

BIO KEY INTERNATIONAL INC

Form POS AM

December 23, 2016

As filed with the Securities and Exchange Commission on December 23, 2016

Registration No. 333-203613

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO

POST-EFFECTIVE AMENDMENT NO. 1 TO

FORM S-1

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

BIO-KEY INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware 41-1741861
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

3349 Highway 138, Building A, Suite E
Wall, NJ 07719
(732) 359-1100
(Address, including zip code, and telephone number,

including area code, of registrant's principal

executive offices)

Michael W. DePasquale

Chief Executive Officer

BIO-key International, Inc.

3349 Highway 138, Building A, Suite E

Wall, NJ 07719

(732) 359-1100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

Vincent A. Vietti

Sean F. Reid

Fox Rothschild LLP

997 Lenox Drive, Building 3

Lawrenceville, NJ 08648

(609) 896-3600

Approximate date of commencement of proposed sale to the public: As soon as practicable following the effectiveness of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

EXPLANATORY NOTE

Pursuant to Rule 429 under the Securities Act of 1933, as amended (the “Securities Act”), the prospectus included herein is a combined prospectus which relates to the Registrant’s Registration Statement on Form S-1, File No. 333-190200, which was first filed with the U.S. Securities and Exchange Commission (the “SEC”) on July 26, 2013 and declared effective by the SEC on August 12, 2013, and its Registration Statement on Form S-1, File No. 333-203613, which was first filed with the SEC on April 24, 2015 and declared effective by the SEC on May 1, 2015.

This Registration Statement constitutes Post-Effective Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-190200) and Post-Effective Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-203613) and is being filed to, among other things, include other information contained in our Annual Report on Form 10-K for the year ended December 31, 2015, include information contained in our Quarterly Report as Form 10-Q for the quarter ended September 30, 2016, and reflect sales and other changes in beneficial ownership of our shares by the selling security holders.

All filing fees payable in connection with the registration of these securities were previously paid.

The information in this prospectus is not complete and may be changed. The selling security holders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED december 23, 2016

PRELIMINARY PROSPECTUS

13,712,507 shares of common stock

The 13,712,507 shares of our common stock, \$.0001 par value per share, are being offered by the selling security holders identified in this prospectus. The shares of common stock offered by the selling security holders consist of:

1,750,007 shares of common stock underlying warrants issued in our July 2013 private offering with an amended exercise price of \$0.50 per share, which expire five years after the date of issuance; and

11,962,500 shares of common stock underlying warrants issued in our November 2014 private offering with an exercise price of \$0.30 per share, which expire five years after the date of issuance.

The selling security holders may sell the shares covered by this prospectus through public or private transactions at prevailing market prices or at privately negotiated prices. We will not receive any part of the proceeds from sales of these shares by the selling security holders.

Our common stock trades on the QB tier of the OTC Marketplace (“OTCQB”) under the symbol “BKYI.” The closing price of our common stock on the OTCQB on December 22, 2016, was \$0.24 per share.

Investing in our common stock involves a high degree of risk. See “Risk Factors” beginning on page 2 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2016.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN OR INCORPORATED BY REFERENCE INTO THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. WE ARE NOT MAKING AN OFFER OF THESE SECURITIES IN ANY STATE WHERE THE OFFER IS NOT PERMITTED. YOU SHOULD NOT ASSUME THAT THE INFORMATION PROVIDED IN THIS PROSPECTUS IS ACCURATE AS OF ANY DATE OTHER THAN THE DATE ON THE FRONT OF THIS PROSPECTUS.

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in the common stock. You should read carefully the entire prospectus, including “*Risk Factors*” and the financial statements and notes thereto, before making an investment decision.

Unless otherwise indicated or the context otherwise requires, all references to the “Company,” the “registrant” “we,” “us” or “our” and similar terms in this prospectus refer to BIO-key International, Inc. and its subsidiaries.

BIO-key International, Inc.

We were founded in 1993 to develop and market advanced fingerprint biometric technology and related identity management and credentialing software solutions. Biometric technology is the science of analyzing specific human characteristics which are unique to each individual in order to identify a specific person from a broader population.

We develop and market advanced fingerprint biometric identification and identity verification technologies, cryptographic authentication-transaction security technologies, as well as related identity management and credentialing software solutions. We 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 cards, passports, driver’s licenses, OTP or other form of possession or knowledge-based credentialing. Additionally, advanced BIO-key® technology has been and is used to improve both the accuracy and speed of competing finger-based biometrics.

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 two of our directors. We distribute directly to end users our SideSwipe™ and EcoID™ readers which can be used on any laptop, tablet or other device which contains a USB port. For additional information on our strategic relationship with CGG, refer to the section captioned “Certain Relationships and Related Transactions, and Director Independence.” and Note K to our consolidated financial statements for the year ended December 31, 2015.

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 mobile payments and

credentialing, online payments and credentialing, and healthcare record and payment 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 registrations.

We continue to research and develop advancements in our capabilities, as well as exploring and developing potential strategic relationships, including potential business combinations and acquisitions, which could help us leverage our capability to deliver our solutions. We have built a direct sales force and additionally utilize resellers, integrators and partners with substantial experience in selling technology solutions to government and corporate customers in their respective markets. We recently entered the Asian market through an exclusive licensing arrangement with China Goldjoy Group Limited, a Hong Kong based public company engaged in technology development, including biometric security.

Our principal executive offices are located at 3349 Highway 138, Building A, Suite E, Wall, NJ 07719, and our telephone number is (732) 359-1100. We maintain a website at www.bio-key.com. Information contained on our website does not constitute part of this prospectus.

The Offering

This prospectus covers the public sale of 13,712,507 shares of common stock to be sold by the selling security holders identified in this prospectus, which consist of 1,750,007 shares of common stock underlying warrants issued in our July 2013 private offering with an amended exercise price of \$0.50 per share, which expire five years after the date of issuance, and 11,962,500 shares of common stock underlying warrants issued in our November 2014 private offering with an exercise price of \$0.30, which expire five years after the date of issuance. We will not receive any proceeds from the sale of the common stock by the selling security holders.

The selling security holders may sell the shares covered by this prospectus through public or private transactions at prevailing market prices or at privately negotiated prices. We will not receive any part of the proceeds from sales of these shares by the selling security holders.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors in addition to other information in this prospectus before purchasing our common stock. The risks and uncertainties described below are those that we currently deem to be material and that we believe are specific to our company, our industry and our stock. In addition to these risks, our business may be subject to risks currently unknown to us. If any of these or other risks actually occurs, our business may be adversely affected, the trading price of our common stock may decline and you may lose all or part of your investment.

Business and Financial Risks

Based on our lack of significant revenue and recurring losses from operations since inception, our auditors have 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 auditors have included an explanatory paragraph in their opinion for the year ended December 31, 2015 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 generated minimal revenue and have sustained substantial operating losses which may continue.

As of September 30, 2016, we had an accumulated deficit of approximately \$62 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 whether a significant 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 which 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; and

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 used 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 recently through factoring receivables. We estimate that we currently require approximately \$579,000 per month to conduct our operations, a monthly amount that we have been unable to consistently achieve through revenue generation. On November 18, 2016, we issued to Wong Kwok Fong (Kelvin) 6,200,000 shares of common stock in consideration of an aggregate purchase price of \$1,860,000 or \$0.30 per share. We estimate that we currently require approximately \$579,000 per month to conduct our operations and pay dividend obligations, a monthly amount that we have been unable to consistently achieve through revenue generation. During the first nine months of 2016, we generated approximately \$1,278,000 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 and develop the wireless data services we offer.

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 severely negative impact on our financial results.

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 stockholders.

As of the date of this prospectus, approximately 97,834,247 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 contain “blocker provisions” which prohibit the conversion of such securities if such conversions would result in the holder of such securities beneficially owning in excess of 9.99% of our outstanding shares of common stock. Our warrants that were issued in our November 2014 private placement contain “blocker provisions” which prohibit the exercise of such securities if such exercises would result in the holder of such securities beneficially owning in excess of 4.99 % of our outstanding shares of common stock. Although these provisions may be waived on 61 days’ written notice, they may have the effect of reducing the number of shares of common stock we are required to issue at any one time. 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.

This prospectus covers the public resale of 13,712,507 shares of our common stock, including 1,750,007 shares of common stock underlying warrants issued in our July 2013 private offering with an amended exercise price of \$0.50 per share, which expire five years after the date of issuance, and 11,962,500 shares of common stock underlying warrants issued in our November 2014 private offering with an exercise price of \$0.30, which expire five years after the date of issuance.

We also have filed a registration statement covering the public resale of 71,200,000 shares of our common stock, including 6,200,000 shares of common stock issued in our November 2016 private placement, 30,000,000 shares of common stock issuable upon conversion of Series A-1 Convertible Preferred Stock issued in our October 2015 and November 2015 private offerings and 35,000,000 shares of common stock issuable upon conversion of Series B-1 Convertible Preferred Stock issued in our November 2015 private offering. The Series A-1 Convertible Preferred Stock and Series B-1 Convertible Preferred stock are each subject to a “blocker provision” which prohibits conversion if such conversion would result in the holder being the beneficial owner of in excess of 9.99% of our common stock. Although these provisions may be waived on 61 days written notice, they may have the effect of reducing the number of shares of common stock we are required to issue at any one time. Absent such blocker provisions, the shares of common stock being offered by the selling security holders represent approximately 98% 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.

Applicable SEC Rules governing the trading of “penny stocks” limits the trading and liquidity of our common stock, which may adversely affect the trading price of our common stock and the ability to sell our shares.

Our common stock currently trades on the OTCQB. Since our common stock continues to trade below \$5.00 per share, our common stock is considered a “penny stock” and is subject to SEC rules and regulations, which impose limitations upon the manner in which our shares can be publicly traded. These regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination regarding such a purchaser and receive such purchaser’s written agreement to a transaction prior to sale. These regulations have the effect of limiting the trading activity of our common stock and reducing the liquidity of an investment in our common stock.

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 on our common stock for the foreseeable future, investors seeking cash dividends should not purchase 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, payable in cash through October 1, 2017 and thereafter, 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.

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.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

The information contained in this prospectus may contain certain forward-looking statements. All statements other than statements of historical facts contained in this Report, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words “anticipate,” “believe,” “estimate,” “will,” “may,” “future,” “plan,” “intend” and “expect” and similar expressions generally identify forward-looking statements. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Although we believe that our plans, intentions and expectations reflected in the forward-looking statements are reasonable, we cannot be sure that they will be achieved. Particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include: our history of losses and limited revenue; our ability to raise additional capital; our ability to protect our intellectual property; changes in business conditions; changes in our sales strategy and product development plans; changes in the marketplace; continued services of our executive management team; security breaches; competition between us and other companies in the biometric technology industry; market acceptance of biometric products generally and our products under development; delays in the development of products and statements of assumption underlying any of the foregoing, as well as other factors set forth under the caption “**Risk Factors**” on page 2 of this prospectus. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the foregoing. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

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 prospectus contain forward-looking statements that involve risks and uncertainties. All forward-looking statements included in this prospectus 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" on page 2 of this prospectus. The following should be read in conjunction with our audited financial statements and the accompanying notes included elsewhere herein.

OVERVIEW

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

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.

More recently, we have begun to distribute directly to consumers and commercial users our SideSwipe™, SideTouch and EcoID™ products. SideSwipe, SideTouch and EcoID are stand-alone fingerprint readers that can be used on any laptop, tablet or other device with a USB port.

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

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 authenticate users via the device or cloud, is unique in the industry, provides a key differentiator for us, and in our

opinion, makes our technology more viable than competing technologies and expands the size of the overall market for our products.

We believe there is potential for significant market growth in five 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.

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 China Goldjoy Group is expected to further expand our business by opening new markets.

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

CRITICAL ACCOUNTING POLICIES

For detailed information regarding our critical accounting policies and estimates, see our financial statements and notes thereto included in this Report and in our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes to our critical accounting policies and estimates from those disclosed in our most recent Annual Report on Form 10-K.

RECENT ACCOUNTING PRONOUNCEMENTS

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

RESULTS OF OPERATIONS**THREE MONTHS ENDED SEPTEMBER 30, 2016 AS COMPARED TO SEPTEMBER 30, 2015 (Unaudited)****Consolidated Results of Operations - Percent Trend**

	Three Months Ended			
	September 30,			
	2016	2015		
Revenues				
Services	43 %	37 %		
License fees and other	57 %	63 %		
	100 %	100 %		
Costs and other expenses				
Cost of services	11 %	5 %		
Cost of license fees and other	29 %	51 %		
	40 %	56 %		
Gross Profit	60 %	44 %		
Operating expenses				
Selling, general and administrative	214 %	151 %		
Research, development and engineering	123 %	55 %		
	337 %	206 %		
Operating loss	-277 %	-162 %		
Other income (deductions)				
Total other income	14 %	1 %		
Net loss	-263 %	-161 %		

Revenues and cost of goods sold

	Three months ended			
	September 30,			
	2016	2015	\$ Change	% Change

Revenues

Service	\$ 187,025	\$ 250,191	\$(63,166)	-25	%
License & other	244,438	419,655	(175,217)	-42	%
<i>Total Revenue</i>	\$ 431,463	\$ 669,846	\$(238,383)	-36	%

Cost of goods sold

Service	\$ 46,257	\$ 30,283	\$ 15,974	53	%
License & other	125,526	344,557	(219,031)	-64	%
<i>Total COGS</i>	\$ 171,783	\$ 374,840	\$(203,057)	-54	%

Revenues

For the three months ended September 30, 2016 and 2015, service revenues included approximately \$182,000 and \$229,000, respectively, of recurring maintenance and support revenue, and approximately \$5,000 and \$21,000 of non-recurring custom services revenue, respectively. Recurring service revenue decreased 21% during the current period primarily due to the delayed renewal of a maintenance agreement from the large shipment in the second quarter of 2015. The non-recurring custom services decreased 75% due to fewer customized requirements.

License and other revenue (comprised of hardware and royalties) decreased during the three months ended September 30, 2016. The decrease consisted of an approximate \$157,000 or 42% decrease in our hardware sales, however, with the removal of a one-time sensor sale in 2015, hardware revenue increased approximately 100%. There was a \$5,703 or 29% increase in core software. Royalty revenue decreased 100% as the OEM agreement was completed and was not renewed.

Costs of goods sold

During the three months ended September 30, 2016, cost of services increased approximately \$16,000 from the corresponding period in 2015 due to increased costs associated with third party software costs and personnel costs.

License and other costs for the three months ended September 30, 2015 decreased \$219,000 from the corresponding period in 2015 due to the sensors cost in 2015.

Selling, general and administrative

	Three months ended			
	September 30,			
	2016	2015	\$ Change	% Change
Selling, general and administrative	\$925,939	\$1,013,778	\$(87,839)	-9 %

Selling, general and administrative expenses decreased 9% during the three months ended September 30, 2016 from the corresponding period in 2015. Decreases consisted of lower professional fees and costs related to the settlement of the LifeSouth lawsuit in 2015, and factoring fees, offset by higher marketing costs.

Research, development and engineering

**Three months
ended**

	September 30,		\$	%	
	2016	2015	Change	Change	
Research, development and engineering	\$528,554	\$368,788	\$159,766	43	%

During the three months ended September 30, 2016, research, development and engineering costs increased 43% over the corresponding period in 2015, as a result of increased new personnel costs, temporary outside services, and non-cash compensation.

Other income and expense

	Three months ended		\$	%	
	September 30,		Change	Change	
	2016	2015			
Interest income	6	1	5	500	%
Interest expense	-	(20,000)	20,000	-100	%
Gain on derivative liabilities	60,385	27,975	32,410	116	%
Total	\$60,391	7,976	\$52,415	657	%

Interest income for the quarter ended September 30, 2016 and September 30, 2015 consisted of bank interest.

Interest expense for the quarter ended September 30, 2015 represented the amortized portion of the original issue discount and the interest charge of the loan.

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 the current quarter, 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.

NINE MONTHS ENDED SEPTEMBER 30, 2016 AS COMPARED TO SEPTEMBER 30, 2015 (Unaudited)

Consolidated Results of Operations - Percent Trend

	Nine Months Ended			
	September 30,			
	2016		2015	
Revenues				
Services	54 %		21 %	
License fees and other	46 %		79 %	
	100 %		100 %	
Costs and other expenses				
Cost of services	13 %		4 %	
Cost of license fees and other	20 %		14 %	
	33 %		18 %	
Gross Profit	67 %		82 %	
Operating expenses				
Selling, general and administrative	231 %		84 %	
Research, development and engineering	124 %		33 %	
	355 %		117 %	
Operating loss	-288 %		-35 %	
Other income (deductions)				
Total other income	1 %		0 %	
Net Income (loss)	-288 %		-37 %	

Revenues and costs of goods sold

Nine months ended

	September 30,		
	2016	2015	\$ Change

				% Change	
<i>Revenues</i>					
Service	\$692,677	\$755,813	\$(63,136)	-8	%
License & other	585,192	2,835,662	(2,250,470)	-79	%
<i>Total Revenue</i>	\$1,277,869	\$3,591,475	\$(2,313,606)	-64	%
<i>Cost of goods sold</i>					
Service	\$168,636	\$154,251	\$14,385	9	%
License & other	251,485	505,339	(253,854)	-50	%
<i>Total COGS</i>	\$420,121	\$659,590	\$(239,469)	-36	%

Revenues

For the nine months ended September 30, 2016 and 2015, service revenues included approximately \$593,000 and \$506,000, respectively, of recurring maintenance and support revenue, and approximately \$99,000 and \$250,000, respectively, of non-recurring custom services revenue. Recurring service revenue increased 17% from 2015 to 2016 as we continued to expand our customer base. The non-recurring custom services decreased 60% due to fewer customized sales.

For the nine months ended September 30, 2016, license and other revenue (comprised of third party hardware and royalty) decreased approximately 79% as a result of several contributing factors. Software license revenue decreased approximately \$2,016,000 or 94% primarily as a result of a single large order in 2015 without a comparable order in 2016. Hardware sales decreased by approximately \$177,000 or 29%, however, with the removal of the one-time sensor sale in 2015, hardware revenue increased approximately \$90,000 or 25%. Royalty income decreased 75% to approximately \$21,000 from \$81,000 during the corresponding period in 2015, as the OEM agreement was completed and was not renewed in the second quarter of 2016.

Costs of goods sold

For the nine months ended September 30, 2016, cost of service increased approximately \$14,000 from the corresponding period in 2015 primarily as a result of increased costs associated with third party software costs and personnel costs.

License and other costs for the nine months ended September 30, 2016 decreased approximately \$254,000 from the corresponding period in 2015, due to the decrease in hardware revenue specifically the one-time sensor sale.

Selling, general and administrative

	Nine months ended			
	September 30,			
	2016	2015	\$ Change	% Change
Selling, general and administrative	\$2,956,456	\$3,034,318	\$(77,862)	-3 %

Selling, general and administrative expenses for the nine months ended September 30, 2016 decreased 3% from the corresponding period in 2015. Decreases included the legal fees for the LifeSouth settlement from 2015, marketing expenses and sales commission, offset by increases from new personnel in the Hong Kong subsidiary.

Research, development and engineering

Nine months ended**September 30,**

	2016	2015	\$ Change	% Change
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Research, development and engineering	\$1,584,403	\$1,169,427	\$414,976	35 %
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During the nine months ended September 30, 2016, research, development and engineering costs increased 35% from the corresponding period in 2015, due to increased new personnel costs, temporary outside services, non-cash compensation and recruiting expenses.

*Other income and expense***Nine months
ended****September 30,**

	2016	2015	\$ Change	% Change
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Interest income	19	5	14	280 %
Interest expense	-	(20,000)	(20,000)	-100 %
Gain on derivative liabilities	10,879	42,228	(31,349)	-74 %
Income taxes	(912)	(912)	-	0 %
Total	\$9,986	\$21,321	\$(11,335)	-53 %

Interest income for the period ended September 30, 2016 and September 30, 2015 consisted of bank interest.

Interest expense for the period ended September 30, 2015 represented the amortized portion of the original issue discount and the interest charge of the loan.

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 the current quarter, 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.

YEAR ENDED DECEMBER 31, 2015 AS COMPARED TO DECEMBER 31, 2014

Consolidated Results of Operations

Two Year % trend

	Years ended December 31, 2015 2014	
Revenues		
Services	18 %	37 %
License fees and other	82 %	63 %
	100 %	100 %
Costs and other expenses		
Cost of services	5 %	11 %
Cost of license fees and other	19 %	8 %
	24 %	19 %
Gross Profit	76 %	81 %
Operating expenses		
Selling, general and administrative	78 %	92 %
Research, development and engineering	30 %	41 %
	108 %	132 %
Operating loss	-32 %	-51 %
Other income (deductions)		

Total other income (deductions)	-3 %	4 %
Net loss	-35 %	-47 %

Revenues and Costs of goods sold

	2015	2014	2015 - 2014 \$ Chg	% Chg
<i>Revenues</i>				
Service	\$931,394	\$1,489,820	\$(558,426)	-37 %
License & other	4,329,831	2,516,036	1,813,795	72 %
<i>Total Revenue</i>	<i>\$5,261,225</i>	<i>\$4,005,856</i>	<i>\$1,255,369</i>	<i>31 %</i>
<i>Cost of goods sold</i>				
Service	\$260,436	\$445,803	\$(185,367)	-42 %
License & other	1,019,085	302,947	716,138	236 %
<i>Total COGS</i>	<i>\$1,279,521</i>	<i>\$748,750</i>	<i>\$530,771</i>	<i>71 %</i>

Revenues

Revenue increased \$1,255,369 or 31% to \$5,261,225 in 2015 as compared to \$4,005,856 in 2014. As described more fully below, the increase was primarily due to material growth in our core business of licensing our software and new revenue stream from sales of our fingerprint readers.

For the years ended December 31, 2015 and 2014, service revenues included approximately \$679,000 and \$627,000, respectively, of recurring maintenance and support revenue, and approximately \$252,000 and \$863,000, respectively, of non-recurring custom services revenue. Recurring service revenue increased 8% from 2014 to 2015, due to the increase in bundled maintenance agreements to our expanding customer license base. Non-recurring custom services decreased 71% due to a completion of a customer project at the end of 2014.

For the years ended December 31, 2015 and 2014, license and other revenue (comprised of third party and BIO-key hardware, and royalty) increased approximately 72% as a result of several contributing factors. Software license revenue increased by approximately \$957,000 or 49% during the year ended December 31, 2015 compared to the year ended December 31, 2014. We continued to expand our relationship with NCR, developed new partnerships, continued to ship orders to Aesynt for their continued deployment of our identification technology in their AccuDose® product line, and for ongoing expansion of biometric ID deployments with commercial partners LexisNexis, Educational Biometric Technology, Identimetrics, and a large supplemental order from single international customer. Hardware sales increased by approximately \$841,000 (181%), as a result of the introduction of our new low cost fingerprint readers, the establishment of our Hong Kong subsidiary, and expanding healthcare industry deployments. Royalty income, from an OEM agreement for the year ended December 31, 2015 increased 18% to approximately \$103,000 from \$87,000 during 2014, due to adding a new OEM partner.

Costs of goods sold

For the year ended December 31, 2015, cost of service decreased approximately \$185,000 primarily as a result of costs associated with non-recurring custom services revenue. License and other costs for the year ended December 31, 2015 increased approximately \$716,000 due primarily to the increase in hardware revenue, and third party software revenue.

Selling, general and administrative

2015 - 2014

2015	2014	\$ Chg	% Chg
\$4,121,030	\$3,670,090	\$450,940	12 %

Selling, general and administrative expenses for the year ended December 31, 2015 increased 12% from the year ended December 31, 2014. Increases were driven by expanded sales and marketing personnel expenses, commission expense associated with increased revenue, factoring fees, settlement of litigation and related legal fees, and legal fees associated with the license agreement with CGG.

Research, development and engineering

2015
-
2014