible promissory note (the

"Secured Note"). The Secured Note is due September 30, 2003, is secured by substantially all of the Company's assets, including its intellectual property, accrues interest at the rate of 10% per annum payable semi-annually in arrears commencing September 30, 2002, may be prepaid without penalty, and is convertible into shares of common stock at a conversion price of $.75 per share. The security interest terminates upon the Company obtaining $5,000,000 of additional equity financing. In this transaction, the Company received net cash proceeds of $1,024,500 after giving effect to offering costs of $40,500. Pursuant to the recapitalization transaction, between March and September 2002, the Investor provided $1,080,000 of additional financing in incremental monthly installments. All such funding was provided pursuant to secured promissory notes (collectively, the "Advance Notes") on the terms described above. Accrued interest of approximately $680,000 on the Secured Note and Advance Notes was due on April 30, 2003. The Investor has waived the Company's compliance with these payment dates.

On August 28, 2002, the Company entered into a bridge note agreement with the Investor pursuant to which it provided $750,000 of additional financing in incremental monthly installments during the four-month period commencing August 28, 2002 pursuant to the terms of a convertible promissory note (the "August Note"). The August Note is secured by substantially all of the Company's assets, including its intellectual property, accrues interest at the rate of 7% per annum payable on maturity and may be prepaid without penalty. The principal amount and accrued interest is convertible at the option of the Investor into either shares of Common Stock at a conversion price of $.75 per share or shares of Series B Preferred Stock at a conversion price of $100 per share. The August Note is due June 30, 2003.

On January 27, 2003, the Company entered into a Note Purchase agreement with the Investor to provide up to $2,350,000 of additional financing pursuant to the terms of a secured promissory note (the "January Note"). $600,000 of this amount was advanced at closing, with the balance to be funded in incremental monthly installments during the nine (9) month period commencing February 1, 2003, provided that certain conditions are satisfied. Currently conditions are not being met. The January Note is due June 30, 2004, is secured by substantially all of the Company's assets, including its intellectual property, accrues interest at the rate of 7% per annum payable on maturity, and may be prepaid without penalty. The principal amount and accrued interest is convertible at the option of the Investor into either shares of Common Stock at a conversion price of $.75 per share or shares of Series B Preferred Stock at a conversion price of $100 share. In the event the Company completes a private placement of its equity securities resulting in gross proceeds in excess of $5,000,000 on or before June 30, 2004, the principal and accrued interest shall at the option of the Investor, be either converted into such equity securities or repaid in cash.

Under the Note Purchase Agreement, the Investor has agreed to provide up to $1,750,000 of additional financing in incremental monthly installments during the nine month period commencing February 1, 2003. Any such funding will be provided pursuant to a secured promissory note on the terms described above. The Investor's obligation to provide this financing is conditioned upon:

- The Company being in compliance with all material obligations under the January 27, 2003 funding agreement between the parties and the January Note.

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- The continued truth and accuracy of the representations and warranties of the Company set forth in the funding agreement.

- The average closing bid price of the Company's common stock during the calendar month preceding the advance exceeding $1.00

per share.

Provided the forgoing conditions are satisfied, funds are advanced on the first day of each month upon receipt of written notice from the Company. Between February 1, 2003 and the date of this Report, the Company requested and received advances in the aggregate amount of $570,000. The Company has agreed to file a registration statement covering the public resale of the shares of common stock issuable upon conversion of the Advance Note, August Note and January Note.

Since January 7, 1993 (date of inception), the Company's capital needs have been principally met through proceeds from the sale of equity and debt securities.

The Company does not currently maintain a line of credit or term loan with any commercial bank or other financial institution.

As of the date of this Report, the Company had cash resources of approximately $100,000. Pursuant to its agreement with the Investor, $1,180,000 of additional financing is available to the Company upon fulfillment of the conditions described above. Currently, all of the conditions are not being satisified. Although the Investor has, in the past, provided financing to the Company notwithstanding that all of the conditions have not been satisfied, there can be no assurance that it will continue to do so. The Company currently requires approximately $190,000 per month to conduct operations. Based on available cash resources and the existing funding obligations, the Company believes it can maintain operations at current levels through December, 2003. The Company needs approximately $2,400,000 to continue to operate at current levels for the next twelve (12) months. Ideally, the Company needs approximately $3,000,000 to $5,000,000 to execute its business plan and support the growth of operations through 2004 and to continue product enhancements. The additional financing is also required to conduct the sales and marketing effort necessary to engage in significant direct selling and marketing activities.

During 2002 and 2003, the Company has entered into license agreements, generated a small amount of revenue and believes it will continue to generate revenue from existing and new relationships during 2003. Anticipated revenues are expected to defray operating expenses and reduce the amount of required additional financing, but are not expected to be sufficient for the Company to expand operations.

In addition to generating revenue, the Company is seeking to obtain additional financing through the issuance of additional debt or equity securities of the Company on a negotiated private placement basis to institutional and accredited investors. As of the date of the Report, the Company has not reached a definitive agreement with any potential investor regarding the specific terms of an investment in the Company. 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 to meet its needs, or that such financing would not be dilutive to existing stockholders. If available financing is insufficient or unavailable or the Company fails to generate any meaningful revenue, it may be required to further reduce operating expenses, suspend operations, seek a merger or acquisition candidate or ultimately liquidate its assets.

ITEM 3. CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out this evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any material pending legal proceeding nor is it aware of any proceeding contemplated by any governmental authority involving the Company.

ITEM 2. CHANGES IN SECURITIES

1. On or about May 5, 2003, the Company issued 371,402 shares of common stock upon conversion of 950 shares of the Company's Series B 9% Convertible Preferred Stock and $13,041 of dividends and accrued interest thereon. The shares were issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereunder without payment of underwriting discounts or commissions to any person.

2. During March and April, 2003, the Company issued options to purchase an aggregate of 150,000 shares of common stock under the Company's 1999 Stock Option Plan at exercise prices equal to the closing market price ($.38 and $.35) of the Company's common stock on the date of grant, to two new employees of the Company. The options vest in equal quarterly installments during the 30 month period commencing 90 days from the day of grant. The options terminate on the earlier of three (3) years from the date of grant or 90 days after termination of employment unless such termination is for cause, in which case, the options expire on the date of such termination. The options were issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4 (2) thereunder, without payment of underwriting discounts or commissions to any person.

3. On March 9, 2003, the Company issued options to purchase 300,000 shares of common stock at an exercise price of $.39 per share, the closing market price of the Company's common stock on the date of grant, to Randy Fodero in connection with his commencing employment with the Company. The options vest in equal quarterly installments during the 30 month period commencing 90 days from the day of grant. The options terminate on the earlier of three (3) years from the date of grant or 90 days after termination of employment unless such termination is for cause, in which case, the options expire on the date of such termination. The options were issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereunder, without payment of underwriting discounts or commissions to any person.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of March 31, 2003, cumulative dividends in arrears on the Company's Series B 9% Preferred Stock were approximately $165,000.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are included herein:

Exhibit No.	Exhibit	Method of Filing
3.1	Amended and Restated Articles of Incorporation	Incorporated by reference to Ex the Registrant's Registration S SB-2, File No. 333-16451 filed 1997 (the "Registration Stateme
3.2	Amended and Restated Bylaws	Incorporated by reference to Ex the Registration Statement
3.3	Certificate of Amendment to Amended and Restated Articles of Incorporation	Incorporated by reference to Ex the Registrant's Report on Form the quarter ended March 31, 199
3.4	Certificate of Designation of Series A 9% Convertible Preferred Stock	Incorporated by reference to Ex the Registrant's Current Report dated July 8, 1999
3.5	Amended and Restated Certificate of Designation of Series A 9% Convertible Preferred Stock	Incorporated by reference to Ex the Registrant's Annual Report for the fiscal year ended Decem (the "1999 10-KSB")

3.6	Certificate of Designation of Series B 9% Convertible Preferred Stock	Incorporated by reference to Ex the Registrants Current Report dated November 26, 2001 (the "N 2001 8-K")
3.7	Amendment to the Amended and Restated Articles of Incorporation filed February 28, 2002	Incorporated by reference to Ex the Registrant's Registration S Form SB-2 filed March 27, 2002
4.1	Specimen of Common Stock Certificate	Incorporated by reference to Ex the Registration Statement
10.1	SAC Technologies, Inc. 1996 Stock Option Plan	Incorporated by reference to Ex the Registration Statement
10.2	Employment Agreement by and between Gary E. Wendt and the Company dated as of May the Registration Statement 10, 1996 (with Non-Competition Letter effective	Incorporated by reference to Ex Registration

	May 10, 1996 Attached as Exhibit A)	
10.3	Amendment No. 1 to the SAC Technologies, Inc. 1996 Stock Option Plan	Incorporated by reference to Ex the 1999 10-KSB
10.4	SAC Technologies, Inc. 1999 Stock Option Plan	Incorporated by reference to Ex the 1999 10-KSB
10.5	Employment Agreement dated November 3, 2000 by and between the Registrant and Jeffry R. Brown	Incorporated by reference to Ex the Registrant's Quarterly Repo 10-QSB for quarter ended Septem (the "September 30, 2000 10-QSB
10.6	Option to Purchase 280,000 shares of Common Stock issued to Jeffry R. Brown	Incorporated by reference to Ex the September 30, 2000 10-QSB
10.7	Non-Qualified Stock Option Agreement Under the Registrant's 1999 Stock Option Plan to purchase 300,000 shares of Common Stock issued to Jeffry Brown	Incorporated by reference to Ex the September 30, 2000 10-QSB

10.8	Consulting Agreement dated July 1, 2001 by and between the Registrant and Barry M. Wendt	Incorporated by reference to Ex the June 30, 2001 10-QSB
10.9	Option to purchase 400,000 shares of common stock issued to Jeffrey R. Brown	Incorporated by reference to Ex the June 30, 2001 10-QSB
10.10	Employment Agreement dated August 1, 2001 by and between the Registrant and H. Donald Rosacker II	Incorporated by reference to Ex the June 30, 2001 10-QSB
10.11	Funding Agreement by and between the Registrant and The Shaar Fund dated November 26, 2001	Incorporated by reference to Ex the November 20, 2001 8-K
10.12	Registration Rights Agreement by and between The Shaar Fund dated November 26, 2001	Incorporated by reference to Ex the November 20, 2001 8-K
10.13	Exchange Agreement by and between the Registrant and The Shaar Fund dated November 26, 2001	Incorporated by reference to Ex the November 20, 2001 8-K
10.14	Secured Note Due September 30, 2003	Incorporated by reference to Ex the November 20, 2001 8-K
10.15	Restated 5% Convertible Debenture Due September 30, 2003	Incorporated by reference to Ex the November 20, 2001 8-K
10.16	No Interest Debenture Due September 30,	Incorporated by reference to Ex

	2003	the November 20, 2001 8-K
10.17	Warrant	Incorporated by reference to Ex the November 20, 2001 8-K
10.18	Security Interest Provisions	Incorporated by reference to Ex the November 20, 2001 8-K
10.19	Employment Agreement by and between the Registrant and Mira LaCous dated November 20, 2001	Incorporated by reference to Ex the November 20, 2001 8-K
10.20	Option to Purchase 140,000 Shares of Common Stock issued to Mira LaCous	Incorporated by reference to Ex the November 20, 2001 8-K

10.21	Option to Purchase 150,000 Shares of Common Stock issued to Thomas J. Colatosti.	Incorporated by reference to Ex the Registrant's Annual Report for the fiscal year ended Decem
10.22	Non-Qualified Stock Option Agreement under the Registrant's 1999 Stock Incentive Plan to Purchase 200,000 Shares of Common Stock issued to Thomas J. Colatosti	Incorporated by reference to Ex the Registrant's Annual Report for the fiscal year ended Decem
10.23	Employment Agreement by and between the Registrant and Michael W. DePasquale dated January 3, 2003	Incorporated by reference to Ex the Registrant's Annual Report for the fiscal year ended Decem
10.24	Option to Purchase 580,000 Shares of Common Stock issued to Michael W. DePasquale	Incorporated by reference to Ex the Registrant's Annual Report for the fiscal year ended Decem
10.25	Note Purchase Agreement dated January 27, 2003	Incorporated by reference to Ex the Registrant's Annual Report for the fiscal year ended Decem
10.26	Secured Convertible Promissory Due June 30,2004	Incorporated by reference to Ex the Registrant's Annual Report for the fiscal year ended Decem
10.27	Option to Purchase 200,000 Shares of Common Stock issued to Charles P. Romeo	Incorporated by reference to Ex the Registrant's Annual Report for the fiscal year ended Decem
99.1	Certificate of CEO of Registrant Pursuant to 18 USC Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
99.2	Certificate of CFO of Registrant Pursuant to 18 USC Section 1350, as Adopted Pursuant to Section 906 of the	Filed herewith

Sarbanes-Oxley Act of 2002

(b) Current Reports on Form 8-K filed during the three month period ended March 31, 2003: None

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SIGNATURES

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

BIO-Key International, Inc.

Dated: May 14, 2003 /s/ Michael W. DePasquale

Michael W. DePasquale
Chief Executive Officer

Dated: May 14, 2003 /s/ Gary Wendt

Gary Wendt
Chief Financial Officer

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CERTIFICATION

I, Michael W. DePasquale, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of BIO-key International, Inc. (the "registrant")

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Michael W. DePasquale

Michael W. DePasquale
Chief Executive Officer

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CERTIFICATION

I, Gary Wendt, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of BIO-key International, Inc. (the "registrant")

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Gary Wendt

Gary Wendt
Chief Financial Officer

EXHIBIT INDEX

EXHIBIT NO.	REFERENCE
99.1	Certificate of CEO of Registrant Pursuant to 18 USC Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certificate of CFO of Registrant Pursuant to 18 USC Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.