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

FORM 10-Q

Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act of 1934

For the quarter ended June 30, 2019

Commission file number 000-21129

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

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

40 Middlesex Turnpike, Bedford, Massachusetts, 01730
(Address of Principal Executive Offices)
(Zip Code)

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

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

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

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

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

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

Large Accelerated Filer☐	Accelerated Filer ☒
Non-Accelerated Filer ☐	Smaller Reporting Company ☒
Emerging Growth Company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

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

The number of shares outstanding of the registrant's common stock as of July 29, 2019 was 21,572,748.

AWARE, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2019

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

	June 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,959	$ 51,612
Accounts receivable, net	2,936	2,010
Unbilled receivables	3,659	3,279
Prepaid expenses and other current assets	234	284
Total current assets	55,788	57,185
Property and equipment, net	3,933	4,085
Deferred tax assets	5,334	5,171
Total assets	$ 65,055	$ 66,441
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 167	$ 126
Accrued expenses	1,353	1,319
Deferred revenue	2,345	3,024
Total current liabilities	3,865	4,469
Long-term deferred revenue	79	75
Commitments and contingent liabilities		
Stockholders' equity:		
Preferred stock, $1.00 par value; 1,000,000 shares authorized, none outstanding	-	-
Common stock, $.01 par value; 70,000,000 shares authorized; issued and outstanding 21,514,200 as of June 30, 2019 and 21,515,872 as of December 31, 2018	215	215
Additional paid-in capital	96,300	96,376
Accumulated deficit	(35,404)	(34,694)
Total stockholders' equity	61,111	61,897
Total liabilities and stockholders' equity	$ 65,055	$ 66,441

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Revenue:				
Software licenses	$ 1,189	$ 1,659	$ 2,725	$ 3,133
Software maintenance	1,320	1,402	2,675	2,696
Services	503	699	1,344	842
Total revenue	3,012	3,760	6,744	6,671
Costs and expenses:				
Cost of services	321	370	839	420
Research and development	2,091	1,887	3,851	3,762
Selling and marketing	909	1,013	1,736	1,937
General and administrative	874	871	1,595	1,656
Total costs and expenses	4,195	4,141	8,021	7,775
Patent related income	-	-	49	-
Operating loss	(1,183)	(381)	(1,228)	(1,104)
Interest income	278	201	553	363
Loss before provision for (benefit from) income taxes	(905)	(180)	(675)	(741)
Provision for (benefit from) income taxes	33	8	35	(58)
Net loss	$ (938)	$ (188)	$ (710)	$ (683)
Net loss per share – basic	$ (0.04)	$ (0.01)	$ (0.03)	$ (0.03)
Net loss per share – diluted	$ (0.04)	$ (0.01)	$ (0.03)	$ (0.03)
Weighted-average shares – basic	21,537	21,534	21,551	21,540
Weighted-average shares – diluted	21,537	21,534	21,551	21,540

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

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

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash flows from operating activities:		
Net loss	$ (710)	$ (683)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	221	229
Stock-based compensation	190	208
Changes in assets and liabilities:		
Accounts receivable	(926)	(1,128)
Unbilled receivables	(380)	(113)
Prepaid expenses and other current assets	50	(8)
Deferred tax assets	(163)	(152)
Accounts payable	41	(2)
Accrued expenses	(90)	(35)
Accrued income taxes	124	13
Deferred revenue	(675)	(511)
Net cash used in operating activities	(2,318)	(2,182)
Cash flows from investing activities:		
Purchases of property and equipment	(69)	(134)
Net cash used in investing activities	(69)	(134)
Cash flows from financing activities:		
Proceeds from issuance of common stock	22	27
Payments made for taxes of employees who surrendered shares related to unrestricted stock	(49)	(61)
Repurchase of common stock	(239)	(137)
Net cash used in financing activities	(266)	(171)
Decrease in cash and cash equivalents	(2,653)	(2,487)
Cash and cash equivalents, beginning of period	51,612	51,608
Cash and cash equivalents, end of period	$ 48,959	$ 49,121
Supplemental disclosure:		
Cash paid for income taxes	$ 40	$ 78

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

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

	Three and Six Months Ended June 30, 2019				
	Common Stock		Additional Paid-In	(Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit)	Equity
Balance at December 31, 2018	21,516	$ 215	$ 96,376	$ (34,694)	$ 61,897
Issuance of unrestricted stock	69	1	(1)	-	-
Shares surrendered by employees to pay taxes related to unrestricted stock	(14)	-	(49)	-	(49)
Stock-based compensation expense	-	-	14	-	14
Repurchase of common stock	(20)	-	(78)	-	(78)
Net income	-	-	-	228	228
Balance at March 31, 2019	21,551	$ 216	$ 96,262	$ (34,466)	$ 62,012
Exercise of common stock options	4	-	-	-	-
Issuance of common stock under employee stock purchase plan	7	-	22	-	22
Stock-based compensation expense	-	-	177	-	177
Repurchase of common stock	(48)	(1)	(161)	-	(162)
Net loss	-	-	-	(938)	(938)
Balance at June 30, 2019	21,514	$ 215	$ 96,300	$ (35,404)	$ 61,111

	Three and Six Months Ended June 30, 2018				
	Common Stock		Additional Paid-In	(Accumulated	Stockholders'
	Shares	Amount	Capital	Deficit)	Equity
Balance at December 31, 2017	21,493	215	96,246	(35,927)	60,534
Issuance of unrestricted stock	67	-	-	-	-
Shares surrendered by employees to pay taxes related to unrestricted stock	(13)	-	(61)	-	(61)
Stock-based compensation expense	-	-	24	-	24
Net loss	-	-	-	(496)	(496)
Balance at March 31, 2018	21,547	$ 215	$ 96,209	$ (36,423)	$ 60,001
Issuance of common stock under employee stock purchase plan	7	-	27	-	27
Stock-based compensation expense	-	-	183	-	183
Repurchase of common stock	(34)	-	(137)	-	(137)
Net loss	-	-	-	(187)	(187)
Balance at June 30, 2018	21,520	$ 215	$ 96,282	$ (36,610)	$ 59,887

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

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

A) ***Nature of Business.*** We are a leading provider of software and services to the biometrics industry. Our software products are used in government and commercial biometrics systems, which are capable of determining or verifying an individual's identity. We also offer engineering services related to software customization, integration, and installation, as well as complete systems development. We sell our biometrics software products and services globally through systems integrators, OEMs, and directly to end user customers. We also derive a portion of our revenue from the sale of imaging software.

B) ***Basis of Presentation.*** The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include all information and notes necessary for a complete presentation of our financial position, results of operations and cash flows, in conformity with generally accepted accounting principles. We filed audited financial statements which included all information and notes necessary for such presentation for the two years ended December 31, 2018 in conjunction with our 2018 Annual Report on Form 10-K. This Form 10-Q should be read in conjunction with that Form 10-K.

The accompanying unaudited consolidated balance sheets, statements of operations, statements of cash flows, and statements of stockholders' equity reflect all adjustments (consisting only of normal recurring items) which are, in the opinion of management, necessary for a fair presentation of financial position at June 30, 2019, and of operations and cash flows for the interim periods ended June 30, 2019 and 2018.

The results of operations for the interim period ended June 30, 2019 are not necessarily indicative of the results to be expected for the year.

C) ***Revenue Recognition.*** Effective January 1, 2018, we adopted Accounting Standards Codification ("ASC"), Topic 606, Revenue from Contracts with Customers ("ASC 606"), using the full retrospective transition method.

In accordance with 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 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.

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. 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 June 30, 2019 and 2018, none of our contracts contained a significant financing component.

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 as discussed in further detail below. Revenue is recognized over time if 1) the customer simultaneously receives and consumes the benefits provided by our performance, 2) our performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or 3) 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. In addition to the general revenue recognition policies described above, 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 in perpetuity as it exists when made available to the customer. We recognize revenue from software licenses at a point in time upon delivery, provided all other revenue recognition criteria are met.

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

Service revenue consists of fees from biometrics customers for software engineering services we provide to them. 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.

Refer to Note G – Business Segments for further information on the disaggregation of revenue, including revenue by geography and category.

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:

- 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 on a straight-line basis over the contract period.

- 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 (i.e., labor hours incurred as a percentage of total labor hours budgeted). 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.

- 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 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 (i.e., labor hours incurred as a percentage of total labor hours budgeted).

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 due date) or a contract liability (customer payment precedes performance). Customers that prepay are represented by the deferred revenue below until the performance obligation is satisfied. Contract assets represent arrangements in which the good or service has been delivered but payment is not yet due. 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 three and six months ended June 30, 2018 and 2019 (in thousands):

	Balance at Beginning of Period	Revenue Recognized In Advance of Billings	Billings	Balance at End of Period
Three months ended June 30, 2018				
Contract assets:				
Unbilled receivables	$ 1,233	$ 542	$ (233)	$ 1,542
Three months ended June 30, 2019				
Contract assets:				
Unbilled receivables	$ 3,918	$ 409	$ (668)	$ 3,659

	Balance at Beginning of Period	Billings	Revenue Recognized	Balance at End of Period
Three months ended June 30, 2018				
Contract liabilities:				
Deferred revenue	$ 2,396	$ 1,427	$ (1,402)	$ 2,421
Three months ended June 30, 2019				
Contract liabilities:				
Deferred revenue	$ 2,516	$ 1,228	$ (1,320)	$ 2,424

	Balance at Beginning of Period	Revenue Recognized In Advance of Billings	Billings	Balance at End of Period
Six months ended June 30, 2018				
Contract assets:				
Unbilled receivables	$ 1,429	$ 575	$ (462)	$ 1,542
Six months ended June 30, 2019				
Contract assets:				
Unbilled receivables	$ 3,279	$ 1,468	$ (1,088)	$ 3,659

	Balance at Beginning of Period	Billings	Revenue Recognized	Balance at End of Period
Six months ended June 30, 2018				
Contract liabilities:				
Deferred revenue	$ 2,932	$ 2,185	$ (2,696)	$ 2,421
Six months ended June 30, 2019				
Contract liabilities:				
Deferred revenue	$ 3,099	$ 2,000	$ (2,675)	$ 2,424

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 96% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter. As of June 30, 2019 and December 31, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations for software maintenance contracts with a duration greater than one year was $0.1 million.

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.

D) ***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 $49.0 million and $51.6 million as of June 30, 2019 and December 31, 2018, respectively. We classified our cash equivalents of $48.3 million and $47.9 million as of June 30, 2019 and December 31, 2018, respectively, within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

As of June 30, 2019, our assets that are measured at fair value on a recurring basis and whose carrying values approximate their respective fair values include the following (in thousands):

	Fair Value Measurement at June 30, 2019 Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Money market funds (included in cash and cash equivalents)	$ 48,253		
Total	$ 48,253	$ -	$ -

As of December 31, 2018, our assets that are measured at fair value on a recurring basis and whose carrying values approximate their respective fair values include the following (in thousands):

	Fair Value Measurement at December 31, 2018 Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Money market funds (included in cash and cash equivalents)	$ 47,939		
Total	$ 47,939	$ -	$ -

E) ***Computation of Earnings per Share.*** Basic earnings per share is computed by dividing net income or loss by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income or loss by the weighted average number of common shares outstanding plus additional common shares that would have been outstanding if dilutive potential common shares had been issued. For the purposes of this calculation, stock options are considered common stock equivalents in periods in which they have a dilutive effect. Stock options that are anti-dilutive are excluded from the calculation. Potential common stock equivalents of 143,000 and 81,376 for the three and six months ended June 30, 2019, respectively, and 144,727 and 85,657 for the three and six months ended June 30, 2018, respectively, were not included in the per share calculation for diluted earnings per share, because we had a net loss and the effect of their inclusion would be anti-dilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net loss	$ (938)	$ (188)	$ (710)	$ (683)
Shares outstanding:				
Weighted-average common shares outstanding	21,537	21,534	21,551	21,540
Additional dilutive common stock equivalents	-	-	-	-
Diluted shares outstanding	21,537	21,534	21,551	21,540
Net loss per share – basic	$ (0.04)	$ (0.01)	$ (0.03)	$ (0.03)
Net loss per share - diluted	$ (0.04)	$ (0.01)	$ (0.03)	$ (0.03)

F) ***Stock-Based Compensation.*** The following table presents stock-based employee compensation expenses included in our unaudited consolidated statements of comprehensive income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Cost of services	$ 7	$ 8	$ 8	$ 8
Research and development	36	32	38	37
Selling and marketing	4	4	4	5
General and administrative	130	140	140	158
Stock-based compensation expense	$ 177	$ 184	$ 190	$ 208

Stock Option Grants. We may grant stock options under our 2001 Nonqualified Stock Plan although we have not granted any stock options since the first quarter of 2012.

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

We granted shares of unrestricted stock in 2019 and 2018 that affected financial results for the three and six month periods ended June 30, 2019 and 2018. These grants are described below.

2019 Grant. On March 25, 2019, we granted 143,000 shares of unrestricted stock to directors, officers and employees. The shares will be issued in two equal installments shortly after June 30, 2019 and December 31, 2019, provided each grantee is serving as a director, officer or employee on those dates. The total stock-based compensation expense related to this grant is $547,000, of which $177,000 and $190,000 was charged to expense in the three and six months ended June 30, 2019 and we anticipate the remaining $357,000 will be charged to expense ratably over the remaining two quarters of 2019.

2018 Grant. In March 2018, we granted 138,000 shares of unrestricted stock to directors, officers and employees. The shares were issued in two equal installments shortly after June 30, 2018 and December 31, 2018. We expensed the entire $580,000 stock-based compensation expense related to this grant in 2018. We issued shares of common stock related to this grant as follows: i) 57,592 net shares of common stock were issued in early July 2018 after employees surrendered 11,408 shares for which we paid $51,000 of withholding taxes on their behalf; and ii) 55,278 net shares of common stock were issued in early January 2019 after employees surrendered 13,722 shares for which we paid $49,000 of withholding taxes on their behalf.

G) ***Business Segments***. We organize ourselves into a single segment that reports to the chief operating decision maker.

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 for the three and six months ended June 30, 2019 and 2018 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
United States	$ 1,728	$ 1,522	$ 3,451	$ 3,591
United Kingdom	466	1,374	1,345	1,508
Rest of World	818	864	1,948	1,572
	$ 3,012	$ 3,760	$ 6,744	$ 6,671

Revenue by product group for the three and six months ended June 30, 2019 and 2018 was (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Biometrics	$ 2,877	$ 3,403	$ 6,349	$ 5,888
Imaging	135	357	395	783
	$ 3,012	$ 3,760	$ 6,744	$ 6,671

Revenue by timing of transfer of goods or services for the three and six months ended June 30, 2019 and 2018 was (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Goods or services transferred at a point in time	$ 957	$ 1,064	$ 2,128	$ 2,538
Goods or services transferred over time	2,055	2,696	4,616	4,133
	$ 3,012	$ 3,760	$ 6,744	$ 6,671

H) ***Income Taxes.*** Income tax expense was $33,000 and $35,000 for the three and six months ended June 30, 2019, respectively. Income tax expense for the three and six month periods ended June 30, 2019 were based on the U.S. statutory rate of 21%, increased by state income taxes, and reduced by permanent adjustments and research tax credits.

As of June 30, 2019, we had a total of $5.3 million of deferred tax assets for which we had recorded no valuation allowance. We have assessed the need for a valuation allowance on our deferred tax assets. Based on our assessment of future sources of income, including reversing deferred tax liabilities, and future earnings, we have determined that it is more likely than not that the deferred tax assets will be realized, and therefore there is no valuation allowance required for the deferred tax assets. We will continue to assess the level of valuation allowance 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.

I) ***Income from patent arrangement.*** We entered into an arrangement with an unaffiliated third party in 2010 under which we assigned certain patents in return for royalties on proceeds from patent monetization efforts by the third party. The third party has engaged in various patent monetization activities, including enforcement, litigation and licensing. In the three months ended June 30, 2019, there was no revenue from this arrangement. In the six months ended June 30, 2019, the third party reported and we recorded $49,000 of income from this arrangement. In the three and six months ended June 30, 2018, there was no income from this arrangement.

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

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

Some of the information in this Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate," "continue" and similar words. You should read statements that contain these words carefully because they: (1) discuss our future expectations; (2) contain projections of our future operating results or financial condition; or (3) state other "forward-looking" information. However, we may not be able to predict future events accurately. The risk factors listed in our Annual Report on Form 10-K for the year ended December 31, 2018, as well as any cautionary language in this Form 10-Q, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. You should be aware that the occurrence of any of the events described in these risk factors and elsewhere in this Form 10-Q could materially and adversely affect our business.

Summary of Operations

We are primarily engaged in the development and sale of biometrics products and services. Our software products are used in government and commercial biometrics systems to identify or authenticate people. Principal government applications of biometrics systems include border control, visitor screening, law enforcement, national defense, intelligence, secure credentialing, access control, and background checks. Principal commercial applications include: i) user authentication for login and access 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) screening and background checks of prospective employees and customers. We sell our software and services globally through systems integrators and OEMs, and directly to end user customers. We also derive a portion of our revenue from the sale of imaging software licenses to OEMs and systems integrators that incorporate our software into medical imaging products and medical systems.

Summary of Financial Results

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

Revenue and operating loss for the three months ended June 30, 2019 were $3.0 million and $1.2 million, respectively. These results compared to revenue of $3.8 million and operating loss of $0.4 million in the three months ended June 30, 2018. Lower revenue and higher operating loss in the current three month period were primarily due to: i) lower biometrics software license sales, ii) lower imaging software license sales; and iii) lower services revenue. This was partially offset by lower total costs and expenses.

Revenue and operating loss for the six months ended June 30, 2019 were $6.74 million and $1.2 million, respectively. These results compared to revenue of $6.67 million and operating loss of $1.1 million in the six months ended June 30, 2018. Higher revenue was primarily due to higher services revenue, which was partially offset by lower imaging software license sales. Higher operating loss was primarily due to higher total costs and expenses, which was partially offset by higher revenue and income from a patent arrangement.

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

Results of Operations

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

Software license revenue decreased 28% from $1.7 million in the three months ended June 30, 2018 to $1.2 million in the same three month period in 2019. As a percentage of total revenue, software license revenue decreased from 44% in the second quarter of 2018 to 39% in the current year quarter. The $470,000 decrease in software license revenue was due to a $235,000 decrease in biometrics software license sales, and a $235,000 decrease in imaging software license sales. The reasons for the changes in biometrics and imaging software license sales were:

i) Biometrics software licenses – Biometrics software license sales were $1.1 million in the second quarter of 2019 versus $1.3 million in the same quarter last year. The dollar decrease was primarily due to lower revenue from the software license agreement we entered into with a systems integrator in the second quarter of 2018 and was partially offset by higher software license sales to other customers. We recognized $170,000 of software license revenue from this agreement in the second quarter of 2019. We also provide engineering services to this systems integrator pursuant to this arrangement. We expect our development effort on this project to continue for approximately the next two to three quarters.

ii) Imaging software licenses – Imaging software license sales were $0.1 million in the second quarter of 2019 versus $0.3 million in the same quarter last year. The dollar decrease was primarily due to an imaging sale to a systems integrator customer in the second quarter of 2018, whereas we had no such sales in the corresponding period of 2019.

Software license revenue decreased 13% from $3.1 million in the six months ended June 30, 2018 to $2.7 million in the same six month period in 2019. As a percentage of total revenue, software license revenue decreased from 47% in the first six months of 2018 to 40% in the current year six month period. The $408,000 decrease in software license revenue was due to a $437,000 decrease in imaging software license sales, which was partially offset by a $29,000 increase in biometrics software license sales. The reasons for the changes in imaging and biometrics software license sales were:

i) Imaging software licenses – Imaging software license sales were $0.3 million in the first six months of 2019 versus $0.7 million in the same period last year. The dollar decrease was primarily due to imaging license sales to two systems integrator customers in the first six months of 2018, whereas we had no such sales in the corresponding period of 2019.

ii) Biometrics software licenses – Biometrics software license sales were $2.5 million in the first six months of 2019 versus $2.4 million in the same six month period last year. The dollar increase was primarily due to slightly higher license sales to our biometrics customers. Although we had lower revenue from the software license agreement we entered into with a systems integrator in the second quarter of 2018, this was more than offset by higher software license sales to other customers.

As described in the strategy section of our Form 10-K for the year ended December 31, 2018, our market strategy is to continue to focus on our legacy government biometrics markets and expand into new commercial biometrics markets. We are unable to predict future revenue from commercial markets as these are emerging markets.

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

Software maintenance revenue decreased 6% from $1.4 million in the three months ended June 30, 2018 to $1.3 million in the same three month period in 2019. As a percentage of total revenue, software maintenance revenue increased from 37% in the second quarter of 2018 to 44% in the current year quarter.

Software maintenance revenue decreased 1% from $2.70 million in the six months ended June 30, 2018 to $2.68 million in the same six month period in 2019. As a percentage of total revenue, software maintenance revenue was 40% for both six month periods.

For the three and six month periods ended June 30, 2019, the dollar decrease in software maintenance revenue was primarily due to lower retention of maintenance renewals in those periods.

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

Services revenue decreased from $0.7 million in the three months ended June 30, 2018 to $0.5 million in the same three month period in 2019. As a percentage of total revenue, services revenue decreased from 19% in the second quarter of 2018 to 17% in the current year quarter.

For the three month period ended June 30, 2019, the dollar decrease in services revenue was primarily due to lower services revenue in the current year quarter related to the software license agreement we entered into with a systems integrator in the second quarter of 2018 for a large project. This decrease was partially offset by higher services revenue from other service customers.

Services revenue increased 59% from $0.8 million in the six months ended June 30, 2018 to $1.3 million in the same six month period in 2019. As a percentage of total revenue, services revenue increased from 13% in the first six months of 2018 to 20% in the corresponding period of 2019.

For the six month period ended June 30, 2019, the dollar increase in services revenue was primarily due to higher services revenue related to the software license agreement we entered into with a systems integrator in the second quarter of 2018 for a large project, and higher service revenue from other service customers.

We expect our development effort on this large project to continue for approximately the next two to three quarters.

Services backlog was $0.3 million as of June 30, 2019.

Cost of Services. Cost of services consists of engineering costs to perform customer services projects. Such costs primarily include: i) engineering salaries, stock-based compensation, fringe benefits, and facilities; and ii) engineering consultants and contractors.

Cost of services decreased from $370,000 in the three months ended June 30, 2018 to $321,000 in the same three month period in 2019. Cost of services as a percentage of services increased from 53% in the first quarter of 2018 to 64% in the current year quarter, which means that gross margins decreased from 47% to 36%. The dollar decrease in cost of services was primarily due to lower service revenue in the second quarter of 2019.

Cost of services increased 100% from $420,000 in the six months ended June 30, 2018 to $839,000 in the same six month period in 2019. Cost of services as a percentage of services increased from 50% in the first six months of 2018 to 62% in the corresponding period of 2019, which means that gross margins decreased from 50% to 38%. The dollar increase in cost of services was primarily due to higher service revenue in the second quarter of 2019.

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 was (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Research and development expense	$ 2,091	$ 1,887	$ 3,851	$ 3,762
Cost of services	321	370	839	420
Total engineering costs	$ 2,412	$ 2,257	$ 4,690	$ 4,182

Research and development expense increased 11% from $1.9 million in the three months ended June 30, 2018 to $2.1 million in 2019. As a percentage of total revenue, research and development expense increased from 50% in 2018 to 69% in 2019.

Research and development expense increased from $3.8 million in the six months ended June 30, 2018 to $3.9 million in the same six month period in 2019. As a percentage of total revenue, research and development expense increased from 56% in the first six months of 2018 to 57% in the corresponding period of 2019.

As the table immediately above indicates, total engineering costs in the second quarter of 2019 increased by $155,000 compared to the same period last year. Total engineering costs increased by $508,000 for the six months ended June 30, 2019 as compared to the same period last year. For both the three and six month periods, the spending increase was primarily due to higher spending on third-party development costs and to a lesser extent on higher employee costs. The increase was partially offset by lower recruiting fees and other costs. Higher spending on third-party development costs was primarily due to a third-party vendor that was engaged to assist in our software development.

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

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.

Sales and marketing expense decreased 10% from $1.0 million in the three months ended June 30, 2018 to $0.9 million in the same three month period of 2019. As a percentage of total revenue, sales and marketing expense increased from 27% in the second quarter of 2018 to 30% in the corresponding period in 2019. The dollar decrease in sales and marketing expense was primarily due to lower employee costs due to lower headcount, and lower sales commissions.

Sales and marketing expense decreased 10% from $1.9 million in the six months ended June 30, 2018 to $1.7 million in the same six month period of 2019. As a percentage of total revenue, sales and marketing expense decreased from 29% in the first six months of 2018 to 26% in the corresponding period in 2019. The dollar decrease in sales and marketing expense was primarily due to lower employee costs due to lower headcount, and lower travel costs.

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

General and administrative expense increased less than 1% from $871,000 in the three months ended June 30, 2018 to $874,000 in the same three month period in 2019. As a percentage of total revenue, general and administrative expense increased from 23% in the second quarter of 2018 to 29% in the corresponding period in 2019. The increase in general and administrative expense was primarily due to higher employee costs that were partially offset by lower professional fees.

General and administrative expense decreased 4% from $1.7 million in the six months ended June 30, 2018 to $1.6 million in the same six month period in 2019. As a percentage of total revenue, general and administrative expense decreased from 25% in the first six months of 2018 to 24% in the corresponding period in 2019. The decrease in general and administrative expense was primarily due to lower professional fees, and lower stock-based compensation costs.

Patent related income. We entered into an arrangement with an unaffiliated third party in 2010 under which we assigned certain patents in return for royalties on proceeds from patent monetization efforts by the third party. The third party has engaged in various patent monetization activities, including enforcement, litigation and licensing. In the three months ended June 30, 2019, there was no revenue from this arrangement. In the six months ended June 30, 2019, the third party reported and we recorded $49,000 of income from this arrangement. In the three and six months ended June 30, 2018, there was no income from this arrangement. We continue to have a contractual relationship with this third party. However, we are unable to predict how much more income we might receive from this arrangement, if any, because we do not know whether any patent monetization efforts by the third party will be successful.

Interest income. Interest income increased 38% from $201,000 in the three months ended June 30, 2018 to $278,000 in the same three month period in 2019. Interest income increased 52% from $363,000 in the six months ended June 30, 2018 to $553,000 in the same six month period in 2019. For the three and six month periods, the dollar increase in interest income was primarily due to higher interest rates within our money market accounts.

Income taxes. Income tax expense was $33,000 and $35,000 for the three and six months ended June 30, 2019, respectively. Income tax expense for the three and six month periods ended June 30, 2019 were based on the U.S. statutory rate of 21%, increased by state income taxes, and reduced by permanent adjustments and research tax credits.

As of June 30, 2019, we had a total of $5.3 million of deferred tax assets for which we had recorded no valuation allowance. We have assessed the need for a valuation allowance on our deferred tax assets. Based on our assessment of future sources of income, including reversing deferred tax liabilities, and future earnings, we have determined that it is more likely than not that the deferred tax assets will be realized, and therefore there is no valuation allowance required for the deferred tax assets. We will continue to assess the level of valuation allowance 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.

Liquidity and Capital Resources

At June 30, 2019, we had cash and cash equivalents of $49.0 million, which represented a decrease of $2.7 million from December 31, 2018. The decrease in cash and cash equivalents was primarily due to the following factors:

Cash used in operations was $2.3 million in the first six months of 2019. Cash used in operations was primarily the result of $0.7 million of net loss and $2.0 million of changes in assets and liabilities. Cash used from these sources was partially offset by the add back of $0.4 million of non-cash items primarily for depreciation, amortization, and stock-based compensation.

Cash used in investing activities was $69,000 in the first six months of 2019. This cash usage consisted of purchases of property and equipment.

Cash used in financing activities was $266,000 in the first six months of 2019. Financing activity cash usage was the result of $239,000 used to buy back stock under our stock repurchase program and $49,000 used to pay income taxes for employees who surrendered shares in connection with stock grants. Cash used for these purposes was partially offset by $22,000 of proceeds from our employee stock purchase plan.

While we cannot assure you that we will not require additional financing, or that such financing will be available to us, we believe that our cash and cash equivalents will be sufficient to fund our operations for at least the next twelve months.

Recently Adopted Accounting Pronouncements

None.

ITEM 3:
Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risk relates primarily to our investment portfolio, and the effect that changes in interest rates would have on that portfolio. Our investment portfolio at June 30, 2019 consisted of one element:

Cash and cash equivalents. As of June 30, 2019, our cash and cash equivalents of $49.0 million were primarily invested in money market funds. The money market funds were invested in high quality, short term financial instruments. Due to the nature, short duration, and professional management of these funds, we do not expect that a general increase in interest rates would result in any material loss.

We do not use derivative financial instruments for speculative or trading purposes.

ITEM 4:
Controls and Procedures

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

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1:
Legal Proceedings

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

ITEM 1A:
Risk Factors

The risks described in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2018, could materially and adversely affect our business, financial condition and results of operations. The risk factors discussed in that Form 10-K do not identify all risks that we face because our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations. No material change in the risk factors discussed in that Form 10-K has occurred.

ITEM 2:
Unregistered Sales of Equity Securities and Use of Proceeds
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
April 2019	-	-	-	-
May 2019	29,828	$ 3.34	29,828	-
June 2019	18,405	$ 3.37	18,405	$ 9,368,935

(1) On April 24, 2018, we issued a press release announcing that our board of directors had approved the repurchase of up to $10,000,000 of our common stock from time to time through December 31, 2019. During the three months ended June 30, 2019, we purchased 48,233 shares under this plan at an aggregate purchase price of $161,482.

ITEM 4:
Mine Safety Disclosures

Not applicable.

ITEM 6:
Exhibits

(a) Exhibits

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101 The following financial statements from Aware, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in XBRL (eXtensible Business Reporting Language), as follows: (i) Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018, (ii) Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2019 and June 30, 2018, (iii) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2019 and June 30, 2018, (iv) Consolidated Statements of Stockholders' Equity for the Three and Six Months Ended June 30, 2019 and June 30, 2018, and (v) Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AWARE, INC.

Date: August 2, 2019	By:	/s/ Kevin T. Russell Kevin T. Russell Chief Executive Officer & President General Counsel
Date: August 2, 2019	By:	/s/ David J. Martin David J. Martin Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kevin T. Russell, Chief Executive Officer & President of Aware, Inc., certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 2, 2019

/s/ Kevin T. Russell
Kevin T. Russell
Chief Executive Officer & President

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Martin, Chief Financial Officer of Aware, Inc., certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 2, 2019

/s/ David J. Martin
David J. Martin
Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Aware, Inc. (the "Company") for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned Chief Executive Officer and Chief Financial Officer of the Company, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Kevin T. Russell	/s/ David J. Martin
Chief Executive Officer & President	Chief Financial Officer
Date: August 2, 2019	Date: August 2, 2019

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