

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

BIO KEY INTERNATIONAL INC

Form: 8-K

Date Filed: 2005-09-07

Corporate Issuer CIK: 1019034

Symbol: BKYI

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **August 31, 2005**

BIO-key International, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation)

1-13463
(Commission File Number)

41-1741861
(I.R.S. Employer Identification No.)

**3349 Highway 138
Building D, Suite B
Wall, NJ 07719**
(Address of principal executive offices)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry Into Material Definitive Agreements

1. Amendments to Senior Convertible Notes

BIO-key International, Inc. (the "Company") entered into an Amendment and Waiver with Laurus Master Fund, Ltd. ("Laurus"), dated as of August 31, 2005 (the "Senior Amendment"), pursuant to which Laurus allowed the Company to defer the payment of the monthly principal amounts due and payable for the months of September, October, November and December 2005 under both (a) the Secured Convertible Term Note in the original principal amount of \$5,000,000 issued by the Company to Laurus on September 29, 2004 (the "September 2004 Note"), and (b) the Secured Convertible Term Note in the original principal amount of \$2,000,000 issued by the Company to Laurus on June 8, 2005 (the "June 2005 Note"), such aggregate deferred principal amounts being equal to \$625,000 and \$187,500, respectively. The deferred principal amount under the September 2004 Note is now due on September 29, 2007, the maturity date of that note, and will be paid at the same time the final payments due with respect to that note upon maturity. The deferred principal amount under the June 2005 Note is now due on June 7, 2008, the maturity date of that note, and will be paid at the same time the final payments due with respect to that note upon maturity. The Company will remain obligated to pay all monthly interest amounts under these notes as they are currently due.

Pursuant to the Senior Amendment, the Company issued an aggregate of 612,166 shares of its Common Stock to Laurus as consideration for this principal payment deferral. The Company entered into a Registration Rights Agreement dated as of August 31, 2005 (the "Registration Rights Agreement") with Laurus, pursuant to which the Company has agreed to file a registration statement with the Securities and Exchange Commission (the "SEC") covering the resale of these shares of Common Stock on or before August 31, 2006.

The foregoing description is qualified in its entirety by reference to the provisions of the Senior Amendment and the Registration Rights Agreement executed in connection therewith attached as Exhibits 99.1 and 99.9, respectively, to this Current Report on Form 8-K.

2. Amendments to Subordinated Convertible Notes

The Company also entered into an Amendment and Waiver with each of The Shaar Fund, Ltd., Longview Special Finance, Etienne Des Roys, Eric Haber, Investors Management Corporation, The Tocqueville Fund and The Tocqueville Amerique Value Fund (collectively, the "Subordinated Investors"), each dated as of August 31, 2005 (collectively, the "Subordinated Amendments"), pursuant to which each Subordinated Investor allowed the Company to defer the payment of the monthly principal amounts due and payable for the months of September, October, November and December 2005 under the Convertible Term Notes in the aggregate original principal amount of \$2,800,000 issued by the Company to the Subordinated Investors on September 29, 2004 (the "Subordinated Notes"), such aggregate deferred principal amount being equal to \$350,004. The deferred principal amount under each Subordinated Note is now due on September 29, 2007, the maturity date of each such note, and will be paid at the same time the final payments due with respect to each such note upon maturity. The Company will remain obligated to pay all monthly interest amounts under these notes as they are currently due.

Pursuant to the Subordinated Amendments, the Company issued an aggregate of 263,706

shares of its Common Stock to the Subordinated Investors as consideration for this principal payment deferral. The Company entered into the Registration Rights Agreement with each of the Subordinated Investors, pursuant to which the Company has agreed to file a registration statement with the SEC covering the resale of these shares of Common Stock on or before August 31, 2006.

The foregoing description is qualified in its entirety by reference to the provisions of the Subordinated Amendments and the Registration Rights Agreement executed in connection therewith attached as Exhibits 99.2-99.8 and 99.9, respectively, to this Current Report on Form 8-K.

Item 3.02 Unregistered Sales of Equity Securities

The disclosures in Item 1.01 are incorporated in this Item 3.02 by reference.

The shares of the Company's Common Stock issued to Laurus and the Subordinated Investors as described in Item 1.01 (the "Shares") were issued to accredited investors in a private placement transaction exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Rule 506 of Regulation D thereunder. The Shares have not been registered under the Securities Act or applicable state securities laws and may not be offered or sold in the United States absent registration under the Securities Act and applicable state securities laws or an applicable exemption from registration requirements. The Company has agreed to file a registration statement with the SEC covering the resale of the Shares.

Item 9.01. Financial Statements and Exhibits

(a) Exhibits. The following Exhibits are attached to this Current Report on Form 8-K:

<u>Exhibit No.:</u>	<u>Description:</u>
Exhibit 99.1	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and Laurus Master Fund, Ltd.
Exhibit 99.2	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and The Shaar Fund, Ltd.
Exhibit 99.3	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and Longview Special Finance

Exhibit 99.4	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and Etienne Des Roys
Exhibit 99.5	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and Eric Haber
Exhibit 99.6	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and Investors Management Corporation
Exhibit 99.7	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and The Tocqueville Fund

3

Exhibit 99.8	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and The Tocqueville Amerique Value Fund
Exhibit 99.9	Registration Rights Agreement, dated as of August 31, 2005, by and among the Company, Laurus Master Fund, Ltd., The Shaar Fund, Ltd., Longview Special Finance, Etienne Des Roys, Eric Haber, Investors Management Corporation, The Tocqueville Fund and The Tocqueville Amerique Value Fund.

4

SIGNATURES

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

BIO-KEY INTERNATIONAL, INC.

Date: September 7, 2005

By: /s/ Francis J. Cusick
Francis J. Cusick
Chief Financial Officer

5

EXHIBIT INDEX

Exhibit No.:	Description:
Exhibit 99.1	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and Laurus Master Fund, Ltd.
Exhibit 99.2	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and The Shaar Fund, Ltd.
Exhibit 99.3	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and Longview Special Finance
Exhibit 99.4	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and Etienne Des Roys
Exhibit 99.5	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and Eric Haber
Exhibit 99.6	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and Investors Management Corporation
Exhibit 99.7	Amendment and Waiver, dated as of August 31, 2005, by and between the Company and The Tocqueville Fund

- Exhibit 99.8 Amendment and Waiver, dated as of August 31, 2005, by and between the Company and The Tocqueville
Amerique Value Fund
- Exhibit 99.9 Registration Rights Agreement, dated as of August 31, 2005, by and among the Company, Laurus Master Fund,
Ltd., The Shaar Fund, Ltd., Longview Special Finance, Etienne Des Roys, Eric Haber, Investors Management
Corporation, The Tocqueville Fund and The Tocqueville Amerique Value Fund.

AMENDMENT AND WAIVER

This Amendment and Waiver (the "Amendment and Waiver") is entered into by and between BIO-KEY INTERNATIONAL, INC., a Delaware corporation (the "Borrower"), and Laurus Master Fund, Ltd. ("Laurus"), and is effective as of August 31, 2005.

WHEREAS, the Borrower issued a Secured Convertible Note to Laurus on September 29, 2004 in the aggregate original principal amount of \$5,000,000 (the "September 2004 Note"), payable in full on September 29, 2007 (the "September Note Maturity Date");

WHEREAS, the Borrower issued a Secured Convertible Note to Laurus on June 8, 2005 in the aggregate original principal amount of \$2,000,000 (the "June 2005 Note," and together with the September 2004 Note, the "Notes"), payable in full on June 7, 2008 (the "June Note Maturity Date");

WHEREAS, pursuant to Section 1.2 of each respective Note, the Borrower is obligated to repay to Laurus 1/32nd of the principal amount (such amount, as applicable with respect to each Note, is referred to herein as the "Monthly Principal Amount") of such Note, together with interest accrued thereon, on the first business day of each consecutive calendar month starting 120 days following the date of such Note;

WHEREAS, the Borrower wishes to defer the payment of (i) the Monthly Principal Amount due and payable under the September 2004 Note for the months of September, October, November and December 2005 until the September Note Maturity Date, and (ii) the Monthly Principal Amount due and payable under the June 2005 Note for the months of October, November and December 2005 until the June Note Maturity Date, and Laurus wishes to allow the Borrower to defer payment of all such Monthly Principal Amounts and to allocate and include such Monthly Principal Amounts with the final payments due with respect to the Notes as applicable, on each Note's respective Maturity Date, as is more fully described in Sections 1, 2 and 3 below (collectively, the "August Deferral");

WHEREAS, in consideration for Laurus agreeing to the August Deferral, the Borrower has agreed to issue 612,166 newly issued shares of its Common Stock, \$.0001 par value per share ("Common Stock") to Laurus (the "August Shares"), with registration rights to be granted to Laurus with respect to such shares as provided herein; and

WHEREAS, in connection with the August Deferral, Laurus has agreed to unconditionally and irrevocably waive the provisions of Section 3.4(b)(C) of each Note regarding the adjustment of the Fixed Conversion Price (as defined in each such Note), in each case solely with respect to the issuance of up to an aggregate of 890,000 shares of Common Stock (including the August Shares) (the "Shares") to be issued by the Company on or about the date hereof to Laurus and other existing holders of the Company's Convertible Term Notes issued September 29, 2004, and Laurus has further agreed that the Fixed Conversion Price set forth in each of the Note shall remain unaffected as a result of the issuance and sale of the Shares.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFERRAL OF CERTAIN PRINCIPAL PAYMENTS; WAIVER OF CONVERSION PRICE ADJUSTMENT.

1. September 2004 Note. Laurus hereby agrees that the Monthly Principal Amount for each of September, October, November and December 2005 due from the Borrower to Laurus under the September 2004 Note, equal to an aggregate of \$625,000 (collectively, the "September Note Deferred Amount"), is hereby deferred until the September Note Maturity Date, at which time the September Note Deferred Amount shall be paid in full along with the final payment due on such date pursuant to the September 2004 Note. Notwithstanding the foregoing, the Borrower shall remain obligated to pay all of the Monthly Interest Amount (as defined in the September 2004 Note) when due.

2. June 2005 Note. Laurus hereby agrees that the Monthly Principal Amount for each of October, November and December 2005 due from the Borrower to Laurus under the June 2005 Note, equal to an aggregate of \$187,500 (collectively, the "June Note Deferred Amount"), is hereby deferred until the June Note Maturity Date, at which time the June Note Deferred Amount shall be paid in full along with the final payment due on such date pursuant to the June 2005 Note. Notwithstanding the foregoing, the Borrower shall remain obligated to pay all of the Monthly Interest Amount (as defined in the June 2005 Note) when due.

3. Issuance of August Shares.

(a) The Borrower hereby agrees to issue to Laurus, on the date hereof, the August Shares. The Borrower shall deliver to Laurus an original, newly issued stock certificate evidencing such August Shares within five (5) business days after the date hereof.

(b) This Amendment and Waiver, including but not limited to the issuance of the August Shares, is made with Laurus in reliance upon Laurus' representation to the Borrower, which by Laurus' execution of this Amendment and Waiver, Laurus hereby confirms, that the August Shares to be acquired by Laurus will be acquired for investment for Laurus' own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that Laurus has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Amendment and Waiver, Laurus further represents that Laurus does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the August Shares. Laurus has not been formed for the specific purpose of acquiring the August Shares. Laurus agrees and acknowledges that it has had an opportunity to discuss the Borrower's business, management, financial affairs and the terms and conditions of the offering of the August Shares with the Borrower's management. Laurus understands that the August Shares have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of Laurus'

2

representations as expressed herein. Laurus understands that the August Shares are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, Laurus must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Laurus hereby represents and warrants to the Borrower that Laurus is an "accredited investor" as defined in Rule 501(a) of Regulation D promulgated under the Securities Act and has knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of the investment to be made hereunder. Laurus acknowledges that the Borrower has no obligation to register or qualify the August Shares for resale except as is otherwise set forth in this Amendment and Waiver and the Registration Rights Agreement (as defined herein below). Laurus further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the August Shares, and on requirements relating to the Borrower which are outside of Laurus' control, and which the Borrower is under no obligation and may not be able to satisfy.

(c) Laurus understands that the August Shares shall bear substantially the following legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED."

Certificates evidencing the August Shares shall not be required to contain the legend set forth above or any other legend (i) while a Registration Statement (as defined in the Registration Rights Agreement) covering the resale of such August Shares is effective under the Securities Act; provided that the holder thereof covenants that in connection with each sale of such securities, a copy of the final prospectus that forms a part of such Registration Statement will be delivered in accordance with the provisions of Section 5(b) (2) of the Securities Act, and the rules and regulations promulgated thereunder, or (ii) following any sale of such Securities pursuant to Rule 144 under the Securities Act, or (iii) if such August Shares are eligible for sale under Rule 144(k) under the Securities Act, or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the Staff of the Securities and Exchange Commission). The Borrower shall cause its counsel to issue the legal opinion to permit the removal of the legend as permitted in the immediately preceding sentence to the Borrower's transfer agent on the effective date of the Registration Statement covering the resale of the August Shares. Following the effective date of such Registration Statement or at such earlier time as a legend is no longer required for the August Shares, the Borrower will no later than three trading days following the delivery by Laurus to the Borrower or the Borrower's transfer agent of a

3

legended certificate representing such August Shares, deliver or cause to be delivered to Laurus a certificate representing such August Shares that is free from all restrictive and other legends.

5. Registration Rights. The Borrower hereby grants registration rights to Laurus pursuant to a Registration Rights Agreement dated as of even date herewith, in the form attached as Exhibit A hereto, between Laurus and the Borrower (the "Registration Rights Agreement").

6. Conversion Price. Laurus hereby unconditionally and irrevocably waives the provisions of Section 3.4(b)(C) of each Note regarding any adjustment of the Fixed Conversion Price (as defined in each such Note) that would otherwise be triggered as a result of the issuance of the Shares and hereby agrees that the Fixed Conversion Price set forth in each Note (as defined in each such Note) shall remain unaffected as a result of the issuance and sale of the Shares. The waiver contained in this Section 6 relates exclusively to the issuance of the Shares, and shall not apply to any other subsequent issuances of any Common Stock or other securities by the Borrower.

II. MISCELLANEOUS.

1. No Other Amendments. Except as expressly set forth in this Amendment and Waiver, no other term or provision of any of the Notes is hereby amended or affected in any way, and the Notes shall remain in full force and effect after the date hereof.

2. Governing Law. This Amendment and Waiver shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws.

3. Facsimile Signatures; Counterparts. This Amendment and Waiver may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Amendment and Waiver as a sealed instrument as of the date set forth in the first paragraph hereof.

BIO-KEY INTERNATIONAL, INC.

By: _____
Thomas J. Colatosti
Co-Chief Executive Officer

LAURUS MASTER FUND, LTD.

By: _____
Name:
Title:

AMENDMENT AND WAIVER

This Amendment and Waiver (the "Amendment and Waiver") is entered into by and between BIO-KEY INTERNATIONAL, INC., a Delaware corporation (the "Borrower"), and The Shaar Fund, Ltd. ("Shaar"), and is effective as of August 31, 2005.

WHEREAS, the Borrower issued a Convertible Term Note to Shaar on September 29, 2004 in the aggregate original principal amount of \$1,060,000 (the "September 2004 Note"), payable in full on September 29, 2007 (the "September Note Maturity Date");

WHEREAS, the Borrower issued a Convertible Term Note to Shaar as of May 31, 2005 in the aggregate original principal amount of \$1,194,723 (the "May 2005 Note," and together with the September 2004 Note, the "Notes"), payable in full on May 31, 2008;

WHEREAS, the Borrower issued a Common Stock Purchase Warrant to Shaar as of May 31, 2005 to purchase up to 353,992 shares of the Company's Common Stock (the "May 2005 Warrant");

WHEREAS, pursuant to Section 1.2 of the September 2004 Note, the Borrower is obligated to repay to Shaar 1/32nd of the principal amount (such amount is referred to herein as the "Monthly Principal Amount") of the September 2004 Note, together with interest accrued thereon, on the first business day of each consecutive calendar month starting 120 days following the date of the September 2004 Note;

WHEREAS, the Borrower wishes to defer the payment of the Monthly Principal Amount due and payable under the September 2004 Note for the months of September, October, November and December 2005 until the September Note Maturity Date, and Shaar wishes to allow the Borrower to defer payment of all such Monthly Principal Amounts and to allocate and include such Monthly Principal Amounts with the final payments due with respect to the September 2004 Note on the September 2004 Note Maturity Date, as is more fully described in Sections 1, 2 and 3 below (collectively, the "August Deferral");

WHEREAS, in consideration for Shaar agreeing to the August Deferral, the Borrower has agreed to issue 116,972 newly issued shares of its Common Stock, \$.0001 par value per share ("Common Stock") to Shaar (the "August Shares"), with registration rights to be granted to Shaar with respect to such shares as provided herein; and

WHEREAS, in connection with the August Deferral, Shaar has agreed to unconditionally and irrevocably (i) waive the provisions of Section 3.4(b)(C) of the September 2004 Note regarding the adjustment of the Fixed Conversion Price (as defined in the September 2004 Note), (ii) waive the provisions of Section 3.4(b)(C) of the May 2005 Note regarding the adjustment of the Fixed Conversion Price (as defined in the May 2005 Note), and (iii) waive the provisions of Section 3.4 of the May 2005 Warrant regarding the adjustment of the Exercise Price (as defined in the May 2005 Warrant), in each case solely with respect to the issuance of up to an aggregate of 890,000 shares of Common Stock (including the August Shares) (the "Shares") to be issued by the Company on or about the date hereof to Shaar and other existing holders of the Company's Convertible Term Notes

issued September 29, 2004, and Shaar has further agreed that the Fixed Conversion Price set forth in each respective Note and the Exercise Price set forth in the May 2005 Warrant shall each remain unaffected as a result of the issuance and sale of the Shares.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFERRAL OF CERTAIN PRINCIPAL PAYMENTS; WAIVER OF CONVERSION PRICE ADJUSTMENT.

1. September 2004 Note. Shaar hereby agrees that the Monthly Principal Amount for each of September, October, November and December 2005 due from the Borrower to Shaar under the September 2004 Note, equal to an aggregate of \$155,252 (collectively, the "September Note Deferred Amount"), is hereby deferred until the September Note Maturity Date, at which time the September Note Deferred Amount shall be paid in full along with the final payment due on such date pursuant to the September 2004 Note. Notwithstanding the foregoing, the Borrower shall remain obligated to pay all of the Monthly Interest Amount (as defined in the September 2004 Note) when due.

2. Issuance of August Shares.

(a) The Borrower hereby agrees to issue to Shaar, on the date hereof, the August Shares. The Borrower shall deliver to Shaar an original, newly issued stock certificate evidencing such August Shares within five (5) business days after the date hereof.

(b) This Amendment and Waiver, including but not limited to the issuance of the August Shares, is made with Shaar in reliance upon Shaar's representation to the Borrower, which by Shaar's execution of this Amendment and Waiver, Shaar hereby confirms, that the August Shares to be acquired by Shaar will be acquired for investment for Shaar's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that Shaar has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Amendment and Waiver, Shaar further represents that Shaar does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the August Shares. Shaar has not been formed for the specific purpose of acquiring the August Shares. Shaar agrees and acknowledges that it has had an opportunity to discuss the Borrower's business, management, financial affairs and the terms and conditions of the offering of the August Shares with the Borrower's management. Shaar understands that the August Shares have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of Shaar's representations as expressed herein. Shaar understands that the August Shares are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, Shaar must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such

2

registration and qualification requirements is available. Shaar hereby represents and warrants to the Borrower that Shaar is an "accredited investor" as defined in Rule 501(a) of Regulation D promulgated under the Securities Act and has knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of the investment to be made hereunder. Shaar acknowledges that the Borrower has no obligation to register or qualify the August Shares for resale except as is otherwise set forth in this Amendment and Waiver and the Registration Rights Agreement (as defined herein below). Shaar further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the August Shares, and on requirements relating to the Borrower which are outside of Shaar's control, and which the Borrower is under no obligation and may not be able to satisfy.

(c) Shaar understands that the August Shares shall bear substantially the following legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED."

Certificates evidencing the August Shares shall not be required to contain the legend set forth above or any other legend (i) while a Registration Statement (as defined in the Registration Rights Agreement) covering the resale of such August Shares is effective under the Securities Act; provided that the holder thereof covenants that in connection with each sale of such securities, a copy of the final prospectus that forms a part of such Registration Statement will be delivered in accordance with the provisions of Section 5(b) (2) of the Securities Act, and the rules and regulations promulgated thereunder, or (ii) following any sale of such Securities pursuant to Rule 144 under the Securities Act, or (iii) if such August Shares are eligible for sale under Rule 144(k) under the Securities Act, or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the Staff of the Securities and Exchange Commission). The Borrower shall cause its counsel to issue the legal opinion to permit the removal of the legend as permitted in the immediately preceding sentence to the Borrower's transfer agent on the effective date of the Registration Statement covering the resale of the August Shares. Following the effective date of such Registration Statement or at such earlier time as a legend is no longer required for the August Shares, the Borrower will no later than three trading days following the delivery by Shaar to the Borrower or the Borrower's transfer agent of a legended certificate representing such August Shares, deliver or cause to be delivered to Shaar a certificate representing such August Shares that is free from all restrictive and other legends.

3

3. Registration Rights. The Borrower hereby grants registration rights to Shaar pursuant to a Registration Rights Agreement dated as of even date herewith, in the form attached as Exhibit A hereto, between Shaar and the Borrower (the "Registration Rights Agreement").

4. Conversion Price. Shaar hereby unconditionally and irrevocably waives (a) the provisions of Section 3.4(b)(C) of each Note regarding any adjustment of the Fixed Conversion Price (as defined in each such Note), and (b) the provisions of

Section 3.4 of the May 2005 Warrant regarding any adjustment of the Exercise Price (as defined in the May 2005 Warrant), in each case that would otherwise be triggered as a result of the issuance of the Shares, and hereby agrees that the Fixed Conversion Price set forth in each Note and the Exercise Price set forth in the May 2005 Warrant shall each remain unaffected as a result of the issuance and sale of the Shares. The waiver contained in this Section 6 relates exclusively to the issuance of the Shares, and shall not apply to any other subsequent issuances of any Common Stock or other securities by the Borrower.

II. MISCELLANEOUS.

1. No Other Amendments. Except as expressly set forth in this Amendment and Waiver, no other term or provision of any of the Notes or the May 2005 Warrant is hereby amended or affected in any way, and the Notes and the May 2005 Warrant shall remain in full force and effect after the date hereof.

2. Governing Law. This Amendment and Waiver shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws.

3. Facsimile Signatures; Counterparts. This Amendment and Waiver may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Amendment and Waiver as a sealed instrument as of the date set forth in the first paragraph hereof.

BIO-KEY INTERNATIONAL, INC.

By: _____
Thomas J. Colatosti
Co-Chief Executive Officer

THE SHAAR FUND, LTD.

By: _____
Name:
Title:

AMENDMENT AND WAIVER

This Amendment and Waiver (the "Amendment and Waiver") is entered into by and between BIO-KEY INTERNATIONAL, INC., a Delaware corporation (the "Borrower"), and Longview Special Finance ("LSF"), and is effective as of August 31, 2005.

WHEREAS, the Borrower issued a Convertible Term Note to LSF on September 29, 2004 in the aggregate original principal amount of \$500,000 (the "September 2004 Note"), payable in full on September 29, 2007 (the "September Note Maturity Date");

WHEREAS, the Borrower issued a Convertible Term Note to LSF as of May 31, 2005 in the aggregate original principal amount of \$250,000 (the "May 2005 Note," and together with the September 2004 Note, the "Notes"), payable in full on May 31, 2008;

WHEREAS, the Borrower issued a Common Stock Purchase Warrant to LSF as of May 31, 2005 to purchase up to 74,074 shares of the Company's Common Stock (the "May 2005 Warrant");

WHEREAS, pursuant to Section 1.2 of the September 2004 Note, the Borrower is obligated to repay to LSF 1/32nd of the principal amount (such amount is referred to herein as the "Monthly Principal Amount") of the September 2004 Note, together with interest accrued thereon, on the first business day of each consecutive calendar month starting 120 days following the date of the September 2004 Note;

WHEREAS, the Borrower wishes to defer the payment of the Monthly Principal Amount due and payable under the September 2004 Note for the months of September, October, November and December 2005 until the September Note Maturity Date, and LSF wishes to allow the Borrower to defer payment of all such Monthly Principal Amounts and to allocate and include such Monthly Principal Amounts with the final payments due with respect to the September 2004 Note on the September 2004 Note Maturity Date, as is more fully described in Sections 1, 2 and 3 below (collectively, the "August Deferral");

WHEREAS, in consideration for LSF agreeing to the August Deferral, the Borrower has agreed to issue 47,090 newly issued shares of its Common Stock, \$.0001 par value per share ("Common Stock") to LSF (the "August Shares"), with registration rights to be granted to LSF with respect to such shares as provided herein; and

WHEREAS, in connection with the August Deferral, LSF has agreed to unconditionally and irrevocably (i) waive the provisions of Section 3.4(b)(C) of the September 2004 Note regarding the adjustment of the Fixed Conversion Price (as defined in the September 2004 Note) solely with respect to the issuance of up to an aggregate of 890,000 shares of Common Stock (including the August Shares) (the "Shares") to be issued by the Company on or about the date hereof to LSF and other existing holders of the Company's Convertible Term Notes issued September 29, 2004, (ii) waive the provisions of Section 3.4(b)(C) of the May 2005 Note regarding the adjustment of the Fixed Conversion Price (as defined in the May 2005 Note) solely with respect to the issuance of the Shares, and (iii) waive the provisions of Section 3.4 of the May 2005 Warrant regarding the adjustment of the

Exercise Price (as defined in the May 2005 Warrant) solely with respect to the issuance of the Shares, and LSF has further agreed that the Fixed Conversion Price set forth in each respective Note and the Exercise Price set forth in the May 2005 warrant shall each remain unaffected as a result of the issuance and sale of the Shares.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFERRAL OF CERTAIN PRINCIPAL PAYMENTS; WAIVER OF CONVERSION PRICE ADJUSTMENT.

1. September 2004 Note. LSF hereby agrees that the Monthly Principal Amount for each of September, October, November and December 2005 due from the Borrower to LSF under the September 2004 Note, equal to an aggregate of \$62,500 (collectively, the "September Note Deferred Amount"), is hereby deferred until the September Note Maturity Date, at which time the September Note Deferred Amount shall be paid in full along with the final payment due on such date pursuant to the September 2004 Note. Notwithstanding the foregoing, the Borrower shall remain obligated to pay all of the Monthly Interest Amount (as defined in the September 2004 Note) when due.

2. Issuance of August Shares.

(a) The Borrower hereby agrees to issue to LSF, on the date hereof, the August Shares. The Borrower shall deliver to LSF an original, newly issued stock certificate evidencing such August Shares within five (5) business days after the date hereof.

(b) This Amendment and Waiver, including but not limited to the issuance of the August Shares, is made with LSF in reliance

upon LSF's representation to the Borrower, which by LSF's execution of this Amendment and Waiver, LSF hereby confirms, that the August Shares to be acquired by LSF will be acquired for investment for LSF's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that LSF has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Amendment and Waiver, LSF further represents that LSF does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the August Shares. LSF has not been formed for the specific purpose of acquiring the August Shares. LSF agrees and acknowledges that it has had an opportunity to discuss the Borrower's business, management, financial affairs and the terms and conditions of the offering of the August Shares with the Borrower's management. LSF understands that the August Shares have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of LSF's representations as expressed herein. LSF understands that the August Shares are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, LSF must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and

2

qualified by state authorities, or an exemption from such registration and qualification requirements is available. LSF hereby represents and warrants to the Borrower that LSF is an "accredited investor" as defined in Rule 501(a) of Regulation D promulgated under the Securities Act and has knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of the investment to be made hereunder. LSF acknowledges that the Borrower has no obligation to register or qualify the August Shares for resale except as is otherwise set forth in this Amendment and Waiver and the Registration Rights Agreement (as defined herein below). LSF further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the August Shares, and on requirements relating to the Borrower which are outside of LSF's control, and which the Borrower is under no obligation and may not be able to satisfy.

(c) LSF understands that the August Shares shall bear substantially the following legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED."

Certificates evidencing the August Shares shall not be required to contain the legend set forth above or any other legend (i) while a Registration Statement (as defined in the Registration Rights Agreement) covering the resale of such August Shares is effective under the Securities Act; provided that the holder thereof covenants that in connection with each sale of such securities, a copy of the final prospectus that forms a part of such Registration Statement will be delivered in accordance with the provisions of Section 5(b) (2) of the Securities Act, and the rules and regulations promulgated thereunder, or (ii) following any sale of such Securities pursuant to Rule 144 under the Securities Act, or (iii) if such August Shares are eligible for sale under Rule 144(k) under the Securities Act, or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the Staff of the Securities and Exchange Commission). The Borrower shall cause its counsel to issue the legal opinion to permit the removal of the legend as permitted in the immediately preceding sentence to the Borrower's transfer agent on the effective date of the Registration Statement covering the resale of the August Shares. Following the effective date of such Registration Statement or at such earlier time as a legend is no longer required for the August Shares, the Borrower will no later than three trading days following the delivery by LSF to the Borrower or the Borrower's transfer agent of a legended certificate representing such August Shares, deliver or cause to be delivered to LSF a certificate representing such August Shares that is free from all restrictive and other legends.

3

3. Registration Rights. The Borrower hereby grants registration rights to LSF pursuant to a Registration Rights Agreement dated as of even date herewith, in the form attached as Exhibit A hereto, between LSF and the Borrower (the "Registration Rights Agreement").

4. Conversion Price. LSF hereby unconditionally and irrevocably waives (a) the provisions of Section 3.4(b)(C) of each Note regarding any adjustment of the Fixed Conversion Price (as defined in each such Note), and (b) the provisions of Section 3.4 of the May 2005 Warrant regarding any adjustment of the Exercise Price (as defined in the May 2005 Warrant), in each case that would otherwise be triggered as a result of the issuance of the Shares, and hereby agrees that the Fixed Conversion Price

set forth in each Note and the Exercise Price set forth in the May 2005 Warrant shall each remain unaffected as a result of the issuance and sale of the Shares. The waiver contained in this Section 6 relates exclusively to the issuance of the Shares, and shall not apply to any other subsequent issuances of any Common Stock or other securities by the Borrower.

II. MISCELLANEOUS.

1. No Other Amendments. Except as expressly set forth in this Amendment and Waiver, no other term or provision of any of the Notes or the May 2005 Warrant is hereby amended or affected in any way, and the Notes and the May 2005 Warrant shall remain in full force and effect after the date hereof.

2. Governing Law. This Amendment and Waiver shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws.

3. Facsimile Signatures; Counterparts. This Amendment and Waiver may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Amendment and Waiver as a sealed instrument as of the date set forth in the first paragraph hereof.

BIO-KEY INTERNATIONAL, INC.

By: _____
Thomas J. Colatosti
Co-Chief Executive Officer

LONGVIEW SPECIAL FINANCE

By: _____
Name: _____
Title: _____

AMENDMENT AND WAIVER

This Amendment and Waiver (the "Amendment and Waiver") is entered into by and between BIO-KEY INTERNATIONAL, INC., a Delaware corporation (the "Borrower"), and Etienne Des Roys ("EDR"), and is effective as of August 31, 2005.

WHEREAS, the Borrower issued a Convertible Term Note to EDR on September 29, 2004 in the aggregate original principal amount of \$100,000 (the "September 2004 Note"), payable in full on September 29, 2007 (the "September Note Maturity Date");

WHEREAS, pursuant to Section 1.2 of the September 2004 Note, the Borrower is obligated to repay to EDR 1/32nd of the principal amount (such amount is referred to herein as the "Monthly Principal Amount") of the September 2004 Note, together with interest accrued thereon, on the first business day of each consecutive calendar month starting 120 days following the date of the September 2004 Note;

WHEREAS, the Borrower wishes to defer the payment of the Monthly Principal Amount due and payable under the September 2004 Note for the months of September, October, November and December 2005 until the September Note Maturity Date, and EDR wishes to allow the Borrower to defer payment of all such Monthly Principal Amounts and to allocate and include such Monthly Principal Amounts with the final payments due with respect to the September 2004 Note on the September 2004 Note Maturity Date, as is more fully described in Sections 1, 2 and 3 below (collectively, the "August Deferral");

WHEREAS, in consideration for EDR agreeing to the August Deferral, the Borrower has agreed to issue 9,418 newly issued shares of its Common Stock, \$.0001 par value per share ("Common Stock") to EDR (the "August Shares"), with registration rights to be granted to EDR with respect to such shares as provided herein; and

WHEREAS, in connection with the August Deferral, EDR has agreed to unconditionally and irrevocably waive the provisions of Section 3.4(b)(C) of the September 2004 Note regarding the adjustment of the Fixed Conversion Price (as defined in the September 2004 Note) solely with respect to the issuance of up to an aggregate of 890,000 shares of Common Stock (including the August Shares) (the "Shares") to be issued by the Company on or about the date hereof to EDR and other existing holders of the Company's Convertible Term Notes issued September 29, 2004, and EDR has further agreed that the Fixed Conversion Price set forth in the September 2004 Note shall remain unaffected as a result of the issuance and sale of the Shares.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFERRAL OF CERTAIN PRINCIPAL PAYMENTS; WAIVER OF CONVERSION PRICE ADJUSTMENT.

1. September 2004 Note. EDR hereby agrees that the Monthly Principal Amount for each of September, October, November and December 2005 due from the Borrower to EDR under the September 2004 Note, equal to an aggregate of \$12,500 (collectively, the "September Note Deferred Amount"), is hereby deferred until the September Note Maturity Date, at which time the September Note Deferred Amount shall be paid in full along with the final payment due on such date pursuant to the September 2004 Note. Notwithstanding the foregoing, the Borrower shall remain obligated to pay all of the Monthly Interest Amount (as defined in the September 2004 Note) when due.

2. Issuance of August Shares.

(a) The Borrower hereby agrees to issue to EDR, on the date hereof, the August Shares. The Borrower shall deliver to EDR an original, newly issued stock certificate evidencing such August Shares within five (5) business days after the date hereof.

(b) This Amendment and Waiver, including but not limited to the issuance of the August Shares, is made with EDR in reliance upon EDR's representation to the Borrower, which by EDR's execution of this Amendment and Waiver, EDR hereby confirms, that the August Shares to be acquired by EDR will be acquired for investment for EDR's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that EDR has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Amendment and Waiver, EDR further represents that EDR does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the August Shares. EDR has not been formed for the specific purpose of acquiring the August Shares. EDR agrees and acknowledges that it has had an opportunity to discuss the Borrower's business, management, financial affairs and the terms and conditions of the offering of the August Shares with the Borrower's management. EDR understands that the August Shares have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of EDR's representations as expressed herein.

EDR understands that the August Shares are “restricted securities” under applicable U.S. federal and state securities laws and that, pursuant to these laws, EDR must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. EDR hereby represents and warrants to the Borrower that EDR is an “accredited investor” as defined in Rule 501(a) of Regulation D promulgated under the Securities Act and has knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of the investment to be made hereunder. EDR acknowledges that the Borrower has no obligation to register or qualify the August Shares for resale except as is otherwise set forth in this Amendment and Waiver and the Registration Rights Agreement (as defined herein below). EDR further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the August Shares, and on requirements relating to the Borrower

2

which are outside of EDR’s control, and which the Borrower is under no obligation and may not be able to satisfy.

(c) EDR understands that the August Shares shall bear substantially the following legend:

“THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.”

Certificates evidencing the August Shares shall not be required to contain the legend set forth above or any other legend (i) while a Registration Statement (as defined in the Registration Rights Agreement) covering the resale of such August Shares is effective under the Securities Act; provided that the holder thereof covenants that in connection with each sale of such securities, a copy of the final prospectus that forms a part of such Registration Statement will be delivered in accordance with the provisions of Section 5(b) (2) of the Securities Act, and the rules and regulations promulgated thereunder, or (ii) following any sale of such Securities pursuant to Rule 144 under the Securities Act, or (iii) if such August Shares are eligible for sale under Rule 144(k) under the Securities Act, or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the Staff of the Securities and Exchange Commission). The Borrower shall cause its counsel to issue the legal opinion to permit the removal of the legend as permitted in the immediately preceding sentence to the Borrower’s transfer agent on the effective date of the Registration Statement covering the resale of the August Shares. Following the effective date of such Registration Statement or at such earlier time as a legend is no longer required for the August Shares, the Borrower will no later than three trading days following the delivery by EDR to the Borrower or the Borrower’s transfer agent of a legended certificate representing such August Shares, deliver or cause to be delivered to EDR a certificate representing such August Shares that is free from all restrictive and other legends.

3. Registration Rights. The Borrower hereby grants registration rights to EDR pursuant to a Registration Rights Agreement dated as of even date herewith, in the form attached as Exhibit A hereto, between EDR and the Borrower (the “Registration Rights Agreement”).

4. Conversion Price. EDR hereby unconditionally and irrevocably waives the provisions of Section 3.4(b)(C) of the September 2004 Note regarding any adjustment of the Fixed Conversion Price (as defined in the September 2004 Note) that would otherwise be triggered as a result of the issuance of the Shares, and hereby agrees that the Fixed Conversion Price set forth in the September 2004 Note shall remain unaffected as a result of the issuance and sale of the Shares. The waiver contained in this Section 6 relates exclusively

3

to the issuance of the Shares, and shall not apply to any other subsequent issuances of any Common Stock or other securities by the Borrower.

II. MISCELLANEOUS.

1. No Other Amendments. Except as expressly set forth in this Amendment and Waiver, no other term or provision of the September 2004 Note is hereby amended or affected in any way, and the September 2004 Note shall remain in full force and effect after the date hereof.

2. Governing Law. This Amendment and Waiver shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws.

3. Facsimile Signatures; Counterparts. This Amendment and Waiver may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

* * * * *

4

IN WITNESS WHEREOF, the parties hereto have executed this Amendment and Waiver as a sealed instrument as of the date set forth in the first paragraph hereof.

BIO-KEY INTERNATIONAL, INC.

By: _____
Thomas J. Colatosti
Co-Chief Executive Officer

Etienne Des Roys

5

AMENDMENT AND WAIVER

This Amendment and Waiver (the "Amendment and Waiver") is entered into by and between BIO-KEY INTERNATIONAL, INC., a Delaware corporation (the "Borrower"), and Eric Haber ("Haber"), and is effective as of August 31, 2005.

WHEREAS, the Borrower issued a Convertible Term Note to Haber on September 29, 2004 in the aggregate original principal amount of \$50,000 (the "September 2004 Note"), payable in full on September 29, 2007 (the "September Note Maturity Date");

WHEREAS, pursuant to Section 1.2 of the September 2004 Note, the Borrower is obligated to repay to Haber 1/32nd of the principal amount (such amount is referred to herein as the "Monthly Principal Amount") of the September 2004 Note, together with interest accrued thereon, on the first business day of each consecutive calendar month starting 120 days following the date of the September 2004 Note;

WHEREAS, the Borrower wishes to defer the payment of the Monthly Principal Amount due and payable under the September 2004 Note for the months of September, October, November and December 2005 until the September Note Maturity Date, and Haber wishes to allow the Borrower to defer payment of all such Monthly Principal Amounts and to allocate and include such Monthly Principal Amounts with the final payments due with respect to the September 2004 Note on the September 2004 Note Maturity Date, as is more fully described in Sections 1, 2 and 3 below (collectively, the "August Deferral");

WHEREAS, in consideration for Haber agreeing to the August Deferral, the Borrower has agreed to issue 4,710 newly issued shares of its Common Stock, \$.0001 par value per share ("Common Stock") to Haber (the "August Shares"), with registration rights to be granted to Haber with respect to such shares as provided herein; and

WHEREAS, in connection with the August Deferral, Haber has agreed to unconditionally and irrevocably waive the provisions of Section 3.4(b)(C) of the September 2004 Note regarding the adjustment of the Fixed Conversion Price (as defined in the September 2004 Note) solely with respect to the issuance of up to an aggregate of 890,000 shares of Common Stock (including the August Shares) (the "Shares") to be issued by the Company on or about the date hereof to Haber and other existing holders of the Company's Convertible Term Notes issued September 29, 2004, and Haber has further agreed that the Fixed Conversion Price set forth in the September 2004 Note shall remain unaffected as a result of the issuance and sale of the Shares.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFERRAL OF CERTAIN PRINCIPAL PAYMENTS; WAIVER OF CONVERSION PRICE ADJUSTMENT.

1. September 2004 Note. Haber hereby agrees that the Monthly Principal Amount for each of September, October, November and December 2005 due from the Borrower to Haber under the September 2004 Note, equal to an aggregate of \$6,252 (collectively, the "September Note Deferred Amount"), is hereby deferred until the September Note Maturity Date, at which time the September Note Deferred Amount shall be paid in full along with the final payment due on such date pursuant to the September 2004 Note. Notwithstanding the foregoing, the Borrower shall remain obligated to pay all of the Monthly Interest Amount (as defined in the September 2004 Note) when due.

2. Issuance of August Shares.

(a) The Borrower hereby agrees to issue to Haber, on the date hereof, the August Shares. The Borrower shall deliver to Haber an original, newly issued stock certificate evidencing such August Shares within five (5) business days after the date hereof.

(b) This Amendment and Waiver, including but not limited to the issuance of the August Shares, is made with Haber in reliance upon Haber's representation to the Borrower, which by Haber's execution of this Amendment and Waiver, Haber hereby confirms, that the August Shares to be acquired by Haber will be acquired for investment for Haber's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that Haber has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Amendment and Waiver, Haber further represents that Haber does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the August Shares. Haber has not been formed for the specific purpose of acquiring the August Shares. Haber agrees and acknowledges that it has had an opportunity to discuss the Borrower's business, management, financial affairs and the terms and conditions of the offering of the August Shares with the Borrower's management. Haber understands that the August Shares have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of a specific exemption from the registration provisions of the Securities Act

which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of Haber's representations as expressed herein. Haber understands that the August Shares are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, Haber must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Haber hereby represents and warrants to the Borrower that Haber is an "accredited investor" as defined in Rule 501(a) of Regulation D promulgated under the Securities Act and has knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of the investment to be made hereunder. Haber acknowledges that the Borrower has no obligation to register or qualify the August Shares for resale except as is otherwise set forth in this Amendment and Waiver and the Registration Rights Agreement (as defined herein below). Haber further acknowledges that if an exemption from registration or qualification is available, it may be

conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the August Shares, and on requirements relating to the Borrower which are outside of Haber's control, and which the Borrower is under no obligation and may not be able to satisfy.

(c) Haber understands that the August Shares shall bear substantially the following legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED."

Certificates evidencing the August Shares shall not be required to contain the legend set forth above or any other legend (i) while a Registration Statement (as defined in the Registration Rights Agreement) covering the resale of such August Shares is effective under the Securities Act; provided that the holder thereof covenants that in connection with each sale of such securities, a copy of the final prospectus that forms a part of such Registration Statement will be delivered in accordance with the provisions of Section 5(b) (2) of the Securities Act, and the rules and regulations promulgated thereunder, or (ii) following any sale of such Securities pursuant to Rule 144 under the Securities Act, or (iii) if such August Shares are eligible for sale under Rule 144(k) under the Securities Act, or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the Staff of the Securities and Exchange Commission). The Borrower shall cause its counsel to issue the legal opinion to permit the removal of the legend as permitted in the immediately preceding sentence to the Borrower's transfer agent on the effective date of the Registration Statement covering the resale of the August Shares. Following the effective date of such Registration Statement or at such earlier time as a legend is no longer required for the August Shares, the Borrower will no later than three trading days following the delivery by Haber to the Borrower or the Borrower's transfer agent of a legended certificate representing such August Shares, deliver or cause to be delivered to Haber a certificate representing such August Shares that is free from all restrictive and other legends.

3. Registration Rights. The Borrower hereby grants registration rights to Haber pursuant to a Registration Rights Agreement dated as of even date herewith, in the form attached as Exhibit A hereto, between Haber and the Borrower (the "Registration Rights Agreement").

4. Conversion Price. Haber hereby unconditionally and irrevocably waives the provisions of Section 3.4(b)(C) of the September 2004 Note regarding any adjustment of the Fixed Conversion Price (as defined in the September 2004 Note) that would otherwise be

triggered as a result of the issuance of the Shares, and hereby agrees that the Fixed Conversion Price set forth in the September 2004 Note shall remain unaffected as a result of the issuance and sale of the Shares. The waiver contained in this Section 6 relates exclusively to the issuance of the Shares, and shall not apply to any other subsequent issuances of any Common Stock or other securities by the Borrower.

II. MISCELLANEOUS.

1. No Other Amendments. Except as expressly set forth in this Amendment and Waiver, no other term or provision of the September 2004 Note is hereby amended or affected in any way, and the September 2004 Note shall remain in full force and

effect after the date hereof.

2. Governing Law. This Amendment and Waiver shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws.

3. Facsimile Signatures; Counterparts. This Amendment and Waiver may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

* * * * *

4

IN WITNESS WHEREOF, the parties hereto have executed this Amendment and Waiver as a sealed instrument as of the date set forth in the first paragraph hereof.

BIO-KEY INTERNATIONAL, INC.

By: _____

Thomas J. Colatosti
Co-Chief Executive Officer

Eric Haber

5

AMENDMENT AND WAIVER

This Amendment and Waiver (the "Amendment and Waiver") is entered into by and between BIO-KEY INTERNATIONAL, INC., a Delaware corporation (the "Borrower"), and Investors Management Corporation ("IMC"), and is effective as of August 31, 2005.

WHEREAS, the Borrower issued a Convertible Term Note to IMC on September 29, 2004 in the aggregate original principal amount of \$208,000 (the "September 2004 Note"), payable in full on September 29, 2007 (the "September Note Maturity Date");

WHEREAS, pursuant to Section 1.2 of the September 2004 Note, the Borrower is obligated to repay to IMC 1/32nd of the principal amount (such amount is referred to herein as the "Monthly Principal Amount") of the September 2004 Note, together with interest accrued thereon, on the first business day of each consecutive calendar month starting 120 days following the date of the September 2004 Note;

WHEREAS, the Borrower wishes to defer the payment of the Monthly Principal Amount due and payable under the September 2004 Note for the months of September, October, November and December 2005 until the September Note Maturity Date, and IMC wishes to allow the Borrower to defer payment of all such Monthly Principal Amounts and to allocate and include such Monthly Principal Amounts with the final payments due with respect to the September 2004 Note on the September 2004 Note Maturity Date, as is more fully described in Sections 1, 2 and 3 below (collectively, the "August Deferral");

WHEREAS, in consideration for IMC agreeing to the August Deferral, the Borrower has agreed to issue 19,589 newly issued shares of its Common Stock, \$.0001 par value per share ("Common Stock") to IMC (the "August Shares"), with registration rights to be granted to IMC with respect to such shares as provided herein; and

WHEREAS, in connection with the August Deferral, IMC has agreed to unconditionally and irrevocably waive the provisions of Section 3.4(b)(C) of the September 2004 Note regarding the adjustment of the Fixed Conversion Price (as defined in the September 2004 Note) solely with respect to the issuance of up to an aggregate of 890,000 shares of Common Stock (including the August Shares) (the "Shares") to be issued by the Company on or about the date hereof to IMC and other existing holders of the Company's Convertible Term Notes issued September 29, 2004, and IMC has further agreed that the Fixed Conversion Price set forth in the September 2004 Note shall remain unaffected as a result of the issuance and sale of the Shares.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFERRAL OF CERTAIN PRINCIPAL PAYMENTS; WAIVER OF CONVERSION PRICE ADJUSTMENT.

1. September 2004 Note. IMC hereby agrees that the Monthly Principal Amount for each of September, October, November and December 2005 due from the Borrower to IMC under the September 2004 Note, equal to an aggregate of \$26,000 (collectively, the "September Note Deferred Amount"), is hereby deferred until the September Note Maturity Date, at which time the September Note Deferred Amount shall be paid in full along with the final payment due on such date pursuant to the September 2004 Note. Notwithstanding the foregoing, the Borrower shall remain obligated to pay all of the Monthly Interest Amount (as defined in the September 2004 Note) when due.

2. Issuance of August Shares.

(a) The Borrower hereby agrees to issue to IMC, on the date hereof, the August Shares. The Borrower shall deliver to IMC an original, newly issued stock certificate evidencing such August Shares within five (5) business days after the date hereof.

(b) This Amendment and Waiver, including but not limited to the issuance of the August Shares, is made with IMC in reliance upon IMC's representation to the Borrower, which by IMC's execution of this Amendment and Waiver, IMC hereby confirms, that the August Shares to be acquired by IMC will be acquired for investment for IMC's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that IMC has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Amendment and Waiver, IMC further represents that IMC does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the August Shares. IMC has not been formed for the specific purpose of acquiring the August Shares. IMC agrees and acknowledges that it has had an opportunity to discuss the Borrower's business, management, financial affairs and the terms and conditions of the offering of the August Shares with the Borrower's management. IMC understands that the August Shares have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the

bona fide nature of the investment intent and the accuracy of IMC's representations as expressed herein. IMC understands that the August Shares are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, IMC must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. IMC hereby represents and warrants to the Borrower that IMC is an "accredited investor" as defined in Rule 501(a) of Regulation D promulgated under the Securities Act and has knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of the investment to be made hereunder. IMC acknowledges that the Borrower has no obligation to register or qualify the August Shares for resale except as is otherwise set forth in this Amendment and Waiver and the Registration Rights Agreement (as defined herein below). IMC further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements

2

including, but not limited to, the time and manner of sale, the holding period for the August Shares, and on requirements relating to the Borrower which are outside of IMC's control, and which the Borrower is under no obligation and may not be able to satisfy.

(c) IMC understands that the August Shares shall bear substantially the following legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED."

Certificates evidencing the August Shares shall not be required to contain the legend set forth above or any other legend (i) while a Registration Statement (as defined in the Registration Rights Agreement) covering the resale of such August Shares is effective under the Securities Act; provided that the holder thereof covenants that in connection with each sale of such securities, a copy of the final prospectus that forms a part of such Registration Statement will be delivered in accordance with the provisions of Section 5(b) (2) of the Securities Act, and the rules and regulations promulgated thereunder, or (ii) following any sale of such Securities pursuant to Rule 144 under the Securities Act, or (iii) if such August Shares are eligible for sale under Rule 144(k) under the Securities Act, or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the Staff of the Securities and Exchange Commission). The Borrower shall cause its counsel to issue the legal opinion to permit the removal of the legend as permitted in the immediately preceding sentence to the Borrower's transfer agent on the effective date of the Registration Statement covering the resale of the August Shares. Following the effective date of such Registration Statement or at such earlier time as a legend is no longer required for the August Shares, the Borrower will no later than three trading days following the delivery by IMC to the Borrower or the Borrower's transfer agent of a legended certificate representing such August Shares, deliver or cause to be delivered to IMC a certificate representing such August Shares that is free from all restrictive and other legends.

3. Registration Rights. The Borrower hereby grants registration rights to IMC pursuant to a Registration Rights Agreement dated as of even date herewith, in the form attached as Exhibit A hereto, between IMC and the Borrower (the "Registration Rights Agreement").

4. Conversion Price. IMC hereby unconditionally and irrevocably waives the provisions of Section 3.4(b)(C) of the September 2004 Note regarding any adjustment of the Fixed Conversion Price (as defined in the September 2004 Note) that would otherwise be triggered as a result of the issuance of the Shares, and hereby agrees that the Fixed Conversion Price set forth in the September 2004 Note shall remain unaffected as a result of

3

the issuance and sale of the Shares. The waiver contained in this Section 6 relates exclusively to the issuance of the Shares, and shall not apply to any other subsequent issuances of any Common Stock or other securities by the Borrower.

II. MISCELLANEOUS.

1. No Other Amendments. Except as expressly set forth in this Amendment and Waiver, no other term or provision of the September 2004 Note is hereby amended or affected in any way, and the September 2004 Note shall remain in full force and effect after the date hereof.

2. Governing Law. This Amendment and Waiver shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws.

3. Facsimile Signatures; Counterparts. This Amendment and Waiver may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

* * * * *

4

IN WITNESS WHEREOF, the parties hereto have executed this Amendment and Waiver as a sealed instrument as of the date set forth in the first paragraph hereof.

BIO-KEY INTERNATIONAL, INC.

By: _____
Thomas J. Colatosti
Co-Chief Executive Officer

INVESTORS MANAGEMENT
CORPORATION

By: _____
Name:
Title:

5

AMENDMENT AND WAIVER

This Amendment and Waiver (the "Amendment and Waiver") is entered into by and between BIO-KEY INTERNATIONAL, INC., a Delaware corporation (the "Borrower"), and The Tocqueville Fund ("TTF"), and is effective as of August 31, 2005.

WHEREAS, the Borrower issued a Convertible Term Note to TTF on September 29, 2004 in the aggregate original principal amount of \$500,000 (the "September 2004 Note"), payable in full on September 29, 2007 (the "September Note Maturity Date");

WHEREAS, pursuant to Section 1.2 of the September 2004 Note, the Borrower is obligated to repay to TTF 1/32nd of the principal amount (such amount is referred to herein as the "Monthly Principal Amount") of the September 2004 Note, together with interest accrued thereon, on the first business day of each consecutive calendar month starting 120 days following the date of the September 2004 Note;

WHEREAS, the Borrower wishes to defer the payment of the Monthly Principal Amount due and payable under the September 2004 Note for the months of September, October, November and December 2005 until the September Note Maturity Date, and TTF wishes to allow the Borrower to defer payment of all such Monthly Principal Amounts and to allocate and include such Monthly Principal Amounts with the final payments due with respect to the September 2004 Note on the September 2004 Note Maturity Date, as is more fully described in Sections 1, 2 and 3 below (collectively, the "August Deferral");

WHEREAS, in consideration for TTF agreeing to the August Deferral, the Borrower has agreed to issue 47,090 newly issued shares of its Common Stock, \$.0001 par value per share ("Common Stock") to TTF (the "August Shares"), with registration rights to be granted to TTF with respect to such shares as provided herein; and

WHEREAS, in connection with the August Deferral, TTF has agreed to unconditionally and irrevocably waive the provisions of Section 3.4(b)(C) of the September 2004 Note regarding the adjustment of the Fixed Conversion Price (as defined in the September 2004 Note) solely with respect to the issuance of up to an aggregate of 890,000 shares of Common Stock (including the August Shares) (the "Shares") to be issued by the Company on or about the date hereof to TTF and other existing holders of the Company's Convertible Term Notes issued September 29, 2004, and TTF has further agreed that the Fixed Conversion Price set forth in the September 2004 Note shall remain unaffected as a result of the issuance and sale of the Shares.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFERRAL OF CERTAIN PRINCIPAL PAYMENTS; WAIVER OF CONVERSION PRICE ADJUSTMENT.

1. September 2004 Note. TTF hereby agrees that the Monthly Principal Amount for each of September, October, November and December 2005 due from the Borrower to TTF under the September 2004 Note, equal to an aggregate of \$62,500 (collectively, the "September Note Deferred Amount"), is hereby deferred until the September Note Maturity Date, at which time the September Note Deferred Amount shall be paid in full along with the final payment due on such date pursuant to the September 2004 Note. Notwithstanding the foregoing, the Borrower shall remain obligated to pay all of the Monthly Interest Amount (as defined in the September 2004 Note) when due.

2. Issuance of August Shares.

(a) The Borrower hereby agrees to issue to TTF, on the date hereof, the August Shares. The Borrower shall deliver to TTF an original, newly issued stock certificate evidencing such August Shares within five (5) business days after the date hereof.

(b) This Amendment and Waiver, including but not limited to the issuance of the August Shares, is made with TTF in reliance upon TTF's representation to the Borrower, which by TTF's execution of this Amendment and Waiver, TTF hereby confirms, that the August Shares to be acquired by TTF will be acquired for investment for TTF's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that TTF has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Amendment and Waiver, TTF further represents that TTF does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the August Shares. TTF has not been formed for the specific purpose of acquiring the August Shares. TTF agrees and acknowledges that it has had an opportunity to discuss the Borrower's business, management, financial affairs and the terms and conditions of the offering of the August Shares with the Borrower's management. TTF understands that the August Shares have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of TTF's representations as expressed herein. TTF understands that the

August Shares are “restricted securities” under applicable U.S. federal and state securities laws and that, pursuant to these laws, TTF must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. TTF hereby represents and warrants to the Borrower that TTF is an “accredited investor” as defined in Rule 501(a) of Regulation D promulgated under the Securities Act and has knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of the investment to be made hereunder. TTF acknowledges that the Borrower has no obligation to register or qualify the August Shares for resale except as is otherwise set forth in this Amendment and Waiver and the Registration Rights Agreement (as defined herein below). TTF further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements

2

including, but not limited to, the time and manner of sale, the holding period for the August Shares, and on requirements relating to the Borrower which are outside of TTF’s control, and which the Borrower is under no obligation and may not be able to satisfy.

(c) TTF understands that the August Shares shall bear substantially the following legend:

“THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.”

Certificates evidencing the August Shares shall not be required to contain the legend set forth above or any other legend (i) while a Registration Statement (as defined in the Registration Rights Agreement) covering the resale of such August Shares is effective under the Securities Act; provided that the holder thereof covenants that in connection with each sale of such securities, a copy of the final prospectus that forms a part of such Registration Statement will be delivered in accordance with the provisions of Section 5(b) (2) of the Securities Act, and the rules and regulations promulgated thereunder, or (ii) following any sale of such Securities pursuant to Rule 144 under the Securities Act, or (iii) if such August Shares are eligible for sale under Rule 144(k) under the Securities Act, or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the Staff of the Securities and Exchange Commission). The Borrower shall cause its counsel to issue the legal opinion to permit the removal of the legend as permitted in the immediately preceding sentence to the Borrower’s transfer agent on the effective date of the Registration Statement covering the resale of the August Shares. Following the effective date of such Registration Statement or at such earlier time as a legend is no longer required for the August Shares, the Borrower will no later than three trading days following the delivery by TTF to the Borrower or the Borrower’s transfer agent of a legended certificate representing such August Shares, deliver or cause to be delivered to TTF a certificate representing such August Shares that is free from all restrictive and other legends.

3. Registration Rights. The Borrower hereby grants registration rights to TTF pursuant to a Registration Rights Agreement dated as of even date herewith, in the form attached as Exhibit A hereto, between TTF and the Borrower (the “Registration Rights Agreement”).

4. Conversion Price. TTF hereby unconditionally and irrevocably waives the provisions of Section 3.4(b)(C) of the September 2004 Note regarding any adjustment of the Fixed Conversion Price (as defined in the September 2004 Note) that would otherwise be triggered as a result of the issuance of the Shares, and hereby agrees that the Fixed Conversion Price set forth in the September 2004 Note shall remain unaffected as a result of

3

the issuance and sale of the Shares. The waiver contained in this Section 6 relates exclusively to the issuance of the Shares, and shall not apply to any other subsequent issuances of any Common Stock or other securities by the Borrower.

II. MISCELLANEOUS.

1. No Other Amendments. Except as expressly set forth in this Amendment and Waiver, no other term or provision of the September 2004 Note is hereby amended or affected in any way, and the September 2004 Note shall remain in full force and effect after the date hereof.

2. Governing Law. This Amendment and Waiver shall be governed by and construed in accordance with the laws of

the State of New York, without regard to principles of conflicts of laws.

3. Facsimile Signatures; Counterparts. This Amendment and Waiver may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Amendment and Waiver as a sealed instrument as of the date set forth in the first paragraph hereof.

BIO-KEY INTERNATIONAL, INC.

By: _____
Thomas J. Colatosti
Co-Chief Executive Officer

THE TOCQUEVILLE FUND

By: _____
Name:
Title:

AMENDMENT AND WAIVER

This Amendment and Waiver (the "Amendment and Waiver") is entered into by and between BIO-KEY INTERNATIONAL, INC., a Delaware corporation (the "Borrower"), and The Tocqueville Amerique Value Fund ("TAVF"), and is effective as of August 31, 2005.

WHEREAS, the Borrower issued a Convertible Term Note to TAVF on September 29, 2004 in the aggregate original principal amount of \$200,000 (the "September 2004 Note"), payable in full on September 29, 2007 (the "September Note Maturity Date");

WHEREAS, pursuant to Section 1.2 of the September 2004 Note, the Borrower is obligated to repay to TAVF 1/32nd of the principal amount (such amount is referred to herein as the "Monthly Principal Amount") of the September 2004 Note, together with interest accrued thereon, on the first business day of each consecutive calendar month starting 120 days following the date of the September 2004 Note;

WHEREAS, the Borrower wishes to defer the payment of the Monthly Principal Amount due and payable under the September 2004 Note for the months of September, October, November and December 2005 until the September Note Maturity Date, and TAVF wishes to allow the Borrower to defer payment of all such Monthly Principal Amounts and to allocate and include such Monthly Principal Amounts with the final payments due with respect to the September 2004 Note on the September 2004 Note Maturity Date, as is more fully described in Sections 1, 2 and 3 below (collectively, the "August Deferral");

WHEREAS, in consideration for TAVF agreeing to the August Deferral, the Borrower has agreed to issue 18,836 newly issued shares of its Common Stock, \$.0001 par value per share ("Common Stock") to TAVF (the "August Shares"), with registration rights to be granted to TAVF with respect to such shares as provided herein; and

WHEREAS, in connection with the August Deferral, TAVF has agreed to unconditionally and irrevocably waive the provisions of Section 3.4(b)(C) of the September 2004 Note regarding the adjustment of the Fixed Conversion Price (as defined in the September 2004 Note) solely with respect to the issuance of up to an aggregate of 890,000 shares of Common Stock (including the August Shares) (the "Shares") to be issued by the Company on or about the date hereof to TAVF and other existing holders of the Company's Convertible Term Notes issued September 29, 2004, and TAVF has further agreed that the Fixed Conversion Price set forth in the September 2004 Note shall remain unaffected as a result of the issuance and sale of the Shares.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFERRAL OF CERTAIN PRINCIPAL PAYMENTS; WAIVER OF CONVERSION PRICE ADJUSTMENT.

1. September 2004 Note. TAVF hereby agrees that the Monthly Principal Amount for each of September, October, November and December 2005 due from the Borrower to TAVF under the September 2004 Note, equal to an aggregate of \$25,000 (collectively, the "September Note Deferred Amount"), is hereby deferred until the September Note Maturity Date, at which time the September Note Deferred Amount shall be paid in full along with the final payment due on such date pursuant to the September 2004 Note. Notwithstanding the foregoing, the Borrower shall remain obligated to pay all of the Monthly Interest Amount (as defined in the September 2004 Note) when due.

2. Issuance of August Shares.

(a) The Borrower hereby agrees to issue to TAVF, on the date hereof, the August Shares. The Borrower shall deliver to TAVF an original, newly issued stock certificate evidencing such August Shares within five (5) business days after the date hereof.

(b) This Amendment and Waiver, including but not limited to the issuance of the August Shares, is made with TAVF in reliance upon TAVF's representation to the Borrower, which by TAVF's execution of this Amendment and Waiver, TAVF hereby confirms, that the August Shares to be acquired by TAVF will be acquired for investment for TAVF's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that TAVF has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Amendment and Waiver, TAVF further represents that TAVF does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the August Shares. TAVF has not been formed for the specific purpose of acquiring the August Shares. TAVF agrees and acknowledges that it has had an opportunity to discuss the Borrower's business, management, financial affairs and the terms and conditions of the offering of the August Shares with the Borrower's management. TAVF understands that the August Shares have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of a specific exemption from the registration provisions of the Securities Act

which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of TAVF's representations as expressed herein. TAVF understands that the August Shares are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, TAVF must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. TAVF hereby represents and warrants to the Borrower that TAVF is an "accredited investor" as defined in Rule 501(a) of Regulation D promulgated under the Securities Act and has knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of the investment to be made hereunder. TAVF acknowledges that the Borrower has no obligation to register or qualify the August Shares for resale except as is otherwise set forth in this Amendment and Waiver and the Registration Rights Agreement (as defined herein below). TAVF further acknowledges that if an exemption from registration or qualification is

available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the August Shares, and on requirements relating to the Borrower which are outside of TAVF's control, and which the Borrower is under no obligation and may not be able to satisfy.

(c) TAVF understands that the August Shares shall bear substantially the following legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED."

Certificates evidencing the August Shares shall not be required to contain the legend set forth above or any other legend (i) while a Registration Statement (as defined in the Registration Rights Agreement) covering the resale of such August Shares is effective under the Securities Act; provided that the holder thereof covenants that in connection with each sale of such securities, a copy of the final prospectus that forms a part of such Registration Statement will be delivered in accordance with the provisions of Section 5(b) (2) of the Securities Act, and the rules and regulations promulgated thereunder, or (ii) following any sale of such Securities pursuant to Rule 144 under the Securities Act, or (iii) if such August Shares are eligible for sale under Rule 144(k) under the Securities Act, or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the Staff of the Securities and Exchange Commission). The Borrower shall cause its counsel to issue the legal opinion to permit the removal of the legend as permitted in the immediately preceding sentence to the Borrower's transfer agent on the effective date of the Registration Statement covering the resale of the August Shares. Following the effective date of such Registration Statement or at such earlier time as a legend is no longer required for the August Shares, the Borrower will no later than three trading days following the delivery by TAVF to the Borrower or the Borrower's transfer agent of a legended certificate representing such August Shares, deliver or cause to be delivered to TAVF a certificate representing such August Shares that is free from all restrictive and other legends.

3. Registration Rights. The Borrower hereby grants registration rights to TAVF pursuant to a Registration Rights Agreement dated as of even date herewith, in the form attached as Exhibit A hereto, between TAVF and the Borrower (the "Registration Rights Agreement").

4. Conversion Price. TAVF hereby unconditionally and irrevocably waives the provisions of Section 3.4(b)(C) of the September 2004 Note regarding any adjustment of the Fixed Conversion Price (as defined in the September 2004 Note) that would otherwise be

triggered as a result of the issuance of the Shares, and hereby agrees that the Fixed Conversion Price set forth in the September 2004 Note shall remain unaffected as a result of the issuance and sale of the Shares. The waiver contained in this Section 6 relates exclusively to the issuance of the Shares, and shall not apply to any other subsequent issuances of any Common Stock or other securities by the Borrower.

II. MISCELLANEOUS.

1. No Other Amendments. Except as expressly set forth in this Amendment and Waiver, no other term or provision of the September 2004 Note is hereby amended or affected in any way, and the September 2004 Note shall remain in full force and

effect after the date hereof.

2. Governing Law. This Amendment and Waiver shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws.

3. Facsimile Signatures; Counterparts. This Amendment and Waiver may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

* * * * *

4

IN WITNESS WHEREOF, the parties hereto have executed this Amendment and Waiver as a sealed instrument as of the date set forth in the first paragraph hereof.

BIO-KEY INTERNATIONAL, INC.

By: _____
Thomas J. Colatosti
Co-Chief Executive Officer

THE TOCQUEVILLE AMERIQUE
VALUE FUND

By: _____
Name:
Title:

5

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of August 31, 2005 by and among BIO-key International, Inc., a Delaware corporation (the "Company"), and each of the Purchasers listed on Exhibit A hereto (the "Purchasers").

This Agreement is made pursuant to each Amendment and Waiver dated as of the date hereof, by and between each Purchaser and the Company (collectively, the "Amendment and Waivers," and each individually, an "Amendment and Waiver").

The Company and each of the Purchasers hereby agree as follows:

1. **Definitions.** As used in this Agreement, the following terms shall have the following meanings:

"*Commission*" means the Securities and Exchange Commission.

"*Common Stock*" means shares of the Company's common stock, par value \$0.0001 per share.

"*Effectiveness Date*" means with respect to the initial Registration Statement required to be filed hereunder, a date no later than ninety (90) days following the Filing Date.

"*Effectiveness Period*" shall have the meaning set forth in Section 2(a).

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and any successor statute.

"*Filing Date*" means, with respect to the initial Registration Statement required to be filed hereunder, August 30, 2006.

"*Holder*" or "*Holder*s" means the Purchasers or any of their respective affiliates or transferees to the extent any of them hold Registrable Securities.

"*Indemnified Party*" shall have the meaning set forth in Section 5(c).

"*Indemnifying Party*" shall have the meaning set forth in Section 5(c).

"*Proceeding*" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"*Prospectus*" means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus

supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"*Registrable Securities*" means the shares of Common Stock issued to the Purchasers pursuant to each respective Amendment and Waiver.

"*Registration Statement*" means each registration statement required to be filed hereunder, including the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

"*Rule 144*" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"*Rule 415*" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be

amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

“*Rule 424*” means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

“*Securities Act*” means the Securities Act of 1933, as amended, and any successor statute.

“*Trading Market*” means any of the NASD OTC Bulletin Board, NASDAQ SmallCap Market, the Nasdaq National Market, the American Stock Exchange or the New York Stock Exchange.

2. Registration.

(a) On or prior to the Filing Date the Company shall prepare and file with the Commission a Registration Statement covering the Registrable Securities for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form SB-2 (except if the Company is not then eligible to register for resale the Registrable Securities on Form SB-2, in which case such registration shall be on another appropriate form in accordance herewith). The Company shall cause the Registration Statement to become effective and remain effective as provided herein. The Company shall use its reasonable commercial

efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event no later than the Effectiveness Date. The Company shall use its reasonable commercial efforts to keep the Registration Statement continuously effective under the Securities Act until the date which is the earlier date of when (i) all Registrable Securities have been sold or (ii) all Registrable Securities may be sold immediately without registration under the Securities Act and without volume restrictions pursuant to Rule 144(k), as determined by the counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company’s transfer agent and the affected Holders (the “Effectiveness Period”).

(b) If: (i) the Registration Statement is not filed on or prior to the Filing Date; (ii) the Registration Statement is not declared effective by the Commission by the Effectiveness Date; (iii) after the Registration Statement is filed with and declared effective by the Commission, the Registration Statement ceases to be effective (by suspension or otherwise) as to all Registrable Securities to which it is required to relate at any time prior to the expiration of the Effectiveness Period (without being succeeded immediately by an additional registration statement filed and declared effective) for a period of time which shall exceed 30 days in the aggregate per year or more than 20 consecutive calendar days (defined as a period of 365 days commencing on the date the Registration Statement is declared effective); or (iv) the Common Stock is not listed or quoted, or is suspended from trading on any Trading Market for a period of three (3) consecutive Trading Days (provided the Company shall not have been able to cure such trading suspension within 30 days of the notice thereof or list the Common Stock on another Trading Market); (any such failure or breach being referred to as an “Event,” and for purposes of clause (i) or (ii) the date on which such Event occurs, or for purposes of clause (iii) the date which such 30 day or 20 consecutive day period (as the case may be) is exceeded, or for purposes of clause (iv) the date on which such three (3) Trading Day period is exceeded, being referred to as “Event Date”), then until the applicable Event is cured, the Company shall pay to each Holder an amount in cash, as liquidated damages and not as a penalty, equal to 2.0% for each thirty (30) day period (prorated for partial periods) on a daily basis of the original principal amount of the Note (as defined, with respect to each Purchaser, in the Amendment and Waiver with such Purchaser). While such Event continues, such liquidated damages shall be paid not less often than each thirty (30) days. Any unpaid liquidated damages as of the date when an Event has been cured by the Company shall be paid within three (3) days following the date on which such Event has been cured by the Company.

(c) Within three business days of the Effectiveness Date, the Company shall cause its counsel to issue a blanket opinion in substantially the form attached hereto as Exhibit B, to the transfer agent stating that the shares are subject to an effective registration statement and can be reissued free of restrictive legend upon notice of a sale by such Purchaser and confirmation by such Purchaser that it has complied with the prospectus delivery requirements, provided that the Company has

not advised the transfer agent orally or in writing that the opinion has been withdrawn. Copies of the blanket opinion required by this Section 2(c) shall be delivered to such Purchaser within the time frame set forth above.

3. Registration Procedures. If and whenever the Company is required by the provisions hereof to effect the registration of any Registrable Securities under the Securities Act, the Company will, as expeditiously as possible:

- (a) prepare and file with the Commission the Registration Statement with respect to such Registrable Securities, respond as promptly as possible to any comments received from the Commission, and use its best efforts to cause the Registration Statement to become and remain effective for the Effectiveness Period with respect thereto, and promptly provide to the Purchaser copies of all filings and Commission letters of comment relating thereto;
 - (b) prepare and file with the Commission such amendments and supplements to the Registration Statement and the Prospectus used in connection therewith as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities covered by the Registration Statement and to keep such Registration Statement effective until the expiration of the Effectiveness Period;
 - (c) furnish or make available to the Holders such number of copies of the Registration Statement and the Prospectus included therein (including each preliminary Prospectus) as the Holders reasonably may request to facilitate the public sale or disposition of the Registrable Securities covered by the Registration Statement;
 - (d) use its commercially reasonable efforts to register or qualify the Holder's Registrable Securities covered by the Registration Statement under the securities or "blue sky" laws of such jurisdictions within the United States as the Holder may reasonably request, provided, however, that the Company shall not for any such purpose be required to qualify generally to transact business as a foreign corporation in any jurisdiction where it is not so qualified or to consent to general service of process in any such jurisdiction;
 - (e) list the Registrable Securities covered by the Registration Statement with any securities exchange on which the Common Stock of the Company is then listed;
 - (f) immediately notify the Holders at any time when a Prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event of which the Company has knowledge as a result of which the Prospectus contained in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated
-

therein or necessary to make the statements therein not misleading in light of the circumstances then existing; and

- (g) make available for inspection by the Holders and any attorney, accountant or other agent retained by the Holders, all publicly available, non-confidential financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all publicly available, non-confidential information reasonably requested by the attorneys, accountants or agents of the Holders.

4. Registration Expenses. All expenses relating to the Company's compliance with Sections 2 and 3 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel and independent public accountants for the Company, fees and expenses (including reasonable counsel fees) incurred in connection with complying with state securities or "blue sky" laws, fees of the NASD, transfer taxes, fees of transfer agents and registrars, fees of, and disbursements incurred by, one counsel for the Holders (to the extent such counsel is required due to Company's failure to meet any of its obligations hereunder), are called "Registration Expenses". All selling commissions applicable to the sale of Registrable Securities, including any fees and disbursements of any special counsel to the Holders beyond those included in Registration Expenses, are called "Selling Expenses." The Company shall only be responsible for all Registration Expenses and shall not be responsible for any Selling Expenses.

5. Indemnification.

- (a) In the event of a registration of any Registrable Securities under the Securities Act pursuant to this Agreement, the Company will indemnify and hold harmless each Holder, and its officers, directors and each other person, if any, who controls such Holder within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such Holder, or such persons may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement under which such Registrable Securities were registered under the Securities Act pursuant to this Agreement, any preliminary Prospectus or final Prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Holders, and each such person for any reasonable legal or other expenses incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that

the Company will not be liable in any such case if and to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made

in conformity with information furnished by or on behalf of the Holders or any such person in writing specifically for use in any such document.

(b) In the event of a registration of the Registrable Securities under the Securities Act pursuant to this Agreement, each Holder will indemnify and hold harmless the Company, and its officers, directors and each other person, if any, who controls the Company within the meaning of the Securities Act, against all losses, claims, damages or liabilities, joint or several, to which the Company or such persons may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact which was furnished in writing by such Holder to the Company expressly for use in (and such information is contained in) the Registration Statement under which such Registrable Securities were registered under the Securities Act pursuant to this Agreement, any preliminary Prospectus or final Prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and each such person for any reasonable legal or other expenses incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action, provided, however, that such Holder will be liable in any such case if and only to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished in writing to the Company by or on behalf of such Holder specifically for use in any such document. Notwithstanding the provisions of this paragraph, such Holder shall not be required to indemnify any person or entity in excess of the amount of the aggregate net proceeds received by such Holder in respect of Registrable Securities in connection with any such registration under the Securities Act.

(c) Promptly after receipt by a party entitled to claim indemnification hereunder (an "Indemnified Party") of notice of the commencement of any action, such Indemnified Party shall, if a claim for indemnification in respect thereof is to be made against a party hereto obligated to indemnify such Indemnified Party (an "Indemnifying Party"), notify the Indemnifying Party in writing thereof, but the omission so to notify the Indemnifying Party shall not relieve it from any liability which it may have to such Indemnified Party other than under this Section 5(c) and shall only relieve it from any liability which it may have to such Indemnified Party under this Section 5(c) if and to the extent the Indemnifying Party is prejudiced by such omission. In case any such action shall be brought against any Indemnified Party and it shall notify the Indemnifying Party of the commencement thereof, the Indemnifying Party shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel satisfactory to such Indemnified Party, and, after notice from the Indemnifying Party to such Indemnified Party of its election so to assume and undertake the defense thereof, the Indemnifying

Party shall not be liable to such Indemnified Party under this Section 5(c) for any legal expenses subsequently incurred by such Indemnified Party in connection with the defense thereof; if the Indemnified Party retains its own counsel, then the Indemnified Party shall pay all fees, costs and expenses of such counsel, provided, however, that, if the defendants in any such action include both the indemnified party and the Indemnifying Party and the Indemnified Party shall have reasonably concluded that there may be reasonable defenses available to it which are different from or additional to those available to the Indemnifying Party or if the interests of the Indemnified Party reasonably may be deemed to conflict with the interests of the Indemnifying Party, the Indemnified Party shall have the right to select one separate counsel and to assume such legal defenses and otherwise to participate in the defense of such action, with the reasonable expenses and fees of such separate counsel and other expenses related to such participation to be reimbursed by the Indemnifying Party as incurred.

(d) In order to provide for just and equitable contribution in the event of joint liability under the Securities Act in any case in which either (i) a Holder, or any officer, director or controlling person of such Holder, makes a claim for indemnification pursuant to this Section 5 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 5 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of such Holder or such officer, director or controlling person of such Holder in circumstances for which indemnification is provided under this Section 5; then, and in each such case, the Company and such Holder will contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that such Holder is responsible only for the portion represented by the percentage that the public offering price of its securities offered by the Registration Statement bears to the public offering price of all securities offered by such Registration Statement, provided, however, that, in any such case, (A) such Holder will not be required to contribute any amount in excess of the public offering price of all such securities offered by it pursuant to

such Registration Statement; and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 10(f) of the Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

6. Representations and Warranties.

(a) The Common Stock of the Company is registered pursuant to Section 12(b) or 12(g) of the Exchange Act and, except with respect to any matters which the Company has previously disclosed in writing to the Purchaser, the Company has timely filed all proxy statements, reports, schedules, forms, statements and other documents required to be filed by it under the Exchange Act. The Company has filed

(i) its Annual Report on Form 10-KSB for its fiscal year ended December 31, 2004 and (ii) its Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 2005 (collectively, the "SEC Reports"). Each SEC Report was, at the time of its filing, in substantial compliance with the requirements of its respective form and none of the SEC Reports, nor the financial statements (and the notes thereto) included in the SEC Reports, as of their respective filing dates, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the Commission or other applicable rules and regulations with respect thereto. Such financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed) and fairly present in all material respects the financial condition, the results of operations and the cash flows of the Company and its subsidiaries, on a consolidated basis, as of, and for, the periods presented in each such SEC Report.

(b) The Common Stock is traded on the Over the Counter Bulletin Board ("OTCBB") and satisfies all requirements for the continuation of such trading. The Company has not received any notice that its Common Stock will be ineligible to be traded on the OTCBB (except for prior notices which have been fully remedied) or that the Common Stock does not meet all requirements for the continuation of such trading.

(c) Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would cause the offering of the securities pursuant to the Amendment and Waivers to be integrated with prior offerings by the Company for purposes of the Securities Act which would prevent the Company from selling the Common Stock pursuant to Rule 506 under the Securities Act, or any applicable exchange-related stockholder approval provisions, nor will the Company or any of its affiliates or subsidiaries take any action or steps that would cause the offering of the Securities to be integrated with other offerings.

(d) The Registrable Securities are all restricted securities under the Securities Act as of the date of this Agreement. The Company will not issue any stop transfer order or other order impeding the sale and delivery of any of the Registrable Securities at such time as such Registrable Securities are registered for public sale or an exemption from registration is available, except as required by federal or state securities laws.

(e) Except for agreements made in the ordinary course of business, there is no agreement that has not been filed with the Commission as an exhibit to a registration statement or to a form required to be filed by the Company under the Exchange Act, the breach of which could reasonably be expected to have a material and adverse effect on the Company and its subsidiaries, or would prohibit or otherwise interfere with the ability of the Company to enter into and perform any of its obligations under this Agreement in any material respect.

7. Miscellaneous.

(a) Remedies. In the event of a breach by the Company or by a Holder, of any of their respective obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement.

(b) No Piggyback on Registrations. Except as and to the extent specified in Schedule 7(b)(i) hereto, neither the Company nor any of its security holders (other than the Holders in such capacity pursuant hereto) may include securities

of the Company in any Registration Statement other than the Registrable Securities, and the Company shall not after the date hereof enter into any agreement providing any such right for inclusion of shares in the Registration Statement to any of its security holders. Except as and to the extent specified in Schedule 7(b)(ii) hereto, the Company has not previously entered into any agreement granting any registration rights with respect to any of its securities to any Person that have not been fully satisfied.

(c) Compliance. Each Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

(d) Discontinued Disposition. Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of a Discontinuation Event (as defined below), such Holder will forthwith discontinue disposition of such Registrable Securities under the applicable Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide appropriate stop orders to enforce the provisions of this paragraph. For purposes of this Section 7(d), a "Discontinuation Event" shall mean (i) when the Commission notifies the Company whether there will be a "review" of such Registration Statement and whenever the

Commission comments in writing on such Registration Statement (the Company shall provide true and complete copies thereof and all written responses thereto to each of the Holders); (ii) any request by the Commission or any other Federal or state governmental authority for amendments or supplements to such Registration Statement or Prospectus or for additional information; (iii) the issuance by the Commission of any stop order suspending the effectiveness of such Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and/or (v) the occurrence of any event or passage of time that makes the financial statements included in such Registration Statement ineligible for inclusion therein or any statement made in such Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to such Registration Statement, Prospectus or other documents so that, in the case of such Registration Statement or Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(e) Piggy-Back Registrations. If at any time (i) prior to the Filing Date and (ii) during the Effectiveness Period, there is not an effective Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send to each Holder written notice of such determination and, if within fifteen days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such holder requests to be registered to the extent the Company may do so without violating registration rights of others which exist as of the date of this Agreement, subject to customary underwriter cutbacks applicable to all holders of registration rights and subject to obtaining any required the consent of any selling stockholder(s) to such inclusion under such registration statement.

(f) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by (i) the Company, (ii) Laurus Master Fund, Ltd., and (iii) The Shaar Fund, Ltd. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a

matter that relates exclusively to the rights of certain Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities to which such waiver or consent relates; provided, however, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(g) Notices. Any notice or request hereunder may be given to the Company or the Purchaser at the respective addresses set forth below or as may hereafter be specified in a notice designated as a change of address under this Section 7(g). Any notice or request hereunder shall be given by registered or certified mail, return receipt requested, hand delivery, overnight mail, Federal Express or other national overnight next day carrier (collectively, "Courier") or telecopy (confirmed by mail). Notices and requests shall be, in the case of those by hand delivery, deemed to have been given when delivered to any party to whom it is addressed, in the case of those by mail or overnight mail, deemed to have been given three (3) business days after the date when deposited in the mail or with the overnight mail carrier, in the case of a Courier, the next business day following timely delivery of the package with the Courier, and, in the case of a telecopy, when confirmed. The address for such notices and communications shall be as follows:

If to the Company: BIO-key International, Inc.
300 Nickerson Road
Marlborough, MA 01752
Attention: Chief Financial Officer
Facsimile: (508) 460-4098

with a copy to:

Choate, Hall & Stewart LLP
Two International Place
Boston, MA 02110

Attention: Charles J. Johnson
Facsimile:(617) 248-4000

If to a Purchaser: To the address set forth under such Purchaser name on the signature pages hereto.

If to any other Person who is then the registered Holder: To the address of such Holder as it appears in the stock transfer books of the Company

or such other address as may be designated in writing hereafter in accordance with this Section 7(g) by such Person.

(h) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of each Holder. Each Holder may assign their respective rights hereunder in the manner and to the Persons as permitted under the Notes with the prior written consent of the Company, which consent shall not be unreasonably withheld.

(i) Execution and Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(j) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all Proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement shall be commenced exclusively in the state and federal courts sitting in the City of New York, Borough of Manhattan. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any Proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such Proceeding is improper. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of a Transaction Document, then

the prevailing party in such Proceeding shall be reimbursed by the other party for its reasonable attorneys fees and other costs

and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

(k) Cumulative Remedies. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(l) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(m) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

BIO-KEY INTERNATIONAL, INC.

By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

LAURUS MASTER FUND, LTD.

By: _____
Name: _____
Title: _____

Address for Notices:

825 Third Avenue - 14th Floor
New York, NY 10022
Attention: David Grin
Facsimile: 212-541-4434

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

THE SHAAR FUND, LTD.

By: _____
Name: _____
Title: _____

Address for Notices:

The Shaar Fund, Ltd.
c/o SS&C Fund Services N.V.
Pareraweg 45
Curacao, Netherlands Antilles
Attn: Maarten Robberts
Facsimile No.: 599-9 434-3560

with copies to:

Levinson Capital Management, LLC
350 Fifth Avenue, Suite 2210
New York, New York 10118

and

Meltzer, Lippe, Goldstein & Breitstone,
LLP
190 Willis Avenue
Mineola, NY 11501

Attention:
Facsimile:

Ira R. Halperin, Esq.
516-747-0653

Counterpart Signature Page to Registration Rights Agreement

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

INVESTOR NAME:

By: _____

Name: _____

Title: _____

Address for Notices:

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

INVESTOR NAME:

By: _____

Name: _____

Title: _____

Address for Notices:

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

INVESTOR NAME:

By: _____

Name: _____

Title: _____

Address for Notices:

EXHIBIT A

Laurus Master Fund, Ltd.

The Shaar Fund, Ltd.

Longview Special Finance

Etienne Des Roys

Eric Haber

Investors Management Corporation

The Tocqueville Fund

The Tocqueville Amerique Value Fund

EXHIBIT B

[Month , 2003]

[Continental Stock Transfer
& Trust Company
Two Broadway
New York, NY 10004
Attn: William Seegraber]

Re: [Company Name]. Registration Statement on Form [S-3]

Ladies and Gentlemen:

As counsel to [company name] , a Delaware corporation (the "Company"), we have been requested to render our opinion to you in connection with the resale by the individuals or entities listed on Schedule A attached hereto (the "Selling Stockholders"), of an aggregate of [amount] shares (the "Shares") of the Company's Common Stock.

A Registration Statement on Form [S-3] under the Securities Act of 1933, as amended (the "Act"), with respect to the resale of the Shares was declared effective by the Securities and Exchange Commission on [date]. Enclosed is the Prospectus dated [date]. We understand that the Shares are to be offered and sold in the manner described in the Prospectus.

Based upon the foregoing, upon request by the Selling Stockholders at any time while the registration statement remains effective, it is our opinion that the Shares have been registered for resale under the Act and new certificates evidencing the Shares upon their transfer or re-registration by the Selling Stockholders may be issued without restrictive legend. We will advise you if the registration statement is not available or effective at any point in the future.

Very truly yours,

[Company counsel]

Schedule A

Selling Stockholder	Shares Being Offered

Schedule 7(b)(i)

None.

Schedule 7(b)(ii)

1. Warrant dated November 25, 2001 for 4,000,000 shares of common stock issued to The Shaar Fund, Ltd.
2. Shares of Common Stock and Warrants issuable pursuant to the Securities Purchase Agreement Dated as of May 31, 2005 by and among the Company and the Purchasers named therein.
3. Shares of Common Stock and Warrants issuable pursuant to the Securities Purchase Agreement Dated as of June 8, 2005 by and among the Company and Laurus Master Fund, Ltd.
4. An aggregate of 620,667 shares of Common Stock issuable pursuant to Warrants dated February 2, 2005 issued by the

Company to Jesup & Lamont Securities and certain of its employees.

5. An aggregate of 271,948 shares of Common Stock issuable pursuant to Warrants dated as of June 8, 2005 and July 8, 2005, respectively, issued by the Company to Jesup & Lamont Securities and certain of its employees.
-