



## Aware, Inc. Reports Third Quarter 2010 Financial Results

BEDFORD, Mass., Oct 28, 2010 /PRNewswire via COMTEX/ --

Aware, Inc. (Nasdaq: AWRE), a leading supplier of broadband technology and biometrics software, today reported financial results for its third quarter ended September 30, 2010.

Revenues for the third quarter of 2010 were \$6.15 million, a decrease of 1% compared to \$6.22 million in the same quarter last year. Net income for the third quarter of 2010 was \$76,000, or \$0.00 per diluted share. These results compared to a net loss of \$1.1 million, or \$0.06 per diluted share, for the same period a year ago.

For the nine months ended September 30, 2010, revenues increased 1% to \$16.7 million, compared to \$16.6 million in the same period a year ago. The net loss for the nine months ended September 30, 2010 was \$50,000, or \$0.00 per diluted share. These results compared to a net loss of \$4.9 million, or \$0.23 per diluted share, for the same period a year ago.

The Company reports its net income and basic and diluted net income per share in accordance with U.S. generally accepted accounting principles (GAAP), and additionally, on a non-GAAP basis. Non-GAAP net income, where applicable, excludes the effect of stock-based compensation expense. The Company uses the non-GAAP information internally to evaluate its operating performance and believes these non-GAAP measures are useful to investors as they provide additional insight into the underlying operating results. However, non-GAAP measures are not stated in accordance with, should not be considered in isolation from, and are not a substitute for, GAAP measures. A reconciliation of GAAP to non-GAAP results has been provided in the attached financial tables.

Non-GAAP net income for the third quarter of 2010, excluding the effect of \$621,000 of stock-based compensation, was \$697,000, or \$0.03 per diluted share. These results compared to a non-GAAP net loss of \$456,000, or \$0.02 per diluted share, for the third quarter of 2009, excluding the effect of \$677,000 of stock-based compensation.

For the nine months ended September 30, 2010, the company had non-GAAP net income, excluding the effect of \$1.2 million of stock-based compensation, of \$1.1 million, or \$0.06 per share. These results compared to a non-GAAP net loss of \$3.4 million, or \$0.16 per diluted share, for the nine months ended September 30, 2009, excluding the effect of \$1.5 million of stock-based compensation.

Edmund Reiter, Aware's president and chief executive officer, said, "While we still have work to do to achieve consistent profitability, our 2010 quarterly and year-to-date financial results show good progress towards this goal. We were pleased to complete deployment of our LDP product into a European telco customer this quarter and look forward to continued success in this area."

Note: Aware's conference call will be broadcast live over the Internet today, October 28, 2010 at 5:00 p.m. Eastern Time. To listen to the call, please go to [www.aware.com/ir](http://www.aware.com/ir). The conference call may also be heard by calling 719-457-2667 and referencing the confirmation number 4576434. A replay of the call will be archived on our website after the call.

### About Aware

Aware is a leading technology and software supplier for the telecommunications and biometrics industries. Aware has pioneered innovations at telecommunications standards-setting organizations for DSL and home networking. Telecom equipment vendors and phone companies use Aware's DSL test and diagnostics modules and Dr. DSL<sup>®</sup> software to provision and troubleshoot DSL circuits globally. Aware is also a veteran of the biometrics industry, providing biometric and imaging software components used in government systems worldwide since 1992. Aware's interoperable, standard-compliant, field-proven imaging products are used in a number of applications, from border management to criminal justice to medical imaging. Aware is a publicly held company (Nasdaq: AWRE) based in Bedford, Massachusetts. [www.aware.com](http://www.aware.com)

### Safe Harbor Warning

Portions of this release contain forward-looking statements regarding future events and are subject to risks and uncertainties, such as estimates or projections of future revenue and earnings and the growth of the DSL test and diagnostics and biometrics markets. Aware wishes to caution you that there are factors that could cause actual results to differ materially from the results indicated by such statements. General factors include, but are not limited to: our quarterly results are unpredictable and may fluctuate significantly; our business is subject to rapid technological change; we face intense competition from a wide range of competitors; current economic conditions, including the credit crisis affecting the financial markets; our intellectual property is subject to limited protection; our ability to obtain or enforce patents could be affected by new laws, regulations or rules; and our business may be affected by government regulations. DSL test and diagnostic factors include, but are not limited to: our DSL test and diagnostic businesses depend upon a limited number of customers; the success of our DSL test and diagnostics products businesses requires telephone companies to install DSL service in volume; our test and diagnostic hardware and software products could have quality problems; we depend on a single source contract manufacturer for the manufacture of our DSL hardware products; and we are dependent on single source suppliers for components in our DSL hardware products. Biometric factors include, but are not limited to: market acceptance of our biometric technologies and products; changes in contracting practices of government or law enforcement agencies; the failure of the biometrics market to experience continued growth; announcements or introductions of new technologies or products by our competitors; failures or problems in our biometric software products; delays in the adoption of new industry biometric standards; growth of proprietary biometric systems which do not conform to industry standards; our ability to sell services contracts in a manner that is consistent with our business model; our ability to deliver services contract milestones; and our dependence on third party contractors and consultants to deliver certain services contract milestones. We refer you to the documents Aware files from time to time with the Securities and Exchange Commission, specifically the section titled Risk Factors in our annual report on Form 10-K for the fiscal year ended December 31, 2009 and other reports and filings made with the Securities and Exchange Commission.

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**AWARE, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue:				
Product sales	\$5,026	\$4,661	\$13,588	\$11,332
Contract revenue	488	1,005	1,043	3,725
Royalties	637	554	2,107	1,500
Total revenue	<u>6,151</u>	<u>6,220</u>	<u>16,738</u>	<u>16,557</u>
Costs and expenses:				
Cost of product sales (1)	1,236	857	3,112	2,413
Cost of contract revenue (1)	206	717	352	2,534
Research and development (1)	2,082	3,175	6,198	9,344
Selling and marketing (1)	1,029	1,251	3,148	3,517
General and administrative (1)	1,650	1,383	4,469	3,812
Total costs and expenses	<u>6,203</u>	<u>7,383</u>	<u>17,279</u>	<u>21,620</u>
Loss from operations	(52)	(1,163)	(541)	(5,063)
Other income	100	-	425	-
Interest income	28	31	67	217
Income (loss) before provision for income taxes	76	(1,132)	(49)	(4,846)
Provision for income taxes	-	1	1	5
Net income (loss)	<u>\$76</u>	<u>(\$1,133)</u>	<u>(\$50)</u>	<u>(\$4,851)</u>
Net income (loss) per share -- basic	\$0.00	(\$0.06)	(\$0.00)	(\$0.23)
Net income (loss) per share -- diluted	\$0.00	(\$0.06)	(\$0.00)	(\$0.23)

Weighted average shares -- basic	20,000	19,782	19,947	21,230
Weighted average shares -- diluted	20,344	19,782	19,947	21,230

(1) The amounts in the Consolidated Statements of Operations above include stock-based compensation as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of product sales	\$ 3	\$ 3	\$ 8	\$ 8
Cost of contract revenue	4	36	11	105
Research and development	101	174	269	458
Sales and marketing	25	140	76	249
General and administrative	488	324	805	656
Total stock-based compensation costs	<u>\$621</u>	<u>\$677</u>	<u>\$1,169</u>	<u>\$1,476</u>

**AWARE, INC.**  
**NON-GAAP FINANCIAL MEASURES AND RECONCILIATION**  
(In thousands, except per share data)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
GAAP net income (loss)	\$76	(\$1,133)	(\$50)	(\$4,851)
Stock-based compensation	621	677	1,169	1,476
Non-GAAP net income (loss)	<u>\$697</u>	<u>(\$456)</u>	<u>\$1,119</u>	<u>(\$3,375)</u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
GAAP net income (loss) per share	\$0.00	(\$0.06)	(\$0.00)	(\$0.23)
Stock-based compensation	0.03	0.04	0.06	0.07
Non-GAAP net income (loss) per share	<u>\$0.03</u>	<u>(\$0.02)</u>	<u>\$0.06</u>	<u>(\$0.16)</u>

**AWARE, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands)  
(unaudited)

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Cash and investments	\$39,041	\$39,669
Accounts receivable, net	5,165	3,565
Inventories, net	1,468	1,113
Property and equipment, net	6,465	6,744
Other assets, net	530	363
Total assets	<u>\$52,669</u>	<u>\$51,454</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Total current liabilities	\$2,860	\$2,501
Long-term deferred revenue	489	593

Total stockholders' equity	49,320	48,360
Total liabilities and stockholders' equity	<u>\$52,669</u>	<u>\$51,454</u>

SOURCE Aware, Inc.