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**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, 2024

OR

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 000-21129

AWARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Massachusetts

(State or Other Jurisdiction of
Incorporation or Organization)

04-2911026

(I.R.S. Employer Identification No.)

76 Blanchard Road, Burlington, Massachusetts, 01803

(Address of Principal Executive Offices)

(Zip Code)

(781) 687-0300

(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class

Common Stock, \$0.01 par value per share

Trading Symbol

AWRE

Name of Each Exchange on Which Registered

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

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 28, 2024 was 21,203,919.

AWARE, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2024

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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, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,223	\$ 10,002
Marketable securities	16,167	20,913
Accounts receivable, net	4,038	2,454
Unbilled receivables, net	1,408	1,401
Prepaid expenses and other current assets	1,012	1,054
Total current assets	33,848	35,824
Property and equipment, net	515	579
Intangible assets, net	2,080	2,391
Goodwill	3,120	3,120
Right of use asset	4,040	4,260
Other long-term assets	122	122
Total assets	\$ 43,725	\$ 46,296
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 816	\$ 280
Accrued expenses	1,303	1,706
Current portion of operating lease liabilities	651	637
Deferred revenue	5,062	4,926
Total current liabilities	7,832	7,549
Long-term deferred revenue	345	611
Long-term operating lease liabilities	3,657	3,838
Total long-term liabilities	4,002	4,449
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 21,194,071 as of September 30, 2024 and 21,017,892 as of December 31, 2023	212	210
Additional paid-in capital	100,057	99,405
Accumulated deficit	(68,751)	(65,512)
Accumulated other comprehensive income	373	195
Total stockholders' equity	31,891	34,298
Total liabilities and stockholders' equity	\$ 43,725	\$ 46,296

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue:				
Software licenses	\$ 1,175	\$ 4,391	\$ 5,137	\$ 7,535
Software maintenance	2,257	1,889	6,571	5,491
Services and other	417	101	884	844
Total revenue	3,849	6,381	12,592	13,870
Costs and expenses:				
Cost of services and other revenue	270	410	817	1,033
Research and development	1,873	2,264	5,922	6,909
Selling and marketing	1,856	2,171	5,838	6,118
General and administrative	1,317	1,601	4,086	4,679
Fair value adjustment to contingent acquisition payment	—	(812)	—	(812)
Total costs and expenses	5,316	5,634	16,663	17,927
Operating (loss) income	(1,467)	747	(4,071)	(4,057)
Interest income	315	397	886	982
Loss before provision for income taxes	(1,152)	1,144	(3,185)	(3,075)
Provision for income taxes	15	—	54	—
Net (loss) income	<u>\$ (1,167)</u>	<u>\$ 1,144</u>	<u>\$ (3,239)</u>	<u>\$ (3,075)</u>
Net (loss) income per share – basic	\$ (0.06)	\$ 0.05	\$ (0.15)	\$ (0.15)
Net (loss) income per share – diluted	\$ (0.06)	\$ 0.05	\$ (0.15)	\$ (0.15)
Weighted-average shares – basic	21,186	21,049	21,123	21,017
Weighted-average shares – diluted	21,186	21,131	21,123	21,017
Other comprehensive (loss) income, net of tax:				
Unrealized gain on available-for-sale securities	250	43	373	62
Comprehensive loss	<u>\$ (917)</u>	<u>\$ 1,187</u>	<u>\$ (2,866)</u>	<u>\$ (3,013)</u>

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

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

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities:		
Net loss	\$ (3,239)	\$ (3,075)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	421	437
Stock-based compensation	627	1,097
Interest on note receivable	—	(93)
Allowance for credit losses	53	—
Non-cash lease expense	53	218
Change in fair value of contingent acquisition payment	—	(812)
Changes in assets and liabilities:		
Accounts receivable	(1,637)	(3,432)
Unbilled receivables	(7)	1,387
Prepaid expenses and other current assets	(118)	(459)
Tax receivable	—	1,355
Accounts payable	750	(408)
Accrued expenses	(616)	363
Deferred revenue	(131)	2,180
Net cash used in operating activities	(3,844)	(1,242)
Cash flows from investing activities:		
Purchases of property and equipment	(45)	(16)
Purchase of marketable securities	(5,139)	(9,128)
Sale of marketable securities	10,224	4,750
Net cash provided by (used in) investing activities	5,040	(4,394)
Cash flows from financing activities:		
Proceeds from issuance of common stock	37	52
Payments made for taxes of employees who surrendered shares related to unrestricted stock	(12)	(15)
Repurchase of common stock	—	(467)
Net cash provided by (used in) financing activities	25	(430)
Increase (decrease) in cash and cash equivalents	1,221	(6,066)
Cash and cash equivalents, beginning of period	10,002	11,749
Cash and cash equivalents, end of period	<u>\$ 11,223</u>	<u>\$ 5,683</u>
Supplemental disclosure: Cash paid for income taxes	<u>\$ 98</u>	<u>\$ 136</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 and Nine Months Ended September 30, 2024									Total Stockholders' Equity	
	Common Stock		Paid-In Capital		Additional Accumulated Deficit		Accumulated Other Comprehensive Income (Loss)				
	Shares	Amount									
Balance at December 31, 2023	21,018	\$ 210	\$ 99,405	\$ (65,512)	\$ 195	\$ 34,298					
Issuance of unrestricted stock	67	2	(2)	—	—	—					
Stock-based compensation expense	—	—	164	—	—	—				164	
Other comprehensive loss	—	—	—	—	(56)	(56)					
Net loss	—	—	—	(982)	—	(982)					
Balance at March 31, 2024	21,085	\$ 212	\$ 99,567	\$ (66,494)	\$ 139	\$ 33,424					
Issuance of common stock under employee stock purchase plan	28	—	40	—	—	40					
Stock-based compensation expense	—	—	243	—	—	—				243	
Other comprehensive loss	—	—	—	—	(16)	(16)					
Net loss	—	—	—	(1,090)	—	(1,090)					
Balance at June 30, 2024	21,113	212	99,850	(67,584)	123	32,601					
Issuance of unrestricted stock	86	1	(1)	—	—	—					
Shares surrendered by employees to pay taxes related to unrestricted stock	(5)	(1)	(12)	—	—	—				(13)	
Stock-based compensation expense	—	—	220	—	—	—				220	
Other comprehensive loss	—	—	—	—	250	250					
Net loss	—	—	—	(1,167)	—	(1,167)					
Balance at September 30, 2024	21,194	212	100,057	(68,751)	373	31,891					

**For the Three and Nine Months Ended
September 30, 2023**

	Common Stock		Additional Paid-In Capital		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amou nt					
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	
Issuance of common stock under employee stock purchase plan	38	1	51	—	—	—	52
Stock-based compensation expense	—	—	403	—	—	—	403
Other comprehensive loss	—	—	—	—	(128)	(128)	
Net loss	—	—	—	(2,651)	—	—	(2,651)
Balance at June 30, 2023	20,993	211	98,740	(62,417)	(91)	36,443	
Issuance of common stock under employee stock purchase plan	106	—	2	—	—	—	2
Repurchase of common stock	(81)	(1)	(125)	—	—	—	(126)
Stock-based compensation expense	—	—	359	—	—	—	359
Other comprehensive loss	—	—	—	—	43	43	
Net loss	—	—	—	1,144	—	—	1,144
Balance at September 30, 2023	21,018	\$ 210	\$ 98,976	\$ (61,273)	\$ (48)	\$ 37,865	

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 biometric platform company that uses data science, machine learning, and artificial intelligence to tackle everyday business and identity challenges through biometric 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, 2023 in conjunction with our 2023 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 September 30, 2024, and of operations and cash flows for the interim periods ended September 30, 2024 and 2023.

The results of operations for the interim periods ended September 30, 2024 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 November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires retrospective disclosure of significant segment expenses and other segment items on an annual and interim basis. Additionally, it requires disclosure of the title and position of the Chief Operating Decision Maker ("CODM"). This ASU will be effective for our fiscal year ending on December 31, 2024 and interim periods beginning in fiscal 2025, with early adoption permitted. We are assessing the impact of the standard on our consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which requires an annual tabular effective tax rate reconciliation disclosure including information for specified categories and jurisdiction levels, as well as, disclosure of income taxes paid, net of refunds received, disaggregated by federal, state/local, and significant foreign jurisdiction. This ASU will be effective for our fiscal year ending on December 31, 2025, with early adoption permitted. We are assessing 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 typically not adjusted for a significant financing component if the time between payment and the transfer of the related good or service is 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. However, during the three and nine months ended September 30, 2024, we identified one contract that contains a significant financing component, due to the inclusion of extended payment terms exceeding one year.

For this contract, we have adjusted the transaction price to reflect the time value of money using an interest rate of 11%. The financing component resulted in the recognition of \$2,000 in interest income during the periods. The total amount of revenue recognized in the three and nine months ended September 30, 2024 from this contract was \$0.2 million, excluding the financing adjustment.

Also, as we expand our Software as a Service (SaaS) offerings, including AwareID, revenue from SaaS contracts will be recognized ratably over the subscription period. For the three and nine months ended September 30, 2024, we generated \$0.1 million of revenue from SaaS contracts, which is included in maintenance revenue. For the three and nine months ended September 30, 2023, we generated a de minimis amount of revenue from SaaS contracts.

Disaggregation of Revenues

We organize ourselves into a single segment that reports to the Chief Executive Officer who is our CODM. 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
United States	\$ 1,849	\$ 5,247	\$ 5,263	\$ 9,365
United Kingdom	762	323	3,255	934
Rest of World	1,238	811	4,074	3,571
	<u>\$ 3,849</u>	<u>\$ 6,381</u>	<u>\$ 12,592</u>	<u>\$ 13,870</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Goods or services transferred at a point in time	\$ 459	\$ 4,391	\$ 3,099	\$ 6,893
Goods or services transferred over time	3,390	1,990	9,493	6,977
	<u>\$ 3,849</u>	<u>\$ 6,381</u>	<u>\$ 12,592</u>	<u>\$ 13,870</u>

Revenue by contract type was (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
License and service contracts	\$ 3,070	\$ 5,982	\$ 9,930	\$ 11,586
Subscription-based contracts	779	399	2,662	2,284
	<u>\$ 3,849</u>	<u>\$ 6,381</u>	<u>\$ 12,592</u>	<u>\$ 13,870</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 and nine months ended September 30, 2024 and 2023 (in thousands):

	Balance at Beginning of Period	Revenue Recognized In Advance of Billings	Billings	Balance at End of Period
Three months ended September 30, 2024				
Contract assets:				
Unbilled receivables	\$ 1,299	\$ 634	\$ (525)	\$ 1,408
Three months ended September 30, 2023				
Contract assets:				
Unbilled receivables	\$ 2,820	\$ 924	\$ (1,972)	\$ 1,772
	Balance at Beginning of Period	Billings	Revenue Recognized	Balance at End of Period
Three months ended September 30, 2024				
Contract liabilities:				
Deferred revenue	\$ 4,444	\$ 3,220	\$ (2,257)	\$ 5,407
Three months ended September 30, 2023				
Contract liabilities:				
Deferred revenue	\$ 4,359	\$ 3,442	\$ (1,889)	\$ 5,912
	Balance at Beginning of Period	Billings	Revenue Recognized	Balance at End of Period
Nine months ended September 30, 2024				
Contract assets:				
Unbilled receivables	\$ 1,401	\$ 2,770	\$ (2,763)	\$ 1,408
Nine months ended September 30, 2023				
Contract assets:				
Unbilled receivables	\$ 2,929	\$ 2,601	\$ (3,758)	\$ 1,772
	Balance at Beginning of Period	Billings	Revenue Recognized	Balance at End of Period
Nine months ended September 30, 2024				
Contract liabilities:				
Deferred revenue	\$ 5,537	\$ 6,441	\$ (6,571)	\$ 5,407
Nine months ended September 30, 2023				
Contract liabilities:				
Deferred revenue	\$ 3,733	\$ 7,670	\$ (5,491)	\$ 5,912

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 97% of the remaining deferred revenue over the next 12 months, with the remainder recognized thereafter. As of September 30, 2024, the aggregate amount of the transaction prices allocated to remaining performance obligations for contracts with a duration greater than one year was \$0.3 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 \$11.2 million and \$10.0 million as of September 30, 2024 and December 31, 2023, respectively. Marketable securities, which primarily consists of U.S. Treasuries and previously included corporate bonds, were \$16.2 million and \$20.9 million as of September 30, 2024 and December 31, 2023, respectively. Our assets and liabilities that are measured at fair value on a recurring basis included the following (in thousands):

Fair Value Measurement at September 30, 2024 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)	\$ 10,166	\$ —	\$ —	\$ 10,166		
Marketable securities	16,167	—	—	—	16,167	
Total assets	\$ 26,333	\$ —	\$ —	\$ 26,333		

Fair Value Measurement at December 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)	\$ 7,848	\$ —	\$ —	\$ 7,848		
Marketable securities	20,913	—	—	—	20,913	
Note receivable	—	—	—	—	—	
Total assets	\$ 28,761	\$ —	\$ —	\$ 28,761		

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.

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

	September 30, 2024:			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury notes and bonds	\$ 15,793	\$ 373	\$ —	\$ 16,167
	<u>\$ 15,793</u>	<u>\$ 373</u>	<u>\$ —</u>	<u>\$ 16,167</u>
December 31, 2023:				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury notes and bonds	\$ 15,332	\$ 176	\$ (19)	\$ 15,489
Corporate bonds	5,386	39	(1)	5,424
	<u>\$ 20,718</u>	<u>\$ 215</u>	<u>\$ (20)</u>	<u>\$ 20,913</u>

Note 4 – Intangible Assets

Intangible assets and their estimated useful lives as of September 30, 2024 are as follows (dollars in thousands):

	Useful Life	Gross Amount	Accumulated Amortization	Net Book Value
Customer relationships	8 and 10 years	\$ 2,680	\$ (933)	\$ 1,747
Developed technology	5 and 7 years	710	(385)	325
Trade name trademarks	3 and 7 years	30	(22)	8
		<u>\$ 3,420</u>	<u>\$ (1,340)</u>	<u>\$ 2,080</u>

During each of the three months ended September 30, 2024 and 2023, we recorded \$0.1 million of intangible assets amortization expense, and during each of the nine months ended September 30, 2024 and 2023, we recorded \$0.3 million of intangible assets amortization expense. We expect to record amortization expense for the remainder of 2024 and each subsequent year and thereafter as follows (in thousands):

2024	\$ 103
2025	405
2026	356
2027	345
2028	338
Thereafter	533
	<u>\$ 2,080</u>

Note 5 – 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 6 – 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 September 30, 2024		Nine Months Ended September 30, 2024	
	2024	2023	2024	2023
Cost of services and other revenue	\$ —	\$ 5	\$ —	\$ 13
Research and development	37	60	110	180
Selling and marketing	22	21	52	71
General and administrative	161	273	465	833
Stock-based compensation expense	<u>\$ 220</u>	<u>\$ 359</u>	<u>\$ 627</u>	<u>\$ 1,097</u>

Stock Options - On January 17, 2024, our stockholders approved the Aware Inc. 2023 Equity and Incentive Plan (the "2023 Plan"). Following approval of the 2023 Plan, we ceased making awards under our previous 2001 Nonqualified Stock Plan (as amended, the "2001 Plan").

Also on January 17, 2024, our stockholders approved a stock option exchange program (the "Exchange Offer") pursuant to which eligible employees, primarily consisting of our executive officers and senior management, were able to exchange certain stock options (the "Eligible Options") for replacement stock options with modified terms (the "New Options") as described below. We commenced the Exchange Offer on January 19, 2024, pursuant to the Offer to Exchange certain outstanding stock options for New Options under Aware's 2023 Equity and Incentive Plan.

The Exchange Offer expired on February 20, 2024. Pursuant to the Exchange Offer, nine employees elected to exchange their Eligible Options, and we accepted for cancellation Eligible Options to purchase an aggregate of 2,180,000 shares of common stock, representing approximately 96% of the total shares of common stock underlying the Eligible Options. Following the expiration of the Exchange Offer, on February 20, 2024, we granted New Options to purchase 933,073 shares of Common Stock, pursuant to the terms of the Exchange Offer and our 2023 Plan.

The exercise price per share of the New Options granted pursuant to the Exchange Offer was \$2.21 per share. Each New Option will vest and become exercisable, with respect to 50% of the shares of common stock underlying such New Option on the first anniversary of the grant date and, with respect to the remaining shares of common stock underlying such New Option, in twelve equal monthly installments thereafter, subject to the continuous service of the holder. The other terms and conditions of the New Options will be governed by the terms and conditions of the 2023 Plan and the nonstatutory stock option agreements entered into thereunder.

There was no incremental expense for the New Options as calculated using the Black-Scholes option pricing model. The unamortized expense remaining on the Eligible Options, as of the modification date, will be recognized over the new vesting schedule.

We did not grant any other stock options and no stock options were exercises in the three or nine months ended September 30, 2024 or 2023.

Restricted Stock Units - The 2023 Plan permits us to grant restricted stock units to our directors, officers, and employees. Upon vesting, each restricted stock unit entitles the recipient to receive a number of shares of common stock as set forth in the relevant restricted stock unit agreement. Stock-based compensation expense for restricted stock units 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 0 and 284,814 restricted stock units to directors, officers, and employees during the three and nine months ended September 30, 2024, respectively. Of the restricted stock units granted in the nine

months ended September 30, 2024, 70,406 vested shortly after June 30, 2024. 60,000 of remaining shares are scheduled to vest in 15,000 share increments in October 2024, and April 2025, 2026 and 2027. Also, 24,000 restricted stock units are scheduled to vest in 6,000 share increments in December 2024 and June 2025, 2026 and 2027 and 70,406 are scheduled to vest shortly after December 31, 2024. 60,000 restricted stock units were scheduled to be issued in 15,000 increments in July 2024 and January 2025, 2026 and 2027 but were forfeited in April 2024 as a result of an employee termination.

Unrestricted Stock Grants - Our 2001 Plan, which was replaced by our 2023 Plan, permitted 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 issued 0 and 67,107 shares of unrestricted stock to directors, officers, and employees during the three and nine months ended September 30, 2024, respectively, in settlement of previously issued unrestricted stock grants.

We granted 0 and 134,211 unrestricted stock awards and issued 0 and 61,462 shares of unrestricted stock to directors, officers, and employees during the three and nine months ended September 30, 2023, respectively. Of the shares granted in the nine months ended September 30, 2023, 67,104 were issued shortly after June 30, 2023 and 67,107 were issued shortly after December 31, 2023. Also, 15,000 shares vested in August 2024 related to a grant in 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. On November 30, 2023, our Board of Directors extended the program through December 31, 2025. As of September 30, 2024 we have repurchased \$1.8 million of our common stock pursuant to this program. During the three and nine months ended September 30, 2024 we purchased 0 and 35 shares of common stock, respectively. During the three and nine months ended September 30, 2023 we purchased 81,083 and 271,991 shares of common stock, respectively. 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 Directors' discretion.

Note 7 – Income Taxes

During the three and nine months ended September 30, 2024, we recorded an income tax provision of \$15,000 and \$54,000, respectively.

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, 2024 and December 31, 2023, we have a full valuation recorded against our net deferred tax assets.

Note 8 – Subsequent Event

On October 30, 2024 we announced, Robert Eckel, our Chief Executive Officer and a member of our Board of Directors, will resign from these positions effective as of December 31, 2024. In anticipation of that transition we have engaged an executive strategic advisor to work with the Board and our management to evaluate our market position and sales strategy and provide strategic recommendations. In addition, we have engaged an executive search firm to assist in the identification of Mr. Eckel's successor. We anticipate that we will recognize approximately \$0.9 million of general and administrative expenses during the fourth quarter of 2024 related to this transition.

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, 2023, 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.

On October 30, 2024 we announced, Robert Eckel, our Chief Executive Officer and a member of our Board of Directors, will resign from this positions effective as of December 31, 2024. In anticipation of that transition we have engaged an executive strategic advisor to work with the Board and our management to evaluate our market position and sales strategy and provide strategic recommendations. In addition, we have engaged an executive search firm to assist in the identification of Mr. Eckel's successor. We anticipate that we will recognize approximately \$0.9 million of general and administrative expenses during the fourth quarter of 2024 related to this transition.

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 September 30 2024 were \$3.8 million and \$1.5 million, respectively. These results compared to revenue of \$6.4 million and operating income of \$0.7 million for the three months ended September 30, 2023. The shift from operating income to an operating loss in the current three month period was primarily due to a \$2.6 million decrease in revenue along with the impact of a gain of \$0.8 million we recorded related to an adjustment in the fair value of contingent acquisition payment related to our Fortr3ssID acquisition in December 2021 in the three months ended September 30, 2023. These were partially offset by \$0.3 million decrease in operating expenses resulting cost-control measures we implemented in the second half of 2023 and the first quarter of 2024, including a reduction of approximately ten percent of our headcount across all departments.

Revenue and operating loss for the nine months ended September 30 2024 were \$12.6 million and \$4.1 million, respectively. These results compared to revenue of \$13.9 million and operating loss of \$4.1 million for the nine months ended September 30, 2023. Operating loss in the current nine month was impacted primarily by a \$1.3 million decrease in revenue, which was partially offset by a \$1.2 million decrease in operating expenses resulting from cost-control measures we implemented in the second half of 2023 and the first quarter of 2024,

including a reduction of approximately ten percent of our headcount across all departments. During the three months ended September 30, 2023, we recorded a gain of \$0.8 related to an adjustment in the fair value of contingent acquisition payment related to our Fortr3ssID acquisition in December 2021.

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 73% from \$4.4 million in the three months ended September 30, 2023 to \$1.2 million for the three months ended September 30, 2024. As a percentage of total revenue, software license revenue decreased from 69% in the third quarter of 2023 to 31% in the current year quarter. The \$3.2 million decrease in software license revenue was due primarily to a decrease in perpetual licenses sales including the impact of \$2.9 million of license revenue related to a government contract recognized in the three months ended September 30, 2023.

Software license revenue decreased 32% from \$7.5 million in the nine months ended September 30, 2023 to \$5.1 million for the nine months ended September 30, 2024. As a percentage of total revenue, software license revenue decreased from 54% in the nine months ended September 30, 2023 to 41% in the current year period. The \$2.4 million decrease in software license revenue was due primarily to a decrease in perpetual licenses sales including the impact of \$2.9 million of license revenue related to a government contract recognized in the three months ended September 30, 2023 and partially offset by \$0.3 million increase in license revenue related to subscription contracts.

Software license sales have historically fluctuated, and we expect software license revenue to continue to fluctuate since these sales are based on the timing of projects with our customers and partners.

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 19% from \$1.9 million in the three months ended September 30, 2023 to \$2.3 million in the three months ended September 30, 2024. As a percentage of total revenue, software maintenance revenue increased from 30% in the third quarter of 2023 to 59% in the current year third quarter. For the three month period ended September 30, 2024, the increase in software maintenance revenue was primarily due to expansion of our customer base that has purchased and is actively using our perpetual software licenses.

Software maintenance revenue increased 20% from \$5.5 million in the nine months ended September 30, 2023 to \$6.6 million in the in the nine month period ended September 30, 2024. As a percentage of total revenue, software maintenance revenue increased from 40% in the first nine months of 2023 to 52% in the current year period. For the nine month period ended September 30, 2024, the increase in software maintenance revenue was primarily due to software maintenance related to our sales of perpetual software 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 increased from \$0.1 million in the three months ended September 30, 2024 to \$0.4 million in the three months ended September 30, 2024. As a percentage of total revenue, services and other revenue increased from 2% in the third quarter of 2023 to 11% in the current year quarter.

Services and other revenue increased 5% from \$0.8 million in the nine months ended September 30, 2023 to \$0.9 million in the nine months ended September 30, 2024. As a percentage of total revenue, services and other revenue increased from 6% in the nine months ended September 30, 2023 to 7% in the current year period.

Services and other revenue fluctuate dependent on when we commence new projects and when we complete projects that were started in previous periods.

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 34% from \$0.4 million in the three months ended September 30, 2023 to \$0.3 million the three months ended September 30, 2024. Cost of services and other revenue as a percentage of total revenue increased from 2% in the third quarter of 2023 to 11% in the current year third quarter.

Cost of services and other revenue decreased 21% from \$1.0 million in the nine months ended September 30, 2023 to \$0.8 million in the current year period. Cost of services and other revenue as a percentage of total revenue decreased from 7% in the nine months ended September 30, 2023 to 6% in the current year 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Research and development expense	\$ 1,873	\$ 2,264	\$ 5,922	\$ 6,909
Cost of services and other revenue	270	410	817	1,033
Total engineering costs	\$ 2,143	\$ 2,674	\$ 6,739	\$ 7,942

Total engineering costs decreased 20% from \$2.7 million in the three months ended September 30, 2023 to \$2.1 million in the three months ended September 30, 2024. As a percentage of total revenue, total engineering costs increased from 42% in the three months ended September 30, 2023 to 56% in the same current year quarter.

Total engineering costs decreased 15% from \$7.9 million in the nine months ended September 30, 2023 to \$6.7 million in the nine months ended September 30, 2024. As a percentage of total revenue, total engineering costs decreased from 57% in the nine months ended September 30, 2023 to 54% in the same current year period.

The spending decreases for the three and nine months ended September 30, 2024 compared to the same prior year periods were primarily 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 decreased 15% from \$2.2 million in the three months ended September 30, 2023 to \$1.9 million in the same three month period of 2024. As a percentage of total revenue, selling and marketing expense increased from 34% in the third quarter of 2023 to 48% in the corresponding period in 2024.

Selling and marketing expense decreased 5% from \$6.1 million in the nine months ended September 30, 2023 to \$5.8 million in the same nine month period of 2024. As a percentage of total revenue, selling and marketing expense increased from 44% in the nine months ended September 30, 2023 to 46% in the corresponding period in 2024.

The spending decreases for the three and nine months ended September 30, 2024, compared to the same prior year periods were primarily due to one time savings related to the reversal of accrued bonus expense as a result of the departure of our chief revenue officer in September 2024.

We may expand our sales force and marketing efforts 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 decreased 18% from \$2.2 million for the three months ended September 30, 2023 to \$1.9 million for the three months ended September 30, 2024. As a percentage of total revenue, general and administrative was 25% in the third quarter of 2023 and 34% in the corresponding period of 2024.

General and administrative expense decreased 13% from \$4.7 million for the nine months ended September 30, 2023 to \$4.1 million for the nine months ended September 30, 2024. As a percentage of total revenue, general and administrative was 34% in the nine months ended September 30, 2024 and 32% in the corresponding period of 2024.

The expense decreases for the three and nine months ended September 30, 2024 compared to the same prior year periods were primarily due to the impact of lower headcount. Fluctuations of general and administrative expenses are expected depending on specific activities in a period.

Fair value adjustment to contingent acquisition payment. In December 2021, we acquired 100% of the outstanding shares and acquired all of the assets and liabilities of Fortr3ssID 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.

The maximum contingent acquisition payment as of September 30, 2023 was \$2.0 million. We determined that as of September 30, 2023 there was a remote probability of reaching the revenue targets in 2023 and that the fair value of the contingent acquisition payment was \$0 at September 30, 2023. As a result, we recorded a \$0.8 million gain in the quarter ended September 30, 2023.

Interest Income. Interest income decreased from \$0.4 million in the three months ended September 30, 2023 to \$0.3 million in three months ended September 30, 2024.

Interest income decreased from \$1.0 million in the nine months ended September 30, 2023 to \$0.9 million in nine months ended September 30, 2024. The dollar decrease in interest income was primarily due to interest income related to an IRS carryback claim that was recognized in the three and nine months ended September 30, 2023.

Income taxes. Total income tax expense was \$15 thousand and \$0 for the three months ended September 30, 2024 and 2023, respectively and \$54 thousand and \$0 for the nine months ended September 30, 2024 and 2023,

respectively. The income tax expense relates to limitations on the usage of net operating loss carryforwards generated in years beginning after December 31, 2017.

We are subject to income taxes in the United States, and we use estimates in determining our provisions for income taxes. We account for income taxes using the asset and liability method for accounting and reporting income taxes. Deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates.

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, 2024 and December 31, 2023, we recorded a full valuation allowance against our net deferred tax assets.

Liquidity and Capital Resources

At September 30, 2024, we had cash, cash equivalents and marketable securities of \$27.4 million, which represented a decrease of \$3.5 million from December 31, 2023. The decrease in cash, cash equivalents and marketable securities was primarily due to the impact of \$3.8 million of cash used in operating activities.

Cash used in operations was \$3.8 million in the first nine months of 2024. Cash used in operations was primarily the result of \$3.2 million of net loss and \$1.8 million of changes in assets and liabilities, which were partially offset by \$1.2 million of non-cash items primarily for depreciation, amortization and stock-based compensation.

Cash provided by investing activities was \$5.0 million in the first nine months of 2021, which primarily consisted of net sales of marketable securities.

Cash provided by financing activities was \$26 thousand in the first nine months of 2021, which consisted of proceeds from issuance of our common stock and partially offset by the paying income taxes for employees who surrendered shares in connection with stock grants.

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 seek external financing, which may not be available on terms we find attractive or at all.

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, 2024 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, 2023 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 and nine months ended September 30, 2024. You should consider carefully the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2023, 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, Use of Proceeds, and Issuer Purchases of Equity Securities

On November 30, 2023, we announced that our Board of Directors had approved the extension of our previously announced 2022 Repurchase Plan through December 31, 2025. The 2022 Repurchase Plan authorizes the Company to repurchase of up to \$10,000,000 of our common stock from time to time. We did not purchase any shares under this plan or otherwise during the three months ended September 30, 2024.

As of September 30, 2024 the remaining dollar value of shares that may be purchased under the plan is \$8,182,358.

ITEM 3: Defaults Upon Senior Securities

None.

ITEM 4: Mine Safety Disclosures

None.

ITEM 5: Other Information

During the three months ended September 30, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in item 408(a) of Regulation S-K.

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 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of Chief Executive Officer and Principal 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, 2024, formatted in iXBRL (Inline eXtensible Business Reporting Language), as follows: i) Consolidated Balance Sheets as of September 30, 2024 and December 31, 2023, ii) Consolidated Statements of Operations and Comprehensive Loss for the Three and Nine Months Ended September 30, 2024 and 2023 iii) Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2024 and 2023 iv) Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended September 30, 2024 and 2023, 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: November 1, 2024

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

Date: November 1, 2024

By: /s/ David K. Traverse
David K. Traverse
Chief Financial 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 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 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(s) 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 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 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(s) 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: November 1, 2024

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David K Traverse, 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 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 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 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 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(s) 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: November 1, 2024

/s/ David K. Traverse
David K. Traverse
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 September 30, 2024, 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 K Traverse
Chief Financial Officer

Date: November 1, 2024

Date: November 1, 2024

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.
