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

FORM 10-K

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

For the fiscal year ended December 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 fiscal year ended December 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 ofc Incorporation or Organization)	(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	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	AWRE	The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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, a 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_X_ Smaller Reporting Company_X_ 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

As of June 30, 2023, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant, based on the closing sale price as reported on the Nasdaq Global Market, was approximately $22,549,368.

The number of shares outstanding of the registrant's common stock as of March 1, 2024 was 21,084,964.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be delivered to shareholders in connection with the registrant's Annual Meeting of Shareholders to be held on June 7, 2024 are incorporated by reference into Part III of this Annual Report on Form 10-K.

AWARE, INC.
FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2023

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ITEM 1. BUSINESS

Company Overview

Aware, Inc. ("Aware", "we", "us", "our", or the "Company") is a leading, biometric identity platform company that validates and secures identities using proven and trusted adaptive biometrics. Aware's software offerings address the growing challenges that government and commercial enterprises face in knowing, authenticating and securing individuals through frictionless and highly secure user experiences. Aware's algorithms are based on diverse data sets from around the world and can be tailored to the unique security and requirements of each customer. 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.

Aware was incorporated in Massachusetts in 1986. We are headquartered at 76 Blanchard Road in Burlington, Massachusetts, and our telephone number at this address is (781) 687-0300. Our website address is www.aware.com. The information on our website is not part of this Form 10-K, unless expressly noted. Our stock is traded on the Nasdaq Global Market under the symbol AWRE.

Principal Products & Services

We sell a broad range of biometrics software products and solutions that perform functions to address our customers' desired use cases where they are addressing improved security, data protection, compliance and improved ROI and efficiencies including:

1. Enrollment of their workforce for benefits and background checks
2. Enrollment of their customers for a better experience or improved customer service and security
3. Law enforcement processing and forensic analysis
4. Trusted remote enrollment where travel or direct contact is not viable
5. Trusted transactions and authentication that enable physical and logical access control

Our biometrics software solutions are built upon robust componentized products that are customer configurable to give them control so they can uniquely address their specific customers' expectations. These solutions and services facilitate customers with an opportunity for a faster go-to-market process to help reduce their development times and exposure to software support and maintenance risks. Our solutions and services are described below.

Integrated Framework and Platform Solutions and Services

Knomi® Mobile Framework

The Knomi mobile biometric authentication framework is built on our hardened biometric SDK components, which are optimized to operate on mobile devices, and a server that together enable strong, multi-factor, password-free authentication from a mobile device using biometrics. Knomi offers multiple biometric modality options, including facial recognition, and voice authentication as means to enroll, onboard or authenticate. Knomi software components can be used in different combinations and configurations to enable either a server-centric architecture, a web-based or a device-centric implementation. Knomi has primarily been sold as a fixed term license that is priced on a subscription-based model and is also available as a perpetual license. Going forward we plan to transition the Knomi offering to within the AwareID offering.

AwareABIS™

AwareABIS is an automated biometric identification system ("ABIS") used for large-scale biometric identification and deduplication using fingerprint, face, and iris recognition. AwareABIS is a highly scalable platform that performs one-to-many ("1:N") search or one-to-one ("1:1") match against large stores of biometrics and other identity data. Utilizing distributed computing, AwareABIS also enables complex filtering, and linking operations critical to data preparation and quality assurance functions, such as identity resolution and data deduplication of massive biometric databases (tens of millions of records). The platform is built upon several mature, high-performance, field-proven applications and algorithms from Aware. AwareABIS has primarily been sold as a fixed term license that is priced based on the size of the biometric system or on a subscription-based model.

AFIX Suite of Products

Aware's AFIX suite of products is used for small-scale law enforcement focused biometric identification. AFIX Tracker™ supports fingerprint, palmprint and latent print identification, designed to serve between 15,000 and 2 million identities. AFIX Tracker has several function-specific variants: Entry Only (LE), Latent Workstation (LW), Remote Workstation (RW), Facial Recognition (FR), and View & Print (VP). In addition to AFIX Tracker we also sell and offer AFIX Face, AFIX Verifier, AFIX Identifier, AFIX Comparator, AFIX Engine, and ANTE (AFIX NIST Transaction Engine). AFIX Tracker is ideal for crime scene investigation applications in low to moderate sized community populations. The product provides minutiae-based search capability and can be configured as either a standalone system, or for use with centralized, server-based data stores. AFIX Tracker has primarily been sold as a perpetual license and is also available as a fixed term license that is priced on a subscription-based model or the size of the biometric system.

BioSP™ - Biometric Services Platform

BioSP is a biometric integration platform-as-a-service ("iPaaS") used to enable biometric data processing and management functionality in a web services architecture. It provides workflow, data management and formatting, and other important utilities for large-scale fingerprint recognition, face recognition, and iris recognition systems. BioSP is well suited for applications that require the collection of biometrics throughout a distributed network, and subsequent aggregation, analysis, processing, distribution, matching, and sharing of data with other system components. BioSP is modular, programmable, scalable, and secure, capable of managing all aspects of transaction workflow, including messaging, submissions, responses, and logging. BioSP has primarily been sold as a perpetual license and is also available as a fixed term license that is priced on users, transactions, or enterprise wide.

WebEnroll

WebEnroll is a browser-based biometric enrollment and data management solution available as an enhanced version of BioSP™ that utilizes BioComponents™ for capture of biographic data, fingerprints and facial images in a browser. Each BioComponent performs advanced biometric image autocapture as well as capture device hardware abstraction. Once images are captured, they are submitted to BioSP, where configurable workflows and modular software applications are used for processing, routing, and storage of each transaction. WebEnroll has primarily been sold as a perpetual license and is also available as a fixed term license that is priced on users, transactions, or enterprise wide.

AwareID™

AwareID™ is a Software-as-a-Service (SaaS) offering that provides advanced identity verification and continuous authentication capabilities. Its modular design ensures flexibility and extensibility across various industries. AwareID continues to leverage Knomi to provide biometric face and voice matching (1:1 and 1:N), liveness-verification (presentation attack detection), and document validation. The platform uses proprietary Adaptive Authentication technology in cloud-based bundles which can be pre-configured and/or configured by the customer to provide comprehensive authentication functionality with situational awareness for onboarding, access control/management, and authentication of transactions. These services can be used discretely to enhance investments already in place or combined to provide higher functionality. The AwareID solution is built on open architecture and interfaces to maximize interoperability and connection to other biometric and/or digital identity applications and platforms. AwareID is typically provided as a SaaS offering with usage-based or transaction-based pricing, however it is also available on-premises when leveraging Knomi SDKs.

Software products

We sell a broad range of software components, or "building blocks", such as SDKs, APIs, and applications that customers use to streamline or develop their systems into more effective solutions. These building blocks enable important functions including:

1. Matching of biometric samples against biometric databases.
2. Enrollment, analysis, and processing of biometric images and identity data on workstations.
3. Image compression

BioComponents™ bundles our offerings as applications with a user interface. We also license our software unbundled as building blocks and have primarily sold these offerings as a perpetual license.

Historically, we sold our software products under perpetual or fixed-term licenses. With the introduction of AwareID, we have incorporated SaaS offerings into our product line-up. While we did not recognize material revenues from our SaaS offerings during 2022 and 2023, we continue to invest in and we expect SaaS to become a significant product offering moving forward.

Building Blocks: SDKs, APIs, Applications, and Subsystems

Biometric Search & Matching SDKs

Our SDKs consist of: i) multiple software libraries; ii) sample applications that show customers how to use the libraries; and iii) documentation. Customers use our SDKs to design and develop biometrics applications. Nexa™ is our line of biometric search and match SDKs, including Nexa|Fingerprint™, Nexa|Face™, Nexa|Iris™ and Nexa|Voice™. These products provide high-performance biometric algorithms for fingerprint, facial, iris and voice identification or authentication. The algorithms in these products convert images into biometric templates, which can then be compared to templates stored in databases to find matches.

In addition to the Nexa line, we also offer AwareXM™, an interoperable fingerprint matching SDK that provides MINEX-certified, INCITS 378-compliant fingerprint minutiae extraction, template generation, and fingerprint authentication.

Biometric Enrollment SDKs and APIs

Our suite of enrollment SDKs and APIs performs functions that are critical to biometric enrollment, including (i) image capture and hardware abstraction, (ii) image quality assurance, (iii) image compression, (iv) mobile enrollment, matching and liveness verification, and (v) fingerprint card processing.

Imaging products

In addition to our biometrics software products, we also sell products used in applications involving medical and advanced imaging. Our principal imaging product is Aware JPEG 2000, which is based on the JPEG2000 standard. The JPEG2000 standard is an image compression standard and coding system that was created by the Joint

Photographic Experts Group committee in 2000. Our JPEG2000 product is used to compress, store, and display images. Those images are typically medical images.

Software maintenance

We also provide and sell software maintenance to many of our customers who purchase our software products and solutions. Software maintenance has historically been made available by contracts that typically have a one-year term during which customers have the right to receive technical support and software updates for a fixed fee, if and when they become available. Software maintenance is also available as part of a subscription-based solution offering under which customers receive standard software maintenance plus access to upgrades and product enhancements.

Services

We provide a variety of program management and software engineering services, including: i) project planning and management; ii) system and architecture design; iii) software design, development, customization, configuration, and testing; and iv) software integration and installation. Services are sold in conjunction with our products and solutions and are provided for a fixed fee.

Service engagement deliverables may include: i) complete customer software solutions; ii) one or more subsystems comprised of software products that are integrated within a larger system; iii) custom-configured versions of existing software products; or iv) custom-designed software products. In some cases, the software resulting from service engagements may form the basis for new or improved Aware software solutions and/or products.

Our customers for services include: i) government agencies; ii) large multinational systems integrators; iii) smaller systems integrators with a particular market, technology or geographic focus; and iv) commercial partners or providers of products, solutions, and services for themselves or to their end customers. We provide services directly to end-users or indirectly to end-users through systems integrators or commercial entities or partners. When we provide services to systems integrators, they are often engaged with the end-user as a prime contractor and are responsible for delivery of a complete solution, in which case we typically serve as a subcontractor assigned a subset of the total scope of work.

The scope of our services projects varies. A small project might involve configuration and testing of a single software product, taking a small team one month or less. A large project might involve delivery of a more complex solution comprised of multiple products and subsystems, requiring a larger team to conduct program and project management, system design, software customization and integration, and taking up to one year or more. Some projects are followed by subsequent follow-on projects that serve to change or extend the features and functionality of the initial system.

Distribution Methods

We sell our products, solutions and services through three principal channels of distribution:

i) Systems integrator channel – we sell to systems integrators that incorporate our software products and solutions into biometric systems that are delivered primarily to government end users.

ii) Direct channel – we sell directly to government and as well as commercial customers.

iii) OEM and VAR channel – we sell to hardware and software solution providers that incorporate our software products into their products for resale or use in their solution offerings or integrated software products.

Major Customers

All of our revenue in 2023 and 2022 was derived from unaffiliated customers. One customer represented 17% of total revenue in 2023 and no customer represented 10% or more of total revenue in 2022. As of December 31, 2023, one customer represented 16% of our net accounts receivable and unbilled receivables and as of December 31, 2022, two customers combined for 37%, of our net accounts receivable and unbilled receivables.

Competitive Business Conditions

A significant number of established companies have developed or are developing and marketing software and hardware for biometrics products and applications that currently compete with or will compete directly with our offerings. We believe that additional competitors will enter the biometrics market and become significant long-term competitors, and that, as a result, competition will increase. Companies competing with us may introduce solutions that are competitively priced, have increased performance or functionality or incorporate technological advances we have not yet developed or implemented. Our current principal competitors include:

- Diversified technology providers that offer integrated biometrics solutions to governments, law enforcement agencies and other organizations. This group of competitors includes companies such as Idemia, Thales, and NEC.
- Component providers that offer biometrics software and hardware components for fingerprint, facial, iris and voice biometric identification. This group of competitors includes companies such as FaceTec, iProov, and Innovatrics.

We expect competition to intensify in the near term in the biometrics market. Many current and potential competitors have substantially greater financial, marketing, and research resources than we have. Moreover, low-cost foreign competitors have demonstrated a willingness to sell their products at significantly reduced prices. To compete effectively in this environment, we must continually develop and market new and enhanced solutions and technologies at competitive prices and must have the resources available to invest in significant research and development activities. Our failure to compete successfully could cause our revenues and market share to decline.

Intellectual Property

We rely on a combination of nondisclosure agreements and other contractual provisions, as well as patent, trademark, trade secret and copyright law to protect our proprietary rights. We have an active program to protect our proprietary technology through the filing of patents. As of December 31, 2023, we had 76 U.S. patents and 4 foreign patents and approximately 7 pending patent applications. Our patents and patent applications pertain primarily to biometrics and imaging compression. We have let certain patents expire that are not aligned with our business and are not relevant to our current or future activities. Our patents have expiration dates ranging from 2024 to 2041.

Although we have patented certain aspects of our technology, we rely primarily on trade secrets to protect our intellectual property. We attempt to protect our trade secrets and other proprietary information through agreements with our customers, suppliers, employees and consultants, and through security measures. Each of our employees is required to sign a non-disclosure agreement. Although we intend to protect our rights vigorously, we cannot guarantee that these measures will be successful. In addition, effective intellectual property protection may be unavailable or limited in certain foreign countries.

Third parties may assert exclusive patent, copyright and other intellectual property rights to technologies that are important to us. We may receive claims from third parties suggesting that we may be obligated to license such intellectual property rights. If we were found to have infringed any third party's patents, we could be subject to substantial damages or an injunction preventing us from conducting our business.

Employees

As of December 31, 2023, we employed 73 people, all based in the U.S. including 39 in engineering and research, 22 in sales and marketing, and 12 in finance and administration. Of these employees, 54 were based in Massachusetts and 19 were based outside of Massachusetts. None of our employees are represented by a labor union. We consider our employee relations to be good.

We believe that our future success will depend in large part on the service of our technical, sales, marketing and senior management personnel and upon our ability to retain highly qualified technical, sales and marketing and managerial personnel. We cannot guarantee that we will be able to retain our key managers and employees or that we will be able to attract and retain additional highly qualified personnel in the future.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on or through our website at www.aware.com as soon as reasonably practicable after such reports are filed with, or furnished to, the Securities and Exchange Commission ("the SEC"). The SEC also maintains a website, www.sec.gov, that contains reports and other information regarding issuers that file electronically with the SEC.

Copies of our (i) Corporate Governance Principles, (ii) charters for the Audit Committee, Compensation Committee, and Nominating Committee, and (iii) Code of Ethics are available in the Investor Relations section of our website at www.aware.com.

ITEM 1A. RISK FACTORS

Our operating results may fluctuate significantly from period-to-period and are difficult to predict.

Individual orders can represent a meaningful percentage of our revenues and operating results in any single period and the timing of the receipt of those orders is difficult to predict. The failure to close an order or the deferral or cancellation of an order can result in revenue and net income shortfalls for that quarter. We base our current and future expense levels on our internal operating plans and sales forecasts, and our operating costs are to a large extent fixed. As a result, we may not be able to sufficiently reduce our costs in any quarter to adequately compensate for an unexpected near-term shortfall in revenues, and even a small shortfall could disproportionately and adversely affect our financial results for that quarter.

Our financial results may be negatively affected by a number of factors as well, including the following:

- write-offs of investments in private companies;
- any lack or reduction of government funding and the political, budgetary and purchasing constraints of government customers who purchase products and services directly or indirectly from us;
- the terms of customer contracts that affect the timing of revenue recognition;
- the size and timing of our receipt of customer orders;
- significant fluctuations in demand for our products and services;
- any loss of a key customer or one of its key customers;
- new competitors entering our markets, or the introduction of enhanced solutions from new or existing competitors;
- competitive pressures on selling prices;
- any cancellations, or delays of orders or contract amendments by government customers;
- higher than expected costs, asset write-offs, and other one-time financial charges; and
- general economic trends and other factors.

As a result of these factors, we believe that period-to-period comparisons of our revenue levels and operating results are not necessarily meaningful. You should not rely on our quarterly or annual revenue and operating results to predict our future performance.

We derive a significant portion of our revenue directly or indirectly from government customers, and our business may be adversely affected by changes in the contracting or fiscal policies of those governmental entities.

We derive a significant portion of our revenue directly or indirectly from federal, international, state and local governments. We believe that the success and growth of our business will continue to depend on government customers purchasing our products and services either directly from us or indirectly through our channel partners. Changes in government contracting policies or government budgetary constraints may adversely affect our financial performance. Among the factors that could adversely affect our business are:

- changes in fiscal policies or decreases in available government funding,
- changes in government funding priorities;
- changes in government programs or applicable requirements;

- the adoption of new laws or regulations or changes to existing laws or regulations relating to the provision of biometrics services or the use of biometric data;
- changes in political or social attitudes with respect to security and defense issues;
- changes in audit policies and procedures of government entities;
- potential delays or changes in the government appropriations process; and
- delays in the payment of our invoices by government payment offices.

These and other factors could cause government customers or our channel partners to reduce purchases of products and services from us, which would have a material adverse effect on our business, financial condition and operating results.

We derive a significant portion of our revenue from third party channel partners.

Our future results depend upon the continued successful distribution of our products through a channel of systems integrators and OEM partners. Systems integrators, including VARs, use our software products as a component of the biometrics systems they deliver to their customers. OEMs embed our software products in their technology devices or software products. These channel partners typically sell their products and services to government customers.

Our failure to effectively manage our relationships with these third parties could impair the success of our sales, marketing and support activities. Moreover, the activities of these third parties are not within our direct control. The occurrence of any of the following events could have a material adverse effect on our business, financial condition and operating results:

- a reduction in sales efforts by our partners;
- the failure of our partners to win awards in which our products are used;
- a reduction in technical capabilities or financial viability of our partners;
- a misalignment of interest between us and any of our partners;
- the termination of our relationship with a major systems integrator or OEM; or
- any adverse effect on a partner's business related to competition, pricing or other factors.

A significant commercial market for biometrics technology may not develop, and, even if it does, there can be no assurance our biometrics technology will be successful.

A component of our strategy to grow our revenue includes expansion into commercial markets. To date, biometrics technology has received only limited acceptance and slow adoption in these markets. Although the recent appearance of biometric readers on popular consumer products, such as smartphones, has increased interest in biometrics as a means of authenticating and/or identifying individuals, commercial markets for biometrics technology are still developing and evolving. Biometrics-based solutions compete with more traditional security methods including keys, cards, personal identification numbers, passwords and security personnel. Acceptance of biometrics as an alternative to such traditional methods depends upon a number of factors including: i) the performance and reliability of biometric solutions; ii) costs involved in adopting and integrating biometric solutions; iii) public concerns regarding privacy; and iv) potential privacy legislation.

For these reasons, we are uncertain whether there will be significant demand for biometrics technology from commercial markets. Moreover, even if there is significant demand, there can be no assurance that our biometrics products will achieve market acceptance.

If the biometrics market does not experience significant growth or if our products do not achieve broad acceptance both domestically and internationally, we may not be able to grow our business.

Our revenues are derived primarily from sales of biometrics products and services. Our expectations regarding the future growth rate or the size of the biometrics market may not be accurate. The expansion of the biometrics market and the market for our biometrics products and services depends on a number of factors, such as:

- the cost, performance and reliability of our products and services and the products and services offered by our competitors;
- the continued growth in demand for biometrics solutions within the government and law enforcement markets, as well as the development and growth of demand for biometric solutions in markets outside of government and law enforcement;
- customers' perceptions regarding the benefits of biometrics solutions;
- public perceptions regarding the intrusiveness of these solutions and the manner in which organizations use the biometric information collected;
- public perceptions regarding the confidentiality of private information;
- proposed or enacted legislation related to privacy of biometric information;
- customers' satisfaction with biometrics solutions; and
- marketing efforts and publicity regarding biometrics solutions.

Even if biometrics solutions gain wide market acceptance, our solutions may not adequately address market requirements and may not continue to gain market acceptance. If biometrics solutions generally or our solutions specifically do not gain wide market acceptance, we may not be able to achieve our anticipated level of growth and our revenues, and our results of operations would be adversely affected.

We face intense competition from other biometrics solutions providers.

A significant number of established companies have developed or are developing and marketing software and hardware for biometrics products and applications that currently compete with or will compete directly with our offerings. We believe that additional competitors will enter the biometrics market and become significant long-term competitors, and that, as a result, competition will increase. Companies competing with us may introduce solutions that are competitively priced, have increased performance or functionality or incorporate technological advances we have not yet developed or implemented. Our current principal competitors include:

- Diversified technology providers that offer integrated biometrics solutions to governments, law enforcement agencies and other organizations. This group of competitors includes companies such as Idemia, Thales, and NEC.
- Component providers that offer biometrics software and hardware components for fingerprint, facial, iris and voice biometric identification. This group of competitors includes companies such as FaceTec, iProov, and Innovatrics.

We expect competition to intensify in the near term in the biometrics market. Many current and potential competitors have substantially greater financial, marketing, and research resources than we have. Moreover, low-cost foreign competitors from developing economies and other countries have demonstrated a willingness to sell their products at significantly reduced prices. To compete effectively in this environment, we must continually develop and market new and enhanced solutions and technologies at competitive prices and must have the resources available to invest in significant research and development activities. Our failure to compete successfully could cause our revenues and market share to decline.

The biometrics industry is characterized by rapid technological change and evolving industry standards, which could render our existing products obsolete.

Our future success will depend upon our ability to develop and introduce a variety of new capabilities and enhancements to our existing products in order to address the changing and sophisticated needs of the marketplace. Frequently, technical development programs in the biometrics industry require assessments to be made of the future direction of technology, which is inherently difficult to predict. Delays in introducing new products and enhancements, the failure to choose correctly among technical alternatives or the failure to offer innovative products or enhancements at competitive prices may cause customers to forego purchases of our products and purchase our competitors' products. We may not have adequate resources available to us or may not adequately keep pace with appropriate requirements in order to effectively compete in the marketplace.

Our software products may have errors, defects or bugs, which could result in delayed or lost revenue, expensive correction, liability to our customers, and claims against us.

Despite testing, complex software products such as ours may contain errors, defects, or bugs, which may only be discovered after they have been installed and used by our customers. Defects in the products that we develop and sell to our customers could require expensive corrections and result in delayed or lost revenue, adverse customer reaction and negative publicity about us or our products and services. Customers who are not satisfied with any of our products may also bring claims against us for damages, which, even if unsuccessful, would likely be time-consuming to defend, and could result in costly litigation and payment of damages. Such claims could harm our reputation, financial results and competitive position.

Our business may be adversely affected by our use of open-source software.

The software industry is making increasing use of open-source software in the development of products. We also license and integrate certain open-source software components from third parties into our software. Open-source software license agreements may require that the software code in these components or the software into which they are integrated be freely accessible under open-source terms. Many features we may wish to add to our products in the future may be available as open-source software and our development team may wish to make use of this software to reduce development costs and speed up the development process. While we carefully monitor the use of all open-source software and try to ensure that no open-source software is used in such a way as to require us to disclose the source code to the related product, such use could inadvertently occur. If we were required to make our software freely available, our business could be seriously harmed.

We rely on third-party software to develop and provide our solutions and significant defects in third-party software could harm our business.

We rely on software licensed from third parties to develop and offer some of our solutions. In addition, we may need to obtain future licenses from third parties to use software or other intellectual property associated with our solutions. We cannot assure you that these licenses will be available to us on acceptable terms, without significant price increases or at all. Any loss of the right to use any such software or other intellectual property required for the development and maintenance of our solutions could result in delays in the provision of our solutions until equivalent technology is either developed by us or, if available from others, is identified, obtained, and integrated, which could harm our business. Any errors or defects in third-party software could result in errors or a failure of our solutions, which could harm our business.

We rely on third-party relationships.

We have a number of relationships with third parties that are significant to our sales, marketing, support, and product development efforts, including hosting facilities for our cloud-based services. We rely on software and hardware vendors, large system integrators, and technology consulting firms to supply marketing and sales opportunities for our direct sales force and to strengthen our offerings using industry-standard tools and utilities. We also have relationships with third parties that distribute our products. There can be no assurance that these companies, many of which have far greater financial and marketing resources than us, will not develop or market offerings that compete with ours in the future or will not otherwise end or limit their relationships with us. Further, the use of third-party hosting facilities requires us to rely on the functionality and availability of the third parties' services, as well as their data security, which despite our due diligence, may be or become inadequate.

Part of our future business is dependent on market demand for, and acceptance of, the cloud-based model for the use of software.

We expect to derive a growing percentage of our revenue from the sale of cloud-based services. As a result, widespread acceptance and use of the cloud-based business model is critical to our future growth and success. Under the perpetual or fixed term license model for software procurement, users of the software typically run applications on their hardware. Because companies are generally predisposed to maintaining control of their IT systems and infrastructure, there may be resistance to the concept of accessing the functionality that software provides as a service through a third party. If the market for cloud-based, software solutions ceases to grow or grows slower than we currently anticipate, demand for our services could be negatively affected.

Our operational systems, networks and products are subject to continually evolving cybersecurity or other technological risks, which could result in the disclosure of our or our customers' confidential information, damage to our reputation, additional costs, regulatory penalties and financial losses.

Our products, services and systems may be used in critical company, customer or third-party operations, or involve the storage, processing and transmission of sensitive data, including valuable intellectual property, other proprietary or confidential data, regulated data, and personal information of employees, customers and others. Successful breaches, employee malfeasance, or human or technological error could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of company, customer, or other third party data or systems; theft of sensitive, regulated, or confidential data including personal information and intellectual property; the loss of access to critical data or systems through ransomware, destructive attacks or other means; and business delays, service or system disruptions or denials of service.

If we or third parties with which we do business were to fall victim to successful cyber-attacks or experience other cybersecurity incidents, including the loss of individually identifiable customer or other sensitive data, we may incur substantial costs and suffer other negative consequences, which may include remediation costs, such as liability for stolen assets or information, repairs of system damage, and incentives to customers or business partners in an effort to maintain relationships after an attack as well as litigation and legal risks, including regulatory actions by state and federal regulators.

Our intellectual property is subject to limited protection.

Because we are a technology provider, our ability to protect our intellectual property and to operate without infringing the intellectual property rights of others is critical to our success. We regard our technology as proprietary. We rely on a combination of U.S. and worldwide patent, trade secret, copyright, and trademark law as well as confidentiality agreements to protect our proprietary technology. We cannot assure you that we will be able to enforce the patents we own against third parties. Some foreign countries do not currently provide effective legal protection for intellectual property and our ability to prevent the unauthorized use of our products in those countries is therefore limited. Despite our efforts, these measures can only provide limited protection. Unauthorized third parties may try to copy or reverse engineer portions of our products or otherwise obtain and use our intellectual property. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology, and our business would thus be harmed.

In the future, we may be involved in legal action to enforce our intellectual property rights relating to our patents, copyrights or trade secrets. Any such litigation could be costly and time-consuming for us, even if we were to prevail. Moreover, even if we are successful in protecting our proprietary information, our competitors may independently develop technologies substantially equivalent or superior to our technology. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property or otherwise gaining access to our technology. The misappropriation of our technology or the development of competitive technology could seriously harm our business.

We may be sued by third parties for alleged infringement of their proprietary rights.

We may be subject to claims that our technology and products infringe the intellectual property rights of others. A large and increasing number of participants in the technology industry, including companies known as non-practicing entities, have applied for or obtained patents. Some of these patent holders have demonstrated a readiness to commence litigation based on allegations of patent infringement. Third parties have asserted against us in the past and may assert against us in the future patent, copyright and other intellectual property rights to technologies that are important to our business.

Intellectual property rights can be uncertain and involve complex legal and factual questions. Moreover, intellectual property claims, with or without merit, can be time-consuming and expensive to litigate or settle, and could divert management attention away from the execution of our business plan. If we were found to have infringed the proprietary rights of others, we could be subject to substantial damages or an injunction preventing us from conducting our business.

If we are unable to attract and retain key personnel, our business could be harmed.

If any of our key employees were to leave, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience. Our employment relationships are at-will and we have had key employees leave in the past. We cannot assure you that one or more key employees will not leave in the future. We intend to continue to hire additional highly qualified personnel, including software engineers and sales personnel, but may not be able to attract, assimilate or retain qualified personnel in the future. Any failure to attract, integrate, motivate and retain these employees could harm our business.

Our business may be affected by government laws and regulations.

Extensive regulation under federal, state, and foreign law has adversely affected us and could further adversely affect us in ways that are difficult for us to predict. More specifically, we are subject to regulatory environment changes regarding privacy and data protection that could have a material impact on our results of operations. These regulatory changes may potentially involve new regulatory issues/requirements such as the EU General Data Protection Regulation ("GDPR"), the California Privacy Rights Act ("CPRA") and other comprehensive state privacy laws, the Illinois Biometric Privacy Act, Texas Statute on the Capture or Use of Biometric Identifier, State of Washington H.B. 1493, Brazil's General Data Protection Law ("LGPD") and any other state, federal or foreign regulations governing the collection, use and storage of biometric data. The potential costs of compliance with or imposed by new/existing regulations and policies that are applicable to us, or fines and penalties to which we may become subject if we fail to comply with those regulations and polices, may affect the use of our products and services and could have a material adverse impact on our results of operations.

In addition, our business may also be adversely affected by: i) the imposition of tariffs, duties and other import restrictions on goods and services we purchase from non-domestic suppliers; or ii) the imposition of economic sanctions on existing or potential customers or suppliers, or iii) by the imposition of export restrictions on products we sell internationally. Changes in current or future laws or regulations, in the United States or elsewhere, could seriously harm our business.

Adverse economic conditions could harm our business.

Unfavorable changes in economic conditions, including recessions, inflation, turmoil in financial markets, changes caused by global crisis such as a pandemic, the ongoing conflict between Russia and Ukraine and resulting economic sanctions, conflicts in the Middle East, or other changes in economic conditions, could harm our business, results of operations, and financial conditions as a result of:

- reduced demand for our products;
- increased risk of order cancellations or delays;
- increased pressure on the prices for our products;
- greater difficulty in collecting accounts receivable;
- risks to our liquidity, including the possibility that we might not have access to our cash when needed; and
- rising interest rates, recessionary cycles, and inflationary pressures, that could make our products more expensive or could increase our costs.
- health epidemics, impacting the markets and communities in which we, our partners and clients operate.

We are unable to predict whether or when any such adverse economic conditions could occur in the U.S. or other countries; and if they do occur, we cannot predict the timing, duration, or severity.

We may not realize the anticipated benefits of our acquisitions or investments.

We may make acquisitions of or investments in companies that offer complementary products, services, and technologies, such as our acquisition of FortressID in December of 2021 and our investment in Omlis Limited. The ultimate success of our acquisitions depends, in part, on our ability to realize the anticipated synergies, cost savings and growth opportunities from integrating acquired businesses or assets into our existing businesses. However, the acquisition and successful integration of independent businesses or assets is a complex, costly and time-consuming process, and the benefits we realize may not exceed the costs of the acquisition. The risk and difficulties associated with acquiring and integrating companies and other assets include, among others, difficulties assimilating the operations and personnel of acquired companies, challenges in realizing the value of the acquired assets relative to the price paid, distraction of management from our ongoing businesses and potential product disruptions associated with the sale of the acquired company's products. These factors could have a material adverse effect on our business, financial condition, operating results and cash flows. Additionally, our acquisitions have provided, in the case of Fortress ID, and may in the future provide for future contingent acquisition payments, based on the achievement of performance targets or milestones. These arrangements can impact or restrict integration of acquired businesses and can result in disputes, including litigation. In addition, there is uncertainty regarding the realizability of investments in private companies. Additionally, regardless of the form of consideration we pay, acquisitions and investments could negatively impact our operations and earnings per share.

We may have additional tax liabilities.

We are subject to income taxes in the United States. Significant judgments are required in determining our provisions for income taxes. In the course of preparing our tax provisions and returns, we must make calculations where the ultimate tax determination may be uncertain. Our tax returns are subject to examination by the Internal Revenue Service ("IRS") and state tax authorities. There can be no assurance as to the outcome of these examinations. If the ultimate determination of taxes owed is for an amount in excess of amounts previously accrued, our operating results, cash flows, and financial condition could be adversely affected.

The market price of our common stock has been and may continue to be subject to wide fluctuations, and this may make it difficult for shareholders to resell the common stock when they want or at prices they find attractive.

The market price of our common stock, like that of other technology companies, is volatile and is subject to wide fluctuations in response to a variety of factors, including:

- variations in operating results;
- announcements of technological innovations or new products by us or our competitors,
- changes in customer relationships, such as the loss of a key customer;
- recruitment or departure of key personnel;
- trading volume of our common stock;
- price and volume fluctuation in the overall stock market;
- corporate actions we may initiate, such as acquisitions, stock sales or repurchases, dividend declarations, or corporate reorganizations.

Our stock price may also be affected by broader market trends unrelated to our performance. As a result, purchasers of our common stock may be unable at any given time to sell their shares at or above the price they paid for them. Moreover, companies that have experienced volatility in the market price of their stock often are subject to securities class action litigation. If we were the subject of such litigation, it could result in substantial costs and divert management's attention and resources.

If we are unable to maintain effective internal controls over financial reporting, investors could lose confidence in the reliability of our financial statements, which could result in a decline in the price of our common stock.

As a public company, we are required to enhance and test our financial, internal and management control systems to meet obligations imposed by the Sarbanes-Oxley Act of 2002. Consistent with the Sarbanes-Oxley Act and the rules and regulations of the SEC, management's assessment of our internal controls over financial reporting is required in connection with our filing of our Annual Report on Form 10-K. If we are unable to identify, implement and conclude that we have effective internal controls over financial reporting, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our common stock. Our assessment of our internal controls over financial reporting may also uncover weaknesses or other issues with these controls that could also result in adverse investor reaction.

We must make judgments in the process of preparing our financial statements.

We prepare our financial statements in accordance with generally accepted accounting principles and certain critical accounting policies that are relevant to our business. The application of these principles and policies requires us to make significant judgments and estimates. The most significant estimates included in the financial statements pertain to revenue recognition, allowance for credit losses, valuation of acquired assets and assumed liabilities in business combinations, valuation of contingent acquisition payments, valuation of investment in note receivable, goodwill and long-lived asset impairment and valuation allowance for deferred income tax assets. Actual results could differ from those estimates. In the event that our judgments and estimates differ from actual results, we may have to change them, which could materially affect our financial position and results of operations.

Moreover, accounting standards have been subject to rapid change and evolving interpretations by accounting standards setting organizations over the past few years. The implementation of new accounting standards requires us to interpret and apply them appropriately. If our current interpretations or applications are later found to be incorrect, we may have to restate our financial statements and the price of our stock could decline.

Our officers, directors and holders of 5% of outstanding shares together beneficially own a significant portion of our common stock and, as a result, can exercise control over stockholder and corporate actions.

Our officers and directors and the holders of at least 5% of our outstanding shares currently beneficially own approximately 48% of our outstanding common stock, and 60% on a fully diluted basis assuming the exercise of both vested and unvested options. As such, they have a significant influence over most matters requiring approval by stockholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control, which in turn could have a material adverse effect on the market price of our common stock or prevent stockholders from realizing a premium over the market price for their shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 1C. CYBERSECUTIY

Cybersecurity Risk Management and Strategy

To help protect the Company from a major cybersecurity incident that could have a material impact on operations or the Company’s financial results, the Company has implemented policies, programs and controls, including technology investments that focus on cybersecurity incident prevention, identification and mitigation. The steps the Company takes to reduce its vulnerability to cyberattacks and to mitigate impacts from cybersecurity incidents include, but are not limited to: establishing information security policies and standards, implementing information protection processes and technologies, monitoring its information technology systems for cybersecurity threats, assessing cybersecurity risk profiles of key third-parties, implementing cybersecurity training and collaborating with public and private organizations on cyber threat information and best practices.

The Company has implemented a Cybersecurity Policy (the “Policy”) that provides a framework for responding to cybersecurity incidents. The Policy includes requirements for incident disclosure and reporting, protocols for incident evaluation, including the use of third-party service providers and partners, and processes for notification and internal escalation of information to the Company’s senior management, incident response team, and Board of Directors (the "Board") and appropriate Board committees. The Policy also addresses requirements for the Company’s external reporting obligations. The Plan is reviewed and updated, as necessary but no less frequently than once a year, under the leadership of the Company’s Chief Security Officer (“CSO”).

Although the Company did not experience a material cybersecurity incident during the year ended December 31, 2023, the scope and impact of any future incident cannot be predicted. See “Item 1A. Risk Factors” for more information on the Company’s cybersecurity-related risks.

Governance

The Board of Directors, primarily through its Audit Committee, oversees the Company’s cybersecurity program. Management regularly reports to the Audit Committee on the current state of the Company’s cybersecurity program, including the current threat landscape, cybersecurity risks, and any significant incidents. The Audit

Committee may provide updates to the Board on the substance of these reports and any recommendations for improvements that the Audit Committee deems appropriate.

At the management level, the Company has established written policies and procedures to ensure that significant cybersecurity incidents are immediately investigated, addressed through the coordination of various internal departments, and publicly reported, to the extent required by applicable law.

ITEM 2. PROPERTIES

We lease approximately 20,730 rentable square feet in Burlington, Massachusetts, which we use as our headquarters. We believe that this facility is adequate for our current needs and for the foreseeable future. See Note 9 to our audited financial statements included elsewhere in this Annual Report on Form 10-K for more information regarding our leases.

ITEM 3. 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 likely to materially impact us or our business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is the only class of stock we have outstanding, and it trades on the Nasdaq Global Market under the symbol AWRE.

As of March 1, 2024, we had approximately 64 shareholders of record. This number does not include shareholders who hold our shares in a "nominee" or "street" name. We paid no dividends in 2023 or 2022. We anticipate that we will continue to reinvest any earnings to finance our future operations although we may also pay special cash dividends if our Board of Directors deems it appropriate.

Share repurchase activity during the three months ended December 31, 2023 was as follows:

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased		(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)		(d) Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
October 1 through 31, 2023	22,530	$	1.49	22,530	$	8,224,068
November 1 through 30, 2023	5,259	$	1.55	5,259	$	8,182,412
December 1 through 31, 2023	—	$	—	—	$	8,182,412
Total	27,789	$	1.50	27,789		

(1) All reported purchases were made pursuant to a repurchase plan announced by the Company on March 22, 2022 (the "2022 Repurchase Plan"). Pursuant to the 2022 Repurchase Plan, the Company was authorized to repurchase up to $10,000,000 of its common stock from time to time through December 31, 2023.

On November 30, 2023, we announced that our Board of Directors had approved the extension of the 2022 Repurchase Plan through December 31, 2025.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following table sets forth, for the years indicated, certain line items from our consolidated statements of operations stated as a percentage of total revenue:

	Year ended December 31,	
Revenue:	**2023**	**2022**
Software licenses	52%	46%
Software maintenance	42	45
Services and other	6	9
Total revenue	100	100
Costs and expenses:		
Cost of services and other	7	8
Research and development	50	57
Selling and marketing	43	43
General and administrative	36	40
Loss on write-off of note receivable	15	-
Fair value adjustment to contingent acquisition payment	(4)	(1)
Gain on sale of property and equipment	-	(35)
Total costs and expenses	147	112
Operating loss	(47)	(12)
Interest and other income	7	3
Loss before provision for income taxes	(40)	(9)
Provision for income taxes	-	-
Net loss	(40%)	(9%)

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 used revenue and operating loss to summarize financial results over the past two years as we believe these measurements are the most meaningful way to understand our operating performance.

<u>2023 compared to 2022</u>

Revenue and operating loss in 2023 were $18.2 million and $8.5 million, respectively, which compared to revenue and operating loss in 2022 of $16.0 million and $2.2 million, respectively.

Higher revenue in 2023 as compared to 2022 was primarily due to increases in revenue from our perpetual software licenses of $1.4 million, software subscriptions of $0.7 million and software maintenance of $0.6 million, which was partially offset by a decrease in services and other revenue of $0.5 million. Higher operating loss in 2023 as compared 2022 was primarily due to a $5.7 million gain we recorded related to the sale of our corporate office in 2022, a negative adjustment of $2.7 million to a note receivable, and year over year increase in sales and marketing expense of $1.0 million, which was partially offset by increased revenue of $2.2 million and a 2023 fair value adjustment to contingent consideration of $0.8 million.

Software License Revenue

Software license revenue consists 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 increased 30% from $7.4 million in 2022 to $9.5 million in 2023. As a percentage of total revenue, software license revenue increased from 46% in 2022 to 52% in 2023. The $2.1 million increase in software license revenue was due primarily to an increase of $1.5 million in perpetual licenses sales and $0.7 million in subscription-based license sales. For the years ended December 31, 2023 and 2022, we generated a de minimis amount of revenue from SaaS contracts. With the introduction of AwareID, we have incorporated SaaS offerings into our product line-up. While we did not recognize material revenues from our SaaS offerings during 2023 or 2022, we expect SaaS to become a significant product offering moving forward.

Software Maintenance Revenue

Software maintenance revenue 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 8% from $7.1 million in 2022 to $7.7 million in 2023. As a percentage of total revenue, software maintenance revenue decreased from 44% in 2022 to 42% in 2023. The dollar increase in software maintenance revenue was primarily due to software maintenance related to perpetual license sales during the year ended December 31, 2023.

A majority of our customers purchase software maintenance contracts when they initially purchase software licenses. Since our software is used in active biometrics systems, many of our customers continue to renew their maintenance contracts in subsequent years while systems remain operational.

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 fluctuate when we commence new projects and/or when we complete projects that were started in previous periods.

Services and other revenue decreased 31% from $1.5 million in 2022 to $1.0 million in 2023. As a percentage of total revenue, services and other revenue decreased from 9% in 2022 to 6% in 2023. The dollar decrease in services and other revenue was primarily due to fewer active contracts with services during the period.

Cost of Services and Other Revenue

Cost of services and other revenue consists primarily of engineering costs to perform customer services projects. 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 $1.3 million in 2023 and 2022. When compared to services and other revenue, cost of services and other revenue as a percentage increased from 83% in 2022 to 122% in 2023, which resulted in gross margins decreasing from 17% in 2022 to gross margin loss 22% in 2023. The decrease in cost of services gross margins was primarily due to the profitability mix of customer projects.

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. Gross margins in these years reflect the profitability mix of customer projects. 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 are not included in research and development expense.

The classification of total engineering costs to research and development expense and cost of services for the years ended December 31, 2023 and 2022 was (in thousands):

	Years ended December 31,	
	2023	**2022**
Research and development expense	$ 9,124	$ 9,234
Cost of services and other	1,273	1,260
Total engineering costs	$ 10,397	$ 10,494

Total engineering costs decreased 1% from $10.5 million in 2022 to $10.4 million in 2023. As a percentage of total revenue, total engineering costs decreased from 66% in 2022 to 57% in 2023.

Our engineering headcount decreased slightly from 46 in 2022 to 42 in 2023. In addition, we recently took additional actions that reduced engineering headcount by approximately 10%. We believe our engineering organization is adequately staffed.

As we described in the Part I—Business of this Form 10-K, we intend to introduce new products that will allow us to offer more complete biometrics solutions. We believe this strategy will allow us to sell more software into biometrics systems projects in order to grow our revenue. Our preference is to develop such products internally, however to the extent we are unable to do that, we may purchase or license technologies from third parties. We anticipate that we will continue to focus our future research and development activities on enhancing existing products and developing new products. We expect research and development expenses to decrease in absolute dollars and as a percentage of revenues in the next year and then to increase in absolute dollars in proceeding years.

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 14% from $7.0 million in 2022 to $8.0 million in 2023. As a percentage of total revenue, selling and marketing expense was 43% in both 2023 and 2022. The dollar increase in selling and marketing expense was primarily due to increased bonus and commission expense of $0.6 million as a result of increased revenue, increased salary related expenses of $0.5 million, and increased software costs of $0.3 million, partially offset by a decrease in severance costs related to the termination of our Chief Commercial Officer position in 2022 of $0.2 million. We expect to be strategic in expanding our sales and marketing force to pursue future 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 $6.5 million in 2023 and 2022. As a percentage of total revenue, general and administrative expense decreased from 41% in 2022 to 36% in 2023. Fluctuations of general and administrative expenses are expected depending on specific activities in a period. We expect general and administrative expenses to increase in absolute dollars, but to decrease as a percentage of total revenue.

Fair value adjustment to note receivable

In March 2022, 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.

We recorded the fair value of the Note as $0 and $2.6 million as of December 31, 2023 and 2022, respectively. The significant decrease of $2.6 million to $0 reflects our evaluation of the impact of Omlis's liquidity issues as of December 31, 2023 along with the collectability of the Note. In addition, in January 2024, Omlis and MIRACL petitioned to enter the United Kingdom administration process, adding to our uncertainty regarding the recoverability of the Note's carrying value.

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 FortressID for a purchase price of $3.4 million, which consisted of $2.5 million of cash consideration and contingent acquisition payments which was fair valued at $0.9 million at the acquisition date. The maximum contingent acquisition payments at the time of the acquisition were $4.0 million, which consisted of a cash payment of up to $2.0 million for the achievement of set revenue targets in 2022 and an additional $2.0 million cash payment for the achievement of set revenue targets in 2023. No revenue targets were achieved in 2023 or 2022 and the earnout period was closed as of December 31, 2023. We recorded fair value adjustments of $0.8 million and $0.1 million, for the years ended December 31, 2023 and 2022, respectively.

Gain on sale of fixed assets

In July 2022, we sold our corporate headquarters in Bedford, MA for total proceeds of $8.9 million less a brokerage commission of $0.3 million. At the time of the sale, we disposed of all building and land related assets. The net book value of all assets disposed of was $2.9 million. We recorded a net gain on the sale of fixed assets of $5.7 million for the year ended December 31, 2022.

Interest Income

Interest income increased from $0.5 million in 2022 to $1.3 million in 2023. The dollar increase in interest income was primarily due to higher interest rates related to our marketable securities of U.S Treasury notes and bonds and corporate bonds as well as higher interest rates within our money market accounts.

Income Taxes

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.

Total income tax expense for the years ended December 31, 2023 and 2022 was $59 thousand and $49 thousand, respectively. The income tax expense for both years relates to limitations on the usage of net operating loss carryforwards generated in years beginning after December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

In recent years, we have financed the company with our cash and cash equivalent balances. Cash flows from operating, investing and financing activities are described below.

<u>Cash flows from operating activities</u>

A discussion of cash flow from operating activities for each of the last two years is as follows:

Year ended December 31, 2023. Cash provided by operating activities was $1.8 million in 2023. Cash provided by operations was primarily the result of a $2.4 million decrease in unbilled and accounts receivables, a $1.8 million increase in deferred revenue, add back of $1.5 million of non-cash stock-based compensation, $2.7 million write-off of Note, and $1.4 million related to a tax refund received as a result of our federal income tax carryback claim, which was partially offset by our $7.3 million net loss and a $0.8 million change in the fair value of contingent acquisition payments.

Year ended December 31, 2022. Cash used in operating activities was $5.0 million in 2022. Cash used by operations was primarily the result of $1.7 million of net loss plus the impact of a $5.7 million gain on the sale of fixed assets, which was partially offset by the add back of $1.7 million of non-cash stock-based compensation and $0.8 million for non-cash depreciation and amortization.

Cash flows from investing activities

A discussion of cash flow from investing activities for each of the last two years is as follows:

Year ended December 31, 2023. Investing activity cash used of $3.1 million was primarily the result of net purchases of marketable securities.

Year ended December 31, 2022. Investing activity cash used of $12.0 million was primarily the result of $17.3 million of net purchases of marketable securities, a $2.5 million investment in the Note, and $0.7 million of purchases of property and equipment, which was partially offset by $8.5 million in proceeds from the sale of our former corporate headquarters.

Cash flows from financing activities

A discussion of cash flow from financing activities for each of the last two years is as follows:

Year ended December 31, 2023. Financing activity cash used of $0.4 million was primarily the result of $0.5 million used to buy back stock under our stock repurchase program, which was partially offset by $0.1 million of proceeds from the issuance of common stock from stock grants.

Year ended December 31, 2022. Financing activity cash used of $1.2 million was primarily the result of $1.3 million used to buy back stock under our stock repurchase program and $26 thousand used to pay income taxes for employees who surrendered shares of common stock in connection with stock grants, which were partially offset by $0.2 million of proceeds from the issuance of common stock from stock grants.

At December 31, 2023, we had cash, cash equivalents, and marketable securities of $30.9 million. While we cannot assure you that we will not require additional financing, or that if needed 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 filing date of this Annual Report on Form 10-K 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 additional external financing.

As of December 31, 2023, our material cash requirements from known contractual and other obligations consisted of payments under the operating lease for our corporate headquarters, which we estimate will be approximately $0.7 million in each of 2024, 2025, 2026, and 2027, $0.8 million in 2028, and $3.5 million thereafter. See Note 9 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more information on our operating lease.

We enter into agreements in the ordinary course of business that require us: i) to perform under the terms of the contracts, ii) to protect the confidentiality of our customers' intellectual property, and iii) to indemnify customers, including indemnification against third party claims alleging infringement of intellectual property rights. We also have agreements with each of our directors and executive officers to indemnify such directors or executive officers, to the extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of such individual being or having been a director or officer of the Company.

Given the nature of the above obligations and agreements, we are unable to make a reasonable estimate of the maximum potential amount that we could be required to pay. Historically, we have not made any significant payments on the above guarantees and indemnifications and no amount has been accrued in the audited financial statements included elsewhere in this Annual Report on Form 10-K with respect to these guarantees and indemnifications.

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.

OFF-BALANCE SHEET ARRANGEMENTS

We do not currently have any arrangements with unconsolidated entities, such as entities often referred to as structured finance, special purpose entities, or variable interest entities which are often established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Accordingly, we are not exposed to any financing, liquidity, market or credit risk.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are discussed in Note 2, Summary of Significant Accounting Policies, to our financial statements, included elsewhere in this Annual Report. *We have identified the following as our significant accounting policies and estimates, which are defined as those that are reflective of significant judgments and uncertainties, are the most pervasive and important to the presentation of our financial condition and results of operations and could potentially result in materially different results under different assumptions, judgments or conditions.*

Revenue recognition. In accordance with Accounting Standards Codification ("ASC"), Topic 606, Revenue from Contracts with Customers ("ASC 606"), revenue is recognized when a customer obtains control of promised goods and services. The amount of revenue recognized reflects the consideration to which we expect to be entitled to receive in exchange for these goods and services. In addition, ASC 606 requires disclosures of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The core principle of the standard is that we should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. To achieve that core principle, 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. 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.

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

Also, with the delivery of our current products in a hosted environment with AwareID, we recognize revenue from our SaaS arrangements ratably over the subscription period.

Our arrangements 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. For variable fees arising from the client's purchase of additional usage of a previously delivered software license, we apply the sales and usage-based royalties guidance related to a license of intellectual property and recognizes the revenue in the period the underlying sale or usage occurs. 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 ASC 606-10-32-18. Our revenue arrangements are typically accounted for under such expedient, as payment is typically due within 30 to 60 days. As of December 31, 2023 and 2022, none of our contracts contained a significant financing component.

Goodwill and intangible assets impairment. Our goodwill and intangible assets result from our previous business acquisitions. Goodwill and intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually or as circumstances indicate their value may no longer be recoverable. We do not carry any intangible assets with indefinite useful lives other than goodwill. We perform our annual goodwill impairment test in the fourth quarter. To assess if goodwill is impaired, we first review qualitative factors to determine whether further impairment testing is necessary. If based on the qualitative assessment, we consider it more-likely-than-not that our reporting units fair value is less than its carrying amount, we perform a quantitative impairment test. An excess of carrying value over fair value would indicate that goodwill may be impaired.

We periodically reevaluate our business and have determined that we have one operating segment and one reporting unit. If our assumptions change in the future, we may be required to record impairment charges to reduce our goodwill carrying value.

If indicators of impairment are present, we compare the estimated undiscounted cash flows that the asset is expected to generate to the carrying value. The key assumptions of the cash flow model involve significant subjectivity. If such assets are impaired, an impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

As of December 31, 2023, we had $3.1 million of goodwill and $2.4 million of intangible assets. Impairment in the valuation of long-lived assets could materially impact our operating results and financial position. To date, there have been no impairments of goodwill or intangible assets.

Fair value of Note Receivable. We accounted for the Note at fair value under ASC 825 - Financial Instruments, whereby it was recorded at fair value at the time of purchase, as well as on an ongoing basis each reporting period until the Note is settled. The estimated fair value of the Note represents a Level 3 estimate in the fair value hierarchy due to the significant unobservable inputs used in determining the fair value.

As of December 31, 2023 and 2022, we had a fair value $0 and $2.6 million of the Note, respectively. The significant decrease of $2.6 million to $0 reflects our evaluation of the impact of Omlis's liquidity issues as of

December 31, 2023, along with the collectability of the Note. In addition, in January 2024, Omlis and MIRACL petitioned to enter the United Kingdom administration process, adding to our uncertainty regarding the recoverability of the Note's carrying value.

Fair value of Contingent Acquisition Payments. Our contingent acquisition payments are a result of our previous business acquisition of FortressID. We determined the fair value of contingent acquisition payments as part of the initial purchase price allocation and on an ongoing basis each reporting period until the contingent acquisition payments period was settled. The estimated contingent acquisition payments represent a Level 3 estimate in the fair value hierarchy due to the significant unobservable inputs used in determining the fair value.

As of December 31, 2023 and 2022, the contingent acquisition payments was $0 and $0.8 million, respectively. The earnout period has closed as of December 31, 2023 with none of the targets being met.

Stock-Based Compensation. We grant stock and stock options to our employees and directors. We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense over the applicable vesting period of the award on a straight-line basis.

For stock awards, we determine the fair value of the award by using 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.

For stock options, we use the Black-Scholes valuation model to estimate the fair value of the award. This valuation model takes into account the exercise price of the award, as well as a variety of significant assumptions. The assumptions used to estimate the fair value of stock options include the expected term, the expected volatility of our stock over the expected term, the risk-free interest rate over the expected term, and our expected annual dividend yield.

Income taxes. As part of the process of preparing our consolidated financial statements we are required to estimate our actual current tax expense. We must also estimate temporary and permanent differences that result from differing treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe recovery is not likely, we must establish a valuation allowance.

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.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets, and any valuation allowance recorded against our net deferred tax assets. Our deferred tax assets primarily relate to: i) research and development tax credit carryforwards; ii) net operating loss carryforwards; and iii) temporary differences that result from differing treatment of certain items for tax and accounting purposes. As of December 31, 2023, we had a total of $13.0 million of deferred tax assets and $0.5 million of deferred tax liabilities for which we have recorded a $12.5 million valuation allowance.

We will continue to assess the level of valuation allowance required in future periods. Should evidence regarding the realizability of tax assets change at a future point in time, the valuation allowance will be adjusted accordingly.

Allowance for credit losses. We make judgments as to our ability to collect outstanding and unbilled receivables to reflect any estimated credit losses. The allowance is evaluated each quarter on a customer by customer basis and considers historical write-off experience with each customer, the number of days that any delinquent invoices are past due, and an evaluation of the potential risk of loss associated with any delinquent accounts. If the judgments we make to determine the allowance for credit losses do not reflect the future ability to collect outstanding receivables, additional provisions for credit losses may be required.

RECENT ACCOUNTING PRONOUNCEMENTS

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 the Company's fiscal December 31, 2024 year-end 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 the Company's fiscal December 31, 2025 year-end, with early adoption permitted. We are assessing the impact of the standard on our consolidated financial statements.

In *June 2016,* the FASB issued ASU *No. 2016-13,* "*Financial Instruments - Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments*," which amends the guidance on the impairment of financial instruments. The amendments in this update remove the thresholds that entities apply to measure credit losses on financial instruments measured at amortized cost, such as loans, trade receivables, reinsurance recoverables, off-balance-sheet credit exposures, and held-to-maturity securities. Under current U.S. GAAP, entities generally recognize credit losses when it is probable that the loss has been incurred. The guidance removes all current recognition thresholds and introduces the new current expected credit loss ("CECL") model which will require entities to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that an entity expects to collect over the instrument's contractual life. The new CECL model is based upon expected losses rather than incurred losses. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after *December 15, 2022.* The Company adopted this standard as of January 1, 2023 and the adoption did not have a material impact on the Company's consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Aware, Inc.

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Aware, Inc. and its subsidiaries (the Company) as of December 31, 2023 and 2022, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2023, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters
The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) related to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition
As described in Note 2 to the financial statements, the Company recognizes revenue when a customer obtains control of promised goods and services. The amount of revenue recognized reflects the consideration which the Company expects to be entitled to receive in exchange for these goods and services. The Company offers customers the ability to purchase combinations of software licenses, software maintenance, and related professional services together in one arrangement. The Company must determine which promises are distinct performance obligations and allocate the revenue to the performance obligations that are considered distinct based upon their relative Stand-alone Selling Price (SSP). Revenue allocated to software licenses is typically recognized at a point in time upon delivery and revenue allocated to the software maintenance and professional services is recognized over time, provided all other revenue recognition criteria are met. Management applies significant judgment in determining the revenue recognition for these contracts including the identification of and accounting for all performance obligations and the calculation of the SSP for each identified performance obligation. The Company's identification of performance

obligations and estimate of SSP for each performance obligation identified within these customer contracts requires management to consider many factors, including:

- Determination of whether products and services are considered distinct performance obligations that should be accounted for separately versus together, such as software maintenance or professional services that are sold with software licenses.
- Determination of stand-alone selling prices for each distinct performance obligation.

Given these factors, the related audit effort in evaluating management's judgments in identifying performance obligations and estimating SSP's for these customer agreements was extensive and required a high degree of auditor judgment.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. Our procedures related to the Company's identification of performance obligations and estimation of SSP's for these customer agreements included, among others:

- We evaluated management's significant accounting policies related to these customer agreements for reasonableness.
- We obtained and read revenue contracts and evaluated the completeness of the performance obligations identified by management, and performed an evaluation of whether these performance obligations were distinct and capable of being distinct.
- We tested management's process used to determine the SSP's by evaluating the models, including testing the accuracy and completeness of data used, and reasonableness of assumptions applied by management.
- For each contract with multiple performance obligations, we also tested the allocation of the transaction price to each performance obligation based upon the SSP.

/s/ RSM US LLP

We have served as the Company's auditor since 2012.

Boston, Massachusetts
March 15, 2024

AWARE, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2023	**2022**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,002	$ 11,749
Marketable securities	20,913	17,229
Accounts receivable, net	2,454	3,317
Unbilled receivables, net	1,401	2,929
Tax receivable	—	1,362
Prepaid expenses and other current assets	1,054	693
Total current assets	35,824	37,279
Property and equipment, net	579	726
Intangible assets, net	2,391	2,806
Goodwill	3,120	3,120
Note receivable	—	2,601
Right of use asset, net	4,260	4,538
Other long-term assets	122	122
Total assets	$ 46,296	$ 51,192
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 280	$ 639
Accrued expenses	1,706	1,282
Current portion of operating lease liabilities	637	470
Deferred revenue	4,926	3,411
Total current liabilities	7,549	5,802
Long-term deferred revenue	611	322
Long-term operating lease liabilities	3,838	4,047
Long-term contingent acquisition payments	—	812
Total long-term liabilities	4,449	5,181
Commitments and contingent liabilities (Note 10)		
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; 21,017,892 and 21,093,447 shares issued and outstanding as of December 31, 2023 and 2022, respectively	210	211
Additional paid-in capital	99,405	98,306
Accumulated deficit	(65,512)	(58,198)
Accumulated other comprehensive income (loss)	195	(110)
Total stockholders' equity	34,298	40,209
Total liabilities and stockholders' equity	$ 46,296	$ 51,192

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)

	Year ended December 31,	
	2023	**2022**
Revenue:		
Software licenses	$ 9,529	$ 7,386
Software maintenance	7,674	7,111
Services and other	1,041	1,511
Total revenue	18,244	16,008
Costs and expenses:		
Cost of services and other	1,273	1,260
Research and development	9,124	9,234
Selling and marketing	7,955	6,962
General and administrative	6,549	6,548
Loss on write-off of note receivable	2,695	—
Fair value adjustment to contingent acquisition payment	(812)	(107)
Gain on sale of property and equipment	—	(5,672)
Total costs and expenses	26,784	18,225
Operating loss	(8,540)	(2,217)
Interest and other income	1,285	540
Loss before provision for income taxes	(7,255)	(1,677)
Provision for income taxes	59	49
Net loss	$ (7,314)	$ (1,726)
Net loss per share – basic	$ (0.35)	$ (0.08)
Net loss per share – diluted	$ (0.35)	$ (0.08)
Weighted-average shares – basic	21,013	21,604
Weighted-average shares – diluted	21,013	21,604
Other comprehensive income (loss)		
Unrealized gain (loss) on available for sale securities	305	(110)
Comprehensive loss	$ (7,009)	$ (1,836)

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

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

	Year ended December 31,	
	2023	2022
Cash flows from operating activities:		
Net loss	$ (7,314)	$ (1,726)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	578	760
Gain on sale of fixed assets	—	(5,672)
Stock-based compensation	1,525	1,707
Interest receivable	(93)	(101)
Non-cash lease expense	237	128
Loss on write-off of note receivable	2,695	—
Change in fair value of contingent acquisition payments	(812)	(107)
Credit losses (recoveries)	(15)	344
Increase (decrease) from changes in assets and liabilities:		
Accounts receivable	648	332
Unbilled receivables	1,758	(71)
Prepaid expenses and other current assets	(613)	(406)
Tax receivable	1,361	49
Accounts payable	(359)	356
Accrued expenses	422	(628)
Deferred revenue	1,805	(7)
Net cash provided by (used in) operating activities	1,823	(5,042)
Cash flows from investing activities:		
Purchases of property and equipment	(16)	(730)
Proceeds from sale of fixed assets, net	—	8,547
Purchases of marketable securities	(9,128)	(18,555)
Sale of marketable securities	6,000	1,250
Investment in note receivable	—	(2,500)
Net cash used in investing activities	(3,144)	(11,988)
Cash flows from financing activities:		
Proceeds from issuance of unrestricted stock	96	154
Payments made for taxes of employees who surrendered shares related to unrestricted stock	(16)	(26)
Repurchase of common stock	(506)	(1,312)
Net cash used in financing activities	(426)	(1,184)
Decrease in cash and cash equivalents	(1,747)	(18,214)
Cash and cash equivalents, beginning of year	11,749	29,963
Cash and cash equivalents, end of year	$ 10,002	$ 11,749
Supplemental disclosure:		
Cash paid for income taxes	$ 136	$ —

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

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

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive Income	Total Stockholders'
	Shares	Amount	Capital	Deficit	(Loss)	Equity
Balance at December 31, 2021	21,614	$ 216	$ 97,778	$ (56,472)	$ —	$ 41,522
Issuance of unrestricted stock	118	1	1	—	—	2
Shares surrendered by employees to pay taxes related to unrestricted stock	(10)	—	(26)	—	—	(26)
Issuance of common stock under employee stock purchase plan	76	1	151	—	—	152
Stock-based compensation expense	—	—	1,707	—	—	1,707
Repurchase of common stock	(705)	(7)	(1,305)	—	—	(1,312)
Other comprehensive loss	—	—	—	—	(110)	(110)
Net loss	—	—	—	(1,726)	—	(1,726)
Balance at December 31, 2022	21,093	211	98,306	(58,198)	(110)	40,209
						—
Issuance of unrestricted stock	164	2	(3)	—	—	(1)
Shares surrendered by employees to pay taxes related to unrestricted stock	(9)	—	(16)	—	—	(16)
Issuance of common stock under employee stock purchase plan	70	1	95	—	—	96
Stock-based compensation expense	—	—	1,525	—	—	1,525
Repurchase of common stock	(300)	(4)	(502)	—	—	(506)
Other comprehensive income	—	—	—	—	305	305
Net loss	—	—	—	(7,314)	—	(7,314)
Balance at December 31, 2023	21,018	$ 210	$ 99,405	$ (65,512)	$ 195	$ 34,298

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

1 NATURE OF BUSINESS

We are a leading biometric identity platform company that validates and secures identities using proven and trusted adaptive biometrics 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements include the accounts of Aware, Inc. and its subsidiaries ("the Company"). All significant intercompany transactions have been eliminated.

Use of Estimates – The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. The most significant estimates included in the financial statements pertain to revenue recognition, goodwill and long-lived asset impairment, valuation of investment in note receivable, valuation of contingent acquisition payments, stock based compensation, income taxes, and allowance for credit losses.

Fair Value Measurements - The Financial Accounting Standards Board ("FASB") Codification defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to the unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the FASB Codification are: i) 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; ii) 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 iii) 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 $10.0 million and $11.7 million at December 31, 2023 and 2022, respectively. Marketable securities, which primarily include U.S. Treasuries and corporate bonds, were $20.9 million and $17.2 million as of December 31, 2023 and 2022, respectively.

As of December 31, 2023, our assets that are measured at fair value on a recurring basis include the following (in thousands):

	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

As of December 31, 2022, our assets and liabilities that are measured at fair value on a recurring basis included the following (in thousands):

	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 payments	$ -	$ -	$ 812	$ 812
Total liabilities	$ -	$ -	$ 812	$ 812

The fair value of our contingent acquisition payments was $0 and $0.8 million as of December 31, 2023 and 2022, respectively. The $0.8 million decrease during the year ended December 31, 2023 was due to the end of the earnout period without the achievement of any earnout targets, resulting in no earnout payment being required. The fair value as of December 31, 2022 was determined using a Monte Carlo simulation.

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):

	December 31, 2023:			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury notes and bonds	$ 15,331	$ 176	$ (19)	$ 15,489
Corporate bonds	5,386	39	(1)	5,424
	$ 20,717	$ 215	$ (20)	$ 20,913

	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
	$ 17,339	$ 24	$ (134)	$ 17,229

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

Balance as of December 31, 2021	$ —
Investment in Note Receivable	2,500
Accrued interest	101
Balance as of December 31, 2022	2,601
Accrued interest	94
Write-off of Note Receivable	(2,695)
Balance as of December 31, 2023	$ —

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 $0 and $2.6 million is representative of the fair value of the investment as of December 31 2023 and 2022, respectively. The $2.7 million write off during the year ended December 31, 2023 was the result of the lack of recoverability of the Note due to liquidity concerns as of December 31, 2023. In addition, in January 2024, Omlis and MIRACL petitioned to enter the United Kingdom administration process. The deterioration of Omlis' liquidity, resulted in our uncertainty regarding the recoverability of the Note's carrying value. During the year ended December 31, 2022, there were no changes in the underlying assumptions of the Note. The change in fair value during the year ended December 31, 2022 was the result of accrued interest.

Cash and Cash Equivalents – Cash and cash equivalents, which consist primarily of money market funds and demand deposits, are stated at fair value. All highly liquid investments purchased with an original maturity of three months or less are considered cash equivalents. Our cash balances exceed the Federal Deposit Insurance Corporation limits. The Company does not believe it is exposed to significant credit risk related to cash and cash equivalents.

Allowance for Credit Losses – The Company's accounts receivable are subject to concentrations of credit risk. We maintain an allowance for credit losses that reflects any estimated credit losses. This allowance is evaluated each quarter on a customer by customer basis and considers historical write-off experience with each customer, the number of days that any delinquent invoices are past due, and an evaluation of the potential risk of loss associated with any delinquent accounts. We record the allowance in "general and administrative" expense in the Consolidated Statements of Operations. Account receivables are written off and charged against the recorded allowance when the Company has exhausted collection efforts without success.

For the years ended December 31, 2023 and 2022, changes to and ending balances of the allowance for credit losses were as follows (in thousands):

	Years ended December 31,	
	2023	2022
Allowance for credit losses balance - beginning of year	$ 188	$ 74
Additions to the allowance for credit losses	37	156
Deductions against the allowance for credit losses	(52)	(42)
Allowance for credit losses balance - end of year	$ 173	$ 188

In addition, for the years ended December 31, 2023 and 2022, the credit loss related to unbilled receivables was $0 and $230 thousand, respectively.

Property and Equipment – Property and equipment is stated at cost. Depreciation and amortization of property and equipment is provided using the straight-line method over the estimated useful lives of the assets. Upon retirement or sale, the costs of the assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss on disposal is included in the determination of income or loss. Expenditures for repairs and maintenance are charged to expense as incurred.

The estimated useful lives of assets are:

Leasehold improvements	10 years
Furniture and fixtures	5 years
Computer and office equipment	3 years
Purchased software	3 years

Leases – We account for a contract as a lease when we have the right to control the asset for a period of time while obtaining substantially all of the asset's economic benefits. We determine the initial classification and measurement of our operating right of use assets and lease liabilities at the lease commencement date and thereafter if modified. Fixed lease costs are recognized on a straight-line basis over the lease term. Variable lease costs are recognized in the period in which the obligation for those payments is incurred. We combine lease and non-lease components when determining lease costs for office space. The lease liability includes lease payments related to options to extend or renew the lease term if we are reasonably certain we will exercise those options. Our lease does not contain material residual value guarantees or restrictive covenants.

Goodwill – We record goodwill when consideration paid in a business acquisition exceeds the fair value of the net assets acquired. Our estimates of fair value are based upon assumptions believed to be reasonable at the time, but such estimates are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate and unanticipated events or circumstances may occur, which may affect the accuracy or validity of such assumptions, estimates or actual results. Goodwill is not amortized but rather is tested for impairment annually in the fourth quarter or more frequently, if facts and circumstances warrant a review. Circumstances that could trigger an impairment test include, but are not limited to, a significant adverse change in the business climate or legal factors, an adverse action or assessment by a regulator, decline in market capitalization, or unanticipated competition. We have determined that there is a single reporting unit for the purpose of conducting the goodwill impairment assessment. In accordance with ASC Topic 350, Intangibles—Goodwill and Other, we first assess qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. If after assessing the totality of events or circumstances, we determine that it is more likely than not (i.e., greater than 50% likelihood) that the fair value of the reporting unit is less than its carrying amount, then the quantitative test is required. The quantitative goodwill impairment test requires us to estimate and compare the fair value of the reporting unit, determined using an income approach and a market approach, with its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets, goodwill is not impaired. If the fair value of the reporting unit is less than the carrying value, the difference is recorded as an impairment loss up to the amount of goodwill.

Application of the goodwill impairment test requires judgments, including identification of the reporting units, assigning goodwill to reporting units, a qualitative assessment to determine whether there are any impairment indicators, and determining the fair value of each reporting unit which often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items. There is no assurance that the actual future earnings or cash flows of the reporting unit will not decline significantly from the projections used in the impairment analysis. Goodwill impairment charges may be recognized in future periods to the extent changes in factors or circumstances occur, including deterioration in the macroeconomic environment and industry, deterioration in the Company's performance or its future projections, or changes in plans for its reporting unit.

As of December 31, 2023 and 2022, we had $3.1 million of goodwill. We performed a quantitative analysis during the years ended December 31, 2023 and 2022 and determined there were no impairment losses and to date, there have been no impairments of goodwill. There were no changes to the value of goodwill during the years ended December 31, 2023 and 2022.

Long-Lived Assets – We review long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows estimated to be generated by those assets over their estimated economic life to the related carrying value of those assets to determine if the assets are impaired. If an impairment is indicated, the asset is written down to its estimated fair value. The cash flow estimates used to identify the potential impairment reflect our best estimates using appropriate assumptions and projections at that time. In evaluating potential impairment of these assets, we specifically consider whether any indicators of impairment are present, including, but not limited to:

- whether there has been a significant adverse change in the business climate that affects the value of an asset:
- whether there has been a significant change in the extent or way an asset is used; and
- whether there is an expectation that the asset will be sold or disposed of before the end of its originally estimated useful life.

We did not identify any events or changes in business circumstances that would indicate the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate during the years ended December 31, 2023 and 2022.

Revenue recognition - The core principle of Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606") is that we should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. To achieve that core principle, we apply the following five step model:

1) Identify the contract with the customer

A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the related payment terms, (ii) the contract has commercial substance, and (iii) we determine that collection of substantially all consideration for goods and services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's intent and ability to pay, which is based on a variety of factors including the customer's historical payment experience, or in the case of a new customer, published credit and financial information pertaining to the customer.

We evaluate contract modifications for the impact on revenue recognition if they have been approved by both parties such that the enforceable rights and obligations under the contract have changed. Contract modifications are either accounted for using a cumulative effect adjustment or prospectively over the remaining term of the arrangement. The determination of which method is more appropriate depends on the nature of the modification, which we evaluate on a case-by-case basis.

We combine two or more contracts entered into at or near the same time with the same customer and account for them as a single contract if (i) the contracts are negotiated as a package with a common commercial objective, (ii) the amount of consideration to be paid in one contract depends on the price or performance of the other contract, or (iii) some or all of the goods or services in one contract would be combined with some or all of the goods and services in the other contract into a single performance obligation. If two or more contracts are combined, the consideration to be paid is aggregated and allocated to the individual performance obligations without regard to the consideration specified in the individual contracts.

2) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the goods and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other available resources, and are distinct in the context of the contract, whereby the transfer of the good or service is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods and services, we apply judgment to determine whether promised goods and services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, the promised goods and services are accounted for as a combined performance obligation. To identify performance obligations, we consider all of the goods or services promised in a contract regardless of whether they are explicitly stated or are implied by customary business practices.

3) Determine the transaction price

The transaction price is determined based on the consideration we expect to be entitled in exchange for transferring promised goods and services to the customer. Determining the transaction price requires significant judgment. To the extent the transaction price includes variable consideration, we estimate the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue recognized under the contract will not occur. Any estimates, including the effect of the constraint on variable consideration, are evaluated at each reporting period. Some of our arrangements include usage-based royalties where a software license is the predominant item that the royalty relates to. In these arrangements, revenue from the usage-based royalty is recognized when the subsequent usage occurs.

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 ASC 606-10-32-18. Our revenue arrangements are typically accounted for under such expedient, as payment is typically due within 30 to 60 days. As of December 31, 2023 and 2022, none of our contracts contained a significant financing component.

Our arrangements can include variable fees, such as the option to purchase additional usage of a previously delivered software license. The Company may also provide pricing concessions to clients, a business practice that also gives rise to variable fees in contracts. The Company also reviews contractual termination provisions in determining contractual term and total transaction price. For variable fees arising from the client's purchase of additional usage of a previously delivered software license, we apply the sales and usage-based royalties guidance related to a license of intellectual property and recognizes the revenue in the period the underlying sale or usage occurs. 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.

4) Allocate the transaction price to performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price ("SSP") basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct service that forms part of a single performance obligation. The consideration to be received is allocated among the separate performance obligations based on relative SSPs. 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 amounts 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. 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 customers and circumstances. In these instances, we may use information such as the nature of the customer and distribution channel in determining the SSP.

5) Recognize revenue when or as we satisfy a performance obligation

We satisfy performance obligations either over time or at a point in time. Revenue is recognized over time if i) the customer simultaneously receives and consumes the benefits provided by our performance, ii) our performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or iii) our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date. If we do not satisfy a performance obligation over time, the related performance obligation is satisfied at a point in time by transferring the control of a promised good or service to a customer.

We categorize revenue as software licenses, software maintenance, or services and other. Specific revenue recognition policies apply to each category of revenue.

Software licenses

Software licenses consist of revenue from the sale of software licenses for biometrics and imaging applications. Our software licenses are functional intellectual property and typically provide customers with the right to use our software on a term or perpetual basis as it exists when made available to the customer. We recognize revenue from perpetual software licenses at a point in time upon delivery, provided all other revenue recognition criteria are met.

We also offer certain products pursuant to a subscription-based software model which includes a term software license to use the software for a fixed term. We recognize revenue for fixed fees associated with subscription-based software licenses at a point in time upon delivery, provided all other revenue recognition criteria are met. Fees subject to the usage-based royalty exception are recognized when the subsequent usage occurs.

Also, 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 ratably over the subscription period. For the years ended December 31, 2023 and 2022, we generated a de minimis amount of revenue from SaaS contracts.

Software maintenance

Software maintenance consists of revenue from the sale of software maintenance contracts for biometrics and imaging software. Software maintenance contracts entitle customers to receive software support and software updates, if and when they become available, during the term of the maintenance contract. Software support and software updates are considered distinct services. However, these distinct services are considered a single performance obligation consisting of a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. We recognize software maintenance revenue over time on a straight-line basis over the contract period.

Services and other

Service revenue consists of fees from biometrics customers for software engineering services. We recognize services revenue 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. The use of the over-time revenue recognition method requires judgment in developing budgeted labor hours. Changes in budgeted hours may occur and the resulting impact on revenue recognition is accounted for in the period of the change in estimate. Other revenue, which includes hardware sales that may be purchased with the software license, is recognized at a point in time upon delivery provided all other revenue recognition criteria are met.

Arrangements with multiple performance obligations

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. The various combinations of multiple performance obligations and our revenue recognition for each are described as follows:

- **Perpetual software licenses and software maintenance:** When software licenses and software maintenance contracts are sold together, the software licenses and software maintenance are generally considered distinct performance obligations. The transaction price is allocated to the software licenses and the software maintenance based on relative SSP. Revenue allocated to the software licenses is 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 time on a straight-line basis over the contract period.

- **Perpetual software licenses and services:** 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 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 software licenses and standard implementation or consulting-type services are sold together, they are generally considered distinct performance obligations, as the software licenses are not dependent on or interrelated with the associated services. The transaction price in these arrangements is allocated to the software licenses and services based on relative SSP. Revenue allocated to the software licenses is recognized at a point in time upon delivery, provided all other revenue recognition criteria are met. Revenue allocated to the services is recognized over time using an input method. In arrangements with both software licenses and services, the software license portion of the arrangement is classified as software license revenue and the services portion is classified as services revenue in our consolidated statements of operations and comprehensive loss.

- **Perpetual software licenses, software maintenance and services:** When we sell software licenses, software maintenance and software services together, we account for the individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations based on relative SSP. Revenue allocated to the software licenses is recognized at a point in time upon delivery. Revenue allocated to the services is recognized over time using an input method (i.e., labor hours incurred as a percentage of total labor hours budgeted). Revenue for the software maintenance is recognized over time on a straight-line basis over the contract period. However, if the software services are significant customization engineering services, they are accounted for with the software licenses as a combined performance obligation, as stated above. Revenue for the combined performance obligation is recognized over time using an input method.

- **Perpetual software licenses, hardware, software maintenance, and services:** When we sell software licenses, hardware, software maintenance and software services together, we account for the individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations based on relative SSP. Revenue allocated to the software licenses is recognized at a point in time upon delivery. Revenue allocated to the services is recognized over time using an input method (i.e., labor hours incurred as a percentage of total labor hours budgeted). Revenue for the hardware is recognized at a point in time upon delivery. Revenue for the software maintenance is recognized over time on a straight-line basis over the contract period.

- **Subscription-based software consisting of a software license and software maintenance:** When subscription-based software is sold, the software license and software maintenance are generally considered distinct performance obligations. The transaction price is allocated to software license and the software maintenance based on relative SSP. We sell subscription-based software licenses 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 usage-based royalty, revenue is allocated to the software license recognized at a point in time upon delivery, provided all other revenue recognition criteria are met. Any royalties not subject to the guaranteed minimum or earned in excess of the minimum amount are recognized as revenue when the subsequent usage occurs. Revenue allocated to the software maintenance is recognized on a straight-line basis over the contract period.

Returns

We do not offer rights of return for our products and services in the normal course of business.

Customer Acceptance

Our contracts with customers generally do not include customer acceptance clauses.

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 billing date) or a contract liability (customer payment precedes performance). Customers that prepay are represented by deferred revenue until the performance obligation is satisfied. Our contract assets consist of unbilled receivables. Our contract liabilities consisted 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 table presents changes in our contract assets and liabilities during the years ended December 31, 2023 and 2022 (in thousands):

	Balance at Beginning of period	Revenue Recognized In Advance of Billings	Billings	Balance at End of Period
Year ended December 31, 2023				
Contract Assets:				
Unbilled receivables	$ 2,929	$ 4,356	$ (5,884)	$ 1,401
Year ended December 31, 2022				
Contract Assets:				
Unbilled receivables	$ 3,087	$ 5,288	$ (5,446)	$ 2,929

	Balance at Beginning of period	Billings	Revenue Recognized	Balance at End of Period
Year ended December 31, 2023				
Contract Liabilities:				
Deferred revenue	$ 3,733	$ 9,478	$ (7,674)	$ 5,537
Year ended December 31, 2022				
Contract Liabilities:				
Deferred revenue	$ 3,740	$ 7,104	$ (7,111)	$ 3,733

Remaining Performance Obligations

Remaining performance obligations represent the transaction price from contracts for which work has not been performed or goods and services have not been delivered. We expect to recognize revenue on approximately 94% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter. The aggregate amount of the transaction price allocated to remaining performance obligations with a duration greater than one year, comprised of software maintenance contracts, was $0.6 million as of December 31, 2023.

Contract Costs

We recognize an other asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain sales commissions meet the requirements to be capitalized, and we amortize these costs on a consistent basis with the pattern of transfer of the goods and services in the contract. Total capitalized costs to obtain a contract were immaterial during the periods presented and are included in other current and long-term assets on our consolidated balance sheets.

We apply a practical expedient to expense costs as incurred for costs to obtain a contract when the amortization period is one year or less. These costs include sales commissions on software maintenance contracts with a contract period of one year or less as sales commissions paid on contract renewals are commensurate with those paid on the initial contract.

Income Taxes – We compute deferred income taxes based on the differences between the financial statement and tax basis of assets and liabilities using enacted rates in effect in the years in which the differences are expected to reverse. We establish a valuation allowance to offset temporary deductible differences, net operating loss carryforwards and tax credits when it is more likely than not that the deferred tax assets will not be realized.

We recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the tax position. The evaluation of an uncertain tax position is based on factors that include, but are not limited to, changes in the tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit and changes in facts or circumstances related to a tax position. Any changes to these estimates, based on the actual results obtained and/or a change in assumptions, could impact our tax provision in future periods. Interest and penalty charges, if any, related to unrecognized tax benefits would be classified as a provision for income tax in the consolidated statements of operations and comprehensive loss.

Capitalization of Software Costs – We capitalize certain costs to develop software products to be sold, leased, or marketed to external users after technological feasibility of the product has been established. No software costs were capitalized during the years ended December 31, 2023 and 2022, because such costs incurred between the period after technological feasibility to the product release were immaterial.

The Company capitalizes and amortizes certain direct costs associated with computer software developed or purchased for internal use incurred during the application development stage. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. The Company amortizes capitalized software costs generally over three to five years, commencing on the date the software is placed into service. No software costs were capitalized during the years ended December 31, 2023 and 2022, because such costs incurred after attainment of technological feasibility but before product release were immaterial.

Research and Development Costs – Costs incurred in the research and development of our products are expensed as incurred.

Concentration of Credit Risk – At December 31, 2023 and 2022, we had cash and cash equivalents, in excess of federally insured deposit limits of approximately $9.7 million and $11.5 million, respectively.

Concentration of credit risk with respect to net accounts receivable and unbilled receivables consisted of amounts owed by the following customers that comprised more than 10% of net accounts receivable and unbilled receivables at December 31:

	December 31,	
	2023	**2022**
Customer A	16%	2%
Customer B	8%	12%
Customer C	-	26%

We had one customer in 2023 that represented 18% of revenue. No other customers represented over 10% of revenue in 2023 or 2022.

Stock-Based Compensation – We grant stock and stock options to our employees and directors. We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize stock-based compensation expense on a straight-line basis over the requisite service period of the award.

For stock awards, we determine the fair value of the award by using 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.

For stock options, we use the Black-Scholes option valuation model to estimate the fair value of the award. This valuation model takes into account the exercise price of the award, as well as a variety of significant assumptions. The assumptions used to estimate the fair value of stock options include the expected term, the expected volatility of our stock over the expected term, the risk-free interest rate over the expected term, and our expected annual dividend yield.

Computation of Earnings per Share – Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing income available to common shareholders 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 antidilutive are excluded from the calculation.

Fair Value of Financial Instruments – The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of their short-term nature.

Segments – We organize ourselves into a single segment reporting to the chief operating decision maker, who we have designated as our Chief Executive Officer.

We conduct our operations in the United States and sell our products and services to domestic and international customers. Revenues were generated from the following geographic regions (in thousands):

	Year ended December 31,	
	2023	**2022**
United States	$ 11,953	$ 7,613
United Kingdom	1,524	1,717
Rest of world	4,767	6,678
	$ 18,244	$ 16,008

Revenue by product group was (in thousands):

	Year ended December 31, 2023	Year ended December 31, 2022
License and service contracts	$ 14,272	$ 12,937
Subscription-based contracts	3,972	3,071
	$ 18,244	$ 16,008

Revenue by product group consists of all associated revenue within the contract, including license revenue, maintenance revenue, and services and other revenue. Revenue by product group may be recognized at a point in time or over-time. These revenues are attributable to both contracts with fixed fees and guaranteed minimums.

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

	Year ended December 31, 2023	Year ended December 31, 2022
Goods or services transferred at a point in time	$ 8,223	$ 7,178
Goods or services transferred over time	10,021	8,830
	$ 18,244	$ 16,008

3 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31 (in thousands):

	2023	2022
Building and improvements	162	146
Computer and office equipment	859	859
Purchased software	78	78
Furniture and fixtures	573	573
Total	1,672	1,656
Less accumulated depreciation	(1,093)	(930)
Property and equipment, net	$ 579	$ 726

Depreciation expense was $0.2 million and $0.3 million for the years ended December 31, 2023 and 2022, respectively.

4. GAIN ON SALE OF PROPERTY AND EQUIPMENT

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

During the year ended December 31, 2022, we recorded a gain of $5.7 million on the sale and disposed of gross assets of $11.5 million and net book value of $2.9 million, of which $1.8 million was property and equipment and $1.1 million was land.

5. INTANGIBLE ASSETS

The carrying value of intangible assets and their estimated useful live as of December 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	$ (715)	$ 1,965
Developed technology	5 and 7 years	710	(297)	413
Trade name / trademarks	3 and 7 years	30	(17)	13
		$ 3,420	$ (1,029)	$ 2,391

The carrying value of intangible assets and their estimated useful live as of December 31, 2022 are as follows (dollars in thousands):

	Useful Life	Gross Amount	Accumulated Amortization	Net Book Value
Customer relationships	8 and 10 years	$ 2,680	$ (424)	$ 2,256
Developed technology	5 and 7 years	710	(180)	530
Trade name / trademarks	3 and 7 years	30	(10)	20
		$ 3,420	$ (614)	$ 2,806

During the years ended December 31, 2023 and 2022 we recorded $0.4 million of amortization expense on intangible assets. The Company expects to record amortization for the years ended December 31 as follows (in thousands):

2024	$	415
2025		405
2026		356
2027		345
2028		338
Thereafter		532
	$	2,391

6. 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 for 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 purchase of the Note, Omlis issued the Company a warrant that expired on September 11, 2023, which allowed 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 at fair value in accordance with ASC 825, Financial Instruments, which was $0 and $2.6 million as of December 31, 2023 and 2022, respectively. The accrued interest of $0.1 million as of December 31, 2022, was included in the fair value of the Note. For the year ended December 31, 2023 we recorded a fair value adjustment of $2.7 million, which included $0.2 million of accrued interest, to adjust the fair value to $0 as of December 31, 2023. The $2.7 million write off during the year ended December 31, 2023 was the result of the lack of recoverability of the Note due to liquidity concerns as of December 31, 2023. In addition, in January 2024, Omlis and MIRACL petitioned to enter the United Kingdom administration process. The deterioration of Omlis' liquidity resulted in our uncertainty regarding the recoverability of the Note's carrying value and the unlikelihood of a payout as an unsecured creditor from the administration process.

7. INCOME TAXES

We recorded a provision for income tax of $59 thousand and $49 thousand for the years ended December 31, 2023 and 2022, respectively. The components of the provision for income taxes are as follows (in thousands):

	Year ended December 31,			
	2023		2022	
Current:				
Federal	$	(11)	$	34
State		70		15
Provision for income taxes	$	59	$	49

The difference between the effective tax rate and the U.S federal statutory rates was driven primarily due to the change in valuation allowance of our deferred tax assets, state income taxes and stock-based compensation to the deferred tax assets in both 2023 and 2022. A reconciliation of the U.S. federal statutory rate to the effective tax rate is as follows:

	Year ended December 31,	
	2023	2022
Federal statutory rate	21 %	21 %
State rate, net of federal benefit	7	12
Tax credits	(3)	(2)
Permanent adjustments	—	(1)
Change in valuation allowance	(19)	(24)
Stock compensation	(2)	—
Tax law change	(5)	—
Other	—	(9)
Effective tax rate	(1)%	(3)%

On October 4, 2023, Massachusetts enacted tax law changes which included the adoption of a single sales apportionment factor effective on January 1, 2025. As required under ASC 740, Income Taxes, we have accounted for the deferred tax impacts of this tax law change in the period the tax law was enacted, which has the impact of reducing our state deferred tax assets. The change in the deferred tax asset balance related to this was offset by a corresponding decrease in the valuation allowance.

Deferred income taxes - We had net deferred tax assets of $0.5 million and $.07 million as of December 31, 2023 and 2022, respectively. The principal components of deferred tax assets, net, were as follows at December 31 (in thousands):

	2023	2022
Stock-based compensation	$ 663	554
Research and development credits	6,623	$ 6,817
Capitalized research expense	3,094	1,557
Net operating loss	1,768	2,562
Loss on note receivable	644	—
Other	257	335
Total deferred tax assts	13,049	11,825
Valuation allowance	(12,504)	(11,115)
Deferred tax liabilities		
Depreciation	(138)	(193)
Intangibles	(407)	(517)
Total deferred tax liabilities	(545)	(710)
Net deferred tax assets (liabilities)	$ -	$ -

As of December 31, 2023, $6.6 million of our deferred tax assets relate to research and development credit carryforwards. Further, a significant portion of our deferred tax assets relates to federal and state research and development credits. These credits may only offset 75% of the tax liability after net operating loss carryforwards are utilized and thus, we have the risk that the credits could expire before utilization if sufficient taxable income in the carryforward periods doesn’t exist.

As of December 31, 2023, we had a federal net operating loss carryforward of $4.1 million, which may be available to offset future income tax liabilities. $3.5 million of those NOLs can be carried forward indefinitely and the remaining $0.6 million expire in 2037. As of December 31, 2023, we had State NOL carryforwards of $32.3 million, which expire at various dates though 2041.

We evaluated and considered all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance for deferred tax assets was needed. The deferred tax assets are composed principally of net operating loss carryforwards, capitalized research costs and research and development credits. As part of this analysis, we gave more weight to recent, historical evidence than future projections as we consider the past more objective. Under the applicable accounting standards, we considered our history of losses and concluded that is more likely that we will not recognize the benefits of federal and state deferred tax assets. Therefore, we have recorded a full valuation allowance of $12.5 million and $11.1 million at December 31, 2023 and 2022, respectively. During the year ended December 31, 2023, we increased the valuation allowance by $1.4 million from the prior year end. We will continue to monitor the evidence and the realizability of our deferred tax assets in future periods. Should evidence regarding the realizability of our deferred tax assets change at a future point in time, we will adjust the valuation allowance as required.

Under Internal Revenue Code Section 382, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change NOL carryforwards and other pre-change tax attributes to offset its post-change income may be limited. In connection with our acquisition of FortressID during 2021, the historical NOL carryforwards of $3.5 million from FortressID are likely limited under Section 382 due to a change in ownership triggered by the acquisition, however, we do not expect the limitation to result in any of the NOL carryforwards to expire unused. We have not completed a study at the Aware, Inc. level to assess whether an "ownership change" has occurred or whether there have been multiple ownership changes since we became a "loss corporation" as defined in Section 382. Future changes in our stock ownership, which may be outside of our control, may trigger an "ownership change." In addition, future equity offerings or acquisitions that have equity as a component of the purchase price could result in an "ownership change." If an "ownership change" has occurred or does occur in the future, utilization of the NOL carryforwards or other tax attributes may be limited, which could potentially result in increased future tax liability to us.

Uncertain tax benefits - As of December 31, 2023 and 2022 we had $0.7 million of uncertain tax positions that were primarily related to our research and development tax credits. There were no changes to this amount during each of the years ended December 31, 2023 and 2022. The uncertain tax positions will impact our effective tax rate if realized.

Tax examinations – We file tax returns as prescribed by the tax laws of the jurisdictions in which we operate. In the normal course of business, we are subject to examination by federal and state jurisdictions, where applicable. The earliest tax years that remain subject to examination by jurisdiction is 2019 for both federal and Massachusetts. However, to the extent the Company utilizes net operating losses or credits from years prior to 2019, the statute remains open to the extent of the net operating losses or other credits are utilized.

8. EQUITY AND STOCK COMPENSATION PLANS

Stock Option Plan – During the year ended December 31, 2023. we had one active fixed stock option plan which was our 2001 Nonqualified Stock Plan ("2001 Plan"). We were authorized to grant nonqualified stock options, stock appreciation rights and stock awards to our employees and directors for up to 8,000,000 shares of common stock under this plan. As of December 31, 2023, there were 1,577,130 shares available for grant under the 2001 Plan. Subsequent to December 31, 2023, our shareholders approved the Aware, Inc. 2023 Equity and Incentive Plan, which replaced the 2001 Plan. See Note 13, Subsequent Events, for more information regarding the 2023 Equity and Incentive Plan.

Options are granted with exercise prices as determined by the Board of Directors and have a maximum term of ten years. Options generally vest over three to five years.

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

	For the Year Ended December 31,	
	2023	**2022**
Cost of services and other	$ 20	$ 21
Research and development	289	265
Selling and marketing	88	286
General and administrative	1,128	1,135
Stock-based compensation expense	$ 1,525	$ 1,707

Stock-based compensation expense in the preceding table includes expenses associated with grants of: i) stock options, ii) unrestricted shares of our common stock; and iii) performance share awards. The methods used to determine stock-based compensation expense for each type of equity grant are described in the following paragraphs.

Stock Option Grants. During the years ended December 31, 2023 and 2022, we did not grant any stock options. We estimate the fair value of stock options using the Black-Scholes valuation model.

The Black-Scholes valuation model takes into account the exercise price of the award, as well as a variety of significant assumptions. The assumptions used to estimate the fair value of stock options include the expected term, the expected volatility of our stock over the expected term, the risk-free interest rate over the expected term, and our expected annual dividend yield. We account for forfeitures as they occur. We believe that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of stock options granted. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

Unrestricted Stock Grants. Our 2001 Plan permits us to grant shares of unrestricted 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 167,921 shares of unrestricted stock to directors, officers, and employees during the years ended December 31, 2023 and 2022, respectively. Of the shares granted in 2023, 67,104 were issued shortly after June 30, 2023 and 67,107 were issued shortly after December 31, 2023. Of the shares granted in 2022, 61,460 were issued shortly after June 30, 2022 and 46,461 were issued shortly after December 31, 2022. The remaining 60,000 shares of unrestricted stock granted to an officer is to be issued in four equal installments in February 2023, and August of 2023, 2024, and 2025.

Stock Options. Total options outstanding at December 31, 2023 and 2022 were as follows:

	2023		2022	
	Options	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding at beginning of year	2,560,000	$ 4.96	3,240,000	$ 4.97
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or cancelled	(300,000)	4.94	(680,000)	5.00
Outstanding at end of year	2,260,000	$ 4.88	2,560,000	$ 4.96
Exercisable at year end	1,681,037	$ 4.94	25,000	$ 6.00

At December 31, 2023, the weighted average remaining contractual term for total options outstanding and total options exercisable was approximately 6.98 and 6.92 years, respectively.

At December 31, 2023, the aggregate intrinsic value of options outstanding and exercisable was $0. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The following table summarizes the stock options outstanding at December 31, 2023:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Number	Weighted Average Exercise Price
$4 to $5	2,053,750	$ 4.72	7.10	1,474,787	$ 4.72
$5 to $6	68,750	$ 5.50	5.76	68,750	$ 5.76
$6 to $7	68,750	$ 6.50	5.76	68,750	$ 5.76
$7 to $8	68,750	$ 7.50	5.76	68,750	$ 5.76
	2,260,000	$ 4.88	6.98	1,681,037	$ 4.94

At December 31, 2023, unrecognized compensation expense related to non-vested stock options was approximately $1.0 million, which is expected to be recognized over a weighted average period of 1.2 years.

We issue common stock from previously authorized but unissued shares to satisfy option exercises and purchases under our Employee Stock Purchase Plan.

Employee Stock Purchase Plan – In May 2021, we adopted the 2021 Employee Stock Purchase Plan ("2021 ESPP") under which eligible employees could purchase common stock at a price equal to 85% of the lower of the fair market value of the common stock at the beginning or end of each six-month offering period. Participation in the 2021 ESPP is limited to $25,000 worth of stock for each calendar year, may be terminated at any time by the employee, and automatically ends on termination of employment. A total of 1,000,000 shares of common stock were reserved for issuance under the 2021 ESPP, and as of December 31, 2023, there were 800,844 shares available for future issuance thereunder. We issued 69,591 and 75,066 shares under the 2021 ESPP Plan during the years ended December 31, 2023 and 2022, respectively.

Share Purchases **–** On March 1, 2022, our Board of Directors authorized a 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 December 31, 2023 we have repurchased $1.8 million of our common stock pursuant to this program. During the years ended December 31, 2023 and 2022 we repurchased 299,780 and 705,201 shares of our 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.

Dividends **–** We did not pay dividends in the years ended December 31, 2023 and 2022.

9. LEASES

We lease 20,730 rentable square feet at 76 Blanchard Road in Burlington, Massachusetts (the "Leased Space") which has a term of ten years and six months, which includes a one-time termination right after seven years and six months. The term of the lease commenced on October 1, 2022, the date that the landlord notified us that the planned construction on the Leased Space was substantially complete. The lease provides for an aggregate of $8.2 million of rent payments over the lease term and also provides a renewal option for up to two additional terms of five years each.

The components of lease expense included in the consolidated statement of operations and comprehensive loss are as follows (in thousands):

	For the Year Ended December 31,	
	2023	2022
Operating lease costs	$ 733	$ 182

Supplemental balance sheet information related to the Company's operating lease was as follows (in thousands):

	As of December 31,	
	2023	2022
Operating lease right-of-use assets	$ 4,260	$ 4,538
Current portion, operating lease liabilities	637	470
Operating lease liabilities, long term	3,838	4,047
Total operating lease liabilities	$ 4,475	$ 4,517
Weighted average remaining lease term (years)	9.3	10.3
Weighted average incremental borrowing rate	10.1 %	10.1 %

The discount rate implicit in the lease was not readily determinable, and as such, we engaged a third-party valuation specialist to calculate the incremental borrowing rate ("IBR"). The IBR was determined as of the lease commencement date and was dependent on several factors including the amount of lease payments, our credit rating based on a collateralized borrowing, the lease term and the currency of the lease.

Future minimum lease payments for operating leases with initial remaining terms in excess of one year as of December 31, 2023 are as follows:

2024	$ 667
2025	687
2026	708
2027	729
2028	751
Thereafter	3,451
Total lease payments	6,993
Less implied interest	(2,518)
Total operating lease liabilities	$ 4,475

10. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation - There are no material pending legal proceedings to which we are a party or to which any of our properties are subject which, either individually or in the aggregate, are expected to have a material adverse effect on our business, financial position or results of operations.

Guarantees and Indemnification Obligations – We enter into agreements in the ordinary course of business that require us: i) to perform under the terms of the contracts, ii) to protect the confidentiality of our customers' intellectual property, and iii) to indemnify customers, including indemnification against third party claims alleging infringement of intellectual property rights. We also have agreements with each of our directors and executive officers to indemnify such directors or executive officers, to the extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of such individual being or having been a director or officer of the Company.

Given the nature of the above obligations and agreements, we are unable to make a reasonable estimate of the maximum potential amount that we could be required to pay. Historically, we have not made any significant payments on the above guarantees and indemnifications, and no amount has been accrued in the accompanying consolidated financial statements with respect to these guarantees and indemnifications.

11. EMPLOYEE BENEFIT PLAN

In 1994, we established a qualified 401(k) Retirement Plan (the "401K Plan") under which employees are allowed to contribute certain percentages of their pay, up to the maximum allowed under Section 401(k) of the Internal Revenue Code. Our contributions to the 401K Plan are at the discretion of the Board of Directors. Our contributions were $0.4 million in 2023 and 2022.

12. NET LOSS PER SHARE

The number of common shares used in the computation of diluted net loss per share for the periods presented does not include the effect of the following potentially outstanding common shares because the effect would have been anti-dilutive (in thousands):

	Year ended December 31,	
	2023	**2022**
Stock options	2,533	2,982

Net loss per share is calculated as follows (in thousands, except per share data):

	Year ended December 31,	
	2023	**2022**
Net loss	(7,314)	(1,726)
Shares outstanding:		
Weighted-average common shares outstanding	21,013	21,604
Additional dilutive common stock equivalents	—	—
Diluted shares outstanding	21,013	21,604
Net loss per share – basic	$ (0.35)	$ (0.08)
Net loss per share - diluted	$ (0.35)	$ (0.08)

13. SUBSEQUENT EVENTS

2023 Equity and Incentive Plan - On January 17, 2024, our shareholders approved the Aware, Inc. 2023 Equity and Incentive Plan (the "2023 Plan"), which replaced our 2001 Plan. The 2023 Plan provides for the grant of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock, unrestricted stock, restricted stock units, dividend equivalent rights, and cash awards. An aggregate of 1,277,130 shares of our common stock is authorized for issuance pursuant to awards under the 2023 Plan, plus an additional number of shares equal to the number of shares of our common stock subject to awards granted under the 2001 Plan that expire or terminate without having been exercised, are forfeited or otherwise repurchased by us at the grantee's original purchase price, or are withheld in payment of the exercise price of an option under the 2001 Plan or to satisfy tax withholding obligations with respect to such exercise, up to a maximum of 2,590,000 shares.

Options exchange program - On February 20, 2024, we completed an options exchange program, pursuant to which current employees holding stock options to purchase approximately 2.2 million shares of our common stock at weighted average exercise price of $4.88 per share (the "Old Options"), including stock options held by our executive officers to purchase approximately 2.2 million shares of our common stock, exchanged the Old Options for new stock options to purchase an aggregate 0.9 million shares of our common stock at an exercise price of $2.21 per share (the "New Options"). Each New Options will vest and become exercisable (a) with respect to 50% of the shares of common stock underlying such New Options on the first anniversary of the grant date and, (b) with respect to the remaining shares of common stock underlying such New Options, in twelve equal monthly installments thereafter, in each case subject to the continuous service of the employee holding such New Options. We expect to record an incremental $0.1 million in stock based compensation expense over the vesting period of the New Options.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Evaluation of Changes in Internal Control Over Financial Reporting

In October 2023, there was a significant change in our internal control over financial reporting resulting from the departure of our Chief Financial Officer and the subsequent promotion of our Controller to the position of Principal Financial Officer. Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, we have concluded that the promotion of the Controller to the position of Principal Financial Officer has not materially affected the design or operation of our internal control over financial reporting. We have updated our internal control documentation in light of this organizational change.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13(a)-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on our evaluation under the framework in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2023.

ITEM 9B. OTHER INFORMATION

During the three months ended December 31, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 of Form 10-K is incorporated by reference from the information contained in the sections captioned *"Directors and Executive Officers", "Corporate Governance*" and *"Section 16(a*) *Beneficial Ownership Reporting Compliance"* in the Proxy Statement that will be delivered to our shareholders in connection with our June 7, 2024 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 of Form 10-K is incorporated by reference from the information contained in the section captioned *"Executive Compensation"* in the Proxy Statement that will be delivered to our shareholders in connection with our June 7, 2024 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 of Form 10-K is incorporated by reference from the information contained in the section captioned *"Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters"* in the Proxy Statement that will be delivered to our shareholders in connection with our June 7, 2024 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information, if any, required by Item 13 of Form 10-K is incorporated by reference from the information contained in the sections captioned *"Corporate Governance"* and *"Certain Relationships and Related Transactions"* in the Proxy Statement that will be delivered to our shareholders in connection with our June 7, 2024 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 of Form 10-K is incorporated by reference from the information contained in the section captioned *"Independent Accountants"* in the Proxy Statement that will be delivered to our shareholders in connection with our June 7, 2024 Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

The following documents are filed as part of this report:

(a) Financial Statements and Exhibits**:**

(b) Exhibits:

The exhibits listed below are filed with or incorporated by reference in this report.

Exhibit No.	Description of 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).
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).
4.1†	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (filed as Exhibit 4.1 to the Company's Form 10-K for the year ended December 31, 2019 and incorporated herein by reference)
10.1*	2021 Employee Stock Purchase Plan, (filed as Annex A to the Company's Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 9, 2021 and incorporated herein by reference).
10.2*	Form of Indemnification Agreement for Directors and Officers of Aware, Inc. (filed as Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on February 22, 2011 and incorporated herein by reference).
10.3*	2001 Nonqualified Stock Plan (filed as Exhibit 99(d)(4) to the Company's Schedule TO filed with the Securities and Exchange Commission on March 3, 2003 and incorporated herein by reference).
10.4*	Form of Nonqualified Stock Option Agreement under the 2001 Nonqualified Stock Plan for options granted to executive officers and directors prior to May 21, 2008 (filed as Exhibit 10.6 to Company's Form 10-K for the year ended December 31, 2006 and incorporated herein by reference).
10.5*	Form of Nonqualified Stock Option Agreement under the 2001 Nonqualified Stock Plan for options granted to executive officers and directors from and after May 21, 2008 (filed as Exhibit 10.8 to Company's Form 8-K on May 22, 2008 and incorporated herein by reference)
10.6*	Form of Unrestricted Stock Award for outside directors of Aware under the 2001 Nonqualified Stock Plan (filed as Exhibit 10.1 to Company's Form 8-K filed with the Securities and Exchange Commission on July 28, 2010 and incorporated herein by reference).
10.7*	Form of Unrestricted Stock Award for officers of Aware under the 2001 Nonqualified Stock Plan (filed as Exhibit 10.2 to Company's Form 8-K filed with the Securities and Exchange Commission on July 28, 2010 and incorporated herein by reference).

10.8*	Form of Unrestricted Stock Award for executive officers and directors of Aware, Inc. under the 2001 Nonqualified Plan (filed as Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on April 4, 2013 and incorporated herein by reference).
10.9*	Employment Agreement between Aware, Inc. and Robert A. Eckel (filed as Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on September 19, 2019 and incorporated herein by reference).
10.10*	Performance Share Award Agreement between Aware, Inc. and Robert A. Eckel (filed as Exhibit 10.2 to the Company's Form 8-K filed with the Securities and Exchange Commission on September 19, 2019 and incorporated herein by reference).
10.11*	Employment Agreement between Aware, Inc. and Robert M. Mungovan (filed as Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on October 1, 2019 and incorporated herein by reference).
10.12*	Amendment to Employment Agreement dated as of July 15, 2022, by and between Aware, Inc. and Robert Mungovan (filed as Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on July 20, 2022 and incorporated herein by reference).
10.13*	Employment Agreement between Aware, Inc. and Mohamed Lazzouni (filed as Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on November 19, 2019 and incorporated herein by reference).
10.14*	Employment Agreement between Aware, Inc. and David B. Barcelo dated May 4, 2020 (filed as Exhibit 10.1 to Aware, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on May 4, 2020 and incorporated herein by reference).
10.15*	Aware, Inc. 2022 Executive Bonus Plan (incorporated by reference to Item 5.02 of the Aware, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on March 1, 2022 and incorporated herein by reference).
10.16*	Amendment to Employment Agreement between Aware, Inc. and Robert Eckel dated March 27, 2020 (filed as Exhibit 10.2 to Aware Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on March 30, 2020 and incorporated herein by reference).
10.17	Lease dated as of March 1, 2022 by and between 76/80 Burlington Group, LLC and Aware, Inc. (filed as Exhibit 10.20 to Aware Inc. Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission and incorporated herein by reference).
10.18*	Employment Agreement between Aware, Inc. and Craig Herman dated August 9, 2022. (filed as Exhibit 10.18 to Aware Inc. Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission and incorporated herein by reference).
10.19*	Aware, Inc. 2023 Equity and Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 18, 2024 and incorporated herein by reference).
10.20*	Form of Incentive Stock Option Agreement under the Aware, Inc. 2023 Equity and Incentive Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 18, 2024 and incorporated herein by reference
10.21*	Form of Nonstatutory Stock Option Agreement under the Aware, Inc. 2023 Equity and Incentive Plan (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 18, 2024 and incorporated herein by reference).
10.22*	Form of Restricted Stock Unit Aware Agreement under the Aware, Inc. 2023 Equity and Incentive Plan (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 18, 2024 and incorporated herein by reference).
10.23*	Letter Agreement dated November 13, 2023 between Aware, Inc. and David Barcelo (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 15, 2023 and incorporated herein by reference).

21.1	Subsidiaries of Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
97.1	Aware Inc. Compensation Recovery Policy.
101	The following financial statements from Aware, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2023, formatted in inline XBRL (eXtensible Business Reporting Language), as follows: (i) Consolidated Balance Sheets as of December 31, 2023 and December 31, 2022; (ii) Consolidated Statements of Operations and Comprehensive Loss for the Years Ended December 31, 2023 and December 31, 2022; (iii) Consolidated Statements of Cash Flows for the Years Ended December 31, 2023 and December 31, 2022; (iv) Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2023 and December 31, 2022 and (v) Notes to Consolidated Financial Statements.
104	Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101

*Management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

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

By: /s/ David K. Traverse
David K. Traverse
Principal Financial Officer

Date: March 15, 2024

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 15th day of March 2024.

Signature	Title
/s/ Robert A. Eckel Robert A. Eckel	Chief Executive Officer, President & Director (Principal Executive Officer)
/s/ David K. Traverse David K. Traverse	Principal Financial Officer (Principal Financial Officer)
/s/ Brent P. Johnstone Brent P. Johnstone	Chairman of the Board & Director
/s/ John S. Stafford, III John S. Stafford, III	Director
/s/ Brian D. Connolly Brian D. Connolly	Director
/s/ Gary Evee Gary Evee	Director
/s/ Peter Faubert Peter Faubert	Director

Exhibit 21.1

SUBSIDIARIES OF REGISTRANT

Name of Organization	Jurisdiction
Aware Security Corporation	Massachusetts
Fort3ss, Inc.	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (333-62020, 333-106569, 333-261273, and 333-276900) on Form S-8 of Aware, Inc. of our report dated March 15, 2024, relating to the consolidated financial statements, of Aware, Inc. and its subsidiaries, appearing in this Annual Report on Form 10-K of Aware, Inc. for the year ended December 31, 2023.

/s/ RSM US LLP
Boston, Massachusetts
March 15, 2024

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   d) disclosed in this annual 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:	March 15, 2024	/s/ Robert A. Eckel
		Robert A. Eckel
		Chief Executive Officer & President

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, David K. Traverse, Principal Financial Officer of Aware, Inc., certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

    d) disclosed in this annual 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:	March 15, 2024	/s/ David K. Traverse
		David K. Traverse
		Principal Financial Officer

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K of Aware, Inc. (the "Company") for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned Chief Executive Officer and Principal Financial Officer of the Company, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Robert A. Eckel	/s/ David K. Traverse
Robert A. Eckel	David K. Traverse
Chief Executive Officer & President	Principal Financial Officer
Date: March 15, 2024	Date: March 15, 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-K or as a separate disclosure document of the Company or the certifying officers.

EX-97.1

AWARE, INC.

Compensation Recovery Policy

November 30, 2023

This Compensation Recovery Policy (the "**Policy**") has been adopted by the Board of Directors (the "**Board**") of Aware, Inc. (the "**Company**"). Certain capitalized terms used in this Policy are defined at the end of this Policy.

1. **Introduction**. This Policy is intended to support the Company's pay-for-performance practices by addressing circumstances in which the Company may directly or indirectly pay compensation that was not earned. For example, the Company might pay unearned compensation by miscalculating the amount of compensation to be paid to an employee or by paying compensation for results achieved through misconduct. It is the policy of the Company to recover unearned compensation as set forth in this Policy. This Policy imposes legally binding obligations on each Executive Officer.

2. **Intent**. This Policy is intended to comply with Section 10D of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), Rule 10D-1 under the Exchange Act and Nasdaq Stock Market Rule 5608. This Policy is also intended to facilitate compliance with Section 304 of the Sarbanes-Oxley Act of 2002, as amended (15 U.S.C. § 7243). This Policy shall be interpreted and administered to facilitate compliance with applicable laws, rules and regulations, including interpretations thereof promulgated or issued by the Securities and Exchange Commission (the "**Commission**") or Nasdaq, as applicable.

3. **Administration**. This Policy shall be administered by the Board or, if so designated by the Board, the Compensation Committee of the Board (the "**Compensation Committee**"), in which case references herein to the Board shall be deemed references to the Compensation Committee. Administration of the Policy shall include the authority to (a) exercise all of the powers granted to the Board under the Policy, (b) construe, interpret, and implement this Policy in the Board's sole discretion, and (c) make all determinations necessary or advisable in administering this Policy and for the Company's compliance with applicable laws, rules and regulations with respect to this Policy, (d) engage counsel and other advisors at the expense of the Company to advise and assist the Board in connection with the interpretation, implementation and enforcement of this Policy, and (e) recommend amendments to this Policy. Any determinations made by the Board under this Policy shall be final and binding on all persons, including the Company, its affiliates, its shareholders and employees, and need not be uniform with respect to every individual covered by the Policy.

4. **Dissemination and Acknowledgement of this Policy**. A copy of this Policy shall be provided to each Executive Officer upon inception of the Policy, upon commencement of employment, upon any amendment of the Policy and otherwise at regular intervals. Continued

employment for more than two (2) weeks after receipt of a copy of this Policy shall constitute an agreement to be bound by the terms of this Policy. It shall be a condition of employment or continued employment of each Executive Officer that he, she or they shall execute and deliver to the Company, upon request, a copy of the Acknowledgement and Agreement attached to this Policy as Exhibit A, provided that failure to obtain such Acknowledgement and Agreement shall not affect the enforceability of this Policy.

5. **Recovery of Erroneously Awarded Incentive-Based Compensation**.

(a)In the event that the Company is required to prepare an Accounting Restatement, the Company shall recover reasonably promptly from each Executive Officer the amount of Erroneously Awarded Incentive-Based Compensation, regardless of fault or responsibility and regardless of whether the Company actually files the required Accounting Restatement with the Commission.

(b)Under this Policy, each Executive Officer is legally obligated, both during and after employment, to reimburse the Company reasonably promptly for any Erroneously Awarded Incentive-Based Compensation.

(c)Any employment agreement, equity award agreement, compensation plan or other compensatory agreement or arrangement with any Executive Officer shall be deemed to include, as a condition to the receipt of any Incentive-Based Compensation from or on behalf of the Company, an agreement by the Executive Officer to be bound by this Policy.

6. **Recovery for Misconduct**. In accordance with Section 304 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. § 7243), in the absence of an exemption from the Commission, if the Company is required to prepare an accounting restatement (which may include an Accounting Restatement) due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under applicable securities laws, the Chief Executive Officer and Chief Financial Officer of the Company shall reimburse the Company for (a) any bonus or other incentive-based or equity-based compensation received by that person from or on behalf of the Company during the 12-month period following the first public issuance or filing with the Commission (whichever first occurs) of the financial document embodying such financial reporting requirement, and (b) any profits realized from the sale of securities of the Company during that 12-month period (collectively, "**Misconduct-related Compensation**"). For purposes of administering this Policy, the Board may treat any Misconduct-related Compensation as Erroneously Awarded Incentive-Based Compensation but may elect such other recovery procedures as it deems necessary or appropriate.

7. **Recovery Procedure**.

(a)If the Company is required to prepare an Accounting Restatement, the Board shall reasonably promptly determine the amount of any Erroneously Awarded Incentive-Based Compensation and shall deliver written notice of the determination to the relevant Executive Officer(s), together with a demand for repayment of such compensation in the manner determined by the Board pursuant to Section 7(d).

(b)For Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Incentive-Based Compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement:

(i) the Board shall make a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was received; and

(ii) the Company shall maintain documentation of the Board's determination of that reasonable estimate and provide such documentation to Nasdaq.

(c)For long-term disability plans, life insurance plans, supplemental executive retirement plans or other plans or arrangements that take into account Incentive-Based Compensation, the Company shall recover the amount contributed to the notional account based on Erroneously Awarded Incentive-Based Compensation and any earnings accrued to date on that notional amount.

(d)The Board shall have the discretion to determine the appropriate timing and means of recovery of Erroneously Awarded Incentive-Based Compensation based on the facts and circumstances of each recovery, which may include one or more of the following (in each case to the extent permitted by law):

(i) repayment in cash of the amount of Erroneously Awarded Incentive-Based Compensation;

(ii) offsets against unpaid incentive compensation, nonqualified deferred compensation, future compensation or dividends on Company stock;

(iii)cancellation of outstanding equity awards, whether vested or unvested;

(iv)surrender of outstanding shares of Company stock;

(v) non-cancellable promissory notes bearing a commercially reasonable rate of interest;

(vi)a deferred payment plan that allows the Executive Officer to repay Erroneously Awarded Incentive-Based Compensation as soon as possible without unreasonable economic hardship to the Executive Officer; or

(vii)any other remedial action permitted by law, as determined by the Board in its sole discretion.

Notwithstanding the foregoing, except as provided in Section 8, the Company shall not accept an amount less than the amount of the Erroneously Awarded Incentive-Based Compensation in satisfaction of an Executive Officer's obligations under this Policy.

(e)If an Executive Officer fails to repay all Erroneously Awarded Incentive-Based Compensation to the Company when due, (i) the Company shall seek, subject only to the exceptions provided in Section 8, to recover such Erroneously Awarded Incentive-Based Compensation from the Executive Officer and (ii) the Executive Officer shall reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company or any of its subsidiaries in recovering such Erroneously Awarded Incentive-Based Compensation.

8. **Exceptions**. The Company need not recover Erroneously Awarded Incentive-Based Compensation in the following circumstances if a majority of the independent directors serving on the Board has made a determination that recovery would be impracticable:

(a)the direct expense paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered; *provided, however*, that, before concluding that it would be impracticable to recover any amount of Erroneously Awarded Incentive-Based Compensation based on expense of enforcement, the Company must make a reasonable attempt to recover such Erroneously Awarded Incentive-Based Compensation, document such reasonable attempt(s) to recover, and provide that documentation to Nasdaq; or

(b)recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. § 401(a)(13) or 26 U.S.C. § 411(a) and regulations thereunder.

9. **Disclosure**. The Company shall file all disclosures with respect to this Policy in accordance with the requirements of federal securities laws, including the disclosure required by applicable Commission filings.

10.**Prohibition of Indemnification**. Notwithstanding the terms of any insurance policy or any indemnification agreement or other contractual arrangement with any Executive Officer to the contrary, the Company shall not insure or indemnify any Executive Officer against (a) the loss of any Erroneously Awarded Incentive-Based Compensation that is required to be repaid, returned or recovered pursuant to this Policy, or (b) any claims relating to the Company's enforcement of its rights under this Policy. Although Executive Officers may purchase insurance to cover their potential recovery obligations, the Company shall not pay or reimburse the Executive Officer for premiums or deductibles for any such policy. Further, the Company shall not agree to exempt any Incentive-Based Compensation from the application of this Policy or to waive the Company's right to recover any Erroneously Awarded Incentive-Based Compensation. This Policy shall supersede any such agreement or waiver (whether entered into before, on, or after the Effective Date), including any indemnification agreement.

11.**Other Recovery Rights; Credit for Recovery**. This Policy shall not be construed to limit in any way the Company's right to recover any Erroneously Awarded Incentive-Based Compensation or other Incentive-Based Compensation from any Executive Officer, or any other rights or remedies that the Company may have, under any other policy, plan or agreement or any applicable law, rule or regulation. If the Company shall recover from any Executive Officer any Erroneously Awarded Incentive-Based Compensation through any means outside this Policy, the amount recovered shall be credited against the amount owed by the

Executive Officer under this Policy with respect to such Erroneously Awarded Incentive-Based Compensation.

12.**Binding Effect**. This Policy shall be binding on and enforceable against all Executive Officers and their beneficiaries, heirs, executors, administrators and other legal representatives.

13.**Survival; No Release or Waiver of Claims**. Neither the termination of employment of an Executive Officer nor ceasing to serve as an Executive Officer shall affect the Executive Officer's obligations under this Policy, which shall survive such termination or change in service. Each Executive Officer agrees that no general or limited release or waiver by the Company of any claims or rights shall release or waive, or be deemed to release or waive, any of the Company's rights under this Policy (or any obligations of the Executive Officer under this Policy) unless, and only to the extent that, and subject to Section 10, such release or waiver expressly refers to this Policy by name and expressly states that the Company intends to release its rights under this Policy.

14.**Severability**. If any provision of this Policy or the application of such provision is adjudicated to be invalid, illegal or unenforceable in any respect, that invalidity, illegality or unenforceability shall not affect any other provision of this Policy, and the invalid, illegal or unenforceable provision shall be deemed to be amended to the minimum extent necessary to render that provision or the application thereof enforceable.

15.**Governing Law**. This Policy shall be governed by and construed in accordance with the laws of the State of Massachusetts, without regard to its conflicts of laws.

16.**Amendment; Termination; Waiver**. This Policy may be amended, modified or terminated at any time by the Board of Directors of the Company. The Board shall have the discretion to waive any provision of this Policy, but only to the extent that such waiver would not result in a violation by the Company of any applicable law, rule or regulation, including Rule 10D-1 under the Exchange Act and Nasdaq Rule 5608.

17.**Definitions**. For purposes of this Policy, the following terms shall have the respective meanings set forth below:

"**Accounting Restatement**" means any accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under applicable securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

"**Effective Date**" means October 2, 2023.

"**Erroneously Awarded Incentive-Based Compensation**" means the amount of Recoverable Incentive-Based Compensation Received that exceeds the amount of Recoverable Incentive-Based Compensation that otherwise would have been Received had it been determined based on the restated amounts. The amount of Erroneously Awarded Incentive-Based Compensation must be computed without regard to any taxes paid.

“**Executive Officer**” means the Company’s principal executive officer, president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company. Executive officers of the Company’s parent(s) or subsidiaries are deemed executive officers of the Company if they perform such policy making functions for the Company. All executive officers identified by the Company pursuant to Item 401(b) of Regulation S-K shall be deemed to be Executive Officers.

“**Financial Reporting Measure**” means any measure that is determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures. Stock price and total shareholder return (whether absolute or relative) are also Financial Reporting Measures. A Financial Reporting Measure need not be presented within the financial statements or included in a filing with the Commission.

“**Incentive-Based Compensation**” means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

Incentive-Based Compensation is deemed “**Received**” in the Company’s fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period.

“**Recoverable Incentive-Based Compensation**” means all Incentive-Based Compensation Received by a person:

(a) after the later of (i) beginning service as an Executive Officer and (ii) the Effective Date;

(b) who served as an Executive Officer at any time during the performance period for that Incentive-Based Compensation;

(c) while the Company has a class of securities listed on a national securities exchange or a national securities association; and

(d) during the Recovery Period.

“**Recovery Period**” means the three completed fiscal years immediately preceding the Restatement Date. The Recovery Period also includes any transition period (that results from a change in the Company’s fiscal year) within or immediately following those three completed fiscal years. A transition period between the last day of the Company’s previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months shall be deemed a completed fiscal year.

"**Restatement Date**" means the date that the Company is required to prepare an Accounting Restatement, which is the earlier to occur of:

(a) the date the Company's Board of Directors, a committee of the Board of Directors, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement; or

(b) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement.

<u>Exhibit A</u>

AWARE, INC.

Compensation Recovery Policy Acknowledgement and Agreement

The undersigned has received a copy of the Compensation Recovery Policy (as amended from time to time, the "**Policy**") of Aware, Inc. (the "**Company**").

The undersigned has read and understands the Policy. To the extent that the undersigned considered appropriate, the undersigned has consulted with the undersigned's own tax, legal, financial and other advisors regarding the Policy.

The undersigned hereby acknowledges and agrees that the undersigned is an "Executive Officer" within the meaning of the Policy and that the Policy applies in full to the undersigned. The undersigned hereby agrees to comply with all of the obligations of the undersigned under the Policy as an Executive Officer of the Company. The undersigned acknowledges that the Policy imposes legally binding obligations on the undersigned, including the obligation to reimburse the Company for "Erroneously Awarded Incentive-Based Compensation" within the meaning of the Policy. The undersigned hereby acknowledges and agrees that that these obligations will continue even if the undersigned ceases to serve as an Executive Officer or the employment of the undersigned terminates for any reason.

Executive Officer:

____
Signature

____
Print Name

____
Date