

Mossberg's Investor Digest

Best Idea Profile:

BIO-key International Inc. (OTCQB: BKYI)

DESCRIPTION:

Headquartered in Wall, New Jersey, BIO-key develops and delivers advanced identification solutions. Its biometric finger identification technology identifies and authenticates users of wireless and enterprise applications. Its solutions are used in local embedded OEM products, as well as in some of the world's largest identification deployments, in order to improve security, guarantee identity, and reduce the risk of identity theft.

KEY INVESTMENT CONSIDERATIONS:

Increasing Need For Security – There have been 354 million privacy breaches over the past five years in the United States alone. As the need to protect critical data has increased, so has the difficulty to protect passwords, especially among a more mobile workforce. To address this issue many companies are migrating to risk-based authentication models. Through the translation of a fingerprint image into a mathematical algorithm, BIO-key provides alternative solutions to traditional passwords, PINS and tokens that are easily compromised. This market is expected to grow exponentially, particularly if biometrics is imbedded in more mobile devices.

Key Partnerships – BIO-key has compiled an impressive list of partners. For example, it is now certified for the latest IBM security platform solution for Web applications, representing huge market opportunity because of the size of IBM's installed base of accounts. Management specifically stated this will "lead to a measureable increase in business opportunities." BIO-key recently extended its rollout of technology to NCR's retail point-of-sale customers, which includes Burger King and Dunkin Donuts. Additionally, Allscripts has certified the biometric identity management solution for healthcare providers using its system; more than 180,000 physicians use Allscripts' electronic health records management programs to eliminate the use of passwords or other devices used to access electronic health records. Other strategic alliances include Oracle Corporation, Microsoft, Indigo, and CA Technologies.

Scalable Business – BIO-key's use on scanners or mobile devices is "hardware and operating-system agnostic." It can gather and process data from multiple sources and, unlike its competitors, the solutions can be applied either in a device or in the cloud. This flexibility to leverage across multiple operating systems, as well as the speed at which it operates, makes this a very scalable business. BIO-key's True User Identification can be used for identification systems of any size and can

perform more than six million fingerprint matches per second.

Need for Capital – While an increasing base of revenue should allow the Company to approach break-even cash flow, it is apparent that the current balance sheet will require additional capital infusion to support growth. BIO-key raised approximately \$1 million in funding at \$0.10 in February, and another \$1 million at \$0.30 per share in July. As the Company continues to demonstrate its potential, hopefully future rounds will continue to be at higher valuations and the need for dilutive activities going forward will diminish.

Apple's Interest in Biometric Authentication – Apple recently purchased Authentec, which is known for fingerprint readers that are built into computing devices. This suggests that Apple will indeed develop high-tech authentication features for products like iPad and iPhone, as well as for the Mac. Authentec and BIO-key have worked together for many years, and this relationship could be extremely compelling if Apple gets serious about this security application.

VALUATION:

This high-growth low-market-cap company could benefit greatly from increasing demand for efficient and scalable authentication programs. The less-than-stellar operating results so far do not give an accurate

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Investment Data (as of 8/29/13)

Recent Price	\$0.33
52-Week Range	\$0.05 - \$0.41
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	87 M
Average Trading Volume (3 mos)	169 K
Market Capitalization	\$31 M
Cash	\$100 K
Long-term Debt	\$497 K
Enterprise Value (EV)	\$30 M
Book Value	\$(0.01)
TTM Revenue	\$3 M
P/ Revenue	9.5x
TTM EPS	\$(0.01)
P/ EPS	NA
TTM EBITDA	\$(339) K
EV/ EBITDA	(89)

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Mossberg's indication of the growth potential of this stock. Investor Digest

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