

AWARE INC /MA/  
Form DEF 14A  
April 07, 2008

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

SCHEDULE 14A  
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant  x  
Filed by a Party other than the  
Registrant  o

Check the appropriate box:

- Preliminary Proxy Statement       Confidential, for Use of the Commission  
only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

AWARE, INC.

(Name of Registrant as Specified In Its Charter)

NOT APPLICABLE

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Aware, Inc.

Notice of Annual Meeting of Stockholders

to be held on May 21, 2008

Aware, Inc. hereby gives notice that it will hold its annual meeting of stockholders at the Bedford Glen Hotel, 44 Middlesex Turnpike, Bedford, Massachusetts on Wednesday, May 21, 2008, beginning at 10:00 a.m., local time, for the following purposes:

1. To consider and vote upon the election of two Class III directors;
2. To transact such other business as may properly come before the annual meeting or any adjournment thereof.

The board of directors has fixed the close of business on April 3, 2008 as the record date for the determination of the stockholders of Aware entitled to receive notice of the annual meeting and to vote at the meeting. Only stockholders of record on that date are entitled to receive notice of the annual meeting and to vote at the meeting or any adjournment thereof.

By order of the board of directors,

/s/ Michael A. Tzannes

Michael A. Tzannes  
Chief Executive Officer

April 4, 2008  
Bedford, Massachusetts

**YOUR VOTE IS IMPORTANT**

Please sign and return the enclosed proxy,  
whether or not you plan to attend the meeting.

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Aware, Inc.  
40 Middlesex Turnpike  
Bedford, Massachusetts 01730  
(781) 276-4000

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

to be held on May 21, 2008

This proxy statement relates to the 2008 annual meeting of stockholders of Aware, Inc. The annual meeting will take place as follows:

Date: May 21, 2008  
Time: 10:00 a.m.  
Place: Bedford Glen Hotel  
44 Middlesex Turnpike  
Bedford, Massachusetts

The board of directors of Aware is soliciting proxies for the annual meeting and adjournments of the annual meeting. If a stockholder returns a properly executed proxy, the shares represented by the proxy will be voted in accordance with the stockholder's directions. If a stockholder does not specify a vote on any proposal, the shares covered by his or her proxy will be voted on that proposal as management recommends. Aware encourages its stockholders to vote on all proposals. A stockholder may revoke its proxy at any time before it has been exercised.

Aware is mailing this proxy statement and the enclosed form of proxy to stockholders on or about April 10, 2008.

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ANNUAL MEETING OF STOCKHOLDERS

Purpose of the annual meeting

At the annual meeting, Aware will submit one proposal to the stockholders:

Proposal: To elect two Class III directors for three-year terms.

Currently, Aware does not intend to submit any other proposals to the stockholders at the annual meeting. The board of directors was not aware, a reasonable time before mailing this proxy statement to stockholders, of any other business that may be properly presented for action at the annual meeting. If any other business comes before the annual meeting, the persons present will have discretionary authority to vote the shares they own or represent by proxy in accordance with their judgment, to the extent authorized by applicable regulations.

Record date

The board of directors of Aware has fixed the close of business on April 3, 2008 as the record date for the annual meeting. Only stockholders of record at the close of business on that date are entitled to receive notice of the meeting and to vote at the meeting or any adjournment of the meeting. At the close of business on the record date, there were issued and outstanding 23,914,966 shares of Aware's common stock, which are entitled to cast 23,914,966 votes. A list of stockholders entitled to notice of the 2008 annual meeting is available for inspection by any stockholder at our principal office at 40 Middlesex Turnpike, Bedford, MA.

Quorum

Aware's by-laws provide that a quorum at the annual meeting will be a majority in interest of all stock issued, outstanding and entitled to vote at the meeting. Aware will treat shares of common stock represented by a properly signed and returned proxy as present at the meeting for purposes of determining the existence of a quorum at the meeting. In general, Aware will count votes withheld from any nominee for election as director, abstentions and broker "non-votes" as present or represented for purposes of determining the existence of a quorum at the meeting. A broker "non-vote" occurs when a broker or nominee holding shares for a beneficial owner does not vote on a proposal because the broker or nominee does not have discretionary voting power and has not received instructions from the beneficial owner with respect to that proposal.

Vote required; tabulation of votes

The election of each Class III director will require the affirmative vote of a plurality of the shares of common stock properly cast on the proposal. Abstentions, votes withheld from the director-nominee, and broker non-votes will not count as votes cast for or against the election of the director-nominee and accordingly will not affect the outcome of the vote.

Aware's transfer agent, Computershare Trust Co., Inc., will tabulate the votes at the annual meeting. Computershare will tabulate separately the vote on each matter submitted to stockholders.



Revocation of proxies

A stockholder who has executed a proxy may revoke the proxy at any time before it is exercised at the annual meeting in three ways:

- by giving written notice of revocation to the Secretary of Aware at the following address:

Aware, Inc.  
40 Middlesex Turnpike  
Bedford, Massachusetts 01730  
Attention: Secretary

- by signing and returning another proxy with a later date; or
- by attending the annual meeting and informing the Secretary of Aware in writing that he or she wishes to vote in person.

Mere attendance at the annual meeting will not in and of itself revoke the proxy. Accordingly, stockholders who have executed and returned proxies in advance of the annual meeting may change their votes at any time before or at the annual meeting.

Solicitation of proxies

Aware will bear all costs incurred in connection with the solicitation of proxies for the annual meeting. Aware will reimburse brokers, banks, fiduciaries, nominees and others for the out-of-pocket expenses and other reasonable clerical expenses they incur in forwarding proxy materials to beneficial owners of common stock held in their names. In addition to this solicitation by mail, Aware's directors, officers and employees may solicit proxies, without additional remuneration, by telephone, facsimile, electronic mail, telegraph and in person. Aware expects that the expenses of any special solicitation will be nominal. At present, Aware does not expect to pay any compensation to any other person or firm for the solicitation of proxies.

MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING

PROPOSAL—ELECTION OF DIRECTORS

The board of directors, upon the recommendation of the nominating and corporate governance committee, has nominated for election as Class III directors Edmund C. Reiter and Adrian F. Kruse, each of whom is currently a Class III director of Aware. Mr. Reiter serves as Aware's president. The directors elected at the annual meeting will hold office until the annual meeting of stockholders in 2011 and until their successors are duly elected and qualified.

Each nominee has agreed to serve if elected, and Aware has no reason to believe that a nominee will be unable to serve. If a nominee is unable or declines to serve as a director at the time of the annual meeting, proxies will be voted for another nominee that our board's nominating committee will designate at that time. Proxies cannot be voted for more than one nominee.

The board of directors recommends that you vote FOR the election of Edmund C. Reiter and Adrian F. Kruse, as Class III directors of Aware.

## CORPORATE GOVERNANCE

In designing its corporate governance structure, Aware seeks to identify and implement the best practices that will serve the interests of Aware's business and stockholders, including practices mandated by the Sarbanes-Oxley Act of 2002 and related rules of the Securities and Exchange Commission and the Nasdaq Stock Market. You can find Aware's current corporate governance principles, including Aware's code of ethics and the charters for the standing committees of Aware's board of directors, on Aware's website at [www.aware.com](http://www.aware.com). The code of ethics applies to not only Aware's principal executive officer, principal financial officer and principal accounting officer, but also all other employees, executive officers and directors of Aware. The code of ethics includes, among other things, provisions covering compliance with laws and regulations, conflicts of interest, insider trading, proper use of Aware's assets, confidentiality, discrimination and harassment, accounting and record keeping, the reporting of illegal or unethical behavior, enforcement of the code of ethics and discipline for violations of the code of ethics. Aware intends to continue to modify its policies and practices to address ongoing developments in the area of corporate governance. Many features of Aware's corporate governance principles are discussed in other sections of this proxy statement. Some of the highlights of Aware's corporate governance principles are:

- **Director and committee independence.** A majority of Aware's directors are independent directors under the rules of the Nasdaq Stock Market. The board of directors has determined that Aware's independent directors are Frederick D. D'Alessio, G. David Forney, Jr., John K. Kerr, Mark G. McGrath and Adrian F. Kruse. On March 15, 2008, Frederick D. D'Alessio, a director of Aware since December 2002, informed the board of Directors that he did not want to stand for election for another term. Mr. D'Alessio's tenure as a director of Aware will end at the Annual Meeting of Stockholders on May 21, 2008. Each member of the audit committee, nominating and corporate governance committee, and compensation committee meets the independence requirements of the Nasdaq Stock Market for membership on the committees on which he serves.
- **Audit committee.** Aware's audit committee is directly responsible for appointing, compensating, overseeing, and, when necessary, terminating Aware's independent auditors. Aware's independent auditors report directly to the audit committee. The board of directors has determined that Mr. Kruse is an audit committee financial expert under the rules of the Securities and Exchange Commission. Prior approval of the audit committee is required for all audit services and non-audit services to be provided by Aware's independent auditors.
- **Committee authority.** Aware's audit committee, nominating and corporate governance committee, and compensation committee each have the authority to retain independent advisors and consultants, with all fees and expenses to be paid by Aware.

- Whistleblower procedures. Aware’s audit committee has adopted procedures for the treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential and anonymous submission by Aware’s directors, officers and employees of concerns regarding questionable accounting, internal accounting controls or auditing matters.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and executive officers

The following table provides information regarding Aware’s directors and executive officers as of March 31, 2008:

Name	Age	Position
John K. Kerr (1)(2)(3)(4)	70	Chairman of the board of directors
Michael A. Tzannes (1)	46	Chief executive officer and director
Edmund C. Reiter	44	President and director
Richard P. Moberg	53	Chief financial officer
Richard W. Gross	50	Senior vice president—engineering
Frederick D. D’Alessio (2)(3)	59	Director
G. David Forney, Jr.(3)(4)	68	Director
Adrian F. Kruse (2)(4)	68	Director
Mark G. McGrath (3)	61	Director

- 
- (1) Member of the executive committee
  - (2) Member of the audit committee
  - (3) Member of the compensation committee
  - (4) Member of the nominating and corporate governance committee

John K. Kerr has been a director of Aware since 1990 and chairman of the board of directors since March 1999. Mr. Kerr previously served as a director of Aware from 1988 to 1989 and as chairman of the board of directors from November 1992 to March 1994. Mr. Kerr was general partner of Grove Investment Partners, a private investment partnership, until 2003. Mr. Kerr received an M.A. and a B.A. from Baylor University.

Michael A. Tzannes has been with Aware since 1990. He has served as Aware’s chief executive officer since April 1998 and has served as a director of Aware since March 1998. Mr. Tzannes was Aware’s president from April 1998 to March 2001. From 1986 to 1990, he was a staff engineer at Signatron, Inc. Mr. Tzannes received a Ph.D. in electrical engineering from Tufts University, an M.S. from the University of Michigan at Ann Arbor, and a B.S. from the University of Patras, Greece.

Edmund C. Reiter has been with Aware since 1992. He has served as Aware’s president since March 2001 and as a director of Aware since December 1999. Mr. Reiter served as senior scientist at New England Research, Inc. from January 1991 to November 1992. Mr. Reiter received a Ph.D. from the Massachusetts Institute of Technology and a

B.S. from Boston College.

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Richard P. Moberg has been Aware's chief financial officer since February 2008. Mr. Moberg previously served as Aware's chief financial officer from June 1996 to October 2003. Prior to rejoining Aware, Mr. Moberg served as chief financial officer at Crossbeam Systems, Inc. from October 2003 to June 2006. From June 2006 to November 2007, Mr. Moberg served as managing director at Fenway Consulting Group. From January 2008 to February 2008, Mr. Moberg served as a consultant to Aware, Inc. From December 1990 to June 1996, Mr. Moberg held a number of positions at Lotus Development Corporation, including corporate controller from June 1995 to June 1996, assistant corporate controller from May 1993 to June 1995, and director of financial services from December 1990 to May 1993. Mr. Moberg received an M.B.A. from Bentley College and a B.B.A. in accounting from the University of Massachusetts at Amherst.

Richard W. Gross has been with Aware since 1993. He has served as senior vice president of engineering since July 1999. Prior to joining Aware, Mr. Gross was a senior technical staff member at GTE Laboratories from 1987 to 1993; a technical staff member at the Heinrich Hertz Institute from 1984 to 1987; and a programmer for IBM, Federal Systems Division from 1980 to 1984. Mr. Gross received a Ph.D. and M.S. in electrical engineering from the University of Rhode Island and a B.A. in physics from Holy Cross College.

Frederick D. D'Alessio has been a director of Aware since December 2002. Mr. D'Alessio is currently a general partner at Capitol Management Partners, a business advisory partnership. Mr. D'Alessio served as president of the Advanced Services Group for Verizon Communications from July 2000 to November 2001. The Advanced Services Group included Verizon's Long Distance, DSL and Internet Service Provider Businesses. From December 1998 to June 2000, Mr. D'Alessio served as group president consumer services for Bell Atlantic Communications, responsible for all aspects of Residential Services. From April 1995 to November 1998 Mr. D'Alessio served as president—consumer sales and services for Bell Atlantic. Mr. D'Alessio currently serves as a director of Network Equipment Technologies and SS8 Networks. Mr. D'Alessio received a B.S.E.E. and M.S. degree from New Jersey Institute of Technology and a masters of business administration from Rutgers University.

G. David Forney, Jr. has been a director of Aware since May 1999. Mr. Forney was a vice president of Motorola, Inc. from 1977 until his retirement in January 1999. Mr. Forney was previously vice president of research and development, and a director of Codex Corporation prior to its acquisition by Motorola in 1977. Mr. Forney is currently Adjunct Professor in the Department of Electrical Engineering and Computer Sciences at the Massachusetts Institute of Technology. Mr. Forney received an Sc.D. in electrical engineering from the Massachusetts Institute of Technology and a B.S.E. in electrical engineering from Princeton University.

Adrian F. Kruse has been a director of Aware since October 2003. Mr. Kruse was an audit partner of Ernst & Young LLP, serving clients principally in the financial services industry, from 1976 until his retirement in March 1998. From 1967 to 1976, he served audit clients of Ernst & Young LLP in various capacities. Mr. Kruse is a Certified Public Accountant and holds a B.B.A. degree from the University of Wisconsin and a J.D. degree from the University of Wisconsin School of Law. Mr. Kruse also serves as the treasurer and as a director of the Presbyterian Homes and as a director of MEI, Inc.

Mark G. McGrath has been a director of Aware since September 2006. Mr. McGrath retired as a Director of McKinsey & Company, a private management consulting firm, in December 2004, having served in that firm for twenty-seven years. Mr. McGrath led the firm's Americas' Consumer Goods Practice from January 1998 until December 2003. Mr. McGrath has served as a senior advisor with Gleacher Partners LLC, a firm providing strategic advisory services to corporations, in a part time capacity since January 2005. Mr. McGrath currently serves as a Director of GATX Corporation, as a Director of the Lincoln Park Zoo, on the Advisory Council for the University of Chicago's Graduate School of Business and on two Advisory Councils at the University of Notre Dame: the Kroc Peace Institute and as chair of the Kellogg International Studies Institute. Mr. McGrath holds a B.B.A. in Accounting from the University of Notre Dame and an M.B.A. in Finance from the University of Chicago.

On March 15, 2008, Frederick D. D'Alessio, a director of Aware since December 2002, informed the board of Directors that he did not want to stand for election for another term. Mr. D'Alessio's tenure as a director of Aware will end at the Annual Meeting of Stockholders on May 21, 2008. Keith E. Farris, the chief financial officer of Aware since April 2006, resigned from his position as chief financial officer of Aware on February 15, 2008. Mr. Farris was replaced by Richard P. Moberg who joined the Company as its chief financial officer and treasurer on February 15, 2008.

The board of directors is divided into three classes, referred to as Class I, Class II and Class III, each consisting of approximately one-third of the directors. One class is elected each year at the annual meeting of stockholders to hold office for a term of three years and until their respective successors have been duly elected and qualified. The number of directors has been fixed at seven, and there are currently no vacancies on the board of directors. The current terms of Messrs. Tzannes and Forney, Aware's Class I directors, will expire at the annual meeting to be held in 2009. The current term of Messrs. Kerr and McGrath, Aware's Class II directors, will expire at the annual meeting to be held in 2010. The current terms of Messrs. D'Alessio, Kruse, and Reiter, Aware's Class III directors, will expire at the annual meeting to be held on May 21, 2008.

Executive officers are elected annually by the board of directors and serve at the discretion of the board or until their respective successors have been duly elected and qualified. There are no family relationships among Aware's directors and executive officers.

#### Certain relationships and related transactions

In March 2007, the Board formally adopted a written policy with respect to related person transactions to document procedures pursuant to which such transactions are reviewed and approved. The policy applies to any transaction in which (1) the Company is a participant, (2) any related person has a direct or indirect material interest and (3) the amount involved exceeds \$120,000, but excludes any transactions available to all employees or shareholders of the Company on the same terms. The Audit Committee, with assistance from the Company's General Counsel, is responsible for reviewing and approving any related person transaction. The policy requires that the Audit Committee must approve any related party transaction subject to the policy before commencement of the related party transaction. The policy states that the Audit Committee will approve only those related person transactions that the Audit Committee determines are beneficial to the Company and the terms of which are fair to the Company.

In 2007, the Company had two transactions with related persons. Marcos Tzannes, the brother of Michael Tzannes, Aware's CEO, has been employed by Aware since February 8, 1993 and currently serves in the role of Vice President, Strategic Technology. In 2007, Marcos Tzannes' total compensation was \$255,021 which included salary based upon his position within the Company, background and years of experience, income from the exercise and sale of company stock pursuant to the Company stock option plans, the value of stock options granted pursuant to the Company stock option plans (based on a Black-Scholes value), the value of an unrestricted stock award as part of an employee unrestricted stock award program and company contributions for standard company benefits. Alexis Tzannes, the brother of Michael Tzannes, Aware's CEO, has been employed by Aware since August 2, 1999 and currently serves in the role of Principal Engineer. In 2007, Alexis Tzannes' total compensation was \$134,964 which included salary based upon his position within the Company, background and years of experience, the value of stock options granted pursuant to the Company stock option plans (based on a Black-Scholes value), the value of an unrestricted stock award as part of an employee unrestricted stock award program, and company contributions for standard company benefits. The FAS 123(R) compensation expense recorded in 2007 for Marcos Tzannes was \$12,579 and for Alexis Tzannes was \$5,873.

#### Committees and meetings of the board

During 2007, the board of directors met five times and took action by written consent four times. No incumbent director attended fewer than 75% of the total number of meetings held by the board and committees of the board on which he served. Aware has a compensation committee, an audit committee, an executive committee, and a nominating and corporate governance committee.

**Executive Committee.** Aware's executive committee is currently composed of John K. Kerr and Michael A. Tzannes. The executive committee has all of the powers of the board of directors except the power to: change the number of directors or fill vacancies on the board of directors; elect or fill vacancies in the offices of president, treasurer or secretary; remove any officer or director; amend the by-laws of Aware; change the principal office of Aware; authorize the payment of any dividend or distribution to stockholders of Aware; authorize the reacquisition of capital stock for value; and authorize a merger. In 2007, the executive committee met once and took no action by written consent.

**Compensation Committee.** Aware's compensation committee is currently composed of four outside directors, Frederick D. D'Alessio, G. David Forney, Jr., Mark G. McGrath and John K. Kerr who serves as chairman. On March 18, 2008, Mark G. McGrath was appointed chairman of the compensation committee, effective after the Annual Meeting of Stockholders on May 21, 2008. In 2007, the compensation committee held five meetings and took action by written consent six times. In March 2004, Aware's board of directors adopted a Compensation Committee Charter, which it amended in March 2007. The Compensation Committee Charter, as amended, is available on Aware's website at [www.aware.com](http://www.aware.com).

**Audit Committee.** Aware's audit committee is currently composed of Frederick D. D'Alessio, John K. Kerr and Adrian F. Kruse who serves as chairman. On March 18, 2008, Mark G. McGrath was appointed to the audit committee, effective after the Annual Meeting of Stockholders on May 21, 2008. Aware's board of directors has determined that Mr. Kruse is an audit committee financial expert under Securities and Exchange Commission rules. In 2007, the audit committee met seven times and took action by written consent once. In March, 2004, Aware's board of directors adopted a new Audit Committee Charter, which is available on Aware's website at [www.aware.com](http://www.aware.com).

Nominating and Corporate Governance Committee. Aware's nominating and corporate governance committee is currently composed of three outside directors, John K. Kerr, Adrian F. Kruse and G. David Forney, Jr. who serves as chairman. In 2007, the nominating and corporate governance committee held two meetings and took no action by written consent. In March 2004, Aware's board of directors adopted a Nominating and Corporate Governance Committee Charter, which is available on Aware's website at [www.aware.com](http://www.aware.com).

The nominating and corporate governance committee, in consultation with our chief executive officer and the chairman of the board, identifies and reviews candidates for our board of directors and recommends to our full board candidates for election to our board. In selecting new directors, the committee considers any requirements of applicable law or listing standards, a candidate's strength of character, judgment, business experience and specific area of expertise, factors relating to the composition of the board (including its size and structure), principles of diversity, and such other factors as the committee shall deem appropriate.

The committee reviews from time to time the appropriate skills and characteristics required of board members in the context of the current make-up of the board, including such factors as business experience, diversity, and personal skills in technology, finance, marketing, international business, financial reporting and other areas that contribute to an effective board.

The committee, in consultation with our chief executive officer and the chairman of the board, considers and recruits candidates to fill positions on the board, including as a result of the removal, resignation or retirement of any director, an increase in the size of the board or otherwise. The committee also reviews any candidate recommended by stockholders of Aware in light of the committee's criteria for selection of new directors. Stockholders may make nominations for the election of directors by delivering notice in writing to the Secretary of Aware not less than 60 days nor more than 90 days prior to any meeting of the stockholders called for the election of directors. As part of this responsibility, the committee is responsible for conducting, subject to applicable law, any and all inquiries into the background and qualifications of any candidate for the board and such candidate's compliance with the independence and other qualification requirements established by the committee or imposed by applicable law or listing standards.

The Committee also develops and recommends to the Board governance principles applicable to the Company and is responsible for leading an annual review of the performance of both the Board as a whole and its individual members. The annual Board review took place in December 2007.

#### Policy regarding board attendance

To the extent reasonably practicable, directors are expected to attend board meetings and meetings of committees on which they serve. Directors are encouraged to attend Aware's annual meeting of stockholders. Last year, all but one of our directors attended the annual meeting.



#### Communications with our board of directors

Aware's board of directors has established the following process for stockholders to communicate directly with the board, and this process has been approved by a majority of Aware's independent directors. Stockholders wishing to communicate with the board of directors should send correspondence to the attention of the Chairman of the Board at Aware, Inc., 40 Middlesex Turnpike, Bedford, Massachusetts 01730, and should include with the correspondence evidence that the sender of the communication is one of Aware's stockholders. Satisfactory evidence would include, for example, contemporaneous correspondence from a brokerage firm indicating the identity of the stockholder and the number of shares held. Aware's chairman will review all correspondence confirmed to be from stockholders and decide whether or not to forward the correspondence or a summary of the correspondence to the board or a committee of the board. Accordingly, Aware's chairman will review all stockholder correspondence, but the decision to relay that correspondence to the board or a committee of the board will rest entirely within his discretion.

#### Code of ethics

Aware has adopted a code of ethics that applies to all employees, officers and directors. The code of ethics also contains special ethical obligations which apply to employees with financial reporting responsibilities, including Aware's principal executive officer, principal financial officer and principal accounting officer. Aware's code of ethics includes, among other things, provisions covering compliance with laws and regulations, conflicts of interest, insider trading, proper use of Aware's assets, confidentiality, discrimination and harassment, accounting and record keeping, the reporting of illegal or unethical behavior, enforcement of the code of ethics and discipline for violations of the code of ethics. Aware's code of ethics is available on Aware's website at [www.aware.com](http://www.aware.com). Any waiver of any provision of the code of ethics granted to an executive officer or director may only be made by the board of directors and will be promptly disclosed on our website at [www.aware.com](http://www.aware.com).

#### Compensation committee interlocks and insider participation

Aware's compensation committee is currently composed of Messrs. D'Alessio, Forney, McGrath and Kerr. Mr. Kerr formerly served as Aware's assistant vice president of marketing from June 1992 to November 1994. In 2007, no officer or employee of Aware participated in the deliberations of the compensation committee concerning the compensation of Aware's executive officers. No interlocking relationship existed between Aware's board of directors or compensation committee and the board of directors or compensation committee of any other company in 2007.

## COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

### COMPENSATION DISCUSSION AND ANALYSIS

**Overview.** The Compensation Committee has the responsibility to review the performance and development of Company management in achieving corporate goals and objectives and to assure that senior executives of the Company are compensated effectively in a manner consistent with the strategy of the Company, competitive practice, and the requirements of the appropriate regulatory bodies. Toward that end, the Compensation Committee oversees, reviews and administers all compensation, equity and employee benefit plans and programs. The Compensation Committee is responsible for reviewing annually and determining the individual elements of total compensation for the Company's chief executive officer and all other corporate officers. The Compensation Committee may delegate any of its responsibilities to a subcommittee of one or more members of the Committee, the chief executive officer or to a committee of senior executive officers when appropriate and consistent with applicable law. The Compensation Committee acts pursuant to a charter that has been approved by the board of directors.



Compensation program objectives. The objectives of the Company's executive compensation programs are to attract, motivate and retain executives who drive the Company's success and to assure that senior executives of the Company are compensated effectively in a manner consistent with the strategy of the Company, competitive practice, and the requirements of appropriate regulatory bodies. The executive compensation programs are designed to reward individuals for advancing business strategies, further developing the Company and its people, and the achievement of individual and Company performance goals. In 2007, the Compensation Committee took into consideration the Company's achievement of certain financial and operational goals in determining the potential bonus for Michael A. Tzannes, the Company's chief executive officer, Edmund C. Reiter, the Company's president, Keith E. Farris, the Company's chief financial officer and Richard W. Gross, the Company's senior vice president of engineering. The Compensation Committee also takes into consideration the individual's performance in determining the compensation elements for each of the Company's Named Executive Officers.

Role of executive officers in determining executive compensation. The Company's CEO assists the Compensation Committee in determining executive compensation including recommendations for executive officer compensation. The Compensation Committee makes the final determination on executive compensation for all the Company's executives, including the Named Executive Officers shown in the tables under Executive Compensation.

Corporate performance goals. The Company utilizes corporate performance goals in reviewing the overall compensation for executives. More specifically, the Company utilizes corporate performance goals primarily in determining the amount of the cash incentive award to give to executives. The Company structures the cash incentive award program to executives based upon a percentage attainment of certain corporate performance goals. During 2007, the Company's achievement of revenue growth and certain earnings targets were deemed key corporate performance goals and represented seventy percent (70%) of the potential cash incentive compensation for the eligible executives. The remaining thirty percent (30%) of the potential cash incentive compensation for the eligible executives was based upon the attainment of certain operational goals specific to each executive. The Compensation Committee may in its discretion increase or reduce awards or payments based upon executive performance. For 2008, the Compensation Committee has determined that reaching certain operational targets and/or certain financial targets such as revenue, operating income and/or earnings per share are key corporate performance goals.

Option grant timing/pricing. The Company's practice with regard to the granting of stock options is to typically grant stock options in the following circumstances: 1) at regularly scheduled board meetings; 2) upon the new hire of certain employees or directors; 3) subsequent to the annual performance or compensation review of employees, soon after one of the Company's quiet period ends; 4) subsequent to the annual performance reviews for executives and officers; and 5) at the annual meeting of stockholders for directors. The Company's quiet period begins two weeks prior to the end of a fiscal quarter and ends two days after the Company announces financial results for said fiscal quarter. Historically, it has been the Company's practice to price options based on the closing price of the Aware common stock on the date that the Compensation Committee executes a Compensation Committee consent granting the stock options.

Compensation benchmarking. In 2007, the Compensation Committee contracted with Hewitt Associates, a third party compensation consultant to compile compensation benchmark data. Hewitt Associates gathered benchmark information with respect to cash and equity-based compensation from a list of comparable companies (the “Compensation Peer Group”). The Compensation Peer Group is comprised of companies with similar products or business models and comparable enterprise values to the Company. The Compensation Peer Group was selected by the Company, reviewed by Hewitt Associates and was approved by the Compensation Committee. The companies comprising the Compensation Peer Group for 2007 were:

Ampex Corporation	MIPS Technologies, Inc.
Captaris, Inc.	Mosys, Inc.
Catalyst Semiconductor, Inc.	Nestor, Inc.
Ceva, Inc.	PCTEL, Inc.
Centillium Communications, Inc.	Supportsoft, Inc.
Digimarc Corporation	Tollgrade Communications, Inc.
Endwave Corporation	Transmeta Corporation
Intelli-Check, Inc	Transwitch Corporation
Ikanos Communications, Inc.	Tut Systems, Inc.

The 2007 Compensation Peer Group differed from the 2006 Compensation Peer Group as follows: Metasolv, Inc., Netopia, Inc. Netscout Systems, Inc. Optical Communication Products, Inc. Seachange International, Terayon Communication Systems and Watchguard Technologies, Inc. were removed while Catalyst Semiconductor, Inc. Ceva, Inc., Digimarc Corporation, Intelli-Check, Inc., Ikanos Communications, Inc., and PCTEL, Inc., were added to the Compensation Peer Group. Monolithic Systems, Inc. changed its name to Mosys, Inc. Metasolv, Inc., Netopia, Inc. Optical Communication Products, Inc. and Terayon Communications Systems were removed as each company was acquired. The other companies were removed and added in order to provide a Compensation Peer Group that represented a better mix of companies representing the Company’s business in digital subscriber line (“DSL”) technology licensing, DSL test & diagnostic products and biometric and medical imaging software products.

The following compensation elements were benchmarked: (i) total annual cash compensation (base salary and bonus) and (ii) most recent grants of long-term incentives (restricted stock and stock option grants). These long-term incentives were valued using Black-Scholes for options and grant date value for restricted shares. Stock option grants were also benchmarked by reviewing (i) a three year average of the number of options granted, (ii) a three year average of the number of shares granted as a percentage of total shares outstanding and (iii) the number of shares held as a percentage of total shares outstanding. The Compensation Committee utilizes this information in determining the compensation and stock option grants to its executive officers.

Compensation program elements. The Company's executive compensation package for 2007 consisted of two principal elements: cash and a stock-based equity incentive in the form of participation in the Company's stock option plans. The cash element includes base salary and any cash incentive or bonus award earned for performance goals achieved during the year.

#### Salary

The salary element of the Company's executive compensation policy is designed to give executives assurance of a base level of compensation commensurate with the executive's position and duration of employment with the Company and competitive with salaries for officers holding comparable positions in the industry. In 2007, Mr. Tzannes, the Company's chief executive officer, was awarded a base salary increase from \$375,000 to \$400,000; Edmund C. Reiter, the Company's president, was awarded a base salary increase from \$310,000 to \$335,000; Keith E. Farris, the Company's chief financial officer, was awarded a base salary increase from \$210,000 to \$225,000 and Richard W. Gross, the Company's senior vice president of engineering, was awarded a base salary increase from \$250,000 to \$275,000 in recognition of their individual contributions to the Company and compensation relative to others in the industry. The salary increases were also based upon a review of the salaries of comparable positions in the Compensation Peer Group.

Mr. Tzannes' salary is above the 75th percentile of other chief executive officers in the Compensation Peer Group. Mr. Reiter's salary is above the 75th percentile of other presidents (or comparable executives) in the Compensation Peer Group. Mr. Farris' salary was below the 50th percentile of other chief financial officers in the Compensation Peer Group. Mr. Gross' salary is above the 75th percentile of comparable executives.

On February 15, 2008, Keith E. Farris resigned from the Company as its chief financial officer and treasurer. Mr. Farris was replaced by Richard P. Moberg who joined the Company as its chief financial officer and treasurer on February 15, 2008. Mr. Moberg was awarded a base salary of \$250,000.

For the 2008 executive compensation review, the Compensation Committee engaged DolmatConnell & Partners, a third party compensation consultant to compile compensation benchmark data. On March 18, 2008, the Compensation Committee approved a salary of \$416,000, \$348,400 and \$286,000 to Michael A. Tzannes, CEO, Edmund C. Reiter, and Richard W. Gross, SVP, Engineering, respectively, effective March 18, 2008.

#### Cash Incentive Compensation

The annual cash incentive program is designed to provide executives with competitive compensation linked to Company performance goals. In February 2007, the Compensation Committee approved a potential bonus for 2007 of up to \$125,000, \$200,000, \$35,000 and \$25,000 to Michael A. Tzannes, CEO, Edmund C. Reiter, President, Keith E. Farris, CFO, and Richard W. Gross, SVP, Engineering, respectively, subject to the Board of Director's discretion, based upon the Company reaching certain revenue and/or earnings targets as well as each executive achieving certain operational goals. For each executive, up to 70% of the eligible bonus is earned by achieving certain revenue targets and/or earnings targets and up to 30% for achieving certain operational goals specific to each executive.

The award granted to Mr. Tzannes based upon the Compensation Committee's discretion totaled \$81,342, which consisted of \$53,217 for achieving certain revenue targets for the Company's business and an additional \$26,250 for achieving certain operational goals. The award granted to Mr. Tzannes was at 65% of the target bonus of \$125,000. The compensation was earned in 2007 and approved and paid in February 2008. Mr. Tzannes' cash incentive was between the 25th and the 50th percentile of other chief executives in the Compensation Peer Group. The award granted to Mr. Reiter based upon the Compensation Committee's discretion totaled \$127,148, which consisted of an award of \$85,148 for achieving certain revenue targets for the Company's business and an additional \$42,000 for achieving certain operational goals. The award granted to Mr. Reiter was at 64% of the target bonus of \$200,000. The compensation was earned in 2007 and approved and paid in February 2008. Mr. Reiter's cash incentive was above the 75th percentile of other presidents (or comparable executives) in the Compensation Peer Group. The award granted to Mr. Gross based upon the Compensation Committee's discretion totaled \$16,268, which consisted of an award of \$10,643 for achieving certain revenue targets for the Company's business and an additional \$5,250 for achieving certain operational goals. The award granted to Mr. Gross was at 65% of the target bonus of \$25,000. The compensation was earned in 2007 and approved and paid in February 2008. Mr. Gross' cash incentive was between the 25th and the 50th percentile of comparable executives in the Compensation Peer Group. On February 15, 2008, Mr. Farris resigned from the Company as its chief financial officer and treasurer. As a result, the Compensation Committee determined that no cash bonus would be awarded to Mr. Farris.

The total cash compensation (salary plus cash incentive compensation) for Mr. Tzannes was at the 75th percentile of other chief executives in the Compensation Peer Group. The total cash compensation for Mr. Reiter was above the 75th percentile of other presidents (or comparable executives) in the Compensation Peer Group. The total cash compensation for Mr. Farris was just below the median of other chief financial officers in the Compensation Peer Group.

For the 2008 executive compensation review, the Compensation Committee engaged DolmatConnell & Partners, a third party compensation consultant to compile compensation benchmark data. On March 18, 2008, the Compensation Committee approved a potential bonus for 2008 of up to \$150,000, \$200,000, \$50,000 and \$25,000 to Michael A. Tzannes, CEO, Edmund C. Reiter, President, Richard P. Moberg, CFO, and Richard W. Gross, SVP, Engineering, respectively, subject to the Compensation Committee's discretion, based upon the Company reaching certain revenue and/or earnings targets as well as each executive achieving certain operational goals. For each executive, up to 50% of the eligible bonus is earned by achieving certain revenue and/or earnings targets and up to 50% for achieving certain operational goals.

#### Stock-based equity incentive compensation

The Company emphasizes stock options in order to align the interests of management with the stockholders' interests in the financial performance of the Company for fiscal quarters, the fiscal year and the longer term. In determining stock option grants, the Company considers the three-year average value resulting from long-term incentive compensation such as restricted stock grants, performance plans and stock option grants made at companies in the Compensation Peer Group. The value of stock options is based upon the Black-Scholes formula. The Company also considers in part the value of options held by the executive officers and the extent to which the Company believed those options would provide sufficient motivation to the executive officers to achieve the Company's goals. In 2005, the Company granted stock option awards to Mr. Tzannes of 800,000 options and Mr. Reiter of 600,000 options to give these executives a level of stock-based equity incentive compensation commensurate with the executive's position and competitive with the stock-based equity incentive compensation of comparable executives at comparable companies. In 2006 and 2007, the Compensation Committee determined that given the 2005 stock option awards and a review of the three year average stock-based equity incentive compensation of comparable executives at Compensation Peer Group companies, that a stock option award in 2006 and 2007 to either Mr. Tzannes or Mr. Reiter was not required. The three year average value of stock-based equity incentive compensation for Mr. Tzannes



was at the 75th percentile of other chief executives in the Compensation Peer Group and for Mr. Reiter was above the 75th percentile of presidents (or comparable officers) in the Compensation Peer Group. In February 2007, the Company granted stock options in the amount of 50,000 to Keith E. Farris, CFO in recognition of his individual contributions to the Company. In February 2007, Richard W. Gross, SVP, Engineering was granted 75,000 stock options in recognition of his individual contributions to the Company.

In determining the fair value of each option grant, the Company used the following assumptions:

		Year ended December 31		
	2007	2006	2005	2004
Average risk free interest rate	3.80 – 4.73%	4.55 – 4.99%	4.05%	3.74%
Expected life of option grants	6.25 years	3.25 – 6.25	3 - 5 years	5 years
Expected volatility of underlying stock	51% - 56%	60% - 67%	67% - 87%	93%
Expected dividend yield	-	-	-	-

#### Other Compensation

The Company's executive officers are also eligible to participate in other employee benefit plans, including health and life insurance plans and a 401(k) retirement plan, on substantially the same terms as other employees who met applicable eligibility criteria, subject to any legal limitations on the amounts that could have been contributed or the benefits that could have been paid under these plans.

#### Salary & Bonus in Proportion to Total Compensation

In 2007, the salary and cash incentive compensation for Mr. Tzannes represented approximately 98% of his total compensation. In 2007, the salary and cash incentive compensation for Mr. Reiter represented approximately 98% of his total compensation. Mr. Tzannes and Mr. Reiter did not receive any stock-based compensation in 2007. In 2007, the salary and cash incentive compensation for Mr. Gross represented approximately 76% of his total compensation. In 2007, the salary and cash incentive compensation for Mr. Farris represented approximately 66% of his total compensation. Mr. Farris resigned from the Company on February 15, 2008 and did not receive any cash incentive compensation for 2007.

Compensation program elements rationale. In establishing compensation for executives, the Company's Compensation Committee monitors salaries, other cash compensation and stock options at other companies, particularly companies with similar enterprise value and companies in the same industry. In addition, for each executive the Compensation Committee considers historic salary levels, work responsibilities and compensation relative to other executives at the Company. The Compensation Committee also considers general economic conditions, the Company's performance and each individual's performance. Finally, the Compensation Committee utilizes market benchmark information described earlier in recommending the compensation and stock option grants to its executive officers so that their overall compensation is competitive with comparable companies.



The Company's selection of the cash and stock-based equity incentive as the primary elements of executive compensation is in furtherance of the Company's compensation program objectives. The cash element, including the base salary and cash incentive program, along with the stock-based equity incentive element help the Company to achieve the objective of attracting, motivating and retaining executives who drive the Company's success. The Company has determined that the aforementioned elements help to achieve the Company's compensation objectives and that additional compensation elements are not required.

Impact of accounting and tax treatments on compensation. The Company reviews the compensation provided to executive officers in conjunction with the potential tax consequences that may result with respect to certain compensation elements. For example, Section 162(m) of the Internal Revenue Code limits the Company's ability to deduct, for income tax purposes, compensation in excess of \$1.0 million paid to the chief executive officer and the three most highly compensated executive officers of the Company (other than the chief executive officer and chief financial officer) in any year, unless the compensation qualifies as "performance-based compensation." Equity awards that the Company grants under its 2001 Nonqualified Stock Plan do not qualify as "performance-based compensation" because the Plan has not been approved by the Company's stockholders. In 2007, the aggregate base salaries, bonuses and other non-equity compensation of the Company's executive officers did not exceed the \$1.0 million limit. The Compensation Committee does not expect that non-equity compensation will exceed the \$1.0 million limit in the foreseeable future. With respect to equity compensation, the Compensation Committee's policy with respect to Section 162(m) is that it would prefer to cause compensation to be deductible by the Company; however, the Compensation Committee also weighs the need to provide appropriate incentives to the Company's executive officers against the potential adverse tax consequences that may result under Section 162(m) from the grant of compensation that does not qualify as performance-based compensation. The Compensation Committee has authorized and may continue to authorize compensation payments that do not qualify as performance-based compensation and that are in excess of the limits in circumstances when the Compensation Committee believes such payment is appropriate.

#### COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis with management, and based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Compensation Committee

John K. Kerr, Chairman  
G. David Forney, Jr.  
Frederick D. D'Alessio  
Mark G. McGrath

## EXECUTIVE COMPENSATION

The following table provides summary information concerning compensation earned for services rendered to Aware in all capacities for the fiscal year ended December 31, 2007 by Aware's chief executive officer, each person who served as Aware's chief financial officer during 2007 and each other executive officer of Aware:

Summary Compensation Table for 2007

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)(2)	Change in Pension Value and Nonqualified Deferred	All Other Compensation(\$)(3)	Total (\$)
							Earnings (\$)		
Michael A. Tzannes Chief Executive Officer	2007	397,692	-	-	-	81,342	-	7,200	486,234
	2006	364,327	-	-	84,244	113,130	-	7,050	568,751
Edmund C. Reiter President	2007	332,692	-	-	-	127,148	-	7,050	466,890
	2006	305,731	-	-	69,647	114,000	-	7,022	496,400
Richard W. Gross Senior Vice President, Engineering	2007	272,692	-	-	83,126	16,268	-	7,051	379,137
	2006	247,865	-	-	70,220	-	-	6,805	324,890
Keith E. Farris (4) Chief Financial Officer	2007	223,615	-	-	106,942	-	-	7,744	338,302
	2006	123,577	-	-	52,402	-	-	3,891	179,870

(1) Represents the dollar amount of expense recognized for financial statement reporting purposes with respect to 2007 attributable to stock options in accordance with FAS 123(R) but with no discount for estimated forfeitures. For an explanation regarding the method of valuation of the Company's option awards, see the heading "Stock-based equity incentive compensation" in our Compensation Discussion and Analysis.

(2) For a discussion of the Non-Equity Incentive Plan Compensation, please see "Cash Incentive Compensation" in our Compensation Discussion and Analysis.

(3) All other compensation represents group term life insurance premiums paid by Aware on behalf of the executive officers and the following matching contributions by Aware under its 401(k) plan for the benefit of the named

executive officers in 2007; Michael Tzannes-\$6,750; Edmund Reiter-\$6,750; Richard Gross-\$6,651; and Keith Farris-\$6,371. Perquisites and other benefits were less than \$10,000 in the aggregate for each named executive officer.

(4)Mr. Farris became our chief financial officer on May 31, 2006. Mr. Farris resigned as our chief financial officer on February 15, 2008.

## Grants of Plan-Based Awards in 2007

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards:	All Other Option Awards:	Exercise or Base Price of	Grant Date	Fair Value of Stock and Option Awards
		Threshold (\$)	Target (\$)	Maximum (\$)(1)	Threshold (#)	Target (#)	Maximum (#)	Shares of Stock or Underlying Option Awards (#)(2)	Securities Price of Option Awards (\$/Sh)		(\$)(3)	
Michael A. Tzannes	N/A	-	-	125,000	-	-	-	-	-	-	-	-
Edmund C. Reiter	N/A	-	-	200,000	-	-	-	-	-	-	-	-
Richard W. Gross	02/12/2007	-	-	25,000	-	-	-	-	75,000	\$5.06		222,420
Keith E. Farris	02/12/2007	-	-	35,000	-	-	-	-	50,000	\$5.06		148,280

(1) For a discussion of the Non-Equity Incentive Plan Compensation, please see “Cash Incentive Compensation” in our Compensation Discussion and Analysis.

(2) The option grant to Richard Gross vests in sixteen (16) quarterly installments through December 31, 2009 with an expiration date of February 12, 2017. Mr. Farris resigned as our chief financial officer on February 15, 2008.

(3) The value of option awards is calculated in accordance with FAS 123(R) and using a Black-Scholes valuation model with the following assumptions: exercise price and fair market value of \$5.06, volatility of 56%, expected term of 6.25 years, and risk-free interest rate of 4.65% for the option award to Mr. Gross, and exercise price and fair market value of \$5.06, volatility of 56%, expected term of 6.25 years, and risk-free interest rate of 4.65% for the option award to Mr. Farris.

## Outstanding Equity Awards At December 31, 2007

The following table summarizes the stock options outstanding as of December 31, 2007 held by our named executive officers. Our named executive officers did not hold any restricted stock or other equity incentive plan awards as of December 31, 2007.

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Name	Option Awards Equity Incentive Plan					Stock Awards Equity Incentive Plan			
	Number of Securities	Number of Securities	Number of Securities	Number of Options	Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Shares, or Other Rights That Have Not Vested (#)	Payout Value of Shares, or Other Rights That Have Not Vested (\$)
Michael A. Tzannes	453,752	-	-	\$3.27	10/14/13	-	-	-	-
	125,000	-	-	\$2.95	09/08/14	-	-	-	-
	800,000	-	-	\$6.07	02/09/15	-	-	-	-
Edmund C. Reiter	326,635	-	-	\$3.27	10/14/13	-	-	-	-
	100,000	-	-	\$2.95	09/08/14	-	-	-	-
	600,000	-	-	\$6.07	02/09/15	-	-	-	-
Richard W. Gross	201,581	-	-	\$3.27	10/14/13	-	-	-	-
	50,000	-	-	\$2.95	09/08/14	-	-	-	-
	42,500	-	-	\$6.07	02/09/15	-	-	-	-
	20,000	20,000 (1)	-	\$5.58	02/22/16	-	-	-	-
	18,750	56,250 (2)	-	\$5.06	02/12/17	-	-	-	-
Keith E. Farris (3)	32,812	42,188	-	\$5.69	05/31/16	-	-	-	-
	12,500	37,500	-	\$5.06	02/12/17	-	-	-	-

- (1) Vests in 8 quarterly installments on the last day of each quarter from March 31, 2008 through December 31, 2009.
- (2) Vests in 12 quarterly installments on the last day of each quarter from March 31, 2008 through December 31, 2010.
- (3) Mr. Farris resigned as our chief financial officer on February 15, 2008.

#### Option Exercises and Stock Vested in 2007

The following table summarizes the options exercised during the year ended December 31, 2007 and the value realized upon exercise:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Michael A. Tzannes	-	-	-	-
Edmund C. Reiter	-	-	-	-
Richard W. Gross	-	-	-	-
Keith E. Farris	-	-	-	-

#### Post-Employment Compensation

##### Pension Benefits Table

We do not have any tax-qualified or non-qualified defined benefit plans or supplemental executive retirement plans.

##### Non-qualified Deferred Compensation Table

We do not have any non-qualified defined contribution plans or other non-qualified deferred compensation plans.

##### Potential Payments Upon Termination or Change in Control

Aware's executive officers do not have any agreements different from other employees with respect to payments or benefits received as a result of a termination, retirement and change in control. The payments and benefits include accrued vacation pay and health plan continuation. There are no severance payments or acceleration in the vesting of stock options that are required as a result of a termination, retirement or change in control.



## DIRECTOR COMPENSATION

In 2006, each non-employee director other than Mark G. McGrath received an annual retainer of \$15,000 for serving as a director. The retainer was paid at the annual meeting of stockholders in May 2006. Mr. McGrath became a director in September 2006. Members of the Board of Directors did not receive an annual retainer in 2007. Aware also reimburses each director for expenses incurred in attending meetings of the board of directors. Members of the Board of Directors will not receive an annual retainer for 2008.

In February 2007, the Board of Directors of Aware approved a Compensation Committee recommendation to compensate non-employee directors through grants of nonqualified options under Aware's 2001 Stock Option Plan. Each non-employee director received a grant of 20,000 options for serving as a director of Aware. Additional options were provided to the Board chair as well as chairs of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. The exercise price of each option is equal to the closing price of the common stock on the Nasdaq Global Market on the date of grant. Each option has a term of ten years. The options granted in 2007 vest over a period of four years. The following table provides information about these grants.

Non-Employee Director Compensation Table for 2007

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)(6)	Non- Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
John K. Kerr(1)	-	-	45,783	-	-	-	-45,783
G. David Forney, Jr.(2)	-	-	25,449	-	-	-	-25,449
Frederick D. D'Alessio(3)	-	-	19,474	-	-	-	-19,474
Adrian F. Kruse(4)	-	-	40,242	-	-	-	-40,242
Mark McGrath(5)	-	-	33,597	-	-	-	-33,597

(1) In 2007, John K. Kerr received 20,000 options for serving as a director of Aware, 12,500 options for serving as chairman of the board of directors and 4,000 options for serving as chairman of the compensation committee. 221,250 options were outstanding as of 12/31/07, of which 183,125 were exercisable as of 12/31/07.

(2) In 2007, G. David Forney, Jr. received 20,000 options for serving as a director of Aware and 3,000 options for serving as chairman of the nominating and corporate governance committee. 145,999 options were outstanding as of 12/31/07, of which 124,749 were exercisable as of 12/31/07.

(3) In 2007, Frederick D. D'Alessio received 20,000 options for serving as a director of Aware. 83,000 options were outstanding as of 12/31/07, of which 65,500 were exercisable as of 12/31/07.



- (4) In 2007, Adrian F. Kruse received 20,000 options for serving as a director of Aware and 7,500 options for serving as chairman of the audit committee. 95,000 options were outstanding as of 12/31/07, of which 68,125 were exercisable as of 12/31/07.
- (5) In 2007, Mark G. McGrath received 20,000 options for serving as a director of Aware. 45,000 options were outstanding as of 12/31/07, of which 14,375 were exercisable as of 12/31/07.

(6) Represents the dollar amount of expense recognized for financial statement reporting purposes with respect to 2007 attributable to stock options in accordance with FAS 123(R) but with no discount for estimated forfeitures. For an explanation regarding the method of valuation of the Company's option awards, see the heading "Stock-based equity incentive compensation" in our Compensation Discussion and Analysis. The grant date fair value of stock and option awards granted in 2007 were as follows: Mr. Kerr-\$108,244.40; Mr. Forney-\$68,208.80; Mr. D'Alessio-\$59,312; Mr. Kruse-\$81,554 and Mr. McGrath-\$59,312. Option awards valued in each case calculated in accordance with FAS 123(R) and using a Black-Scholes valuation model with the following assumptions: exercise price and fair market value of \$5.06, volatility of 56%, expected term of 6.25 years, and risk-free rate of 4.65% for the option awards to Messrs. Kerr, Forney, McGrath, D'Alessio and Kruse.

REPORT OF THE AUDIT COMMITTEE

The purpose of the audit committee is to assist the board of directors in its general oversight of Aware's financial reporting process. The Audit Committee Charter describes in greater detail the full responsibilities of the committee and is included in this proxy statement as ANNEX A and is available on Aware's website at [www.aware.com](http://www.aware.com). The audit committee is comprised solely of independent directors as defined by the listing standards of the Nasdaq Stock Market.

Management is responsible for the preparation, presentation and integrity of Aware's financial statements; accounting and financial reporting principles; establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15 (e)); establishing and maintaining internal control over financial reporting (as defined in Exchange Act Rule 13a-15 (f)); evaluating the effectiveness of disclosure controls and procedures; evaluating the effectiveness of internal control over financial reporting; and evaluating any change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. PricewaterhouseCoopers LLP is responsible for performing an independent audit of the consolidated financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America, as well as expressing an opinion on the effectiveness of internal control over financial reporting.

During the course of 2007, management continued to document, test and evaluate of Aware's system of internal control over financial reporting in response to the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002 and PCAOB Auditing Standard No. 5 regarding the audit of internal control over financial reporting. The audit committee was kept apprised of the progress of the evaluation and provided oversight to management during the process. In connection with this oversight, the committee received periodic updates provided by management and PricewaterhouseCoopers LLP at regularly scheduled committee meetings. The committee reviewed the report of management contained in Aware's Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission, as well as PricewaterhouseCoopers LLP's Report of Independent Registered Public Accounting Firm included in Aware's Annual Report on Form 10-K related to its audit of (i) the consolidated financial statements and financial statement schedule, (ii) the effectiveness of internal control over financial reporting. The audit committee continues to oversee Aware's efforts related to its internal control over financial reporting and management's preparations for the evaluation in 2008.

The audit committee has reviewed and discussed the consolidated financial statements with management and PricewaterhouseCoopers LLP, Aware's independent auditors. The audit committee has discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees" and PCAOB "Auditing Standard No. 5, "An Audit of Internal Control Over Financial Reporting Performed that is Integrated with an Audit of Financial Statements." In addition, PricewaterhouseCoopers LLP has provided the audit committee with the written disclosures and the letter required by the Independence Standards Board Standard No.1, as amended, "Independence Discussions with Audit Committees," and the audit committee has discussed with PricewaterhouseCoopers LLP their firm's independence.

Based on the review of the consolidated financial statements and discussions with and representations from management and PricewaterhouseCoopers LLP referred to above, the audit committee recommended to the board of directors that the audited financial statements be included in Aware's Annual Report on Form 10-K for 2007, for filing with the Securities and Exchange Commission.

The audit committee

Adrian F. Kruse, Chairman  
Frederick D. D'Alessio  
John K. Kerr

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT  
AND RELATED STOCKHOLDER MATTERS

At the close of business on March 31, 2008, there were issued and outstanding 23,914,966 shares of common stock entitled to cast 23,914,966 votes. On March 31, 2008, the closing price of Aware's common stock as reported by the Nasdaq Global Market was \$3.68 per share.

Principal stockholders

The following table provides information about the beneficial ownership of Aware's common stock as of March 31, 2008 by:

- each person known by Aware to own beneficially more than five percent of Aware's common stock;
  - each of Aware's directors;
  - each of Aware's executive officers; and
  - all of Aware's current executive officers and directors as a group.

In accordance with Securities and Exchange Commission rules, beneficial ownership includes any shares for which a person has sole or shared voting power or investment power and any shares of which the person has the right to acquire beneficial ownership within 60 days after March 31, 2008 through the exercise of any option or otherwise. Except as noted below, Aware believes that the persons named in the table have sole voting and investment power with respect to the shares of common stock set forth opposite their names. The inclusion of shares listed as beneficially owned does not constitute an admission of beneficial ownership. Percentage of beneficial ownership is based on 23,914,966 shares of common stock outstanding as of March 31, 2008. In calculating a person's percentage ownership, Aware has treated as outstanding any shares that the person has the right to acquire within 60 days of March 31, 2008. All shares included in the "Right to acquire" column represent shares subject to outstanding stock options exercisable within 60 days after March 31, 2008. The information as to each person has been furnished by such person.

Name	Number of shares beneficially owned			Percent beneficially owned
	Outstanding shares	Right to acquire	Total number	
John S. Stafford, Jr. (1) 230 S. LaSalle Street, Suite 688 Chicago, IL 60604	3,254,234	0	3,254,234	13.6%
Dimensional Fund Advisors Inc (2). 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	1,506,168	0	1,506,168	6.3%
State of Wisconsin Investment Board (3) P.O. Box 7842 Madison, WI 53707	1,239,470	0	1,239,470	5.2%
John K. Kerr	693,588	186,749	880,337	3.7%
Michael A. Tzannes (4)	111,033	1,378,752	1,489,785	6.2%
Edmund C. Reiter	10,161	1,026,635	1,036,796	4.3%
Richard W. Gross	8,000	339,938	347,938	1.5%
Richard P. Moberg	0	12,500	12,500	0.1%
Mark G. McGrath	149,613	17,187	166,800	0.7%
G. David Forney, Jr.	30,000	96,686	126,686	0.5%
Frederick D. D'Alessio	0	67,062	67,062	0.3%
Adrian F. Kruse	10,000	70,624	80,624	0.3%
All directors and executive officers as a group (9 persons)	1,012,395	3,196,133	4,208,528	17.6%

\* Less than one percent.

- (1) The number of shares beneficially owned by John S. Stafford, Jr. is based upon information in a Form 4 filed by John S. Stafford, Jr. on April 1, 2008.
- (2) The number of shares beneficially owned by Dimensional Fund Advisors Inc. is based upon information in a Schedule 13G/A filed by Dimensional Fund Advisors Inc. on February 6, 2008.
- (3) The number of shares beneficially owned by the State of Wisconsin Investment Board is based upon information in a Schedule 13G/A filed by the State of Wisconsin Investment Board on February 2, 2008.
- (4) Includes 20,000 shares held by a private charitable foundation, of which Mr. Tzannes and his wife are trustees.

#### Equity compensation plan information

The following table sets forth additional information as of December 31, 2007, regarding securities authorized for issuance under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements that were not required to be and were not submitted to our stockholders for approval.

The equity compensation plans approved by our stockholders are our 1996 Stock Option Plan and 1996 Employee Stock Purchase Plan. Our 2001 Nonqualified Stock Plan was not approved by our stockholders. Our board of directors approved the 2001 Nonqualified Stock Plan in April 2001 and amended it in July 2002.

Plan category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (#) (a)	Weighted-average exercise price of outstanding options, warrants and rights (\$) (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (#) (c)
Equity compensation plans approved by stockholders:			
1996 Stock Option Plan	3,252,420	\$ 4.94	—
1996 Employee Stock Purchase Plan	—	—	135,022
	—	—	135,022
Equity compensation plans not approved by stockholders:			
2001 Nonqualified Stock Plan	3,722,285	\$ 4.75	3,882,305
Total	6,974,705	\$ 4.84	4,017,327

#### Description of the 2001 Nonqualified Stock Plan

The following summary of some of the provisions of the 2001 Nonqualified Stock Plan, as amended, is qualified in its entirety by reference to the full text of the plan. The 2001 plan permits the grant of (1) nonqualified stock options, which are options that do not qualify as incentive stock options, (2) restricted stock awards, (3) unrestricted stock awards and (4) performance share awards. The maximum number of shares of common stock issuable in connection with awards granted under the 2001 plan is 8,000,000 shares.

The 2001 plan is administered by a committee consisting of at least two directors who are both “non-employee directors” within the meaning of Rule 16b-3 under the Securities Exchange Act. Except as specifically reserved to the board under the terms of the 2001 plan, the committee has full and final authority to operate, manage and administer the 2001 plan on behalf of Aware. Aware’s compensation committee, currently consisting of Messrs. D’Alessio, Forney, McGrath and Kerr, administers the 2001 plan.

The committee fixes the term of each stock option granted under the 2001 plan at the time of grant. No stock option shall be exercisable more than 10 years after the date of grant. The committee has the authority to determine the time or times at which stock options granted under the plan may be exercised. With respect to grants of restricted stock, the committee will specify at the time of grant the dates or performance goals on which the non-transferability of the restricted stock and Aware’s right of repurchase shall lapse. With respect to performance share awards, the committee

shall determine the performance goals applicable under each award and the time period over which performance is to be measured.

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The committee will determine at the time of grant the exercise price per share of the common stock covered by an option grant, or the purchase price per share of restricted or unrestricted stock. The exercise price per share of a stock option and the purchase price per share of a restricted stock grant may not be less than fair market value on the date of grant.

Except as otherwise provided, stock options granted under the 2001 plan are not exercisable following termination of the holder's employment. The 2001 plan provides that in the event of termination of an option holder's employment, options will be exercisable, to the extent of the number of shares then vested, (a) for one year following the termination of the holder's employment if such termination is the result of permanent and total disability, (b) by the holder's executors, administrators or any person to whom the option may be transferred by will or by the laws of descent and distribution, for one year following the termination of employment if such termination is the result of the holder's death, (c) for 30 days after the date of termination of the holder's employment by us without "cause," as defined in the 2001 plan, or (d) for 30 days after the date of voluntary termination by the holder of the holder's employment. However, in no event will a new option be exercisable after its expiration date.

In the event that Aware effects a stock dividend, stock split or similar change in capitalization affecting its stock, the committee shall make appropriate adjustments in (a) the number and kind of shares of stock or securities with respect to which awards may thereafter be granted, (b) the number and kind of shares remaining subject to outstanding awards under the plan, and (c) the option or purchase price in respect of such shares. The 2001 plan provides that if Aware merges, consolidates, dissolves or liquidates, the committee may, in its sole discretion, as to any outstanding award, make such substitution or adjustment in the total number of shares reserved for issuance and in the number and purchase price of shares subject to such awards as it may determine, or accelerate, amend or terminate such awards upon such terms and conditions as it shall provide.

The board of directors of Aware may amend or discontinue the 2001 plan at any time. The committee may at any time amend or cancel an outstanding award granted under the plan. In either case, no such action may adversely affect rights under any outstanding award without the holder's consent.

#### NOTICE OF AMENDMENTS TO BY-LAWS

On December 6, 2007, the Board of Directors of Aware (the "Board") voted to amend and restate the By-Laws of Aware (the "By-Laws"), primarily to implement certain provisions of the Massachusetts Business Corporation Act, enacted as Chapter 156D of the Massachusetts General Laws, which became effective on July 1, 2004, and in response to new NASDAQ listing requirements that mandate that all NASDAQ-listed companies become eligible to participate in the "Direct Registration System" for their outstanding securities. Prior to July 1, 2004, Aware was subject to the provisions of the Massachusetts Business Corporation Law, which is Chapter 156B of the Massachusetts General Laws.

The changes to the By-Laws include the following:

- Aware amended Section 1.1 of the By-Laws to change the date and time of the annual shareholder meeting to the third Wednesday in May at 10:00 a.m. and to give the Board the power to change the date, time and place of any special or annual shareholder meeting.

- Aware amended Section 1.3 of the By-Laws to give the Board the power to authorize shareholders to participate in shareholder meetings by means of remote communications.
- Aware amended Section 1.4 of the By-Laws to permit shareholders to receive notice of shareholder meetings by means of electronic transmission authorized by the new act.
- Aware added a new Section 1.5 to the By-Laws to govern the notice of shareholder business and conduct of business at any shareholder meeting.
- Aware amended Section 1.6 of the By-Laws (now designated as Section 1.7) to move language regarding proxies into the new Section 1.10 of the By-Laws.
- Aware added a new Section 1.9 to the By-Laws to address the authority of shareholders to submit a vote, consent, waiver, proxy appointment or other action by electronic means, rather than in writing, under the new act.
- Aware deleted Section 1.9 of the By-Laws to comply with the requirements of voting lists under the new act.
  - Aware added a new Section 1.10 to the By-Laws to create a separate section regarding proxies, and amended the By-Laws to permit shareholders to appoint proxies for a period longer than six months and otherwise to address the requirements relating to the appointment of proxies under the new act.
- Aware amended Section 1.10 of the By-Laws (now designated as Section 1.12) to address the requirements relating to the adjournment of shareholder meetings under the new act.
- Aware added a new Section 1.13 to the By-Laws to govern the conduct of business at any shareholder meeting.
- Aware amended Section 2.1 of the By-Laws to enumerate typical powers of the Board and to move language regarding the issuance of shares into the new Section 4.1 of the By-Laws.
  - Aware amended Section 2.2 of the By-Laws to address the requirements relating to the number, election, and term of office of directors under the new act.
- Aware added a new Section 2.3 to the By-Laws to move Section 3.8 of the By-Laws to the appropriate By-Laws Article regarding directors.

- Aware amended Section 2.10 of the By-Laws to provide that directors may receive notice of director special meetings by means of electronic transmission authorized under the new act.
- Aware amended Section 2.13 of the By-Laws to permit the Board to take action by means of electronic transmission and otherwise to address the requirements relating to Board action under the new act.
- Aware amended Section 2.14 of the By-Laws to provide that directors may participate in shareholder meetings by means of a conference telephone or similar communications equipment.
- Aware added a new Section 2.17 to the By-Laws to reflect standards and procedures contained in the new act regarding conflicts of interest involving directors.
- Aware added a new Section 3.8 to the By-Laws to set forth the duties and obligations of the Chief Executive Officer.
- Aware added a new Section 4.1 to the By-Laws to permit the Board to issue shares for additional types of consideration authorized under the new act.
- Aware amended Section 4.1 of the By-Laws (now designated as Section 4.2) to clarify that outstanding shares of Aware may exist in certificated or uncertificated form.
- Aware amended Section 4.3 of the By-Laws (now designated as Section 4.4) to give the Board the flexibility to set a record date seventy days before an event, rather than the previously authorized sixty days. Aware also amended this section to require the Board, in accordance with the new act, to set a new record date if a meeting of shareholders is adjourned to a date more than 120 days after the original date of the meeting, and otherwise to address the requirements relating to the setting of record dates under the new act.
- Aware added a new Section 4.6 to the By-Laws to give the Board the power to appoint a transfer agent or registrar.
- Aware amended Section 5.8 of the By-Laws to follow the indemnification procedures set forth in the new act and generally to provide the maximum indemnification permitted under the new act.
- Aware deleted Section 5.9 of the By-Laws and replaced it with the new Section 2.17 of the By-Laws which reflects the standards and procedures contained in the new act regarding conflicts of interest involving directors.

- Aware added a new Section 5.9 to the By-Laws to follow the advancement of expenses procedures set forth in the new act and generally to provide the maximum advancement of expenses permitted under the new act.
- Aware deleted Section 5.13 of the By-Laws with respect to directors because director conflict of interest transactions are addressed by the new Section 2.17 of the By-Laws, and with respect to officers and affiliates because standards and procedures regarding related party transactions are not required in the By-Laws by statute.
  - Aware added a new Section 5.14 to the By-Laws to give the Board the power to declare and pay dividends.
- Aware added a new Section 5.15 to the By-Laws to permit shareholder or Board ratification of actions taken by directors, officers or representatives requiring shareholder or Board authorization.
- Aware added a new Section 5.16 to the By-Laws to permit directors and officers to rely on books, records and reports under specified circumstances.
- Aware deleted Article VI in its entirety because one or more of the triggering events for termination of Article VI, set forth in Section 6.10 of the By-Laws, have been met.
- In addition, Aware made certain other changes to conform the By-Laws to the provisions of the new act. For example, the new act generally uses the terms “share” and “shareholder” instead of “stock” and “stockholder,” and the new act changed the title of “clerk” to “secretary.” Aware uses this new statutory terminology throughout its Amended and Restated By-Laws.

The amendments to the By-Laws took effect immediately upon adoption. The descriptions of the provisions of the Amended and Restated By-Laws contained in this proxy statement are qualified in their entirety by reference to the full text of the Amended and Restated By-Laws available on Aware’s website at [www.aware.com](http://www.aware.com).

#### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires Aware’s executive officers and directors, as well as persons who beneficially own more than ten percent of Aware’s common stock, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Regulations of the Securities and Exchange Commission require these executive officers, directors and stockholders to furnish Aware with copies of all Section 16(a) forms they file.

Based solely upon a review of the Forms 3, 4 and 5 and amendments thereto furnished to Aware with respect to 2007, or written representations that Form 5 was not required for 2007, Aware believes that all Section 16(a) filing requirements applicable to its executive officers, directors and greater-than-ten-percent stockholders were fulfilled in a timely manner.

#### INDEPENDENT ACCOUNTANTS

The audit committee has selected PricewaterhouseCoopers LLP as independent accountants to audit the financial statements of Aware for the year ending December 31, 2008. PricewaterhouseCoopers LLP has served as Aware's principal independent accountants since May 1999.

#### Fees for professional services

The following table provides the fees Aware paid to PricewaterhouseCoopers LLP for professional services rendered for 2007 and 2006. Audit Fees consist of aggregate fees billed for professional services rendered for the audit of our annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent auditor in connection with statutory and regulatory filings or engagements for the fiscal years ended December 31, 2007 and December 31, 2006, respectively. In 2006 & 2007, audit fees also include fees for professional services rendered for the audits of the effectiveness of internal controls over financial reporting. Audit-Related Fees consist of aggregate fees billed for assurance and related services, such as assisting with the implementation of new accounting principles, that are reasonably related to the performance of the audit or review of our financial statements, and review of regulatory matters and are not reported under "Audit Fees." Tax Fees consist of aggregate fees billed for professional services for tax compliance, tax advice and tax planning. All Other Fees consist of aggregate fees billed for products and services provided by the independent auditor, other than those disclosed above. All Other Fees in 2007 included \$7,000 related to financial reporting of income tax disclosures, \$5,000 related to the review of certain revenue contracts and \$1,500 related to Audit Committee professional development services.

	2007 Fees	2006 Fees
Audit Fees	\$ 216,000	\$ 242,600
Audit-Related Fees	0	0
Tax Fees	0	0
All Other Fees	13,500	57,555

#### Attendance at annual meeting

Aware expects that representatives of PricewaterhouseCoopers LLP will be present at the annual meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from stockholders.

#### Pre-approval policies and procedures

At present, our audit committee approves each engagement for audit or non-audit services before we engage PricewaterhouseCoopers LLP to provide those services. However, the audit committee may delegate to members of the committee the authority to pre-approve audit and non-audit services. The decisions of any committee member to whom pre-approval authority is delegated must be presented to the full audit committee at its next scheduled meeting.

Our audit committee has not established any pre-approval policies or procedures that would allow our management to engage PricewaterhouseCoopers LLP to provide any specified services with only an obligation to notify the audit committee of the engagement for those services. None of the services provided by PricewaterhouseCoopers LLP for 2006 or 2007 was obtained in reliance on the waiver of the pre-approval requirement afforded in SEC regulations.

#### STOCKHOLDER PROPOSALS

If any stockholder would like to include any proposal in Aware's proxy materials for its next annual meeting of stockholders or special meeting in lieu thereof, the stockholder must comply with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934. Among other requirements, Aware must receive the proposal at its executive offices no later than December 12, 2008. If any stockholder would like to submit a proposal for that meeting outside the processes of Rule 14a-8, notice of the proposal will be considered untimely under Rule 14a-4(c)(1) if Aware receives the notice after February 26, 2009.

#### AVAILABLE INFORMATION

Stockholders of record on April 3, 2008 will receive copies of this proxy statement and Aware's 2007 annual report to stockholders, which contains detailed financial information concerning Aware. Aware will mail, without charge, a copy of Aware's annual report on Form 10-K (excluding exhibits) to any stockholder whose proxy Aware is soliciting if the stockholder requests it in writing. Please submit any such written request to Mr. Richard P. Moberg, Chief Financial Officer, Aware, Inc., 40 Middlesex Turnpike, Bedford, Massachusetts 01730.

ANNEX A

Aware, Inc.

Audit Committee Charter

I. Organization

**Charter.** This charter governs the operations of the Audit Committee (the “Committee”). The Committee shall review and reassess the charter at least annually and obtain the approval of the Board of Directors (the “Board”). This charter supersedes all prior charters of the Committee.

**Members.** The Committee members shall be members of, and appointed by, the Board and shall consist of at least three directors, each of whom shall meet the independence and other requirements of applicable law and the listing standards of The Nasdaq Stock Market, Inc. (“Nasdaq”). Committee members shall be subject to annual reconfirmation and may be removed by the Board at any time. The Board shall also designate a Committee Chairperson.

**Meetings.** In order to discharge its responsibilities, the Committee shall each year establish a schedule of meetings; additional meetings may be scheduled as required.

**Quorum; Action by Committee.** A quorum of any Committee meeting shall be at least two members. All determinations of the Committee shall be made by a majority of its members present at a meeting duly called and held, except as specifically provided herein (or where only two members are present, by unanimous vote). A decision or determination of the Committee reduced to writing and signed by all of the members of the Committee shall be fully as effective as if it had been made at a meeting duly called and held.

**Agenda, Minutes and Reports.** An agenda, together with materials relating to the subject matter of each meeting, shall be sent to members of the Committee prior to each meeting. Minutes for all meetings of the Committee shall be prepared to document the Committee’s discharge of its responsibilities. The minutes shall be circulated in draft form to all Committee members to ensure an accurate final record, shall be approved at a subsequent meeting of the Committee and shall be distributed periodically to the full Board. The Committee shall make regular reports to the Board.

II. Purpose

The Committee shall provide assistance to the Board in fulfilling their oversight responsibility to the shareholders, the investment community, and others relating to: the integrity of the Company’s financial statements; the systems of disclosure controls and internal controls over financial reporting; the performance of the Company’s independent auditor; the independent auditor’s qualifications and independence; and the Company’s compliance with ethics policies and legal and regulatory requirements. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee, independent auditor, and management of the Company.

### III. Duties and Responsibilities

The primary responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the Board and report the results of their activities to the Board. While the Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles, nor can the Committee certify that the independent auditor is "independent" under applicable rules. Management is responsible for the preparation, presentation, and integrity of the Company's financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Company. The independent auditor is responsible for auditing the Company's financial statements and for reviewing the Company's unaudited interim financial statements.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior. The following shall be the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

The Committee shall be directly responsible for the appointment, compensation, retention, and termination of the independent auditor, and the independent auditor must report directly to the Committee. The Committee also shall be directly responsible for the oversight of the work of the independent auditor, including resolution of disagreements between management and the auditor regarding financial reporting. The Committee shall pre-approve all audit and non-audit services provided by the independent auditor and shall not engage the independent auditor to perform the specific non-audit services proscribed by law or regulation. The Committee may delegate pre-approval authority to a member of the Committee. The decisions of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting.

At least annually, the Committee shall obtain and review a report or reports by the independent auditor describing:

The firm's internal quality control procedures; and

All relationships between the independent auditor and the Company consistent with Independence Standards Board Standard 1 (to assess the auditor's independence).

The Committee will actively engage in a dialogue with the auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor and take appropriate action to oversee the independence of the auditor.

The Committee shall set clear hiring policies for employees or former employees of the independent auditor that meet the SEC regulations and stock exchange listing standards.



The Committee shall discuss with the independent auditor the overall scope and plans for the audit, including the adequacy of staffing and compensation, the result of the annual audit examination and accompanying management letters, and the results of the independent auditor's procedures with respect to interim periods. Also, the Committee shall discuss with management and the independent auditor (a) the adequacy and effectiveness of the Company's internal control over financial reporting (including any significant deficiencies and significant changes in internal control over financial reporting reported to the Committee by the independent auditor or management); and (b) the adequacy and effectiveness of the Company's disclosure controls and procedures, and management reports thereon.

The Committee shall meet separately periodically with management and the independent auditor to discuss issues and concerns warranting Committee attention. The Committee shall provide sufficient opportunity for the independent auditor to meet privately with the members of the Committee. The Committee shall review with the independent auditor any audit problems or difficulties and management's response.

The Committee shall receive and review reports from the independent auditor, prior to the filing of its audit report with the SEC, on all critical accounting policies and practices of the Company, all material alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the independent auditor, and other material written communications between the independent auditor and management.

The Committee shall review and discuss with management and the independent auditor earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

The Committee shall review with management and the independent auditor the year end audited financial statements and interim financial statements, and disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations to be included in the Company's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, including their judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. Also, the Committee shall discuss the results of the annual audit and the quarterly review and any other matters required to be communicated to the Committee by the independent auditor under generally accepted auditing standards. If deemed appropriate, the Committee shall recommend to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the year.

The Committee shall inquire of management of the Company as to any material violations of securities laws, breaches of fiduciary duty or violations of the Company's code of ethics.

The Committee shall review and approve all related party transactions. For these purposes, the term "related party transaction" shall refer to transactions required to be disclosed pursuant to Securities and Exchange Commission Regulation S-K, Item 404.

The Committee shall establish procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

The Committee shall receive corporate attorneys' reports of evidence of a material violation of securities laws or breaches of fiduciary duty.

The Committee shall prepare its report to be included in the Company's annual proxy statement as required by SEC regulations.

The Committee shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively.

#### IV. Other

**Access to Records, Advisers and Others.** In discharging its responsibilities, the Committee shall have full access to any relevant records of the Company and may retain, at Company expense, independent advisers (including legal counsel, accountants and consultants) as it determines necessary to carry out its duties. The Committee shall have the ultimate authority and responsibility to engage or terminate any such independent advisers and to approve the terms of any such engagement and the fees to be paid to any such adviser. The Committee may also request that any officer or other employee of the Company, the Company's outside counsel or any other person meet with any members of, or independent advisers to, the Committee.

**Funding.** The Company shall provide for appropriate funding, as determined by the Committee, for payment of

- (i) compensation to any independent auditor;
- (ii) compensation to advisers employed by the Committee; and
- (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

**Delegation.** The Committee may delegate any of its responsibilities to a subcommittee comprised of one or more members of the Committee.

#### Committee Members

Adrian Kruse (Chair)

Frederick D. D'Alessio

John K. Kerr

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ANNEX B

Aware, Inc.

Compensation Committee Charter

as Approved by the Board of Directors

(as amended March 15, 2007)

I. Organization

**Charter.** At least annually, this charter shall be reviewed and reassessed by the Compensation Committee (the “Committee”) and any proposed changes shall be submitted to the Board of Directors (the “Board”) for approval. This charter supersedes all prior charters of the Committee.

**Members.** The members of the Committee shall be appointed by the Board and shall meet the independence and other requirements of applicable law and the listing standards of The Nasdaq Stock Market, Inc., the requirements of an “outside director” for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the requirements of a “non-employee director” for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Committee shall consist of at least two members. Committee members will be subject to annual reconfirmation and may be removed by the Board at any time.

**Meetings.** In order to discharge its responsibilities, the Committee shall each year establish a schedule of meetings; additional meetings may be scheduled as required.

**Quorum; Action by Committee.** A quorum of any Committee meeting shall be at least two members. All determinations of the Committee shall be made by a majority of its members present at a meeting duly called and held, except as specifically provided herein (or where only two members are present, by unanimous vote). Any decision or determination of the Committee reduced to writing and signed by all of the members of the Committee shall be fully as effective as if it had been made at a meeting duly called and held.

**Agenda, Minutes and Reports.** An agenda, together with materials relating to the subject matter of each meeting, shall be sent to members of the Committee prior to each meeting. Minutes for all meetings of the Committee shall be prepared to document the Committee’s discharge of its responsibilities. The minutes shall be circulated in draft form to all Committee members to ensure an accurate final record, shall be approved at a subsequent meeting of the Committee and shall be distributed periodically to the full Board. The Committee shall make regular reports to the Board.

II. PURPOSE

The Committee’s basic responsibility is to review the performance and development of Company management in achieving corporate goals and objectives and to assure that senior executives of the Company are compensated effectively in a manner consistent with the strategy of the Company, competitive practice, and the requirements of the appropriate regulatory bodies. Toward that end, the Committee will oversee, review and administer all compensation, equity and employee benefit plans and programs.

### III. RESPONSIBILITIES AND DUTIES

In carrying out its purpose, the Committee will have the following responsibilities and duties:

- Review annually and approve the Company's compensation strategy to ensure that employees of the Company are rewarded appropriately for their contributions to the Company's financial performance and corresponding increases in stockholder value.
- Review annually and approve corporate goals and objectives relevant to executive compensation and evaluate performance in light of those goals.
- Review annually and determine the individual elements of total compensation for the Chief Executive Officer and all other corporate officers, review and discuss with the Company's management the Compensation Discussion and Analysis (CD&A) to be included in the Company's annual proxy statement and whether to recommend to the Board that the CD&A be included in the proxy statement and communicate in the annual Board Compensation Committee Report to stockholders the factors and criteria on which the Chief Executive Officer and all other corporate officers' compensation for the last year was based.
  - Review and approve compensation for non-employee members of the Board, including stock compensation.
  - Review and make recommendations with respect to stockholder proposals relating to compensation matters.
- Make and approve stock option grants and other discretionary awards under the Company's stock option or other equity incentive plans to all persons who are Board members or executive officers.
- Grant stock options and other discretionary awards under the Company's stock option or other equity incentive plans to all other eligible individuals in the Company's service.
- Amend the provisions of the Company's stock option or other equity incentive plans, to the extent authorized by the Board, and make recommendations to the Board with respect to incentive compensation and equity-based plans.
- Approve for submission to the stockholders stock option or other equity incentive plans or amendments thereto.
  - Perform an evaluation of its performance at least annually to determine whether it is functioning effectively.
    - Carry out such other duties as may be delegated to it by the Board from time to time.

Notwithstanding the foregoing, any action of the Committee may be subject to Board review and may be revised, modified or rescinded by the Board.

IV. Other

Access to Records, Advisers and Others. In discharging its responsibilities, the Committee shall have full access to any relevant records of the Company and may retain, at Company expense, independent advisers (including legal counsel, accountants and consultants) as it determines necessary to carry out its duties. The Committee shall have the ultimate authority and responsibility to engage or terminate any such independent advisers and to approve the terms of any such engagement and the fees to be paid to any such adviser. The Committee may also request that any officer or other employee of the Company, the Company's outside counsel or any other person meet with any members of, or independent advisers to, the Committee.

Delegation. The Committee may delegate any of its responsibilities to a subcommittee comprised of one or more members of the Committee, the Chief Executive Officer or to a committee of senior executive officers when appropriate and consistent with applicable law except that the Committee shall not delegate its responsibilities with respect to the grant of stock options under the Company's stock option plans to any person who is an "officer" of the Company for purposes of Section 16 of the Exchange Act.

COMMITTEE MEMBERS

John K. Kerr (Chair)

Fred D'Alessio

G. David Forney

Mark G. McGrath

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MR A SAMPLE

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DESIGNATION (IF ANY)

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ADD 1

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ADD 4

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ADD 6

Using a black ink pen, mark your votes with an X as shown in this example. Please do not write outside the designated areas.

Annual Meeting Proxy Card

PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

A To elect the following Class III directors of Aware — The Board of Directors recommends a vote FOR all the listed nominees.

1. Nominees: For Withhold For Withhold

01 - Edmund C. Reiter

02 - Adrian F. Kruse

B Non-Voting Items  
Change of Address — Please  
print new address below.

Comments — Please print your comments below Meeting Attendance

Mark the box to  
the right  
if you plan to  
attend the  
Annual Meeting.

C Authorized Signatures — This section must be completed for your vote to be counted. — Date and Sign  
Below

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor,  
administrator, corporate officer, trustee, guardian, or custodian, please give  
full title.

Date (mm/dd/yyyy) — Please print Signature 1 — Please keep  
date below. signature within the box.

Signature 2 — Please keep  
signature within the box.

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MR A SAMPLE (THIS AREA IS SET  
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PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION  
IN THE ENCLOSED ENVELOPE.

Proxy — Aware, Inc.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF AWARE, INC.

PROXY FOR ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 21, 2008

The undersigned stockholder of Aware, Inc. (the “Company”), revoking all prior proxies, hereby appoints Michael A. Tzannes, Edmund C. Reiter and William R. Kolb, or any of them acting singly proxies, with full power of substitution, to vote all shares of capital stock of the Company which the undersigned is entitled to vote at the Annual Meeting of Stockholders to be held at The Doubletree Bedford Glen Hotel, 44 Middlesex Turnpike, Bedford, Massachusetts, on Wednesday, May 21, 2008, beginning at 10:00 A.M., local time, and at any adjournments thereof, upon matters set forth in the Notice of Annual Meeting of Stockholders dated April 4, 2008 and the related Proxy Statement, copies of which have been received by the undersigned, and in their discretion upon any business that may properly come before the Annual Meeting or any adjournments thereof. Attendance of the undersigned at the Annual Meeting or any adjournment thereof will not be deemed to revoke this proxy unless the undersigned shall affirmatively indicate in writing the intention of the undersigned to vote the shares represented hereby in person prior to the exercise of this proxy.

THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN WITH RESPECT TO THE PROPOSALS SET FORTH ON THE REVERSE SIDE, WILL BE VOTED FOR THE PROPOSAL OR OTHERWISE IN ACCORDANCE WITH THE RECOMMENDATION OF THE BOARD OF DIRECTORS.



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Please promptly sign and date this proxy and mail it in the enclosed envelope to ensure representation of your shares. No postage need be affixed if mailed in the United States.

A STOCKHOLDER WISHING TO VOTE IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE BOARD OF DIRECTORS NEED ONLY SIGN AND DATE THIS PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE.

PLEASE VOTE, DATE AND SIGN ON REVERSE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.