

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

BIO KEY INTERNATIONAL INC

Form: 8-K/A

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event reported): June 30, 2020

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 A, Suite E
Wall, NJ 07719

(Address of principal executive offices)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	BKYI	Nasdaq Capital Market

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))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR 240.12b-2).

Emerging growth company

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

EXPLANATORY NOTE

On July 7, 2020, BIO-key International, Inc. (the "Company") filed a Current Report on Form 8-K (the "Original Form 8-K") reporting that the Company completed its previously announced acquisition of PistolStar, Inc. ("PistolStar"). This Amendment No. 1 on Form 8-K/A amends Item 9.01 of the Original Form 8-K to provide the required financial statements and pro forma financial information with respect to the acquisition of PistolStar.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

Attached hereto as Exhibit 99.1 and incorporated by reference herein are the following audited financial statements of PistolStar as of and for the years ended December 31, 2019 and 2018.

Independent Auditors' Reports
Balance Sheet
Statements of Income and Retained Earnings
Statements of cash flows
Notes to the financial statements

Attached hereto as Exhibit 99.2 and incorporated by reference herein are the following unaudited financial statements of PistolStar as of and for the three months ended March 31, 2020 and 2019.

Balance Sheet
Statements of Income and Retained Earnings
Statements of Stockholder's Equity
Statements of Cash Flows
Notes to the financial statements

(b) Pro forma Financial Information.

Attached hereto as Exhibit 99.3 and incorporated by reference herein are the following unaudited pro forma condensed combined financial statements of the Company and PistolStar.

Statements of Operations for the year ended December 31, 2019
Statements of Operations for the three months ended March 31, 2020
Balance sheet as of March 31, 2020
Notes to the financial statements

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of Penchansky & Co., PLLC.
99.1	Audited financial statements of PistolStar, Inc. as of and for the years ended December 31, 2019 and 2018.
99.2	Unaudited financial statements of PistolStar, Inc. as of and for the three months ended March 31, 2020 and 2019.
99.3	Unaudited pro forma condensed combined financial statements of BIO-key International, Inc. and PistolStar, Inc.

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.

Date: July 28, 2020

BIO-KEY INTERNATIONAL, INC.

By: /s/ Cecilia C. Welch

Cecilia C. Welch

Chief Financial Officer

Consent of Independent Public Accounting Firm

We hereby consent to the incorporation by reference in the BIO-key International, Inc. Registration Statements on Form S-8 (File Nos.: 333-233737 and 333-212066) of our reports dated June 18, 2020 and June 5, 2020 with respect to the financial statements of PistolStar, Inc. which appear in this Current Report on Form 8-K/A of BIO-key International, Inc. dated July 28, 2020.

/s/ Penchansky & Co., PLLC

Manchester, New Hampshire
July 28, 2020

The following financial statements of PistolStar, Inc. are included herein at the indicated page numbers:

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INDEPENDENT AUDITOR'S REPORT

To the Stockholder
of **PistolStar, Inc.**
Bedford, New Hampshire

We have audited the accompanying financial statements of PistolStar, Inc., (a New Hampshire corporation), which comprise the balance sheet as of December 31, 2019, and the related statements of income and retained earnings and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PistolStar, Inc., as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Penchansky & Co., PLLC
Certified Public Accountants
Manchester, New Hampshire

June 18, 2020

PistolStar, Inc.
BALANCE SHEET

	<u>December 31,</u> <u>2019</u>
ASSETS	
Cash and cash equivalents	\$ 528,103
Accounts receivable, net	57,727
Prepaid expenses	11,210
Total current assets	<u>597,040</u>
Equipment and leasehold improvements, net	43,422
Other assets	194,447
Total non-current assets	<u>237,869</u>
TOTAL ASSETS	<u>\$ 834,909</u>
LIABILITIES	
Accounts payable	\$ 7,931
Contract liability	726,492
Accrued Corporation taxes	70
TOTAL LIABILITIES	<u>734,493</u>
Commitments and Contingencies	
STOCKHOLDER'S EQUITY	
Common stock - 1,000,000 shares authorized; issued 950,000 shares; outstanding 325,000 shares; no par value	4,000
Treasury stock – 625,000 shares at cost	(2,500)
Retained earnings	98,916
TOTAL STOCKHOLDER'S EQUITY	<u>100,416</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 834,909</u>

The accompanying notes are an integral part of these statements.

PistolStar, Inc.
STATEMENT OF INCOME AND RETAINED EARNINGS

	<u>Year ended</u> <u>December 31,</u> <u>2019</u>
Revenues	
License fees	\$ 1,584,487
Costs and other expenses	
Cost of license fees	1,054,950
Gross Profit	<u>529,537</u>
Operating expenses	
Selling, general and administrative	454,334
Operating income	<u>75,203</u>
Other income (expense)	
Interest income	2,628
Total other income (expense)	<u>2,628</u>
Net income before Provision for Taxes	77,831
State taxes	6,699
Net income	71,132
Retained earnings, beginning of year	51,567
Distribution	(23,783)
Retained earnings, end of year	<u>\$ 98,916</u>

The accompanying notes are an integral part of these statements.

PistolStar Inc.
STATEMENT OF CASH FLOWS

Year ended
December 31,
2019

CASH FLOW FROM OPERATING ACTIVITIES:	
Net income	\$ 71,132
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation and Amortization	16,048
Change in assets and liabilities:	
Accounts receivable	5,278
Prepaid expenses and other	(2,429)
Accounts payable	(347)
Accrued Corporate taxes	(819)
Contract liability	52,944
Net cash provided by operating activities	<u>141,807</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Distributions	(23,783)
Net cash used in financing activities	<u>(23,783)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>118,024</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>410,079</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 528,103</u>

The accompanying notes are an integral part of these statements.

PISTOLSTAR, INC.
Notes to the Financial Statements
For The Year Ended December 31, 2019

NOTE 1 Summary of Significant Accounting Policies:

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for the integrity and objectivity of the financial statements. The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") a codified by the Financial Accounting Standards Board and those principles have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The Company uses the accrual basis of accounting. Revenue is recognized when it is earned and expenses are recognized when incurred, without regard to the time of receipt or payment.

Use of Estimates in Preparation of Financial Statements

Management used estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results may differ.

New Accounting Pronouncements

Topic 606

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is to recognize revenue when the promised goods or services due are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This standard allows for early adoption and is effective for the Company for the year beginning January 1, 2018. See Note 2.

Topic 842

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases, (Topic 842)*. This new standard amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and a corresponding lease liability. This standard is effective for the company for the year beginning January 1, 2021. Management will be evaluating the potential impact the pronouncement will have on the financial statements, if any.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all liquid deposits with maturity of three months or less to be cash and/or cash equivalents. At December 31, 2019, the Company had no cash equivalents.

PISTOLSTAR, INC.
Notes to the Financial Statements
For The Year Ended December 31, 2019

Accounts Receivable and Bad Debt

Accounts receivable are reported at net realizable value. Net realizable value is equal to the gross amount of accounts receivable less an estimated allowance for accounts unlikely to be collected. Historically, the Company has not experienced material write-offs and, therefore, has not established an allowance account.

Advertising Costs

The Company expenses marketing costs, consisting of tradeshow, promotional mailers and other media expenditures as they are incurred. Total amount expensed for the year ended December 31, 2019 was \$106,961.

Revenue Recognition

Revenue is realized or realizable and earned when persuasive evidence of a performance obligation has been satisfied. The Company records revenue from contract sales, and recognizes this revenue over the term of the contract with the consumer, beginning at commencement of the contract.

Intangible Assets

The cost associated with obtaining computer domains have been capitalized and amortized over the useful life of 5 years, on a straight line basis.

Fixed Assets

Property and equipment are stated on the basis of cost. Repairs are charged to expense as they are incurred. For financial reporting purposes, depreciation is computed on the straight line basis. For tax reporting purposes, depreciation is computed by the modified accelerated cost recovery system as required by the Internal Revenue Code. The useful lives of the assets are as follows:

<u>Asset</u>	<u>Years</u>
Equipment	5 -7 years
Leasehold Improvements	39 years

NOTE 2 - Contract Liability:

During the year ending December 31, 2019, the Company has a fee agreement to provide support services and authentication services to consumers for one year contracts. In connection with this agreement, the Company has a contract liability, which is being amortized on a straight-line basis over the twelve month term of the contracts. As of December 31, 2019, the balance of the liability was \$726,492.

PISTOLSTAR, INC.
Notes to the Financial Statements
For The Year Ended December 31, 2019

NOTE 3 - Retirement Plan:

The Company established a qualified 401 (k) retirement plan, effective January 1, 2016, for employee's that meet the Company vesting period, that allow salary deferrals, safe harbor contributions, employer matching contributions up to 4% of employee compensation, and profit share contributions. Total contributions for the year ending December 31, 2019 was \$15,703.

NOTE 4 - Concentrations:

Cash

The Company maintains its bank accounts with one commercial bank. Cash in these accounts at times exceeded the insured limit set by the Federal Deposit Insurance Corporation ("FDIC"). The Company's management believes this risk is minimal.

Accounts Receivable

Customer accounts receivable balances as a percentage of the total accounts receivable that are greater than 10% amount to a concentration of credit risk for the year ended December 31, 2019 was 65%.

NOTE 5 - Income Tax Matters:

PistolStar, Inc. is an S-Corp and as such not a taxpaying entity for federal income tax purposes. Therefore, no provision or liability for federal income taxes has been included in the financial statements for the year ended December 31, 2019. The Company, however, is still liable for state taxes.

The Company's evaluation on December 31, 2019 revealed no uncertain tax positions that would have a material effect on the financial statements. The Company's tax returns are subject to possible examination by the taxing authorities. For federal and state purposes the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

NOTE 6 - Compensated Absences:

The Company allows compensated absences that will accrue evenly throughout the calendar year beginning January 1 of each year. Employees must take the time in the year it was earned and forfeit accrued unused time at the end of each year.

NOTE 7 - Operating Lease:

The Company leases its office space under a 10-year operating lease requiring monthly payments and minimum prorated share of operating expenses of \$4,345. The lease expired on January 31, 2019, and was extended for an additional three years, commencing on February 1, 2019 and ending on January 31, 2022. Rent expense for the year December 31, 2019 was \$53,931

PISTOLSTAR, INC.
Notes to the Financial Statements
For The Year Ended December 31, 2019

NOTE 7 - Operating Lease - continued:

The following is a schedule by years of future minimum rentals under the leases at December 31, 2019:

Years Ending December 31,	Facilities & Residences
2020	52,142
2021	52,142
2022	4,345
Total	\$ 108,629

NOTE 8 - Subsequent Events:

In preparing the financial statements, Management has evaluated events and transactions for potential recognition or disclosure through June 18, 2020, which is the date the financial statements were available to be issued.

During May, 2020, the Company's stockholder agreed to sell the stock of the Company to a publicly traded company in excess of book value.

INDEPENDENT AUDITOR'S REPORT

To the Stockholder
of **PistolStar, Inc.**
Bedford, New Hampshire

We have audited the accompanying financial statements of PistolStar, Inc., (a New Hampshire corporation), which comprise the balance sheet as of December 31, 2018, and the related statements of income and retained earnings and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PistolStar, Inc., as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Penchansky & Co., PLLC
Certified Public Accountants
Manchester, New Hampshire

June 5, 2020

PistolStar, Inc.
BALANCE SHEET

	<u>December 31,</u> <u>2018</u>
ASSETS	
Cash and cash equivalents	\$ 410,079
Accounts receivable, net	63,005
Prepaid expenses	8,781
Total current assets	<u>481,865</u>
Equipment and leasehold improvements, net	58,171
Other assets	195,747
Total non-current assets	<u>253,918</u>
TOTAL ASSETS	\$ <u>735,783</u>
LIABILITIES	
Accounts payable	\$ 8,278
Contract liability	673,549
Accrued Corporation taxes	889
TOTAL LIABILITIES	<u>682,716</u>
Commitments and Contingencies	
STOCKHOLDER'S EQUITY	
Common stock - 1,000,000 shares authorized; issued 950,000 shares; and outstanding 325,000 shares; no par value	4,000
Treasury stock – 625,000 shares at cost	(2,500)
Retained earnings	51,567
TOTAL STOCKHOLDER'S EQUITY	<u>53,067</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ <u>735,783</u>

The accompanying notes are an integral part of these statements.

PistolStar, Inc.
STATEMENT OF INCOME AND RETAINED EARNINGS

	<u>Year ended</u> <u>December 31,</u> <u>2018</u>
Revenues	
License fees	\$ 1,663,780
Costs and other expenses	
Cost of license fees	1,118,665
Gross Profit	<u>545,115</u>
Operating expenses	
Selling, general and administrative	496,425
Operating income	<u>48,690</u>
Other income (expense)	
Interest income	4,511
Interest expense	(1,417)
Total other income (expense)	<u>3,094</u>
Net income before Provision for Taxes	51,784
State taxes	7,929
Net income	<u>43,855</u>
Retained earnings, beginning of year	34,910
Distribution	(27,198)
Retained earnings, end of year	<u>\$ 51,567</u>

The accompanying notes are an integral part of these statements.

PistolStar Inc.
STATEMENT OF CASH FLOWS

	<u>Years ended</u> <u>December 31,</u> <u>2018</u>
CASH FLOW FROM OPERATING ACTIVITIES:	
Net income	\$ 43,855
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation and Amortization	17,154
Change in assets and liabilities:	
Accounts receivable	218,395
Prepaid expenses and other	392
Accounts payable	(6,337)
Accrued Corporate taxes	(17)
Contract liability	(146,636)
Net cash provided by operating activities	<u>126,806</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payment on lease obligations	(14,293)
Distributions	(27,198)
Net cash used in financing activities	<u>(41,491)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>85,315</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>324,764</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 410,079</u>

The accompanying notes are an integral part of these statements.

PISTOLSTAR, INC.
Notes to the Financial Statements
For The Year Ended December 31, 2018

Organization and Operations

PistolStar, Inc., (the "Company"), is a New Hampshire Corporation, founded on January 11, 1999, and located in Bedford, New Hampshire. The Company is in the business of providing innovative authentication solutions while delivering high-quality, enterprise-ready authentication. The Company operates principally in the Northeast United States.

NOTE 1 Summary of Significant Accounting Policies:

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for the integrity and objectivity of the financial statements. The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") as codified by the Financial Accounting Standards Board and those principles have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The Company uses the accrual basis of accounting. Revenue is recognized when it is earned and expenses are recognized when incurred, without regard to the time of receipt or payment.

PISTOLSTAR, INC.
Notes to the Financial Statements
For The Year Ended December 31, 2018

Use of Estimates in Preparation of Financial Statements

Management used estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results may differ.

New Accounting Pronouncements

Topic 606

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU)

2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is to recognize revenue when the promised goods or services due are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This standard allows for early adoption and is effective for the Company for the year beginning January 1, 2018. See Note 2.

Topic 842

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases, (Topic 842)*. This new standard amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and a corresponding lease liability. This standard is effective for the company for the year beginning January 1, 2021. Management will be evaluating the potential impact the pronouncement will have on the financial statements, if any.

PISTOLSTAR, INC.
Notes to the Financial Statements
For The Year Ended December 31, 2018

NOTE 1- Summary of Significant Accounting Policies - continued:

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all liquid deposits with maturity of three months or less to be cash and/or cash equivalents. At December 31, 2018, the Company had no cash equivalents.

Accounts Receivable and Bad Debt

Accounts receivable are reported at net realizable value. Net realizable value is equal to the gross amount of accounts receivable less an estimated allowance for accounts unlikely to be collected. Historically, the Company has not experienced material write-offs and, therefore, has not established an allowance account.

Advertising Costs

The Company expenses marketing costs, consisting of tradeshows, promotional mailers and other media expenditures as they are incurred. Total amount expensed for the year ended December 31, 2018 was \$142,057.

Revenue Recognition

Revenue is realized or realizable and earned when persuasive evidence of a performance obligation has been satisfied. The Company records revenue from contract sales, and recognizes this revenue over the term of the contract with the consumer, beginning at commencement of the contract.

Intangible Assets

The cost associated with obtaining computer domains have been capitalized and amortized over the useful life of 5 years, on a straight line basis.

Fixed Assets

Property and equipment are stated on the basis of cost. Repairs are charged to expense as they are incurred. For financial reporting purposes, depreciation is computed on the straight line basis. For tax reporting purposes, depreciation is computed by the modified accelerated cost recovery system as required by the Internal Revenue Code. The useful lives of the assets are as follows:

<u>Asset</u>	<u>Years</u>
Equipment	5 -7 years
Leasehold Improvements	39 years

NOTE 2 - Contract Liability:

During the year ending December 31, 2018, the Company has a fee agreement to provide support services and authentication services to consumers for one year contracts. In connection with this agreement, the Company has a contract liability, which is being amortized on a straight-line basis over the twelve month term of the contract. As of December 31, 2018, the balance of the liability was \$673,549.

PISTOLSTAR, INC.
Notes to the Financial Statements
For The Year Ended December 31, 2018

NOTE 3 - Retirement Plan:

The Company established a qualified 401 (k) retirement plan, effective January 1, 2016, for employee's that meet the Company vesting period, that allow salary deferrals, safe harbor contributions, employer matching contributions up to 4% of employee compensation, and profit share contributions. Total contributions for the year ending December 31, 2018 was \$29,568.

NOTE 4 - Concentrations:

Cash

The Company maintains its bank accounts with one commercial bank. Cash in these accounts at times exceeded the insured limit set by the Federal Deposit Insurance Corporation ("FDIC"). The Company's management believes this risk is minimal.

Accounts Receivable

Customer accounts receivable balances as a percentage of the total accounts receivable that are greater than 10% amount to a concentration of credit risk for the year ended December 31, 2018 was 49%.

NOTE 5 - Income Tax Matters:

PistolStar, Inc. is an S-Corp and as such not a taxpaying entity for federal income tax purposes. Therefore, no provision or liability for federal income taxes has been included in the financial statements for the year ended December 31, 2018. The Company, however, is still liable for state taxes.

The Company's evaluation on December 31, 2018 revealed no uncertain tax positions that would have a material effect on the financial statements. The Company's tax returns are subject to possible examination by the taxing authorities. For federal and state purposes the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

NOTE 6 - Compensated Absences:

The Company allows compensated absences that will accrue evenly throughout the calendar year beginning January 1 of each year. Employees must take the time in the year it was earned and forfeit accrued unused time at the end of each year.

NOTE 7 - Operating Lease:

The Company leases its office space under a 10-year operating lease requiring monthly payments of \$4,345. The lease expired on January 31, 2019, and was extended for an additional three years, commencing on February 1, 2019. The Company leased additional space on an at-will, month by month lease for \$500 per month. Rent expense for the year December 31, 2018 was \$64,018

PISTOLSTAR, INC.
Notes to the Financial Statements
For The Year Ended December 31, 2018

NOTE 7 - Operating Lease - continued:

The following is a schedule by years of future minimum rentals under the leases at December 31, 2018:

Years Ending December 31,	Facilities & Residences
2019	52,140
2020	52,140
2021	52,140
2022	4,345
Total	\$ 160,765

NOTE 8 - Related Party Transactions:

The Company entered into a lease with its sole shareholder for real estate to be used as storage, with quarterly payments of \$9,000. The lease is at will and expired on March 31, 2018.

NOTE 9 - Subsequent Events:

In preparing the financial statements, Management has evaluated events and transactions for potential recognition or disclosure through June 5, 2020, which is the date the financial statements were available to be issued.

During May, 2020, the Company's stockholder agreed to sell stock of the Company to a publicly traded company in excess of book value.

PistolStar, Inc.
BALANCE SHEET
(Unaudited)

	March 31, 2020
ASSETS	
Cash and cash equivalents	\$ 513,214
Accounts receivable, net	196,138
Prepaid expenses and other	10,383
Total current assets	719,735
Equipment and leasehold improvements, net	41,785
Deposits and other assets	194,326
Total non-current assets	236,111
TOTAL ASSETS	\$ 955,846
LIABILITIES	
Accounts payable	\$ 1,452
Accrued liabilities	2,070
Contract liability	807,225
Total current liabilities	810,747
TOTAL LIABILITIES	810,747
STOCKHOLDER'S EQUITY	
Common stock - 1,000,000 shares authorized; issued 950,000 shares; and outstanding 325,000 shares; no par value	4,000
Treasury stock - 625,000 shares at cost	(2,500)
Additional paid in capital	27,276
Retained earnings	116,323
TOTAL STOCKHOLDER'S EQUITY	145,099
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 955,846

PistolStar, Inc.
STATEMENT OF INCOME AND RETAINED EARNINGS
(Unaudited)

**Three months
ended
March 31,
2020**

Revenues	
License fees	\$ 405,919
Costs and other expenses	
Cost of license fees	299,983
Gross Profit	<u>105,936</u>
Operating Expenses	
Selling, general and administrative	87,386
Operating income	<u>18,550</u>
Other income	
Interest income	590
Total Other Income	<u>590</u>
Net income before Provision for Taxes	19,140
State taxes	1,733
Net income	<u>17,407</u>
Retained earnings, beginning of period	98,916
Retained earnings, end of period	<u>\$ 116,323</u>

PISTOLSTAR, INC.
STATEMENT OF STOCKHOLDER'S EQUITY
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance as of January 1, 2020	325,000	\$ 4,000	625,000	\$ (2,500)	\$ -	\$ 98,916	\$ 100,416
Stockholder contribution	-	-	-	-	27,276	-	27,276
Net income	-	-	-	-	-	17,407	17,407
Balance as of March 31, 2020	325,000	\$ 4,000	625,000	\$ (2,500)	\$ 27,276	\$ 116,323	\$ 145,099

PISTOLSTAR, INC.
Statement of Cash Flows

	Three months ended March 31, 2020
CASH FLOW FROM OPERATING ACTIVITIES:	
Net income	\$ 17,407
Adjustments to reconcile net income to net cash used by operating activities:	
Depreciation and Amortization	1,758
Change in assets and liabilities:	
Accounts receivable	(138,411)
Prepaid expenses	4
Prepaid taxes	823
Accounts Payable	(3,515)
Credit card payable	(2,964)
Accrued commission	2,000
Contract liability	80,733
Net cash used by operating activities	<u>(42,165)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Stockholder contribution	27,276
Net cash provided by financing activities	<u>27,276</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(14,889)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	528,103
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 513,214</u>

PISTOLSTAR, INC.
Notes to the Financial Statements
For The Three Months Ended March 31, 2020

Organization and Operations

PistolStar, Inc., (the “Company”), is a New Hampshire Corporation, founded on January 11, 1999, and located in Bedford, New Hampshire. The Company is in the business of providing innovative authentication solutions while delivering high-quality, enterprise-ready authentication. The Company operates principally in the Northeast United States.

NOTE 1 – Summary of Significant Accounting Policies:

This summary of significant accounting policies of the Company is presented to assist in understanding the Company’s financial statements. The financial statements and notes are representations of the Company’s management who is responsible for the integrity and objectivity of the financial statements. The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as codified by the Financial Accounting Standards Board and those principles have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The Company uses the accrual basis of accounting. Revenue is recognized when it is earned and expenses are recognized when incurred, without regard to the time of receipt or payment.

Use of Estimates in Preparation of Financial Statements

Management used estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results may differ.

New Accounting Pronouncements

Topic 606

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is to recognize revenue when the promised goods or services due are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This standard allows for early adoption and is effective for the Company for the year beginning January 1, 2018. See Note 2.

Topic 842

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases, (Topic 842)*. This new standard amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and a corresponding lease liability. This standard is effective for the company for the year beginning January 1, 2021. Management will be evaluating the potential impact the pronouncement will have on the financial statements, if any.

PISTOLSTAR, INC.
Notes to the Financial Statements
For The Three Months Ended March 31, 2020

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all liquid deposits with maturity of three months or less to be cash and/or cash equivalents. At March 31, 2020, the Company had no cash equivalents.

Accounts Receivable and Bad Debt

Accounts receivable are reported at net realizable value. Net realizable value is equal to the gross amount of accounts receivable less an estimated allowance for accounts unlikely to be collected. Historically, the Company has not experienced material write-offs and, therefore, has not established an allowance account.

Advertising Costs

The Company expenses marketing costs, consisting of tradeshow, promotional mailers and other media expenditures as they are incurred. Total amount expensed for the three months ended March 31, 2020 was \$28,812.

Revenue Recognition

Revenue is realized or realizable and earned when persuasive evidence of a performance obligation has been satisfied. The Company records revenue from contract sales, and recognizes this revenue over the term of the contract with the consumer, beginning at commencement of the contract.

Intangible Assets

The cost associated with obtaining computer domains have been capitalized and amortized over the useful life of 5 years, on a straight line basis.

Fixed Assets

Property and equipment are stated on the basis of cost. Repairs are charged to expense as they are incurred. For financial reporting purposes, depreciation is computed on the straight line basis. For tax reporting purposes, depreciation is computed by the modified accelerated cost recovery system as required by the Internal Revenue Code. The useful lives of the assets are as follows:

<u>Asset</u>	<u>Years</u>
Equipment	5 – 7 years
Leasehold Improvements	39 years

PISTOLSTAR, INC.
Notes to the Financial Statement
For The Three Months Ended March 31, 2020

NOTE 2 – Contract Liability:

During the three months ending March 31, 2020, the Company has a fee agreement to provide support services and authentication services to consumers for one year contracts. In connection with this agreement, the Company has a contract liability, which is being amortized on a straight-line basis over the twelve month term of the contract. As of March 31, 2020, the balance of the liability was \$807,225.

NOTE 3 – Retirement Plan:

The Company established a qualified 401 (k) retirement plan, effective January 1, 2016, for employee's that meet the Company vesting period, that allow salary deferrals, safe harbor contributions, employer matching contributions up to 4% of employee compensation, and profit share contributions. Total contributions for the three months ending March 31, 2020 was \$2,916.

NOTE 4 - Concentrations:

Cash

The Company maintains its bank accounts with one commercial bank. Cash in these accounts at times exceeded the insured limit set by the Federal Deposit Insurance Corporation ("FDIC"). The Company's management believes this risk is minimal.

Accounts Receivable

Customer accounts receivable balances as a percentage of the total accounts receivable that are greater than 10% amount to a concentration of credit risk for the three months ended March 31, 2020 was 32%.

NOTE 5 - Income Tax Matters:

PistolStar, Inc. is an S-Corp and as such not a taxpaying entity for federal income tax purposes. Therefore, no provision or liability for federal income taxes has been included in the financial statements for the three months ended March 31, 2020. The Company, however, is still liable for state taxes.

The Company's tax returns are subject to possible examination by the taxing authorities. For federal and state purposes the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

NOTE 6 – Compensated Absences:

The Company allows compensated absences that will accrue evenly throughout the calendar year beginning January 1 of each year. Employees must take the time in the year it was earned and forfeit accrued unused time at the end of each year. Management has chosen not to record through March 31, 2020.

PISTOLSTAR, INC.
Notes to the Financial Statement
For The Three Months Ended March 31, 2020

NOTE 7 – Operating Lease:

The Company leases its office space under a 10-year operating lease requiring minimum of \$4,345. The Company is also responsible for prorated share of operating expenses. The lease expired on January 31, 2019, and was extended for an additional three years, commencing on February 1, 2019 and ending on January 31, 2022. Rent expense for the three months ended March 31, 2020 was \$13,126.

The following is a schedule by years of future minimum rentals under the leases at March 31, 2020:

Years Ending December 31,	Facilities & Residences
2020 (remaining months)	39,107
2021	52,142
2022	4,345
Total	\$ 95,594

NOTE 8 – Subsequent Events:

The Corona Virus (COVID-19) pandemic created unforeseen circumstances, including, closing interaction in trade shows and safety precautions that amounted to total business disruption. The United States Government, in conjunction with Small Business Administration, created a loan program to supplement income to support keeping employees on payroll. While PistolStar, Inc. accepted the loan, the amounts were paid back as of May 13, 2020.

During May, 2020, the Company's stockholder agreed to sell the assets and intangibles of the Company to a publicly traded company in excess of book value. A Letter of Intent has been filed with the SEC in regards to such a purchase.

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

Unaudited Pro Forma Condensed Combined Statement of Operations Year Ended December 31, 2019	F-2
Unaudited Pro Forma Condensed Combined Statement of Operations Three Months Ended March 31, 2020	F-3
Unaudited Pro Forma Condensed Combined Balance Sheet as of March 31, 2020	F-4
Notes to the unaudited pro forma condensed combined financial statements	F-5

BIO-key International, Inc. and Subsidiaries
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
Year ended December 31, 2019

	<u>Historical Statements</u>			
	<u>BIO-key International, Inc.</u>	<u>PistolStar, Inc.</u>	<u>Proforma adjustments giving effect to the PistolStar, Inc. Acquisition</u>	<u>Proforma adjustments after giving effect to the Acquisition</u>
Revenues				
Services	\$ 925,245	\$ -	\$ -	\$ 925,245
License fees	442,649	1,584,487	-	2,027,136
Hardware	899,634	-	-	899,634
Total revenues	<u>2,267,528</u>	<u>1,584,487</u>	<u>-</u>	<u>3,852,015</u>
Costs and other expenses				
Cost of services	272,318	-	-	272,318
Cost of license fees	916,112	1,054,950	314,895 (A)	2,285,957
Cost of hardware	1,272,815	-	-	1,272,815
Total costs and other expenses	<u>2,461,245</u>	<u>1,054,950</u>	<u>314,895</u>	<u>3,831,090</u>
Gross Profit (Loss)	<u>(193,717)</u>	<u>529,537</u>	<u>(314,895)</u>	<u>20,925</u>
Operating expenses				
Selling, general and administrative	5,036,820	454,334	-	5,491,154
Research, development and engineering	1,331,667	-	-	1,331,667
Total operating expenses before impairment	<u>6,368,487</u>	<u>454,334</u>	<u>-</u>	<u>6,822,821</u>
Impairment of resalable software license rights	<u>(6,957,516)</u>	<u>-</u>	<u>-</u>	<u>(6,957,516)</u>
Operating income (loss)	<u>(13,519,720)</u>	<u>75,203</u>	<u>(314,895)</u>	<u>(13,759,412)</u>
Other income (expense)				
Interest income	154	2,628	-	2,782
Interest expense	(1,069,134)	-	(975,222) (B)	(2,044,356)
State taxes	-	(6,699)	-	(6,699)
Total other income (expense)	<u>(1,068,980)</u>	<u>(4,071)</u>	<u>(975,222)</u>	<u>(2,048,273)</u>
Net income (loss) available to common stockholders	<u>(14,588,700)</u>	<u>71,132</u>	<u>(1,290,117)</u>	<u>(15,807,685)</u>
Basic and Diluted Loss per Common Share	<u>\$ (1.03)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1.11)</u>
Weighted Average Shares Outstanding:				
Basic and Diluted	<u>14,223,685</u>	<u>-</u>	<u>-</u>	<u>14,223,685</u>

(A) Represents amortization of intangible assets from PistolStar acquisition for the year

(B) Represents amortization of original issuance discount and fees associated with the convertible note and interest expense on the note payable - seller.

BIO-key International, Inc. and Subsidiaries
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
Three months ended March 31, 2020

	Historical Statements		Proforma adjustments giving effect to the PistolStar, Inc. Acquisition	Proforma adjustments after giving effect to the Acquisition
	BIO-key International, Inc.	PistolStar, Inc.		
Revenues				
Services	\$ 207,523	\$ -	\$ -	\$ 207,523
License fees	235,345	405,919	-	641,264
Hardware	79,617	-	-	79,617
Total revenues	<u>522,485</u>	<u>405,919</u>		<u>928,404</u>
Costs and other expenses				
Cost of services	70,445	-	-	70,445
Cost of license fees	10,456	299,983	79,598 (A)	390,037
Cost of hardware	43,362	-	-	43,362
Total costs and other expenses	<u>124,263</u>	<u>299,983</u>	<u>79,598</u>	<u>503,844</u>
Gross Profit (Loss)	<u>398,222</u>	<u>105,936</u>	<u>(79,598)</u>	<u>424,560</u>
Operating expenses				
Selling, general and administrative	1,381,399	87,386	-	1,468,785
Research, development and engineering	336,889	-	-	336,889
Total operating expenses	<u>1,718,288</u>	<u>87,386</u>	<u>-</u>	<u>1,805,674</u>
Operating income (loss)	<u>(1,320,066)</u>	<u>18,550</u>	<u>(79,598)</u>	<u>(1,381,114)</u>
Other income (expense)				
Interest income	1	590	-	591
Interest expense	(1,551,141)	-	(246,458) (B)	(1,797,599)
State taxes		(1,733)		(1,733)
Loss on extinguishment of debt	(499,076)	-	-	(499,076)
Total other income (expense)	<u>(2,050,216)</u>	<u>(1,143)</u>	<u>(246,458)</u>	<u>(2,297,817)</u>
Net income (loss)	<u>(3,370,282)</u>	<u>17,407</u>	<u>(326,056)</u>	<u>(3,678,931)</u>
Deemed dividends related to down-round features	(112,686)	-	-	(112,686)
Net income (loss) available to common stockholders	<u>(3,482,968)</u>	<u>17,407</u>	<u>(326,056)</u>	<u>(3,791,617)</u>
Basic and Diluted Loss per Common Share	<u>\$ (0.23)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0.25)</u>
Weighted Average Shares Outstanding:				
Basic and Diluted	<u>15,165,522</u>	<u>-</u>	<u>-</u>	<u>15,165,522</u>

(A) Represents amortization of intangible assets from PistolStar acquisition for the quarter

(B) Represents amortization of original issuance discount, warrant discount, and fees associated with the convertible note.

BIO-key International, Inc. and Subsidiaries
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
March 31, 2020

	<u>Historical Statements</u>			
	<u>BIO-key International Inc.</u>	<u>PistolStar, Inc.</u>		
ASSETS				
Cash and cash equivalents	\$ 661,937	\$ 513,214	\$ (520,000) (A)	\$ 655,151
Accounts receivable, net	120,293	196,138	-	316,431
Due from factor	130,670	-	-	130,670
Inventory	397,711	-	-	397,711
Prepaid expenses and other	166,572	10,383	-	176,955
Investment – non-marketable security	512,821	-	-	512,821
Total current assets	<u>1,990,004</u>	<u>719,735</u>	<u>(520,000)</u>	<u>2,189,739</u>
Resalable software license rights	68,774	-	-	68,774
Equipment and leasehold improvements, net	75,597	41,785	-	117,382
Capitalized contract costs, net	208,499	-	-	208,499
Deposits and other assets	8,712	194,326	(193,960)	9,078
Operating lease right-of-use assets	520,470	-	-	520,470
Intangible assets, net	147,222	-	3,148,945 (B)	3,296,167
Total non-current assets	<u>1,029,274</u>	<u>236,111</u>	<u>2,954,985</u>	<u>4,220,370</u>
TOTAL ASSETS	<u>\$ 3,019,278</u>	<u>\$ 955,846</u>	<u>\$ 2,434,985</u>	<u>\$ 6,410,109</u>
LIABILITIES				
Accounts payable	\$ 616,985	\$ 1,452	\$ 710,334 (C)	\$ 1,328,721
Due to related parties	66,466	-	-	66,466
Accrued liabilities	515,108	2,070	-	517,178
Note payable - seller	-	-	500,000 (D)	500,000
Convertible notes payable, net of debt discount and debt issuance costs	2,301,956	-	856,028 (E)	3,157,984
Deferred revenue	413,345	807,225	-	1,220,570
Operating lease liabilities, current portion	162,886	-	-	162,886
Total current liabilities	<u>4,076,746</u>	<u>810,747</u>	<u>2,066,362</u>	<u>6,953,855</u>
Operating lease liabilities, net of current portion	353,553	-	-	353,553
Total non-current liabilities	<u>353,553</u>	<u>-</u>	<u>-</u>	<u>353,553</u>
TOTAL LIABILITIES	<u>4,430,299</u>	<u>810,747</u>	<u>2,066,362</u>	<u>7,307,408</u>
STOCKHOLDERS' EQUITY (DEFICIT)				
Common stock	1,839	1,500	(1,486) (F)	1,853
Additional paid-in capital	91,793,124	-	513,708 (G)	92,306,832
Retained Earnings (Accumulated deficit)	(93,205,984)	143,599	(143,599)	(93,205,984)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	<u>(1,411,021)</u>	<u>145,099</u>	<u>368,623</u>	<u>(897,299)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	<u>\$ 3,019,278</u>	<u>\$ 955,846</u>	<u>\$ 2,434,985</u>	<u>\$ 6,410,109</u>

(A) Represents the cash portion of the purchase price for PistolStar Inc. of \$2,000,000 and funds received from convertible note payable of \$1,575,000 less fees paid in cash related to the convertible note payable of \$95,000.

(B) Represents the difference between the purchase price and the book value of the assets of PistolStar, Inc.

(C) Represents fees paid to a placement agent, of 7% of the convertible note payable in the amount of \$110,250, plus \$600,084 of working capital adjustments.

(D) Represents the portion of the purchase price for PistolStar Inc. paid by issuance of a promissory note.

(E) Represents convertible note payable principal of \$1,811,250, net of unamortized original issuance discount of \$236,250, unamortized warrant discount of \$511,402, and unamortized deferred debt costs of \$207,570.

(F) Represents capital attributed to shares issued for the due diligence fee of \$100,000 calculated per the agreement at \$0.7322 per share, the closing price of the Company's common stock on June 26, 2020, as reported on Nasdaq less the common stock value of PistolStar, Inc.

(G) Represents the value of the \$100,000 due diligence fee issued in common stock less the par value of the stock of \$14 plus the \$511,402 warrant discount, less the equity portion (32%) of the commitment fee, convertible note underwriting fee, and other expenses of \$305,250.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed combined financial statements of BIO-key International, Inc. (“BIO-key”) have been prepared to give effect to the transaction where, on June 30, 2020, BIO-key acquired all of the outstanding shares of common stock of PistolStar, Inc. (“PistolStar”).

The accompanying unaudited pro forma condensed combined statements of operations for the year ended December 31, 2019 and for the three months ended March 31, 2020 combine the historical consolidated statements of operations of BIO-key and the historical statements of operations from PistolStar to give effect to the transaction as if it occurred on January 1, 2019. The unaudited pro forma condensed combined balance sheet as of March 31, 2020 combines the historical consolidated balance sheet of BIO-key and the historical balance sheet of PistolStar to give effect to the transaction as if it had occurred on March 31, 2020.

Pro forma adjustments have been limited to only those adjustments that are: directly attributable to the transaction; factually supportable; and in the case of pro forma statement of operations adjustments, expected to have a continuing impact on the combined financial results.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

The unaudited pro forma condensed combined financial statements are provided for informational purposes only and are not necessarily indicative of the results that would have occurred if the transaction had occurred on the first day of each period presented. The unaudited pro forma condensed combined financial statements should not be construed as being representative of future operating results or financial position of the combined company and should be read in conjunction with the:

1. Accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements;
2. BIO-key’s historical audited consolidated financial statements and notes thereto included in BIO-key’s annual report on Form 10-K for the fiscal year ended December 31, 2019, as filed with the Securities and Exchange Commission on May 14, 2020 and included in this prospectus;
3. BIO-key’s unaudited condensed consolidated financial statements and notes thereto included in BIO-key’s quarterly report on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on June 8, 2020 and included in this prospectus; and
4. Audited consolidated financial statements and notes thereto of PistolStar, Inc. for the year ended December 31, 2019 included in this prospectus;
5. The description of the acquisition of PistolStar included herein in the section captioned “BUSINESS”.

NOTE 2 – ACCOUNTING POLICIES

The accounting policies used in the preparation of the unaudited pro forma condensed combined financial statements are consistent with those described in the unaudited interim period consolidated financial statements of BIO-key for the three months ended March 31, 2020 and the audited consolidated financial statements of BIO-key for the year ended December 31, 2019.

NOTE 3 – PRESENTATION ADJUSTMENTS

Reclassifications were made to PistolStar’ financial statements to conform them to BIO-key’s presentation.

NOTE 4 – FAIR VALUE OF CONSIDERATION TRANSFERRED

Estimated purchase price

Cash	\$	2,000,000
Issuance of note payable		500,000
Total estimated purchase price	\$	2,500,000

NOTE 5 – ASSETS ACQUIRED AND LIABILITIES ASSUMED

BIO-key has performed a preliminary valuation analysis of the fair market value of PistolStar's assets and liabilities. Preliminary purchase price allocation as of the acquisition date of June 30, 2020 is as follows:

Current assets	\$	296,080
Equipment and leasehold improvements		10,450
Intangible assets		3,148,945
Total assets acquired		3,455,475
Current liabilities		955,475
Total liabilities assumed		955,475
Net assets acquired	\$	2,500,000

NOTE 6 – PRO FORMA ADJUSTMENTS (STATEMENTS OF OPERATIONS)

See Unaudited Pro Forma Condensed Combined Statements of Operations on F-2 and F-3

NOTE 7 – PRO FORMA ADJUSTMENTS (BALANCE SHEETS)

See Unaudited Pro Forma Condensed Combined Balance Sheet on F-4