

**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 March 31, 2023

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 March 31, 2023
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 mark 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 April 19, 2023 was 20,955,339.

AWARE, INC.
FORM 10-Q
FOR THE QUARTER ENDED March 31, 2023

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

	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,390	\$ 11,749
Marketable securities	18,912	17,229
Accounts receivable, net	2,670	3,317
Unbilled receivables, net	3,483	2,929
Tax receivable	1,362	1,362
Prepaid expenses and other current assets	839	693
Total current assets	<u>35,656</u>	<u>37,279</u>
Property and equipment, net	697	726
Intangible assets, net	2,703	2,806
Goodwill	3,120	3,120
Note receivable	2,632	2,601
Right of use asset	4,470	4,538
Other long-term assets	122	122
Total assets	<u>\$ 49,400</u>	<u>\$ 51,192</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 624	\$ 639
Accrued expenses	780	1,282
Current portion of operating lease liabilities	623	470
Deferred revenue	3,204	3,411
Current portion of contingent acquisition payment	812	—
Total current liabilities	<u>6,043</u>	<u>5,802</u>
Long-term deferred revenue	592	322
Long-term operating lease liabilities	3,998	4,047
Long-term portion of contingent acquisition payment	—	812
Total long-term liabilities	<u>4,590</u>	<u>5,181</u>
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 20,955,339 as of March 31, 2023 and 21,093,447 as of December 31, 2022	210	211
Additional paid-in capital	98,286	98,306
Accumulated deficit	(59,766)	(58,198)
Accumulated other comprehensive income (loss)	37	(110)
Total stockholders' equity	<u>38,767</u>	<u>40,209</u>
Total liabilities and stockholders' equity	<u>\$ 49,400</u>	<u>\$ 51,192</u>

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

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

	Three Months Ended	
	March 31,	
	2023	2022
Revenue:		
Software licenses	\$ 2,105	\$ 2,628
Software maintenance	1,835	1,661
Services and other	365	403
Total revenue	4,305	4,692
Costs and expenses:		
Cost of services and other revenue	298	314
Research and development	2,381	2,424
Selling and marketing	1,991	1,781
General and administrative	1,504	1,461
Total costs and expenses	6,174	5,980
Operating loss	(1,869)	(1,288)
Interest income	301	9
Net loss	<u>\$ (1,568)</u>	<u>\$ (1,279)</u>
Net loss per share – basic	\$ (0.07)	\$ (0.06)
Net loss per share – diluted	\$ (0.07)	\$ (0.06)
Weighted-average shares – basic	21,033	21,642
Weighted-average shares – diluted	21,033	21,642
Other comprehensive income, net of tax:		
Unrealized gain on available-for-sale securities	147	—
Comprehensive loss	<u>\$ (1,421)</u>	<u>\$ (1,279)</u>

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

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

	Three Months Ended	
	March 31,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (1,568)	\$ (1,279)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	149	225
Stock-based compensation	335	430
Interest on note receivable	(31)	(7)
Non-cash lease expense	173	—
Changes in assets and liabilities:		
Accounts receivable	417	(368)
Unbilled receivables	(325)	(88)
Prepaid expenses and other current assets	(181)	(394)
Accounts payable	(15)	190
Accrued expenses	(502)	(650)
Deferred revenue	63	(440)
Net cash used in operating activities	<u>(1,485)</u>	<u>(2,381)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(16)	—
Purchase of marketable securities	(2,752)	—
Sale of marketable securities	1,250	—
Investment in note receivable	—	(2,500)
Net cash used in investing activities	<u>(1,518)</u>	<u>(2,500)</u>
Cash flows from financing activities:		
Payments made for taxes of employees who surrendered shares related to unrestricted stock	(15)	—
Repurchase of common stock	(341)	—
Net cash used in financing activities	<u>(356)</u>	<u>—</u>
Decrease in cash and cash equivalents	(3,359)	(4,881)
Cash and cash equivalents, beginning of period	11,749	29,963
Cash and cash equivalents, end of period	<u>\$ 8,390</u>	<u>\$ 25,082</u>
Supplemental disclosure: Cash paid for income taxes	<u>\$ —</u>	<u>\$ —</u>

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

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

	For the Three Months Ended March 31, 2022				
	Common Stock		Additional Paid-In Capital	(Accumulated Deficit)	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	—	—	—	(1,279)	(1,279)
Balance at March 31, 2022	21,642	\$ 216	\$ 98,208	\$ (57,751)	\$ 40,673

	For the Three Months Ended March 31, 2023					
	Common Stock		Additional Paid-In Capital	(Accumulated Deficit)	(Accumulated Other Comprehensive Income (Loss))	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2022	21,093	\$ 211	\$ 98,306	\$ (58,198)	\$ (110)	\$ 40,209
Issuance of unrestricted stock	62	1	(1)	—	—	—
Shares surrendered by employees to pay taxes related to unrestricted stock	(9)	—	(15)	—	—	(15)
Repurchase of common stock	(191)	(2)	(339)	—	—	(341)
Stock-based compensation expense	—	—	335	—	—	335
Other comprehensive income	—	—	—	—	147	147
Net loss	—	—	—	(1,568)	—	(1,568)
Balance at March 31, 2023	20,955	\$ 210	\$ 98,286	\$ (59,766)	\$ 37	\$ 38,767

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

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, 2022 in conjunction with our 2022 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 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 March 31, 2023, and of operations and cash flows for the interim periods ended March 31, 2023 and 2022.

The results of operations for the interim period ended March 31, 2023 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 consolidated 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 credit losses, valuation of the contingent acquisition payment, 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 contract 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. The adoption of this update did not have a material impact 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. The adoption of this update did not have a material impact 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. During the periods ended March 31, 2023 and 2022, 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 months ended March 31, 2023 and 2022 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. Revenue generated from the following geographic regions was (in thousands):

	Three Months Ended March 31,	
	2023	2022
United States	\$ 2,054	\$ 2,036
Rest of World	2,251	2,656
	<u>\$ 4,305</u>	<u>\$ 4,692</u>

Revenue by timing of transfer of goods or services was (in thousands):

	Three Months Ended March 31,	
	2023	2022
Goods or services transferred at a point in time	\$ 1,768	\$ 2,693
Goods or services transferred over time	2,537	1,999
	<u>\$ 4,305</u>	<u>\$ 4,692</u>

Revenue by product group was (in thousands):

	Three Months Ended March 31,	
	2023	2022
License and service contracts	\$ 2,856	\$ 3,331
Subscription-based contracts	1,449	1,361
	<u>\$ 4,305</u>	<u>\$ 4,692</u>

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 months ended March 31, 2023 and 2022 (in thousands):

	Balance at Beginning of Period	Revenue Recognized In Advance of Billings	Billings	Balance at End of Period
Three months ended March 31, 2023				
Contract assets:				
Unbilled receivables	\$ 2,929	\$ 2,340	\$ (1,786)	\$ 3,483

Three months ended March 31, 2022				
Contract assets:				
Unbilled receivables	\$ 3,087	\$ 1,486	\$ (1,398)	\$ 3,175

	Balance at Beginning of Period	Billings	Revenue Recognized	Balance at End of Period
Three months ended March 31, 2023				
Contract liabilities:				
Deferred revenue	\$ 3,733	\$ 1,898	\$ (1,835)	\$ 3,796

Three months ended March 31, 2022				
Contract liabilities:				
Deferred revenue	\$ 3,740	\$ 1,221	\$ (1,661)	\$ 3,300

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 deferred revenue over the next 12 months, with the remainder recognized thereafter. As of March 31, 2023, the aggregate amount of the transaction prices allocated to remaining performance obligations for contracts with a duration greater than one year was \$1.9 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 \$8.4 million and \$11.7 million as of March 31, 2023 and December 31, 2022, respectively. Marketable securities, which primarily include U.S. Treasuries and corporate bonds, were \$18.9 million and \$17.2 million as of March

31, 2023 and December 31, 2022, respectively. Our assets and liabilities that are measured at fair value on a recurring basis included the following (in thousands):

Fair Value Measurement at March 31, 2023 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)	\$ 1,463	\$ —	\$ —	\$ 1,463
Marketable securities	18,912	—	—	18,912
Note receivable	-	—	2,632	2,632
Total assets	\$ 20,375	\$ —	\$ 2,632	\$ 23,007
Liabilities				
Contingent acquisition payment	\$ —	\$ —	\$ 812	\$ 812
Total liabilities	\$ —	\$ —	\$ 812	\$ 812

Fair Value Measurement at December 31, 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)	\$ 10,967	\$ —	\$ —	\$ 10,967
Marketable securities	17,229	—	—	17,229
Note receivable	—	—	2,601	2,601
Total assets	\$ 28,196	\$ —	\$ 2,601	\$ 30,797
Liabilities				
Contingent acquisition payment	\$ —	\$ —	\$ 812	\$ 812
Total liabilities	\$ —	\$ —	\$ 812	\$ 812

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 income (loss) in stockholders' equity.

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

March 31, 2023:				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury notes and bonds	\$ 13,466	\$ 85	\$ (26)	\$ 13,525
Corporate bonds	5,409	2	(24)	5,387
	\$ 18,875	\$ 87	\$ (50)	\$ 18,912

	December 31, 2022:			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury notes and bonds	\$ 13,389	\$ 24	\$ (100)	\$ 13,313
Corporate bonds	3,950	—	(34)	3,916
	<u>\$ 17,339</u>	<u>\$ 24</u>	<u>\$ (134)</u>	<u>\$ 17,229</u>

The investment in the Note Receivable ("Note") with Omlis Limited ("Omlis"), a limited company incorporated and registered in England and Wales and the parent of MIRCAL Technologies Limited ("MIRACL"), was negotiated at 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 March 31, 2023 and December 31, 2022. During the three months ended March 31, 2023 and for the year ended December 31, 2022, there were no changes in the underlying assumptions of the Note. The change in fair value during the three months ended March 31, 2023 and for the year ended December 31, 2022 was the result of accrued interest.

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 contingent acquisition payments which were fair valued at \$0.9 million at the acquisition date. The maximum contingent acquisition payments at the time of the acquisition was \$4.0 million and required 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. No revenue targets were achieved in 2022 and the maximum contingent acquisition payment as of March 31, 2023 is \$2.0 million. The fair value of our contingent acquisition payment was determined using a Monte Carlo simulation and there was no material change in fair value from December 31, 2022 to March 31, 2023 due to no change in forecasted revenue and a *de minimis* impact from the present value factor.

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

	Three Months Ended	
	March 31, 2023	
	Amortized Cost	
Balance as of December 31, 2022	\$	2,601
Accrued interest		31
Balance as of March 31, 2023	<u>\$</u>	<u>2,632</u>

Note 4 – Intangible Assets

Intangible assets and their estimated useful lives as of March 31, 2023 are as follows (dollars in thousands):

	Useful Life	Gross Amount	Accumulated Amortization	Net Book Value
Customer relationships	8 and 10 years	\$ 2,680	\$ 496	\$ 2,184
Developed technology	5 and 7 years	710	210	500
Trade name trademarks	3 and 7 years	30	11	19
		<u>\$ 3,420</u>	<u>\$ 717</u>	<u>\$ 2,703</u>

During the three months ended March 31, 2023 and 2022, we recorded \$0.1 million of intangible assets amortization expense. We expect to record amortization expense for the remainder of 2023 and each subsequent year and thereafter as follows (in thousands):

2023	\$	311
2024		415
2025		407
2026		356
2027		356
Thereafter		858
	\$	<u>2,703</u>

Note 5 – 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 \$2.6 million and \$0, respectively as of March 31, 2023. Interest income of \$31 thousand and \$7 thousand was earned during the three month periods ended March 31, 2023 and 2022, respectively. The \$132 thousand in accrued interest is included in the fair value of the note as of March 31, 2023. 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 6 – 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.

Note 7– Equity and Stock-based compensation

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

	Three Months Ended March 31,	
	2023	2022
Cost of services and other revenue	\$ 4	\$ 5
Research and development	61	82
Selling and marketing	25	96
General and administrative	245	247
Stock-based compensation expense	<u>\$ 335</u>	<u>\$ 430</u>

Stock Options - We did not grant stock options in the three months ended March 31, 2023 or 2022.

Unrestricted Stock Grants - Our 2001 Nonqualified Stock Plan permits us to grant shares of unrestricted shares of stock to our directors, officers, and employees. 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.

We granted 134,211 and issued 61,462 shares of unrestricted stock to directors, officers, and employees during the three months ended March 31, 2023. Of the shares granted in the three months ended March 31, 2023, they are scheduled to be issued in two equal installments shortly after June 30, 2023 and December 31, 2023.

We granted 107,921 and issued 28,278 shares of unrestricted stock to directors, officers, and employees during the three months ended March 31, 2022. Of the shares granted in the three months ended March 31, 2022, 61,460 were issued shortly after June 30, 2022 and 46,461 were issued shortly after December 31, 2022.

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 \$1.7 million has been repurchased as of March 31, 2023. During the three months ended March 31, 2023 and 2022 we purchased 190,908 and zero 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 8 – Income Taxes

During the three months ended March 31, 2023 and 2022, 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 March 31, 2023 and December 31, 2022, we recorded a full valuation allowance against our net deferred tax assets.

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 and the related carry back claim that is on file with the IRS as of March 31, 2022, we classified the federal tax credit as a current receivable which has yet to be received as of March 31, 2023. 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.

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.

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 loss for the three months ended March 31, 2023 were \$4.3 million and \$1.9 million, respectively. These results compared to revenue of \$4.7 million and operating loss of \$1.3 million for the three months ended March 31, 2022. The decrease in revenue and the increase in operating loss in the current three month period was primarily due to a decrease in software license 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 20% from \$2.6 million in the three months ended March 31, 2022 to \$2.1 million in the same three month period in 2023. As a percentage of total revenue, software license revenue decreased from 56% in the first quarter of 2022 to 49% in the current year quarter. The \$0.5 million decrease in software license revenue was due primarily to a decrease in perpetual licenses sales which historically and we expect to fluctuate since they are based on the timing of projects with our customers.

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 10% from \$1.7 million in the three months ended March 31, 2022 to \$1.8 million in the same three month period in 2023. As a percentage of total revenue, software maintenance revenue increased from 35% in the first quarter of 2022 to 43% in the current year quarter.

For the three month period ended March 31, 2023, the increase in software maintenance revenue was primarily due to software maintenance related to our subscription based licenses.

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 was \$0.4 million and 9% of total revenue in each three months ended March 31, 2023 and 2022.

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 was \$0.3 million in the three months ended March 31, 2023 and 2022. Cost of services and other revenue as a percentage of services and other revenue increased from 78% in first quarter of 2022 to 82% in the current year quarter.

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 services and other revenue, and are not included in research and development expense.

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

	Three Months Ended	
	March 31,	
	2023	2022
Research and development expense	\$ 2,381	\$ 2,424
Cost of services and other revenue	298	314
Total engineering costs	<u>\$ 2,679</u>	<u>\$ 2,738</u>

Total engineering costs were \$2.7 million in each of the three months ended March 31, 2023 and 2022. As a percentage of total revenue, total engineering costs increased from 58% in the first three months of 2022 to 62% in the same current year quarter in 2023.

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 12% from \$1.8 million in the three months ended March 31, 2022 to \$2.0 million in the same three month period of 2023. As a percentage of total revenue, selling and marketing expense increased from 38% in the first quarter of 2022 to 46% in the corresponding period in 2023.

The spending increase for the three months ended March 31, 2023, compared to the same prior year period was primarily due to higher employee costs due to increased headcount and contracted sales agents.

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 was \$1.5 million for each of the three months ended March 31, 2023 and 2022. As a percentage of total revenue, general and administrative was 31% in the first quarter of 2022 and 35% in the first three months of 2023.

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

Interest Income. Interest income increased from nine thousand dollars in the three months ended March 31, 2022 to \$0.3 million in the three months ended March 31, 2023. 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 months ended March 31, 2023, 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 months ended March 31, 2023 and 2022.

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 tax return and the related carry back claim that is on file with the IRS as of March 31, 2022, we classified the federal tax credit as a current receivable which has yet to be received as of March 31, 2023. 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 March 31, 2023 and December 31, 2022.

Liquidity and Capital Resources

At March 31, 2023, we had cash, cash equivalents and marketable securities of \$27.3 million, which represented a decrease of \$2.0 million from December 31, 2022. The decrease in cash, cash equivalents and marketable securities was primarily due to the impact of our use of \$1.5 million of cash used in operating activities and \$0.3 million of cash for repurchases of our common stock.

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 March 31, 2023 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, 2022 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 March 31, 2023. You should consider carefully the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2022, 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
January 1, to 30, 2023	68,905	\$ 1.81	68,905	\$ 8,563,668
February 1 to 28, 2023	81,710	\$ 1.75	81,710	\$ 8,420,326
March 1 to 31, 2023	40,293	\$ 1.82	40,293	\$ 8,347,113
Total	190,908	\$ 1.79	190,908	

(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 months ended March 31, 2023 we purchased 190,908 shares under this plan at an aggregate purchase price of \$340,961

(2) As of March 31, 2023 the dollar value of shares that may be purchased under the plan is \$8,347,113.

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* [Aware, Inc. 2023 Executive Bonus Plan \(described in the Company's Form 8-K filed with the Securities and Exchange Commission on March 13, 2023, and incorporated herein by reference\).](#)
- 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 March 31, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language), as follows: i) Consolidated Balance Sheets as of March 31, 2023 and December 31, 2022, ii) Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three Months Ended March 31, 2023 and 2022, iii) Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2023 and 2022, iv) Consolidated Statements of Stockholders' Equity for the Three Months Ended March 31, 2023 and 2022, 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.

* Management contract or compensatory plan

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: May 3, 2023

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

Date: May 3, 2023

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: May 3, 2023

/s/ Robert A. Eckel

Robert A. Eckel

Chief Executive Officer & President

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: May 3, 2023

/s/ David B. Barcelo

David B. Barcelo
Chief Financial Officer

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 March 31, 2023, 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

Chief Executive Officer & President

/s/ David B. Barcelo

Chief Financial Officer

Date: May 3, 2023

Date: May 3, 2023

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.
