GOLD FIELDS LTD
Form 425
November 10, 2004

Filed by Harmony Gold Mining Company Limited

Pursuant to Rule 165 and Rule 425 under the United States Securities Act of 1933, as amended

Subject Company: Gold Fields Limited

Commission File No. 333-119880

Date: November 10, 2004

CREATION OF A NEW INTERNATIONAL MAJOR

Proposed Merger with

GOLD FIELDS LIMITED

THE HARMONY WAY IS GOOD IN

SOUTH AFRICA

(Ian Cockerill, Gold Fields CEO,

3 November 2004)

1.275 New Harmony Shares

for every Gold Fields Limited Share

A NEW SOUTH AFRICAN CHAMPION

CORPORATE INFORMATION

Joint financial adviser and investment bank

HSBC Bank plc

8 Canada Square

London

E14 5HQ

United Kingdom

Co-financial adviser

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South Africa

South African attorneys

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South Africa

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(P O Box 4844, Johannesburg, 2000)

South Africa

UK transfer secretaries

Capita IRG plc

(trading as Capita Registrars)

The Registry

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Joint financial adviser and investment bank

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Sandton, 2196

(PO Box 785700, Sandton, 2146)

South Africa

Co-financial adviser

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South Africa

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Washington, DC 20004

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New York, NY 10017

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KPMG Crescent

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(Private Bag X9, Parkview, 2122)

South Africa

Independent technical advisor

Steffen, Robertson and Kirsten (South Africa)

(Proprietary) Limited

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Illovo, 2196

(PO Box 55291, Northlands, 2116)

South Africa

Harmony has appointed MacKenzie Partners, Inc. as shareholder communication consultants who have established Shareholder Information Hotlines.

Gold Fields shareholders are encouraged to make use of the toll free Shareholder Information Hotlines for assistance with regards to the offers in completing the form of acceptance, surrender and transfer and with any other queries.

If you have any questions regarding the contents of this

document, completing the form of acceptance, surrender and

transfers or any other queries regarding the proposed merger

please call the appropriate Shareholder Information Hotline.

IN SOUTH AFRICA

Call Toll Free: 09800 3231 3233

IN THE UNITED KINGDOM, GERMANY AND FRANCE

Call Toll Free: 00800 3231 3233

IN NORTH AMERICA

Call Toll Free: 1 800 322 2885

IF YOU ARE OUTSIDE THE TOLL FREE AREAS:

Direct Line in U.K.: +44 20 7814 5018 Direct Line in U.S.A.: +1 212 929 5500

HOTLINE HOURS ARE

9.00 a.m. till 5.00 p.m. in South Africa, U.K., Germany and France

HOTLINE HOURS ARE

8.00 a.m. till 9.00 p.m. EST in North America

PLEASE NOTE THAT YOUR CALL MAY BE RECORDED

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IMPORTANT INFORMATION

Defined terms

Unless the context otherwise requires, the definitions contained in the offer document or the registration statement sent to Gold Fields shareholders have the same meaning in this document.

Notice to Investors

In connection with the proposed acquisition of Gold Fields, Harmony has filed a registration statement on Form F-4, which includes a preliminary prospectus and related exchange offer materials, to register the Harmony ordinary shares (including Harmony ordinary shares represented by Harmony American Depositary Shares (ADSs)) to be issued in exchange for Gold Fields ordinary shares held by Gold Fields shareholders located in the United States and for Gold Fields ADSs held by Gold Fields shareholders wherever located, as well as a Statement on Schedule TO**. Investors and holders of Gold Fields securities are strongly advised to read the registration statement and the preliminary prospectus, the related exchange offer materials and the final prospectus (when available), the Statement on Schedule TO and any other relevant documents filed with the Securities and Exchange Commission (SEC), as well as any amendments and supplements to those documents, because they will contain important information.** Investors and holders of Gold Fields securities may obtain free copies of the registration statement, the preliminary and final prospectus (when available), related exchange offer materials and the Statement on Schedule TO, as well as other relevant documents filed or to be filed with the SEC, at the SEC s web site at *www.sec.gov*. Investors and holders of Gold Fields securities will receive information at an appropriate time on how to obtain transaction-related documents for free from Harmony or its duly designated agent. The preliminary prospectus and other transaction-related documents may be obtained for free from MacKenzie Partners, Inc., the information agent for the U.S. offer, at the following address: 105 Madison Avenue, New York, New York 10016; telephone 1 212 929 5500 (call collect) or 1 800 322 2885 (toll-free call); e-mail proxy@mackenziepartners.com.

This communication is for information purposes only. It shall not constitute an offer to purchase or exchange or the solicitation of an offer to sell or exchange any securities of Gold Fields or an offer to sell or exchange or the solicitation of an offer to buy or exchange any securities of Harmony, nor shall there be any sale or exchange of securities in any jurisdiction in which such offer, solicitation or sale or exchange would be unlawful prior to the registration or qualification under the laws of such jurisdiction. The distribution of this communication may, in some countries, be restricted by law or regulation. Accordingly, persons who come into possession of this document should inform themselves of and observe these restrictions. The solicitation of offers to buy Gold Fields ordinary shares (including Gold Fields ordinary shares represented by Gold Fields ADSs) in the United States will only be made pursuant to a prospectus and related offer materials that Harmony has sent to holders of Gold Fields securities. The Harmony ordinary shares (including Harmony ordinary shares represented by Harmony ADSs) may not be sold, nor may offers to buy be accepted, in the United States prior to the time the registration statement becomes effective. No offering of securities shall be made in the United States except by means of a prospectus meeting the requirements of Section 10 of the United States Securities Act of 1933, as amended.

Disclaimer

Information included in this document relating to Gold Fields and its business has been derived solely from publicly available sources.

While Harmony has included information in this document regarding Gold Fields that is known to Harmony based on publicly available information, Harmony has not had access to non-public information regarding Gold Fields and could not use such information for the purpose of preparing this document. Although Harmony is not aware of anything that would indicate that statements relating to Gold Fields contained in this document are inaccurate or incomplete, Harmony is not in a position to verify information concerning Gold Fields. Harmony and its directors and officers are not aware of any errors in such information. Subject to the foregoing and to the maximum extent permitted by law, Harmony and its directors and officers disclaim all liability for information concerning Gold Fields included in this document.

Forward-looking Statements

Statements in this communication include forward-looking statements that express or imply expectations of future events or results. Forward-looking statements are statements that are not historical facts. These statements include financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, products and services, and statements regarding future performance. Forward-looking statements are generally identified by the words expect, anticipates, believes, intends, estimates and similar expressions. All forward-looking statements involve a number of risks, uncertainties and other factors, and Harmony cannot give assurances that such statements will prove to be correct. Risks, uncertainties and other factors that could cause actual events or results to differ from those expressed or implied by the forward-looking statements include, without limitation, the satisfaction of closing conditions, the acceptance or rejection of any agreement by regulators, delays in the regulatory processes, changes in the economic or political situation in South Africa, the European Union, the United States of America and/or any other relevant jurisdiction, changes in the gold industry within any such country or area or worldwide and the performance of (and cost savings realised by) Harmony. Although Harmony s management believes that the expectations reflected in such forward-looking statements are reasonable, investors and holders of Gold Fields securities are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of Harmony, that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include those discussed or identified in the public filings with the SEC made by Harmony and Gold Fields, including those listed under Cautionary Statement Concerning Forward-Looking Statements and Risk Factors in the preliminary prospectus included in the registration statement on Form F-4 that Harmony filed with the SEC. Harmony does not undertake any obligation to update any forward-looking information or statements.You may obtain a free copy of the registration statement and preliminary and final prospectus (when available) and other public documents filed with the SEC in the manner described above.

No Profit Forecasts

Nothing in this document should be construed as a profit forecast to be interpreted to mean that the future earnings per share of Harmony or the enlarged group will necessarily be greater than the historic published earnings per share of Harmony or the enlarged group.

General

This document is published by and is the sole responsibility of Harmony.

HSBC Bank plc is acting for Harmony and no one else in connection with the offers and will not be responsible to anyone other than Harmony for providing the protections afforded to customers of HSBC Bank plc, nor for providing advice in relation to the offers.

Investec Bank Limited is acting for Harmony and no one else in connection with the offers and will not be responsible to anyone other than Harmony for providing the protections afforded to customers of Investec Bank Limited, nor for providing advice in relation to the offers.

Merrill Lynch South Africa (Pty) Limited is acting for Harmony and no one else in connection with the offers and will not be responsible to anyone other than Harmony for providing the protections afforded to customers of Merrill Lynch South Africa (Pty) Limited, nor for providing advice in relation to the offers.

Morgan Stanley South Africa (Pty) Limited is acting for Harmony and no one else in connection with the offers and will not be responsible to anyone other than Harmony for providing the protections afforded to customers of Morgan Stanley South Africa (Pty) Limited, nor for providing advice in relation to the offers.

The information contained in this document speaks only as of the date indicated on the cover of this document unless the information specifically indicates that another date applies.

HOW TO ACCEPT THE OFFERS

ACTION REQUIRED

If you are in any doubt as to the action you should take, please consult your stockbroker, banker, accountant, attorney or other professional adviser immediately.

If you have disposed of all of your Gold Fields shares, this document should be handed to the purchaser of such shares or to the stockbroker, banker or other agent through whom such disposal was effected.

1. If you are a certificated shareholder and you wish to accept either or both of the offers, you must complete and return the form of acceptance, surrender and transfer attached to the circular sent to Gold Fields shareholders dated 20 October 2004, in accordance with the instructions therein, and lodge it with, or post it to, Harmony s transfer secretaries, Ultra Registrars (Proprietary) Limited, 11 Diagonal Street, Johannesburg 2001 (PO Box 4844, Johannesburg, 2000), South Africa, or Capita IRG plc (trading as Capita Registrars), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, England, United Kingdom, so as to be received by them:

In respect of the early settlement offer:

by no later than 12h00 (South African time) on Friday, 26 November 2004, being the early settlement closing date, in order to participate in the early settlement offer; and

In respect of the subsequent offer:

by no later than 12h00 (South African time) on or about Friday, 4 February 2005, being the expected subsequent offer closing date, in order to participate in the subsequent offer.

2. If you are a dematerialised shareholder then your CSDP or broker is obliged to contact you to ascertain whether or not you wish to accept the offers, and thereafter act in accordance with your instructions. This should be done in terms of the agreement entered into between you, as a dematerialised shareholder, and the CSDP or broker. If you have not been contacted by your CSDP or broker it is advisable for you to contact your CSDP or broker and furnish them with your instructions, so as to be received by them in order for them to transmit your instructions.

In respect of the early settlement offer:

by no later than 12h00 (South African time) on Friday, 26 November 2004, being the early settlement closing date, in order to participate in the early settlement offer; and

In respect of the subsequent offer:

by no later than 12h00 (South African time) on or about Friday, 4 February 2005, being the subsequent offer closing date, in order to participate in the subsequent offer.

3. If you hold Gold Fields American Depository Shares please refer to the related exchange offer materials sent to you with the registration statement on Form F-4.

4. If you do not wish to accept either of the offers, you need not take any further action.

A MESSAGE FROM THE CHIEF EXECUTIVE OF HARMONY

9 November 2004

Dear Gold Fields shareholder,

On 18 October 2004, Harmony announced the terms of a proposed merger between Harmony and Gold Fields, offering you 1.275 new Harmony shares for each of your Gold Fields shares, representing a premium of approximately 29% and an implied price to net present value ratio for Gold Fields of 2.4x (a substantial premium to Gold Fields South African peer group).

Harmony sent you a circular containing details of the proposed merger and you should by now have received Gold Fields defence document and the IAMGold circular. Harmony believes that a consensus is now emerging that the value destroying IAMGold transaction will not be approved by Gold Fields shareholders at the general meeting on 7 December 2004.

I am writing to you to respond formally to Gold Fields announcements on 3 November 2004. More importantly, I would like to set out in more detail the compelling strategic and operational logic of the proposed merger, which will lead to significant value creation for the shareholders of both companies.

At the heart of our proposal is our vision to create a highly profitable South African champion that has the potential to compete internationally and is positioned to become the leading global gold miner. I am convinced that by applying Harmony s superior and proven efficiency in operating our mines to Gold Fields assets, we will build an exciting platform which will create value for all shareholders, opportunities for our employees and benefits for South Africa. From the outset the enlarged group will be the largest gold mining company in terms of production, reserves and resources. Building on this we are committed to also becoming the most efficient and valuable gold miner worldwide.

Harmony has been able to build a substantial, sustainable gold mining business out of mines that were discarded as unprofitable by its competitors, including Gold Fields. Our success is built on concentrating on basic management principles known as the Harmony Way , which include strong focus on cost control and a flat, decentralised management structure that empowers our most precious resource, our people. Given our proven track record in delivering cost savings, I am confident that, if the merger succeeds, we can achieve sustainable annual cost savings of at least R1 billion, or 15% of Gold Fields South African cost base. Savings of this magnitude will unlock value of at least R17 billion to all our shareholders in the short to medium term. As Gold Fields shareholders will hold 66% of the enlarged group, you will not only benefit from the initial premium offered, but also share in two thirds of the value created by cost savings.

Importantly, by combining and restructuring our operations, the Harmony Way will give us a platform for strong and sustainable long-term growth both in South Africa and internationally. Greater efficiency will unlock reserves and launch us on a virtuous circle of margin enhancement and value creation by bringing previously economically unviable reserves in the money . In this document you will see how we invest for the future, and how we have been able to increase our reserves cost effectively.

In summary, the proposed merger will create a company with the potential to become the world s leading gold miner. We believe that the transaction will unlock significant shareholder value in the short-to-medium term and give you an investment with significant opportunities for strong and profitable growth in the long term.

I invite you to accept the early settlement offer (as defined in our circular dated 20 October 2004), and I am convinced that it is in your best interest to vote against the proposed IAMGold transaction at the Gold Fields general meeting that will take place on 7 December 2004.

I am excited about the prospects of the enlarged group when managed the Harmony Way, and I look forward to welcoming you as a Harmony shareholder.

Bernard Swanepoel

Chief Executive Officer

Harmony Gold Mining Company Limited

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Harmony offers real value enhancement

through achievable cost savings

They say	**We say**
Ian Cockerill, Chief Executive Officer of Gold Fields, said that the statement that Harmony could cut 15% out of Gold Fields cost a year, was beyond bold , adding that he and his management team have been scratching our heads to see where these cuts could come from Business Day, 20 October 2004	The proposed transaction would generate significant cost savings based upon Harmony s proven capability to apply the Harmony Way to assets formerly managed by its South African peers, Gold Fields included, an approach the management team has demonstrated consistently over the years
The Harmony Way is good in South Africa Ian Cockerill, 3 November 2004	We agree and accept the endorsement

In order to justify the premium offered to Gold Fields shareholders, Harmony estimates that it only needs to achieve unit cost reductions equivalent to 15% per annum in Gold Fields South African cost structure, over and above Gold Fields previously announced efficiency initiatives (Project 100)

This equates to an estimated improvement in pre-tax operating profit of approximately R1 billion per annum

When Harmony announced the proposed merger, Gold Fields management were scratching their heads to see where these cost savings could be achieved

subsequently, Gold Fields management miraculously discovered the ability to further reduce costs beyond the Project 100 initiative announced in May 2004 and announced new cost saving initiatives taking total savings identified to R700 million R800 million

it seems that Harmony s management s cost savings analysis is not beyond bold

Shareholders will reap the rewards of their assets

in the hands of the premier South African operator

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Harmony offers real value enhancement

through achievable cost savings

They say	We say
So we ve had to spend a great deal of time really understanding where we were and what we had and in some ways I m sorry it [our cost cutting initiatives] took so long so it s fair criticism [to ask why it has taken so long to bring significant cost savings to shareholders] Nick Holland, CFO of Gold Fields, 28 October 2004 A desire to cut costs has always been a part of the Gold Fields strategy, but the desire to do something and the ability to deliver can often be two entirely different things. Ian Cockerill, 28 October 2004	Harmony has a proven track record in its ability to extract value and this can be achieved with Gold Fields South African assets

There is one major difference between Harmony and Gold Fields ability vs desire

While Gold Fields has wasted valuable time thinking about how to improve the performance of its South African operations, Harmony has a track record of delivering such performances, time and time again

By applying the philosophies and techniques of the Harmony Way to Gold Fields South African asset portfolio, as Harmony has done in the past to assets acquired from its South African peers, including Gold Fields, Harmony believes that it will extract value for all shareholders

Shareholders will reap the rewards of their assets

in the hands of the premier South African operator

What is the Harmony Way?

The Harmony Way is a set of management practices and philosophies that essentially flattens the management structure and empowers individuals and mine management teams. Four cornerstones underpin this approach:

Creating value is about the business of gold mining

Harmony spends money on what really counts the business of gold mining most importantly the development and optimisation of the ore body. This scientific approach to ore body optimisation and disciplined approach to cost reduction has enabled Harmony to make money out of mines that other operators have seen only as closure candidates. Over the past 8 years, the Harmony Way has saved 45,000 jobs in South Africa

No frills

Harmony s disciplined cost management dramatically increases the ore body that is economical to mine (by reducing economic cut-off grades) meaning that it increases the life of mine, saves jobs and increases potential production ounces

Harmony s people take pride in the fact that the company focuses on spending money in areas that are revenue generating

The right attitude can make anything possible

What is the Harmony Way?

Harmony believes in the ability of its people all of its people

Harmony believes that it is the crews underground who make the difference. They are the key revenue generators in its business. The rest of the employees are actually costs which need to be justified by adding value or delivering a cost efficient service to enable the crew at the face to perform more efficiently

Harmony is a lean operation

the structures that outsiders see are a real demonstration of this belief

Harmony has a small corporate head office, no mine-related or other regional offices, and operates with extremely flat management structures. By creating an enabling and empowering environment, each individual s productivity improves and consequently the efficiencies and performance of the entire business improve

The Harmony Way is not rocket science

it s a back-to-basics approach which brings business thinking (cost, value, focus and attention to detail) to the mining equation

a philosophy that if you create the right environment, ordinary people will do extraordinary things

all wrapped up in a belief that the right attitude can make ANYTHING possible

The right attitude can make anything possible

Harmony has a demonstrable track record

of achieving significant and sustainable

cost reductions

Harmony s management has an eight year track record of unlocking the value of assets through 26 acquisitions (including Evander and St. Helena, acquired from Gold Fields)

Harmony has consistently delivered on its cost saving targets at all of its acquired operations

on average a 25% total cost saving

across all major cost categories

Actual savings achieved in previous acquisitions as a % of total costs[1]

	Operation					
	Evander	**St. Helena**	**Randfontein**	**Elandsrand**	**Freegold**	**Average**
Labour cost	20%	18%	8%	8%	12%	13%
Stores	4%	8%	13%	2%	2%	7%
Electricity and Water	2%	5%	3%	2%	2%	3%
Other costs[2]	7%	(2)%	(3)%	7%	4%	2%
Contractors	1%	2%	4%	(1)%	(1)%	2%
Average achieved	33%	32%	25%	17%	19%	25%

Source: Harmony company information

1 Numbers may not total because of rounding

2 Other costs include general and administration services, such as World Gold Council, hospital, municipal, Chamber of Mines, functions/entertainment, telephone, travel fees/expenses, etc.

Shareholders will reap the rewards of their assets

in the hands of the premier South African operator

Harmony offers shareholders real operational

cost savings

Based upon the average total cost savings achieved at acquired operations, we believe that the R1 billion target is realistically achievable:

a high proportion of head office costs can be saved

payroll savings will be achieved primarily from managerial and supervisory levels

services are likely to yield significant savings, which includes the remaining general and administration costs within the Gold Fields cost structure

No estimate is made of the profit and cost benefits from continuous operations (CONOPS)

Projected cost savings at Gold Fields as a % of total costs

	Total cost 2004	**Projected cost savings**		**Savings based on previous acquisitions**	
	(R million)	**(R million)**	**(% of total cost)**	**(R million)**	**(% of total cost)**
Head office	140	98	1.5%	112	1.7%
Total South African operating cost	6,589[1]				
Labour cost					
Payroll 1 Management		264	4%	329	5%
Payroll 2		66	1%	198	3%
Stores		264	4%	395	6%
Electricity and Water		132	2%	198	3%
Other costs[2]		297	4.5%	329	5%
Contractors		66	1%	132	2%
Partial CONOPS		To be negotiated with stakeholders			
Additional development		(150)		(150)	
Total	6,729				
Total savings from operations		1,035	15.38%	1,543	22.93%
Capital optimisation		66	7.5%[3]	110	12.5%[3]

Source: Harmony analysis based on publicly available information and projected cost savings

1 Total South African operating cost, less estimated allocation of corporate administration to South African operations

2 Other costs include general and administration, services, hospital savings through Harmony Netcare JV (R48m) and World Gold Council fees (approximately US$7m)

3 Percentage calculated on R880m of capital projects based on reductions achieved on previous acquistions

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Harmony has a demonstrable track record

of achieving significant and sustainable unit

cost reductions

Gold Fields has questioned the sustainability of Harmony s cost cutting success, selectively citing certain operations. Harmony believes that Evander (formerly owned by Gold Fields) is a true reflection of Harmony s cost reduction capability

In 1998 Harmony acquired Evander for R450 million from Gold Fields , whose management had determined to close the mine. Under the Harmony Way, it has consistently produced profits and paid back its acquisition cost in 2$^{1}/_{2}$ years. With a cumulative profit since acquisition of R1.44 billion, Harmony is proud to own and operate Evander, which still has significant economic reserves and a long, profitable life

Evander would now be Gold Fields most profitable undergound operation by operating margin

On average over the 5 years post-acquisition, Harmony s cost per tonne (in June 2004 terms) at Evander was 23% lower than under Gold Fields, and remains at a lower level now than at acquisition

Harmony has increased development at Evander to 36km per annum, compared to 18km prior to acquisition. Development now accounts for approximately 14% of the operating cost. Excluding the increased development, Evander s cost per tonne remains significantly lower than that under Gold Fields

Assuming Evander was still operated by Gold Fields in September 2004, and using the Beatrix mine underground cost escalation since June 1998, the calculated cost would have been R632 per tonne

Shareholders will reap the rewards of their assets

in the hands of the premier South African operator

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The application of the Harmony Way has huge

potential for South African mines

They say

I am quite sure they would tackle things differently to us. Whether it would improve Gold Fields or not is something that shareholders need to debate for themselves
Ian Cockerill, Gold Fields CEO (19 October 2004)

[South African operations] cash costs increased by 18% in Rand terms [in the year ended June 2004]

Gold Fields Annual Report 2004

We say

Harmony has a proven track record of turning around assets, including assets acquired from Gold Fields

Harmony s working costs in both Rand per kg and Rand per tonne terms rose by only 12% in FY2004

77% of Gold Fields underground South African gold production in the year ended June 2004 was generated from mines with an average total cash cost of approximately R646 per tonne

compared to 90% of Harmony s underground gold production being generated from mines with an average total cash cost of approximately R404 per tonne

Harmony believes there is considerable scope for it to implement the Harmony Way in respect of these assets and generate significant improvements in average total cash cost per tonne

There is considerable scope to generate significant

improvements in Gold Fields South African operating costs

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Harmony s cost savings will flow into

shareholder value

Based upon Gold Fields South African operating cost for 2004 of R6.7 billion, a 15% cost reduction equates to R1 billion per annum, pre-tax

Assuming a conservative tax rate of 30% (the tax rate is often lower in the gold mining industry), a 15% cost reduction equates to R700 million per annum, post-tax

The 5% NPV of this over a 20 year period is approximately R13 billion pre-tax or approximately R9 billion post-tax

The market value of this is **over R17 billion,** based upon the South African gold majors average P/NPV of 1.9x

	December 31, 2015	Increase/ Decrease	Reclassification Adjustments	March 31, 2016
Unrealized losses on available for sale securities	$ (137)	$ 31	$ -	$ (106)
Unrealized gains on available for sale securities	40	(35)	-	5
Net unrealized gains (losses) on available for sale securities	(97)	(4)	-	(101)
Income tax benefit (expense) on other comprehensive loss	33	1	-	34
Total accumulated other comprehensive loss, net of taxes	$ (64)	$ (3)	$ -	$ (67)

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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, 2015, 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 income for the three months ended March 31, 2016 were $4.8 million and $0.9 million, respectively. These results compared to revenue of $4.1 million and operating income of $0.4 million in the three months ended March 31, 2015. Higher revenue and operating income in the current quarter versus the year ago quarter were primarily due to revenue from an October 2015 imaging software sale that we are recognizing over a twelve month period that runs from October 2015 to October 2016.

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.

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Software license revenue increased 68% from $1.65 million in the three months ended March 31, 2015 to $2.78 million in the same three month period in 2016. As a percentage of total revenue, software license revenue increased from 40% in the first quarter of 2015 to 57% in the current year quarter. The $1.1 million dollar increase in software license revenue was primarily due to: i) a $1.3 million increase in imaging software license sales, which was partially offset by; ii) a $0.2 million decrease in biometrics software license sales. The reasons for the changes in imaging and biometrics software licenses were:

i) Imaging software licenses – Imaging software license sales were $1.44 million in the first quarter of 2016 versus $160,000 in the year ago quarter. The increase was primarily due to a software license agreement we entered into in October 2015 with a systems integrator. The $4.5 million license fee from that arrangement is being recognized over a twelve-month period that runs from October 2015 to October 2016. We recognized $1.1 million from that agreement in the first quarter of 2016.

ii) Biometrics software licenses – Biometrics software license sales were $1.3 million in the first quarter of 2016 versus $1.5 million in the year ago quarter. The decrease was primarily due to lower license revenue from commercial customers. In the year ago quarter, we recognized a significant amount of license revenue from Certibio Identidade Biometrica, a wholly-owned subsidiary of Certisign Certificadora Digital S.A. ("Certisign") during the development phase of a project with it. With the development phase complete, Certisign began to roll out its biometrics-as-a-service offering earlier this year. Under our agreement, we will receive license fees based on Certisign's revenue. Currently those fees are not as large as the fees we received during the development phase.

Software license revenue in the first quarter of 2016 also included software we sold to our U.S. Navy customer. The software we delivered included software from third party software vendors. We are unable to predict whether the Navy will purchase this software again in the future.

As described in the strategy section of our Form 10-K for the year ended December 31, 2015, our market strategy is to continue to focus on our legacy government biometrics markets and expand into new commercial biometrics markets. We are unable to predict future revenue from commercial markets as these are emerging markets.

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

Software maintenance revenue increased 11% from $1.2 million in the three months ended March 31, 2015 to $1.3 million in the same three month period in 2016. As a percentage of total revenue, software maintenance revenue decreased from 28% in the first quarter of 2015 to 27% in the current year quarter. The dollar increase in software maintenance revenue was primarily due to a base of maintenance revenue from contract renewals from prior periods that grows as we sell maintenance contracts with new licenses in current 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 decreased 66% from $1.2 million in the three months ended March 31, 2015 to $0.4 million in the same three month period in 2016. As a percentage of total revenue, services decreased from 30% in the first quarter of 2015 to 9% in the current year quarter. The dollar decrease in services was primarily due to lower revenue from: i) projects with two commercial customers; and ii) a project with the U.S. Marine Corps. These projects were substantially completed in 2015 and we were unable to replace lost revenue from these projects with new projects in the first quarter of 2016.

Our services backlog was minimal as of March 31, 2016, therefore services revenue in 2016 may decline compared to comparable periods in 2015 unless we are able to obtain new services projects.

Hardware. Hardware revenue consists of sales of biometrics equipment to a single U.S. government customer for whom we developed biometrics software. Hardware products sold to this customer integrate hardware purchased from third parties with software from other third parties as well as software from Aware. We evaluated the classification of gross versus net revenue recognition and determined gross recognition was appropriate.

Hardware revenue increased 100% from zero in the three months ended March 31, 2015 to $0.3 million in the same three month period in 2016. As a percentage of total revenue, hardware revenue increased from 0% in the first quarter of 2015 to 6% in the current year quarter. The dollar increase in hardware revenue was due to the delivery of an order in the first quarter of 2016 whereas we had no such orders in the year ago quarter.

We believe that future hardware orders from our government customer may be minimal as we believe it has completed the bulk of its purchasing. We had no hardware orders in backlog as of March 31, 2016. It is worth noting that our strategy does not include maintaining or growing biometrics hardware revenue. We agreed to provide hardware products as an accommodation to this important customer.

Royalties. Royalties consist primarily of royalty payments we receive under DSL silicon contracts with two customers that incorporate our silicon intellectual property (“IP”) in their DSL chipsets. We sold our DSL IP business in 2009, but we continue to receive royalty payments from these customers. Royalties are reported in continuing operations in accordance with ASC 205-20, Reporting Discontinued Operations, because we have continuing ongoing cash flows from this business.

Royalties decreased 28% from $101,000 in the three months ended March 31, 2015 to $73,000 in the same three month period in 2016. As a percentage of total revenue, royalties were unchanged at approximately 2% in the three months ended March 31, 2015 and 2016. We do not consider DSL royalties to be a key element of our strategy and we expect that this revenue will continue to decline in future periods.

Cost of software licenses. Cost of software licenses consists primarily of the cost of third party software included in certain software products delivered to a U.S. government customer.

Cost of software licenses increased from zero in the three months ended March 31, 2015 to $0.2 million in the same three month period in 2016. Cost of software licenses as a percentage of software license sales was 9% in the current year quarter, which means that gross margins were 91% in the first quarter of 2016. The dollar increase in cost of software licenses was due to the delivery of software to the U.S. Navy that included third party software.

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 61% from $0.5 million in the three months ended March 31, 2015 to $0.2 million in the same three month period in 2016. Cost of services as a percentage of services increased from 45% in the first quarter of 2015 to 51% in the current quarter, which means that gross margins on services decreased from 55% to 49%. The 61% decrease in cost of services in the first quarter of 2016 was mainly attributable to a 66% decrease in services revenue.

Cost of hardware. Cost of hardware consists primarily of the cost of third party equipment and software included in hardware shipments.

Cost of hardware increased from zero in the three months ended March 31, 2015 to $0.2 million in the same three month period in 2016. Cost of hardware as a percentage of hardware sales was 72% in the current year quarter, which means that product gross margins were 28%. The dollar increase in cost of hardware was due to the sale of $0.3 million of hardware products in the current year period compared to no hardware revenue in the prior year period.

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 March 31,	
	2016	2015
Research and development expense	$ 1,649	$ 1,435
Cost of services	213	547
Total engineering costs	$ 1,862	$ 1,982

Research and development expense increased 15% from $1.4 million in the three months ended March 31, 2015 to $1.6 million in the same three month period in 2016. As a percentage of total revenue, research and development expense decreased from 35% in the first quarter of 2015 to 34% in the current year quarter.

As the table immediately above indicates, total engineering costs in the first quarter of 2016 decreased by $120,000 compared to the same period last year. The spending decrease was primarily due to lower spending on outside contractors who worked on services projects for U.S. government customers. The increase in research and development expense was due to the shifting of engineering employees who were previously working on customer services projects to internal development projects.

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.

Selling and marketing expense decreased 5% from $1.0 million in the three months ended March 31, 2015 to $0.9 million in the same three month period in 2016. As a percentage of total revenue, selling and marketing expense decreased from 24% in the first quarter of 2015 to 19% in the current year quarter. The dollar decrease in selling and marketing expense was primarily due to lower salaries, sales commissions and recruiting fees. Lower expenses from these items was partially offset by higher spending on sales agents.

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

General and administrative expense decreased 8% from $0.8 million in the three months ended March 31, 2015 to $0.7 million in the same three month period in 2016. As a percentage of total revenue, general and administrative expense decreased from 19% in the first quarter of 2015 to 15% in the current year quarter. The dollar decrease in general and administrative expense was primarily due to lower spending on legal fees.

Stock-based compensation expense included in general and administrative expense for the remaining three quarters of 2016 will increase over the first quarter of 2016 by approximately $140,000 per quarter. The increase is the result of an unrestricted stock award to directors and officers that the Compensation Committee authorized on March 28, 2016.

Other income. Other income decreased from $12,000 in the three months ended March 31, 2015 to zero in the current quarter. Other income in the prior year quarter represented a realized gain on one of our high yield bonds.

Interest income. Interest income increased 64% from $41,000 in three months ended March 31, 2015 to $67,000 in the same three month period in 2016. The dollar increase in interest income was primarily due to higher cash balances and slightly higher interest rates.

Income taxes. Income tax expense was $0.3 million and $0.2 million for the three months ended March 31, 2016 and 2015, respectively. Income tax expense in the three month periods of 2016 and 2015 was based on the U.S. statutory rate of 34%, increased by state income taxes, and reduced by permanent adjustments. Income tax expense in 2016 period was also reduced by research tax credits.

In the three month period ended March 31, 2016, we utilized deferred tax assets to reduce our tax liability payable to the government. A portion of the deferred tax assets we used comprised cumulative deductions for stock options in excess of book expense. Under income tax accounting rules, that portion of tax benefits attributable to such deductions must be recorded as an adjustment to equity versus a reduction of income tax expense. The tax benefits from such stock-based awards were $0.4 million in the three month period ended March 31, 2016. These tax benefits were recorded as an equity adjustment to additional paid-in capital.

As of March 31, 2016, we had a total of $0.9 million of deferred tax assets for which we had recorded no valuation allowance. 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.

In addition to deferred tax assets carried on our balance sheet, we also had net federal and state research and development credit carryforwards available at December 31, 2015 of $5.5 million and $0.1 million. These credits were not recorded as tax assets as they relate to excess stock compensation deductions that may not be recorded as tax assets under generally accepted accounting principles until the amounts have been utilized to reduce our tax liability. To the extent that these assets are used to reduce future taxes, the benefit will be recorded as a reduction to additional paid-in capital. The aforementioned $0.4 million equity adjustment to additional paid-in capital in the three month period ended March 31, 2016 was related to these deferred tax assets.

Liquidity and Capital Resources

At March 31, 2016, we had cash and cash equivalents of $52.7 million, which represented an increase of $1.4 million from December 31, 2015. The increase in cash and cash equivalents was primarily due to the following factors:

Cash provided by operations was $1.1 million in the first quarter of 2016, which was after a reduction of $0.4 million for non-cash excess tax benefits from stock-based compensation that was included in accrued income taxes. Cash provided from operations was primarily the result of: i) net income; ii) the add back of non-cash items for depreciation, amortization and stock-based compensation; and iii) the reduction of accounts receivables through collections.

Cash used by investing activities of $5,000 consisted of purchases of property and equipment.

Cash provided by financing activities of $369,000 consisted of $430,000 of excess tax benefits from stock-based compensation less $61,000 of cash used to pay income taxes for employees who surrendered shares in connection with stock grants.

On April 26, 2016, we announced that our Board of Directors had approved a program authorizing the Company to purchase up to $10 million of our common stock. The shares may be purchased from time to time in the open market or through privately negotiated transactions at management's discretion, depending upon market conditions and other factors. The authorization to repurchase our stock expires on December 31, 2017.

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.

Recent Accounting Pronouncements

See Note G to our Consolidated Financial Statements in Item 1.

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 March 31, 2016 consisted of two elements:

1. *Cash and cash equivalents.* As of March 31, 2016, our cash and cash equivalents of $52.7 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.

2. *Investments.* As of March 31, 2016, our investments of $0.9 million were invested in high yield bonds with two corporate debt issuers, which mature in 2017 and 2018. While we are exposed to default risk, the high current yield of these bonds largely mitigates interest rate risk. Therefore, due to the high current yield and the one to two year life of these instruments, we do not believe 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

Our management, including our co-chief executive officers and chief financial officer, has evaluated our disclosure controls and procedures as of the end of the quarterly period covered by this Form 10-Q and has concluded that our disclosure controls and procedures are effective. They also concluded that there were no changes in our internal control over financial reporting that occurred during the quarterly period covered by this Form 10-Q 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, 2015, 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 4:

Mine Safety Disclosures

Not applicable.

ITEM 6:

Exhibits

(a) Exhibits

Exhibit 31.1	Certification of co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of co-Chief Executive Officer and 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 March 31, 2016, formatted in XBRL (eXtensible Business Reporting Language), as follows: (i) Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015, (ii) Consolidated Statements of Income and Comprehensive Income for the Three Months Ended March 31, 2016 and March 31, 2015, (iii) Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and March 31, 2015, and (iv) Notes to Consolidated Financial Statements.

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto shall not be deemed filed for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

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: April 27, 2016	By:/s/ Kevin T. Russell

Kevin T. Russell
co-Chief Executive Officer & co-President
General Counsel

Date: April 27, 2016 By: /s/ Richard P. Moberg
Richard P. Moberg
co-Chief Executive Officer & co-President
Chief Financial Officer (Principal Financial and Accounting Officer)