

AWARE INC /MA/
Form 10-Q
April 24, 2015

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 March 31, 2015

Commission file number 000-21129

AWARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Massachusetts
(State or Other Jurisdiction of
Incorporation or Organization)

04-2911026
(I.R.S. Employer Identification No.)

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

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES NO

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Edgar Filing: AWARE INC /MA/ - Form 10-Q

Indicate the number of shares outstanding of the issuer's common stock as of April 20, 2015:

Class	Number of Shares Outstanding
Common Stock, par value \$0.01 per share	22,865,565 shares

AWARE, INC.
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2015

TABLE OF CONTENTS

	Page
PART I	FINANCIAL INFORMATION
Item 1.	Unaudited Consolidated Financial Statements
	Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014
	3
	Consolidated Statements of Income and Comprehensive Income for the Three Months Ended March 31, 2015 and March 31, 2014
	4
	Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and March 31, 2014
	5
	Notes to Consolidated Financial Statements
	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	11
Item 3.	Quantitative and Qualitative Disclosures about Market Risk
	16
Item 4.	Controls and Procedures
	16
PART II	OTHER INFORMATION
Item 1.	Legal Proceedings
	17
Item 1A.	Risk Factors
	17
Item 4.	Mine Safety Disclosures
	17
Item 6.	Exhibits
	18
	Signatures
	18

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

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$44,685	\$43,985
Accounts receivable, net	3,251	3,619
Inventories	2	2
Deferred tax assets	187	168
Prepaid expenses and other current assets	915	401
Total current assets	49,040	48,175
Property and equipment, net	5,195	5,289
Investments	925	1,428
Long term deferred tax assets	600	804
Other assets	480	197
Total assets	\$56,240	\$55,893
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$191	\$258
Accrued expenses	833	820
Deferred revenue	1,952	2,352
Total current liabilities	2,976	3,430
Long-term deferred revenue	79	74
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 22,865,565 as of March 31, 2015 and 22,808,761 as of December 31, 2014	229	228
Additional paid-in capital	104,271	103,756
Accumulated other comprehensive loss	(21)	(29)
Accumulated deficit	(51,294)	(51,566)
Total stockholders' equity	53,185	52,389
Total liabilities and stockholders' equity	\$56,240	\$55,893

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

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

	Three Months Ended March 31,	
	2015	2014
Revenue:		
Software licenses	\$1,649	\$1,617
Software maintenance	1,153	1,045
Services	1,220	1,008
Hardware	-	2,633
Royalties	101	314
Total revenue	4,123	6,617
Costs and expenses:		
Cost of hardware	-	1,902
Cost of services	547	463
Research and development	1,435	1,279
Selling and marketing	972	858
General and administrative	785	804
Total costs and expenses	3,739	5,306
Operating income	384	1,311
Other income	12	-
Interest income	41	86
Income before provision for income taxes	437	1,397
Provision for income taxes	165	517
Net income	\$272	\$880
Net income per share – basic	\$0.01	\$0.04
Net income per share – diluted	\$0.01	\$0.04
Weighted-average shares - basic	22,866	22,626
Weighted-average shares - diluted	22,887	22,699
Comprehensive income:		
Net income	\$272	\$880
Other comprehensive income (net of tax):		
Unrealized gains on available for sale securities	8	84
Comprehensive income	\$280	\$964

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

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

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$272	\$880
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	145	132
Stock-based compensation	21	29
Deferred tax provision on other comprehensive income	(4) (60
Gain on sale of investments	(12) -
Amortization of premium/(discount) on investments	(2) 2
Changes in assets and liabilities:		
Accounts receivable	368	(11
Inventories	-	1,600
Prepaid expenses and other current assets	(514) (82
Deferred tax assets	185	89
Accounts payable	(67) (1,311
Accrued expenses	13	(56
Deferred revenue	(395) (4
Net cash provided by operating activities	10	1,208
Cash flows from investing activities:		
Purchases of property and equipment	(14) (11
Sales of investments	529	-
Purchase of other assets	(320) -
Net cash provided by (used in) investing activities	195	(11
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	9
Excess tax benefits from stock-based compensation	582	594
Payments made for taxes of employees who surrendered shares related to unrestricted stock	(87) (92
Net cash provided by financing activities	495	511
Increase in cash and cash equivalents	700	1,708
Cash and cash equivalents, beginning of period	43,985	72,660
Cash and cash equivalents, end of period	\$44,685	\$74,368
Supplemental disclosure:		
Cash paid for income taxes	\$5	\$2

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

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

A) 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 three years ended December 31, 2014 in conjunction with our 2014 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 income and comprehensive income, and statements of cash flows reflect all adjustments (consisting only of normal recurring items) which are, in the opinion of management, necessary for a fair presentation of financial position at March 31, 2015, and of operations and cash flows for the interim periods ended March 31, 2015 and 2014.

The results of operations for the interim period ended March 31, 2015 are not necessarily indicative of the results to be expected for the year.

B) 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 \$44.7 million and \$44.0 million as of March 31, 2015 and December 31, 2014, respectively. We classified our cash equivalents of \$34.9 million and \$34.3 million as of March 31, 2015 and December 31, 2014 within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

Our investments, which consist of high yield corporate debt securities, are also classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. We categorize our investments as available-for-sale securities, and carry them at fair value in our financial statements. We had \$0.9 million and \$1.4 million of available-for-sale investments as of March 31, 2015 and December 31, 2014, respectively.

As of March 31, 2015, 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 March 31, 2015 Using:		
Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs

Edgar Filing: AWARE INC /MA/ - Form 10-Q

	(Level 1)	(Level 2)	(Level 3)
Corporate debt securities	\$ 925	\$ -	\$ -
Money market funds (included in cash and cash equivalents)	34,930		
Total	\$ 35,855	\$ -	\$ -

6

As of December 31, 2014, 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, 2014 Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate debt securities	\$ 1,428	\$ -	\$ -
Money market funds (included in cash and cash equivalents)	34,339		
Total	\$ 35,767	\$ -	\$ -

C) Inventories. Inventories are stated at the lower of cost or net realizable value with cost being determined by the first-in, first-out (“FIFO”) method. Inventories consisted of the following (in thousands):

	December	
	March 31, 2015	31, 2014
Raw materials	\$ 2	\$ 2
Finished goods	-	-
Total	\$ 2	\$ 2