UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2022

OR

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Securities Exchange Act of 1934

For the quarter ended September 30, 2022

Commission file number 000-21129

AWARE, INC.
(Exact Name of Registrant as Specified in Its Charter)

Massachusetts	**04-2911026**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

76 Blanchard Road in Burlington, Massachusetts, 01803
(Address of Principal Executive Offices)
(Zip Code)

(781) 276-4000
(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	AWRE	The Nasdaq Global Market

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
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 ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock as of October 19, 2022 was 21,655,905.

AWARE, INC.
FORM 10-Q
FOR THE QUARTER ENDED September 30, 2022

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PART 1. FINANCIAL INFORMATION
ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS
AWARE, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(unaudited)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,657	$ 29,963
Marketable securities	18,315	—
Accounts receivable, net of allowance for doubtful accounts of $295 and $74 at September 30, 2022 and December 31, 2021, respectively	3,664	3,763
Unbilled receivables	3,756	3,087
Tax receivable	1,411	1,411
Prepaid expenses and other current assets	1,438	591
Total current assets	41,241	38,815
Property and equipment, net	208	3,216
Intangible assets, net	2,910	3,222
Goodwill	3,120	3,120
Note receivable	2,570	—
Total assets	$ 50,049	$ 48,373
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 988	$ 283
Accrued expenses	1,688	1,909
Deferred revenue	3,398	3,549
Current portion of contingent acquisition payment	406	—
Total current liabilities	6,480	5,741
Long-term deferred revenue	408	191
Long-term portion of contingent acquisition payment	513	919
Total long-term liabilities	921	1,110
Stockholders' equity:		
Preferred stock, $1.00 par value; 1,000,000 shares authorized, none outstanding	—	—
Common stock, $.01 par value; 70,000,000 shares authorized; issued and outstanding of 21,686,528 as of September 30, 2022 and 21,613,982 as of December 31, 2021	217	216
Additional paid-in capital	99,041	97,778
Accumulated deficit	(56,440)	(56,472)
Accumulated other comprehensive loss	(170)	—
Total stockholders' equity	42,648	41,522
Total liabilities and stockholders' equity	$ 50,049	$ 48,373

The accompanying notes are an integral part of the consolidated financial statements.

AWARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS and COMPREHNSIVE INCOME (LOSS)
(in thousands, except per share data)
(unaudited)

The accompanying notes are an integral part of the consolidated financial statements.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue:				
Software licenses	$ 814	$ 2,197	$ 5,459	$ 6,287
Software maintenance	1,786	1,526	5,267	4,831
Services and other	415	452	1,219	1,739
Total revenue	3,015	4,175	11,945	12,857
Costs and expenses:				
Cost of sales	282	243	920	933
Research and development	2,279	2,307	6,932	7,067
Selling and marketing	1,874	1,631	5,067	4,785
General and administrative	1,808	1,574	4,895	4,644
Gain on sale of fixed assets	(5,672)	—	(5,672)	—
Total costs and expenses	571	5,755	12,142	17,429
Operating income (loss)	2,444	(1,580)	(197)	(4,572)
Interest income	155	1	228	3
Net income (loss)	$ 2,599	$ (1,579)	$ 31	$ (4,569)
Net income (loss) per share – basic	$ 0.12	$ (0.07)	$ 0.00	$ (0.21)
Net income (loss) per share – diluted	$ 0.12	$ (0.07)	$ 0.00	$ (0.21)
Weighted-average shares – basic	21,725	21,532	21,674	21,508
Weighted-average shares – diluted	21,798	21,532	21,733	21,508
Other comprehensive loss, net of tax:				
Unrealized loss on available-for-sale securities	(170)	—	(170)	—
Comprehensive income (loss)	$ 2,429	$ (1,579)	$ (139)	$ (4,569)

AWARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Cash flows from operating activities:		
Net income (loss)	$ 31	$ (4,569)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	587	520
Gain on sale of fixed assets	(5,672)	—
Stock-based compensation	1,356	1,077
Interest receivable	(70)	—
Bad debt provision	221	—
Changes in assets and liabilities:		
Accounts receivable	(122)	(849)
Unbilled receivables	(669)	(1,044)
Prepaid expenses and other current assets	(776)	(163)
Accounts payable	706	71
Accrued expenses	(220)	525
Deferred revenue	67	(786)
Net cash used in operating activities	(4,561)	(5,218)
Cash flows from investing activities:		
Purchases of property and equipment	(144)	(21)
Proceeds from sale of fixed assets	8,547	—
Purchases of marketable securities	(18,556)	—
Investment in note receivable	(2,500)	—
Net cash used in investing activities	(12,653)	(21)
Cash flows from financing activities:		
Proceeds from issuance of common stock	96	25
Payments made for taxes of employees who surrendered shares related to unrestricted stock	(24)	(54)
Repurchase of common stock	(164)	—
Net cash used in financing activities	(92)	(29)
Decrease in cash and cash equivalents	(17,306)	(5,268)
Cash and cash equivalents, beginning of period	29,963	38,565
Cash and cash equivalents, end of period	$ 12,657	$ 33,297
Supplemental disclosure: Cash paid for income taxes	$ —	$ —

The accompanying notes are an integral part of the consolidated financial statements.

AWARE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

The accompanying notes are an integral part of the consolidated financial statements.

	For the Three and Nine Months Ended September 30, 2021				
	Common Stock		Additional Paid-In	(Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit)	Equity
Balance at December 31, 2020	21,379	$ 214	$ 96,104	$ (50,648)	$ 45,670
Issuance of unrestricted stock	131	1	(1)	—	—
Shares surrendered by employees to pay taxes related to unrestricted stock	(16)	—	(54)	—	(54)
Stock-based compensation expense	—	—	197	—	197
Net loss	—	—	—	(1,448)	(1,448)
Balance at March 31, 2021	21,494	$ 215	$ 96,246	$ (52,096)	$ 44,365
Issuance of common stock under employee stock purchase plan	7	—	25	—	25
Stock-based compensation expense	—	—	439	—	439
Net loss	—	—	—	(1,542)	(1,542)
Balance at June 30, 2021	21,501	$ 215	$ 96,710	$ (53,638)	$ 43,287
Issuance of common stock under employee stock purchase plan	48	—		—	—
Stock-based compensation expense	—	—	441	—	441
Net loss	—	—	—	(1,579)	(1,579)
Balance at September 30, 2021	21,549	$ 215	$ 97,151	$ (55,217)	$ 42,149

	For the Three and Nine Months Ended September 30, 2022					
	Common Stock		Additional Paid-In Capital	(Accumulated Deficit)	(Accumulated Other Comprehensive Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2021	21,614	$ 216	$ 97,778	$ (56,472)	$ -	$ 41,522
Issuance of unrestricted stock	28	—	—	—	—	—
Stock-based compensation expense	—	—	430	—	—	430
Net loss	—	—	—	(1,278)	—	(1,278)
Balance at March 31, 2022	21,642	$ 216	$ 98,208	$ (57,750)	$ -	$ 40,674
Issuance of common stock under employee stock purchase plan	40	1	92	—	—	93
Stock-based compensation expense	—	—	378	—	—	378
Repurchase of common stock	(1)		(3)	—	—	(3)
Net loss	—	—	—	(1,289)	—	(1,289)
Balance at June 30, 2022	21,681	$ 217	$ 98,675	$ (59,039)	$ -	$ 39,853
Issuance of unrestricted stock	91	1	2	—	—	3
Shares surrendered by employees to pay taxes related to unrestricted stock	(10)	—	(24)	—	—	(24)
Stock-based compensation expense	—	—	548	—	—	548
Repurchase of common stock	(75)	(1)	(160)	—	—	(161)
Other comprehensive loss	—	—	—	—	(170)	(170)
Net income	—	—	—	2,599	—	2,599
Balance at September 30, 2022	21,687	$ 217	$ 99,041	$ (56,440)	$ (170)	$ 42,648

AWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 – Description of the Company and Basis of Presentation

Description of the Company

We are a global leader in biometrics software offerings and solutions. Our portfolio enables government agencies and commercial entities to enroll, identify, authenticate and enable using biometrics, which comprise physiological characteristics, such as fingerprints, faces, irises and voices.

- **Enroll:** Register biometric identities into an organization's secure database
- **Identify:** Utilize an organization's secure database to accurately identify individuals using biometric data
- **Authenticate:** Provide frictionless multi-factor, passwordless access to secured accounts and databases with biometric verification
- **Enable:** Manage the lifecycle of secure identities through optimized biometric interchanges

We have been engaged in this business since 1993. Our comprehensive portfolio of biometric solutions is based on innovative, robust products designed explicitly for ease of integration, including customer-managed and integration ready biometric frameworks, platforms, software development kits (SDKs) and services. Principal government applications of biometrics systems include border control, visa applicant screening, law enforcement, national defense, intelligence, secure credentialing, access control, and background checks. Principal commercial applications include mobile enrollment, user authentication, identity proofing, and secure transaction enablement.

Our products span multiple biometric modalities including fingerprint, face, iris and voice, and provide interoperable, standards-compliant, field-proven biometric functionality. Our products are used to capture, verify, format, compress and decompress biometric images as well as aggregate, analyze, process, match and transport those images and templates within biometric systems. For large deployments, we may provide project management and software engineering services. We sell our biometrics software products and services globally through a multifaceted distribution strategy using systems integrators, original equipment manufacturers (OEMs), value added resellers (VARs), partners, and directly to end user customers.

Certain amounts in the consolidated financial statements and associated notes may not add due to rounding. All percentages have been calculated using unrounded amounts.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include all information and notes necessary for a complete presentation of our financial position, results of operations and cash flows, in conformity with generally accepted accounting principles. We filed audited financial statements which included all information and notes necessary for such presentation for the two years ended December 31, 2021 in conjunction with our 2021 Annual Report on Form 10-K. This Form 10-Q should be read in conjunction with that Form 10-K.

The accompanying unaudited consolidated balance sheets, statements of operations and comprehensive income (loss), statements of cash flows, and statements of stockholders' equity reflect all adjustments (consisting only of normal recurring items) which are, in the opinion of management, necessary for a fair presentation of financial position at September 30, 2022, and of operations and cash flows for the interim periods ended September 30, 2022 and 2021.

The results of operations for the interim periods ended September 30, 2022 are not necessarily indicative of the results to be expected for the year.

Principles of Consolidation

The consolidated financial statements include the accounts of Aware, Inc. and its subsidiaries, Aware Security Corporation and Fortr3ss, Inc. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. The most significant estimates included in the financial statements pertain to revenue recognition, reserves for doubtful accounts, valuation of acquired assets and assumed liabilities in business combinations, valuation of earn-out liability, valuation of the investment in the note receivable, goodwill and long-lived asset impairment and valuation allowance for deferred income tax assets. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The ASU requires contract assets and contracts liabilities to be accounted for as if they ("the acquirer") entered into the original contract at the same time and same date as the acquiree. The guidance is effective for reporting periods beginning after December 15, 2022, with early adoption permitted. We have elected not to early adopt and we are continuing to assess the impact of the standard on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments*, which changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. This guidance was to be effective for reporting periods beginning after December 15, 2019, with early adoption permitted. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) Effective Dates*, which deferred the effective dates for us, as a smaller reporting company, until fiscal year 2023. We are continuing to assess the impact of the standard on our consolidated financial statements.

Note 2 – Revenue Recognition

We recognize revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, *"Revenue from Contracts with Customers"* ("ASC 606"). Under ASC 606, we apply the following five step model:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) each performance obligation is satisfied.

We categorize revenue as software licenses, software maintenance, or services and other. Revenue from software licenses is recognized at a point in time upon delivery, provided all other revenue recognition criteria are met. We recognize software maintenance revenue over time on a straight-line basis over the contract period. Services revenue is recognized over time as the services are delivered using an input method (i.e., labor hours incurred as a percentage of total labor hours budgeted), provided all other revenue recognition criteria are met. Other revenue, includes hardware sales that may be included in a software license, is recognized at a point in time upon delivery provided all other revenue recognition criteria are met.

In addition to selling software licenses, software maintenance and software services on a standalone basis, a significant portion of our contracts include multiple performance obligations, which require an allocation of the transaction price to each distinct performance obligation based on a relative standalone selling price ("SSP") basis. The SSP is the price at which we would sell a promised good or service separately to a customer. The best estimate of SSP is the observable price of a good or service when we sell that good or service separately. A contractually stated price or a list price for a good or service may be the SSP of that good or service. We use a range of selling prices to estimate SSP when we sell each of the goods and services separately and need to determine whether there is a discount that needs to be allocated based on the relative SSP of the various goods and services within multiple performance obligation arrangements. In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we typically determine the SSP using an adjusted market assessment approach using information that may include market conditions and other observable inputs. We typically have more than one SSP for individual goods and services due to the stratification of those goods and services by customer. In these instances, we may use information such as the nature of the customer and distribution channel in determining the SSP.

When software licenses and significant customization engineering services are sold together, they are accounted for as a combined performance obligation, as the software licenses are generally highly dependent on, and interrelated with, the associated customization services and therefore are not distinct performance obligations. Revenue for the combined performance obligation is recognized over time as the services are delivered using an input method (i.e., labor hours incurred as a percentage of total labor hours budgeted).

When subscription-based software is sold, the subscription-based software and software maintenance are generally considered distinct performance obligations. The transaction price is allocated to subscription-based software and the software maintenance based on the relative SSP of each performance obligation. We sell subscription-based software for a fixed fee and/or a usage-based royalty fee, sometimes subject to a minimum guarantee. When the amount is in the form of a fixed fee, including the guaranteed minimum in subscription-based royalties, revenue is allocated to the subscription-based software and recognized at a point in time upon delivery, provided all other revenue recognition criteria are met. Revenue allocated to the software maintenance is recognized over the contract term on a straight-line basis. Any subscription-based software fees earned not subject to the guaranteed minimum or earned in excess of the minimum amount are recognized as revenue when the subsequent usage occurs.

Our contracts can include variable fees, such as the option to purchase additional usage of a previously delivered software license. We may also provide pricing concessions to clients, a business practice that also gives rise to variable fees in contracts. We include variable fees in the determination of total transaction price if it is not probable that a future significant reversal of revenue will occur. We use the expected value or most likely value amount, whichever is more appropriate for specific circumstances, to estimate variable consideration, and the estimates are based on the level of historical price concessions offered to clients.

The amount of consideration is not adjusted for a significant financing component if the time between payment and the transfer of the related good or service is expected to be one year or less under the practical expedient in the guidance. Our revenue arrangements are typically accounted for under such expedient, as payment is typically due within 30 to 60 days. As of September 30, 2022 and 2021, none of our contracts contained a significant financing component.

Also, to the extent relevant in future periods with our acquisition of FortressID and adaption of our current products to be delivered in a hosted environment with AwareID, we expect to recognize revenue from our SaaS offerings in future periods. SaaS offerings will be recognized ratably over the subscription period. For the three and nine months ended September 30, 2022 and 2021 we did not generate revenue from SaaS contracts.

Disaggregation of Revenues

We organize ourselves into a single segment that reports to the Chief Executive Officer who is our chief operating decision maker. We conduct our operations in the United States and sell our products and services to domestic and international customers. Revenues generated from the following geographic regions for the three and nine months ended September 30, 2022 and 2021 were (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
United States	$ 2,129	$ 2,177	$ 6,439	$ 6,844
United Kingdom	347	189	1,109	1,642
Brazil	129	687	487	1,333
Rest of World	410	1,122	3,910	3,038
	$ 3,015	$ 4,175	$ 11,945	$ 12,857

Revenue by timing of transfer of goods or services for the three and nine months ended September 30, 2022 and 2021 were (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Goods or services transferred at a point in time	$ 770	$ 2,275	$ 5,484	$ 6,296
Goods or services transferred over time	2,245	1,900	6,461	6,561
	$ 3,015	$ 4,175	$ 11,945	$ 12,857

Revenue by contract type for the three and nine months ended September 30, 2022 and 2021 were (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
License and service contracts	$ 2,571	$ 3,114	$ 9,787	$ 10,675
Subscription-based contracts	444	1,061	2,158	2,182
	$ 3,015	$ 4,175	$ 11,945	$ 12,857

Revenue from subscription-based contracts include revenue that may be recognized at a point in time or over time and be part of a fixed fee and or minimum guarantee as well as fees earned and allocated to software maintenance.

Contract Balances

When the timing of our delivery of goods or services is different from the timing of payments made by customers, we recognize either a contract asset (performance precedes contractual due date) or a contract liability (customer payment precedes performance). Customers that prepay are represented by the deferred revenue below until the performance obligation is satisfied.

Our contract assets consist of unbilled receivables. Our contract liabilities consist of deferred (unearned) revenue, which is generally related to software maintenance contracts. We classify deferred revenue as current or noncurrent based on the timing of when we expect to recognize revenue.

The following tables present changes in our contract assets and liabilities during the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Balance at Beginning of Period	Revenue Recognized In Advance of Billings	Billings	Balance at End of Period
Three months ended September 30, 2021				
Contract assets:				
Unbilled receivables	$ 2,867	$ 1,660	$ (1,255)	$ 3,272
Three months ended September 30, 2022				
Contract assets:				
Unbilled receivables	$ 3,430	$ 1,278	$ (952)	$ 3,756

	Balance at Beginning of Period	Billings	Revenue Recognized	Balance at End of Period
Three months ended September 30, 2021				
Contract liabilities:				
Deferred revenue	$ 2,947	$ 1,725	$ (1,526)	$ 3,146
Three months ended September 30, 2022				
Contract liabilities:				
Deferred revenue	$ 3,533	$ 2,059	$ (1,786)	$ 3,806

	Balance at Beginning of Period	Revenue Recognized In Advance of Billings	Billings	Balance at End of Period
Nine months ended September 30, 2021				
Contract assets:				
Unbilled receivables	$ 2,229	$ 3,739	$ (2,696)	$ 3,272
Nine months ended September 30, 2022				
Contract assets:				
Unbilled receivables	$ 3,087	$ 4,279	$ (3,610)	$ 3,756

	Balance at Beginning of Period	Billings	Revenue Recognized	Balance at End of Period
Nine months ended September 30, 2021				
Contract liabilities:				
Deferred revenue	$ 3,933	$ 4,043	$ (4,830)	$ 3,146
Nine months ended September 30, 2022				
Contract liabilities:				
Deferred revenue	$ 3,740	$ 5,333	$ (5,267)	$ 3,806

Remaining Performance Obligations

Remaining performance obligations represent the transaction prices from contracts for which work has not been performed or goods and services have not been delivered. We expect to recognize revenue on approximately 67% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter. As of September 30, 2022, the aggregate amount of the transaction prices allocated to remaining performance obligations for contracts with a duration greater than one year was $2.3 million.

Note 3 – Fair Value Measurements

The FASB Codification defines fair value, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy under the FASB Codification are: Level 1 – valuations that are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date; Level 2 – valuations that are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly; and Level 3 – valuations that require inputs that are both significant to the fair value measurement and unobservable.

Cash and cash equivalents, which primarily include money market mutual funds were $12.7 million and $30.0 million as of September 30, 2022 and December 31, 2021, respectively. Marketable securities, which primarily include U.S. Treasuries and corporate bonds, were $18.3 million and zero as of September 30, 2022 and December 31, 2021, respectively. As of September 30, 2022, our assets that are measured at fair value on a recurring basis included the following (in thousands):

	Fair Value Measurement at September 30, 2022 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets				
Money market funds (included in cash and cash equivalents)	$ 11,051	$ —	$ —	$ 11,051
Marketable securities	18,315	—	—	18,315
Note receivable	-	—	2,570	2,570
Total assets	$ 29,366	$ —	$ 2,570	$ 31,936
Liabilities				
Contingent acquisition payment	$ —	$ —	$ 919	$ 919
Total liabilities	$ —	$ —	$ 919	$ 919

Our investments in marketable securities are classified as available-for-sale and are carried at fair value, with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive loss in stockholders' equity

The investment in the note receivable was negotiated on an arm's length basis and the total carrying value of the investment of $2.6 million is representative of the fair value of the investment as of September 30, 2022 due to there being no changes in the underlying assumptions of the note receivable. The fair value of our contingent acquisition payment was determined using a Monte Carlo simulation and there was no change in fair value from the initial recording date (acquisition date) to September 30, 2022 or December 31, 2021 due to no change in forecasted revenue and a di minimis impact from the present value factor.

Marketable securities by security type consisted of the following (in thousands):

	September 30, 2022:			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury notes and bonds	$ 14,534	$ 5	$ (128)	$ 14,411
Corporate bonds	3,951	—	(47)	3,904
	$ 18,485	$ 5	$ (175)	$ 18,315

Changes in Note receivable consisted of the following (in thousands):

	Nine Months Ended September 30, 2022
	Amortized Cost
Balance as of December 31, 2021	$ —
Investment in Note Receivable	2,500
Accrued Interest	70
Balance as of September 31, 2022	$ 2,570

As of December 31, 2021, our assets that are measured at fair value on a recurring basis included the following (in thousands):

	Fair Value Measurement at December 31, 2021 Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Money market funds (included in cash and cash equivalents)	$ 28,952	$ —	$ —
Liabilities			
Contingent acquisition payment	$ —	$ —	$ 919

The fair value of our contingent acquisition payment was determined using a Monte Carlo simulation and there was no change in fair value from the initial recording date (acquisition date) to December 31, 2021 due to the proximity of the acquisition to year-end.

Note 4 – Acquisition

Fortress - In December 2021, we acquired 100% of the outstanding shares and acquired all of the assets and liabilities of FortressID for a purchase price of $3.4 million, which consisted of $2.5 million of cash consideration and an earnout with a fair value of $0.9 million. The maximum earnout payment is $4.0 million and requires cash payments of up to $2.0 million for set revenue targets in 2022 and another $2.0 million for set revenue targets in 2023. The acquisition of FortressID, expands our offerings around identity proofing-enhancing its onboarding, verification and authentication offerings to directly address financial compliance requirements and enable organizations to mitigate risk and curtail increasing fraud.

The acquisition was accounted for as a business combination, whereby all the assets acquired, and liabilities assumed were recognized at fair value on the acquisition date, with any excess of the consideration transferred over the fair value of the net assets acquired recognized as goodwill. Unaudited pro forma results of operations assuming the above acquisition had taken place at the beginning of each period are not provided because the historical operating results and pro forma results would not be materially different from reported results for the periods presented.

The fair values recorded were based on a valuation performed by a third-party valuation specialist and the estimates and assumptions used in such valuation are subject to change, within the measurement period (up to one year from the acquisition date). The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Customer relationships	$	1,740
Developed technology		430
Trade name / trademarks		10
Goodwill		1,469
Gross assets acquired		3,649
Net working capital		(11)
Fair value of contingent consideration		(919)
Net assets acquired	$	2,719

After allocating the purchase price to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, we recorded goodwill of approximately $1.5 million, which included $0.3 million related to the release of certain deferred tax assets. Goodwill largely consists of expected synergies to be realized from combining operations. The goodwill is deductible for income tax purposes.

Note 5 – Gain on Sale of Fixed Assets

On July 15, 2022, we completed our sale to FDS Bedford, LLC of our former corporate headquarters located at 40 Middlesex Turnpike, Bedford, Massachusetts for total proceeds of $8.9 million less a brokerage commission of $0.3 million.

We previously recorded $2.9 million in "Long-Lived Assets held for sale" on the Consolidated Balance Sheet as of June 30, 2022, which consisted of $1.8 million in net property and equipment and $1.1 million in land. The assets had remaining deprecation scheduled of $1.8 million at the time of the sale. We recorded a gain of $5.7 million on the sale and disposed of these assets at the time of the sale.

Note 6 – Intangible Assets

Intangible assets and their estimated useful lives as of September 30, 2022 are as follows (dollars in thousands):

	Useful Life	Gross Amount	Accumulated Amortization	Net Book Value
Customer relationships	8 and 10 years	$ 2,680	$ 351	$ 2,329
Developed technology	5 and years	710	151	559
Trade name trademarks	3 and 7 years	30	8	22
		$ 3,420	$ 510	$ 2,910

During the three months ended September 30, 2022 and 2021, we recorded $0.1 million and $44 thousand of intangible assets amortization expense, respectively. During the nine months ended September 30, 2022 and 2021, we recorded $0.3 million and $0.1 million of intangible asset amortization expense, respectively. We expect to record amortization expense for the remainder of 2022 and each subsequent year as follows (in thousands):

2022	$ 103
2023	415
2024	415
2025	412
2026	412
Thereafter	1,153
	$ 2,910

Note 7 – Subscription Agreement

On March 11, 2022, concurrently with our entry into a mutual reseller arrangement with MIRACL Technologies Limited ("MIRACL"), we entered into a subscription agreement with Omlis Limited, a limited company incorporated and registered in England and Wales and the parent of MIRACL ("Omlis"). We purchased $2.5 million of Omlis' Note Receivable ("Note") that accrues interest at 5% annually with a maturity date of March 11, 2026.

Prior to maturity, we have the right to convert the Note into the securities issued in a future financing at a 20% discount from the price per share paid by the investors in that financing. If the Note remains outstanding on the maturity date, the Note shall, at the option of the holders of a majority of the outstanding Note, (i) be converted into the most senior shares in Omlis, (ii) be redeemed by payment in cash of the Note and all accrued but unpaid interest or (iii) remain outstanding.

In connection with the sale of the Note, Omlis granted us a right of first refusal for 18 months with respect to any proposed sale by Omlis of equity securities constituting 20% or more of the outstanding voting power of Omlis or all or substantially all of the assets of Omlis or any of its material subsidiaries. Also, in connection with the sale of the Note, Omlis issued the Company a warrant that expires on September 11, 2023, which allows us to purchase up to 8% of the total equity shares in Omlis at a price per share of $33.91.

We recorded the Note and warrants at their fair values in accordance with ASC 825, Financial Instruments, for the Note and ASC 815, Derivatives and Hedging, for the warrants, which were $2.5 million and $0, respectively as of September 30, 2022. Interest income of $32 thousand and $70 thousand was earned during the three and nine month periods ended September 30, 2022, respectively. The $70 thousand in accrued interest is included in the fair value of the note as of September 30, 2022. We assigned a value of $0 to the warrant, since the value was deemed de minimis and was not an integral part of the investment.

Note 8 – Computation of Earnings per Share

Basic earnings per share is computed by dividing net income or loss by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income or loss by the weighted average number of common shares outstanding plus additional common shares that would have been outstanding if dilutive potential common shares had been issued. For the purposes of this calculation, stock options are considered common stock equivalents in periods in which they have a dilutive effect. Stock options that are anti-dilutive are excluded from the calculation. Potential common stock equivalents were not included in the per share calculation for diluted earnings per share where we had a net loss and the effect of their inclusion would be anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income (loss)	$ 2,599	$ (1,579)	$ 31	$ (4,569)
Shares outstanding:				
Weighted-average common shares outstanding	21,725	21,532	21,674	21,508
Additional dilutive common stock equivalents	73	—	59	—
Diluted shares outstanding	21,798	21,532	21,733	21,508
Net income (loss) per share – basic	$ 0.12	$ (0.07)	$ 0.00	$ (0.21)
Net income (loss) per share - diluted	$ 0.12	$ (0.07)	$ 0.00	$ (0.21)

Note 9– Equity and Stock-based compensation

The following table presents stock-based compensation expenses included in our unaudited consolidated statements of operations and comprehensive income (loss) (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of sales	$ 7	$ 5	$ 19	$ 13
Research and development	54	67	229	169
Selling and marketing	182	74	260	176
General and administrative	305	295	848	719
Stock-based compensation expense	$ 548	$ 441	$ 1,356	$ 1,077

Stock Options - We did not grant stock options in the three or nine months ended September 30, 2022. We granted stock options for 0 and 2,875,000 shares in the three months and nine months ended September 30, 2021, respectively.

Unrestricted Stock Grants - We grant unrestricted shares of stock under our 2001 Nonqualified Stock Plan. Stock-based compensation expense for stock grants is determined based on the fair market value of our stock on the date of grant, provided the number of shares in the grant is fixed on the grant date.

In the three and nine months ended September 30, 2022 we granted an aggregate of 60,000 and 167,921 shares of unrestricted stock, respectively. Of these shares 61,459 vested and 54,167 shares where issued in early July 2022 after employees surrendered 7,292 shares for payment of withholding taxes on their behalf. Of the remaining 106,462 shares of unrestricted stock granted in 2022, 46,462 are scheduled to vest and be issued shortly after December 31, 2022, provided each grantee is serving as a director, officer or employee on that date. The remaining 60,000 shares will vest and be issued in equal installments on February 9, 2023 and August 9, 2023, 2024 and 2025, provided each grantee is serving as a director, officer or employee on those dates.

Total stock-based compensation expense related to these grants is $0.5 million, of which $0.1 million and $0.3 million was charged to expense in the three and nine months ended September 30, 2022, respectively. We anticipate that of the remaining $0.2 million will be charged to expense in the fourth quarter of 2022 and the remaining balance of $0.1 million will be expensed ratably over the remaining vesting period that ends in August 2025.

In the three and nine months ended September 30, 2021 we granted an aggregate of 0 and 56,533, respectively, shares of unrestricted stock to directors. The shares were issued in two equal installments shortly after June 30, 2021 and December 31, 2021. Total stock-based compensation expense related to these grants is $0.3 million, of which $0.1 million and $0.2 million was charged to expense in the three and nine months ended September 30, 2021, respectively. The remaining $0.1 million was charged to expense in the forth quarter of 2021.

We also granted 80,000 shares of unrestricted stock to an executive officer in September 2019 to be issued in four equal installments shortly after their anniversaries of their grant dates, provided the grantee is serving as a director, officer, or employee on those dates. $13 thousand of stock based compensation expense related to this grant was charged to expense in each of the three months ended September 30, 2022 and 2021, and $42 thousand was charged to expense in each of the nine months ended September 30, 2022 and 2021. We anticipate the remaining $53 thousand will be charged to expense ratably over the remaining vesting period that ends in September 2023.

We also granted 40,000 shares of unrestricted stock to an executive officer in October 2019 to be issued in four equal installments shortly after their anniversaries of their grant dates, provided the grantee is serving as a director, officer, or employee on those dates. We issued 30,000 shares in equal installments in October 2020 and 2021 and September 2022. The remaining 10,000 where cancelled when the executive officer's employment with us was terminated in August 2022. As part of the grantee's 2019 employment agreement and in connection with the termination of the grantee's employment, vesting of the remainder of the grant was accelerated by one year and we issued the October 2022 installment in September 2022 and cancelled the remaining 10,000 shares that were to vest in October 2023. $7 thousand of stock based compensation expense related to this grant was charged to expense in each of the of the three months ended September 30, 2022 and 2021, and $22 thousand was charged to expense in each of the nine months ended September 30, 2022 and 2021.

Share Purchases - On March 1, 2022, our Board of Directors authorized a new stock repurchase program pursuant to which we may purchase up to $10.0 million of our common stock, of which $0.2 million has been repurchased as of September 30, 2022. During the three and nine months ended September 30, 2022, we purchased 75,407 and 76,561 shares of our common stock, respectively. The shares may be purchased from time to time in the open market or through privately negotiated transactions at management's discretion, depending upon market conditions and other factors. The authorization to repurchase shares of our common stock expires on December 31, 2023. Repurchases will be made under the program using our own cash resources and will be in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, and other applicable laws, rules and regulations, which may permit repurchases to occur during periods when we might otherwise be precluded from making purchases under insider trading laws or company policy. The program does not obligate us to acquire any particular amount of common stock and the program may be modified or suspended at any time at our Board of Director's discretion.

Note 10 – Income Taxes

During the three and nine months ended September 30, 2022 and 2021, we recorded no income tax benefits for the net operating losses incurred or for the research and development tax credits generated due to the uncertainty of realizing a benefit from those items.

We have evaluated the positive and negative evidence bearing upon our ability to realize our deferred tax assets, which primarily consist of net operating loss carryforwards and research and development tax credits. We considered the history of cumulative net losses, estimated future taxable income and prudent and feasible tax planning strategies and we have concluded that it is more likely than not that we will not realize the benefits of our deferred tax assets. As a result, as of September 30, 2022 and December 31, 2021, we recorded a full valuation allowance against our net deferred tax assts.

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law on March 27, 2020. The CARES Act contained specific relief and stimulus measures including allowing net operating losses originating in 2018 through 2020 to be carried back five years to offset taxable income in the carryback period. Separately, the enactment of the Tax Cut and Jobs Act in 2017 allowed taxpayers to claim a refund for alternative minimum tax credits over a period of years. The CARES Act enacted during the first quarter of 2020 allows for the entire amount of the credit to be refunded. We have reviewed the impact of the CARES Act enactment on the income tax provision and have determined that, as a result of the net operating loss carryback provision, we can obtain a tax benefit if we were to carry back the forecasted 2020 net operating loss to the five year carryback period.

The carryback of the estimated loss would result in a refundable federal tax credit of approximately $1.4 million and an increase in research credit carryforwards previously utilized. The federal tax credit can be refunded in the future, as we decided to carry back the loss reported on the filed 2020 tax return. Upon filing our 2020 tax return, we reclassified the federal tax credit as a current receivable. Due to the recent loss history, continued investments in the Company, and our future projections of income, we will benefit from the 2020 loss to the extent of the available tax refund and will maintain a full valuation allowance on all other deferred tax assets, including any increase in research credit carryforward resulting from a potential carryback.

Note 11 – Subsequent Event

On October 1, 2022, our Lease with 76/80 BURLINGTON GROUP LLC (the “Landlord”) commenced related to the March 1, 2022 Lease Agreement (“Lease”) with the Landlord. Per the Lease, we will lease 20,730 rentable square feet at 76 Blanchard Road in Burlington, Massachusetts (the “Leased Space”) for a term of ten years and six months, which includes a one-time termination right after seven years and six months. We intend to use the Leased Space as our principal executive offices. The term of the Lease commenced on October 1, 2022, the date that the landlord notified us that the planned construction on the Leased Space is substantially complete. The Lease provides for an aggregate of $8.2 million of rent due over the Lease term and also provides a renewal option for up to two additional terms of five years each.

ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

Some of the information in this Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate," "continue" and similar words. You should read statements that contain these words carefully because they: (1) discuss our future expectations; (2) contain projections of our future operating results or financial condition; or (3) state other "forward-looking" information. However, we may not be able to predict future events accurately. The risk factors listed in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2021, as well as any cautionary language in this Quarterly Report on Form 10-Q, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. You should be aware that the occurrence of any of the events described in these risk factors and elsewhere in this Quarterly Report on Form 10-Q could materially and adversely affect our business.

Summary of Operations

We are primarily engaged in the development and sale of biometrics products, solutions and services. Our software products are used in government and commercial systems and applications and fulfill a broad range of functions critical to secure biometric enrollment, authentication, identification and transactions. Principal government applications of biometrics systems include border control, visa applicant screening, law enforcement, national defense, intelligence, secure credentialing, access control, and background checks. Principal commercial applications include: i) user enrollment and authentication used for login to mobile devices, computers, networks, and software programs; ii) user authentication for financial transactions and purchases (online and in-person); iii) physical access control to buildings; and iv) identity proofing of prospective employees and customers. We sell our biometrics software products and services globally through a multifaceted distribution strategy using systems integrators, OEMs, VARs, partners, and directly to end user customers. We also derive a portion of our revenue from the sale of imaging software licenses to OEMs and systems integrators that incorporate our software into medical imaging products and medical systems.

In December 2021, we acquired 100% of the outstanding shares of FortressID in exchange for $2.5 million in cash. Additionally, the purchase consideration includes a contingent consideration arrangement wherein the seller is entitled to cash payments of up to $4.0 million based on revenue targets in 2022 and 2023. The fair value of the contingent consideration was determined to be $0.9 million at December 31, 2021 and September 30, 2022 and is included in the purchase price consideration. The acquisition of FortressID, expands our offerings around identity proofing, enhancing its onboarding, verification and authentication offerings to directly address financial compliance requirements and enable organizations to mitigate risk and curtail increasing fraud.

Summary of Financial Results

We use revenue and results of operations to summarize financial results as we believe these measurements are the most meaningful way to understand our operating performance.

Revenue and operating income for the three months ended September 30, 2022 were $3.0 million and $2.4 million, respectively. These results compared to revenue of $4.2 million and operating loss of $1.6 million for the three months ended September 30, 2021. The decrease in revenue in the current three month period was primarily due to a decrease in software license revenue. The operating gain in the current three month period was due primarily due to a $5.7 million gain we recorded related to the sale of our corporate office, which was partially offset by the impact of decreased license revenue.

Revenue and operating loss for the nine months ended September 30, 2022, were $11.9 million and $0.2 million, respectively. These results compared to revenue of $12.9 million and operating loss of $4.6 million for the nine months ended September 30, 2021. The decrease in revenue in the current nine month period was primarily due to decreases in software license revenue and services and other revenue, which were partially offset by higher software maintenance revenue. Lower operating loss in the current nine month period was primarily due to a $5.7 million gain we recorded related to the sale of our corporate office, which was partially offset by a decrease in revenue.

These and all other financial results are discussed in more detail in the results of operations section that follows.

Results of Operations

Software licenses. Software licenses consist of revenue from the sale of biometrics and imaging software products. Sales of software products depend on our ability to win proposals to supply software for biometrics systems projects either directly to end user customers or indirectly through channel partners.

Software license revenue decreased 63% from $2.2 million in the three months ended September 30, 2021 to $0.8 million in the same three month period in 2022. As a percentage of total revenue, software license revenue decreased from 53% in the third quarter of 2021 to 27% in the current year quarter. The $1.4 million decrease in software license revenue was due primarily to a decrease in perpetual licenses sales.

Software license revenue decreased 13% from $6.3 million in the nine months ended September 30, 2021 to $5.5 million in the same nine month period in 2022. As a percentage of total revenue, software license revenue decreased from 49% in the first nine months of 2021 to 46% in the first nine months of the current year. The $0.8 million decrease in software license revenue was due primarily to a decrease in perpetual licenses sales.

Our market strategy is to continue to focus on our legacy government biometrics markets and expand into new commercial biometrics markets. We are unable to predict future revenue from commercial markets as these are emerging markets.

Software maintenance. Software maintenance consists of revenue from the sale of software maintenance contracts. Software maintenance contracts entitle customers to receive software support and software updates, if and when they become available, during the term of the contract.

Software maintenance revenue increased 17% from $1.5 million in the three months ended September 30, 2021 to $1.8 million in the same three month period in 2022. As a percentage of total revenue, software maintenance revenue increased from 37% in the third quarter of 2021 to 59% in the current year quarter.

Software maintenance revenue increased 9% from $4.8 million in the nine months ended September 30, 2021 to $5.3 million in the same nine month period in 2022. As a percentage of total revenue, software maintenance revenue increased from 38% in the first nine months of 2021 to 44% in the first nine months of the current year.

For the three and nine month period ended September 30, 2022, the increase in software maintenance revenue was primarily due to software maintenance renewals related to perpetual license sales.

Services and other revenue. Services revenue consists of fees we charge to perform software development, integration, installation, and customization services. Similar to software license revenue, services revenue depends on our ability to win biometrics systems projects either directly with end user customers or in conjunction with channel partners. Other revenue consists of hardware fees that are included with some of our software licenses. Services and other revenue will fluctuate when we commence new projects and/or when we complete projects that were started in previous periods.

Services and other revenue decreased from $0.5 million in the three months ended September 30, 2021 to $0.4 million in the same three month period in 2022. As a percentage of total revenue, services and other revenue increased from 11% in the third quarter of 2022 to 14% in the current year second quarter.

Services and other revenue decreased from $1.7 million in the nine months ended September 30, 2021 to $1.2 million in the same nine month period in 2022. As a percentage of total revenue, services revenue decreased from 14% in the first nine months of 2021 to 10% in the first nine months of the current year.

For the three and nine month periods ended September 30, 2022, the decrease in services and other revenue was primarily due to less services performed by us with system integrators resulting in lower services revenue in the current year period.

Cost of services and other revenue. Cost of services and other revenue consists primarily of engineering costs to perform customer services projects and other third-party costs that are included with some of our software licenses. Such costs primarily include: i) engineering salaries, stock-based compensation, fringe benefits, and facilities; ii) engineering consultants and contractors; iii) software license fees; and iv) hardware costs.

Cost of services and other revenue decreased $0.1 million from $0.3 million in the three months ended September 30, 2021 to $0.2 million in the three months ended September 30, 2022. Cost of services and other revenue as a percentage of services and other revenue increased from 54% in the current quarter of 2021 to 68% in the current year quarter.

Cost of services and other revenue was $0.9 million in the nine months ended September 30, 2021 and 2022. Cost of sales as a percentage of services and other revenue increased from 54% in the first nine months of 2021 to 75% in the first nine months of the current year.

The increase in cost of services and other revenue as a percentage of services and other revenue was primarily due to lower service and other revenue resulting from less active contracts with services during the period.

Gross margins on services and other revenue are a function of: i) the nature of the projects; ii) the level of engineering difficulty and labor hours required to complete project tasks; and iii) how much we were able to charge. We expect that gross margins on services and other revenue will continue to fluctuate in future periods based on the nature, complexity, and pricing of future projects.

Research and development expense. Research and development expense consists of costs for: i) engineering personnel, including salaries, stock-based compensation, fringe benefits, and facilities; ii) engineering consultants and contractors, and iii) other engineering expenses such as supplies, equipment depreciation, dues and memberships and travel. Engineering costs incurred to develop our technology and products are classified as research and development expense. As described in the cost of services section, engineering costs incurred to provide engineering services for customer projects are classified as cost of sales, and are not included in research and development expense.

The classification of total engineering costs to research and development expense and cost of sales was (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Research and development expense	$ 2,279	$ 2,307	$ 6,932	$ 7,067
Cost of sales	282	243	920	933
Total engineering costs	$ 2,561	$ 2,550	$ 7,852	$ 8,000

Total engineering costs were $2.6 million in the three months ended September 30, 2021 and 2022. As a percentage of total revenue, total engineering costs increased from 61% in 2021 to 85% in 2022.

Total engineering costs were $8.0 million in the nine months ended September 30, 2021 and $7.9 million for the same period in 2022. As a percentage of total revenue, research and total engineering costs increased from 62% in the first nine months of 2021 to 66% in the first nine months of the current year.

The spending decrease for the nine months ended September 30, 2022, compared to the same prior year periods was primarily due to lower employee costs due to decreased headcount.

We anticipate that we will continue to focus our future research and development activities on enhancing our existing products and developing new products with our growing internal resources.

Selling and marketing expense. Selling and marketing expense primarily consists of costs for: i) sales and marketing personnel, including salaries, sales commissions, stock-based compensation, fringe benefits, travel, and facilities; and ii) advertising and promotion expenses.

Selling and marketing expense increased 15% from $1.6 million in the three months ended September 30, 2021 to $1.9 million in the same three month period of 2022. As a percentage of total revenue, selling and marketing expense increased from 39% in the third quarter of 2021 to 62% in the corresponding period in 2022.

Selling and marketing expense increased 6% from $4.8 million in the nine months ended September 30, 2021 to $5.1 million in the same nine month period in 2022. As a percentage of total revenue, selling and marketing expense increased from 36% in the first nine months of 2021 to 41% in the first nine months of 2022.

The spending increase for the three and nine months ended September 30, 2022, compared to the same prior year periods was primarily due to severance costs related to the termination in August 2022 of our Chief Commercial Officer position.

We expect to expand our sales and marketing force to address additional opportunities.

General and administrative expense. General and administrative expense consists primarily of costs for: i) officers, directors and administrative personnel, including salaries, bonuses, director compensation, stock-based compensation, fringe benefits, and facilities; ii) professional fees, including legal and audit fees; iii) public company expenses; and iv) other administrative expenses, such as insurance costs and bad debt provisions.

General and administrative expense increased 15% from $1.6 million for the three months ended September 30, 2021 to $1.8 million in the same three month period in 2022. As a percentage of total revenue, general and administrative was 38% in the third quarter of 2021 and 60% in the first three months of 2022.

General and administrative expense increased 5% from $4.6 million for the nine months ended September 30, 2021 to $4.9 million in the same nine month period in 2022. As a percentage of total revenue, general and administrative was 36% in the first nine months of 2021 and 41% in the first nine months of 2022

The expense increase for the three and nine months ended September 30, 2022, compared to the same prior year periods was primarily due to bad debt expense.

We expect general and administrative expense to increase in absolute dollars, but to decrease as a percentage of net revenues and to fluctuate depending on specific activities in a period.

Gain on sale of fixed assets. In July 2022, we sold our corporate headquarters in Bedford, MA for total proceeds of $8.9 million less a brokerage commission of $0.3 million. At the time of the sale, we disposed of all building and land related assets. The net book value of all assets disposed of was $2.9 million. We recorded a net gain on the sale of fixed assets of $5.7 million for the three and nine months ended September 30, 2022.

Interest Income. Interest income increased from one thousand dollars in the three months ended September 30, 2021 to $0.2 million in the three months ended September 30, 2002. Interest income increased from three thousand dollars in the nine months ended September 30, 2021 to $0.2 million in the nine months ended September 30, 2022. The dollar increase in interest income was primarily due higher interest rates related to our marketable securities of U.S Treasury notes and bonds and corporate bonds during the three and nine months ended September 30, 2022 as well as higher interest rates within our money market accounts.

We expect interest income to increase in absolute dollars in the next 12 months and to fluctuate depending on interest rates.

Income taxes. We had no income tax benefit for the three and nine months ended September 30, 2022 and 2021.

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law on March 27, 2020. The Act contained specific relief and stimulus measures including allowing net operating losses originating in 2018 through 2020 to be carried back five years to offset taxable income in the carryback period.

Separately, the enactment of the Tax Cut and Jobs Act in 2017 allowed taxpayers to claim a refund for federal tax credits over a period of years. The CARES Act enacted during the first quarter allows for the entire amount of the credit to be refunded.

We have reviewed the impact of the CARES Act enactment on the income tax provision and have determined that, as a result of the net operating loss carryback provision, we can obtain a tax benefit if we were to carry back the 2020 net operating loss to the five year carryback period.

The carryback of the estimated loss would result in a refundable federal tax credit of approximately $1.4

million and an increase in research credit carryforwards previously utilized. The federal tax credit can be refunded in the future, as we decided to carry back the loss reported on the filed 2020 tax return. Upon filing our 2020 carryback claim, we have reclassified the federal tax credit as a current receivable. Due to the recent loss history, continued investments in the Company, and our future projections of income, we will benefit from the 2020 loss to the extent of the available tax refund and will maintain a full valuation allowance on all other deferred tax assets, including any increase in research credit carryforward resulting from a potential carryback.

We maintained a full valuation allowance against our net deferred tax assets as of September 30, 2022 and December 31, 2021.

Liquidity and Capital Resources

At September 30, 2022, we had cash, cash equivalents and marketable securities of $31.0 million, which represented an increase of $1.0 million from December 31, 2021. The increase in cash, cash equivalents and marketable securities was primarily due to our receipt of $8.6 million of net proceeds from the sale of fixed assets. This was partially offset by the impact of a $4.3 million for cash used in operating activities, our $2.5 million investment in a note receivable and $0.7 million of changes in assets and liabilities

While we cannot assure you that we will not require additional financing, or that such financing will be available to us, we believe that our cash and cash equivalents will be sufficient to fund our operations for at least the next twelve months from the date of this filing and to meet our known long-term cash requirements. Whether these resources are adequate to meet our liquidity needs beyond that period will depend on our future growth, operating results, and the investments needed to support our operations. If we require additional capital resources, we may utilize available funds or additional external financing.

To date, inflation has not had a material impact on our financial results. There can be no assurance, however, that inflation will not adversely affect our financial results in the future.

Recent Accounting Pronouncements

See Note 1 to our Consolidated Financial Statements in Item 1.

ITEM 4: Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1: Legal Proceedings

From time to time we are involved in litigation incidental to the conduct of our business. We are not party to any lawsuit or proceeding that, in our opinion, is material to our business.

ITEM 1A: Risk Factors

Investing in our common stock involves a high degree of risk. Our Annual Report on Form 10-K for the year ended December 31, 2021 includes a detailed discussion of our risk factors under the heading "Part I, Item 1A—Risk Factors." There have been no material changes from such risk factors during the three months ended September 30, 2022. You should consider carefully the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2021, and all other information contained in or incorporated by reference in this Quarterly Report on Form 10-Q before making an investment decision. If any of the risks discussed in the Annual Report on Form 10-K or herein actually occur, they may materially harm our business, financial condition, operating results, cash flows or growth prospects. As a result, the market price of our common stock could decline, and you could lose all or part of your investment. Additional risks and uncertainties that are not yet identified or that we think are immaterial may also materially harm our business, financial condition, operating results, cash flows or growth prospects and could result in a complete loss of your investment.

ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans of Programs
July 1 to 30, 2022	3,787	$ 2.20	4,941	$ 9,989,043
August 1 to 31, 2022	29,848	$ 2.19	34,789	$ 9,923,559
September 1 to 30, 2022	41,772	$ 2.03	41,772	$ 9,904,306
Total	75,407	$ 2.10	81,502	$ 9,904,306

(1) On March 3, 2022, we announced that our board of directors had approved the repurchase of up to $10,000,000 of our common stock from time to time through December 31, 2023. During the three and nine months ended September 30, 2022 we purchased 75,407 and 76,561 shares respectively under this plan at an aggregate purchase price of $158,539 and $161,178 respectively. As of September 30, 2022 the dollar value of shares that may be purchased under the plan is $9,838,822.

ITEM 3: Defaults Upon Senior Securities

None.

ITEM 4: Mine Safety Disclosures

None.

ITEM 5: Other Information

None.

ITEM 6: Exhibits

(a) Exhibits

Exhibit 3.1	Amended and Restated Articles of Organization, as amended (filed as Exhibit 3.1 to the Company's Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
Exhibit 3.2	Amended and Restated By-Laws (filed as Exhibit 3.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on December 10, 2007 and incorporated herein by reference).
Exhibit 10.1	Amendment to Employment Agreement dated as of July 15, 2022, by and between Aware, Inc. and Robert Mungovan (filed as Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on July 20, 2022 and incorporated herein by reference).
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101	The following financial statements from Aware, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in iXBRL (Inline eXtensible Business Reporting Language), as follows: i) Consolidated Balance Sheets as of September 30, 2022 and December 31, 2021, ii) Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2022 and 2021, iii) Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2022 and 2021, iv) Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended September 30, 2022 and 2021, and v) Notes to Consolidated Financial Statements.
Exhibit 104	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline Document Set.

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 thereunto duly authorized.

AWARE, INC.

Date:	October 28, 2022	By:	/s/ Robert A. Eckel Robert A. Eckel Chief Executive Officer & President
Date:	October 28, 2022	By:	/s/ David B. Barcelo David B. Barcelo Chief Financial Officer (Principal Financial and Accounting Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Robert A. Eckel, Chief Executive Officer & President of Aware, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aware, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

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

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2022

/s/ Robert A. Eckel
Robert A. Eckel
Chief Executive Officer & President

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David B. Barcelo, Chief Financial Officer of Aware, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aware, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

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

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2022	/s/ David B. Barcelo
	David B. Barcelo
	Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report on Form 10-Q of Aware, Inc. (the “Company”) for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned Chief Executive Officer and Chief Financial Officer of the Company, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert A. Eckel	/s/ David B. Barcelo
Chief Executive Officer & President	Chief Financial Officer
Date: October 28, 2022	Date: October 28, 2022

The certification set forth above is being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the Form 10-Q or as a separate disclosure document of the Company or the certifying officers.