

## **CORPORATE GOVERNANCE PRINCIPLES**

The Board of Directors (the Board) of Aware, Inc. (Aware) has adopted the following Corporate Governance Principles (Principles) to assist the Board in the exercise of its responsibilities. These Principles have been developed and are recommended by the Nominating and Corporate Governance Committee of the Board.

### **ROLE OF THE BOARD OF DIRECTORS**

#### **Oversight of Business and Management**

Aware's business is conducted by its employees, under the direction of management with oversight by the Board. The Board represents the interests of Aware's stockholders in optimizing long-term value while being sensitive to the concerns of other stakeholders and interested parties including employees, customers, government agencies and the public-at-large.

#### **Functions of the Board**

As part of its oversight role, the Board considers its primary functions to include the following, which will be discharged either directly by the Board or through appropriate committees:

- Selecting, evaluating and determining the compensation of Aware's CEO and overseeing succession planning;
- Overseeing the selection, evaluation and compensation of senior management;
- Monitoring fundamental financial and business strategies and approving significant corporate actions;
- Advising management on significant issues facing Aware;
- Overseeing Aware's financial reporting process and the adequacy of accounting, financial and internal controls; and
- Reviewing and evaluating Aware's corporate governance policies, code of ethics and legal and regulatory compliance procedures.

### **STRUCTURE OF THE BOARD**

#### **Membership Criteria**

The Nominating and Corporate Governance Committee, in consultation with Aware's President & CEO and Aware's Chairman, is responsible for reviewing with the Board the appropriate skills and characteristics required of Board members based on Aware's needs from time to time. In this assessment, the Nominating and Corporate Governance Committee's charter requires it to consider 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 are expected to contribute to an effective Board. In addition, Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively and should be committed to serve on the Board for an extended period of time.

**Size of Board**

The number of directors constituting the full Board shall be determined from time to time by the Board, within the limits prescribed by Aware's Articles of Organization and By-Laws, taking into account the size and breadth of Aware's business, the staffing needs of the Board's committees and other needs.

**Identification of Director Candidates**

The Board has delegated to the Nominating and Corporate Governance Committee, in consultation with Aware's President & CEO and Aware's Chairman, the responsibility for identifying individuals qualified to become directors and reviewing and recommending nominees for membership to the Board. The Nominating and Corporate Governance Committee will review all proposed nominees for the Board, including those proposed by stockholders, in accordance with its charter.

**Director Orientation and Continuing Education**

The Board and management will conduct an orientation for each new Director to familiarize the Director with Aware's strategies, financial matters, corporate governance practices and other key policies and practices. The Board also recognizes the importance of continuing education for its Directors and is committed to provide such education in order to improve both Board and committee performance. Directors are encouraged to attend appropriate continuing education programs to help ensure that they stay current on corporate governance, best board practices, financial and accounting practices, ethical issues for directors and management and similar issues. Additionally, each Director is expected to take steps reasonably necessary to be adequately informed about Aware and external matters affecting it and to enable the Director to function effectively on the Board and on the committees on which the Director serves.

**Director Independence**

It is the policy of the Board that a substantial majority of the members of the Board qualify as "independent" directors. A Director may not be considered independent if the Director does not meet the criteria for independence established by the NASDAQ Stock Market, Inc. (NASDAQ) and all applicable legal requirements. At least annually (or more frequently, if warranted by the circumstances), the Nominating and Corporate Governance Committee will review the independence of each non-employee Director and make recommendations to the Board and the Board shall affirmatively determine whether each Director qualifies as independent.

The Board recognizes that members of the Audit Committee or the Compensation Committee may be subject to more stringent standards of "independence" pursuant to applicable rules and regulations, including NASDAQ listing standards, accounting and auditing rules and federal securities or tax laws.

Each Director should keep the Nominating and Corporate Governance Committee fully and promptly informed as to any developments that might affect the Director's independence.

### **Term Limits**

The Board does not believe that arbitrary term limits on a Director's service are appropriate; nor does the Board believe that any Director should expect to be re-nominated at the end of his or her term.

### **Limitations on Number of Boards**

Directors must limit the number of other boards on which a Director serves in order to ensure that such service does not interfere with the Director's ability to fulfill his or her duties as a member of the Board. To that end, no Director may serve on more than four publicly traded company boards without the Board's consent and no member of the Audit Committee may simultaneously serve on the audit committee of more than three publicly traded companies.

### **Change in Circumstance**

If a Director (i) intends to accept an invitation to join the board of directors of another publicly traded company or (ii) is or believes he or she will be subject to events or circumstances that could adversely affect Aware or his or her fitness to serve on the Board or any of its committees, the Director shall notify the Nominating and Corporate Governance Committee. If a Director has a substantial change in professional responsibilities, occupation or business association, he or she shall notify the Nominating and Corporate Governance Committee.

### **Director Compensation**

Only non-employee directors receive payment for serving on the Board. The Compensation Committee is responsible for recommending to the Board compensation and benefits for non-employee directors. In discharging this duty, the Compensation Committee should endeavor to ensure that director compensation is appropriate relative to the fees and benefits for directors of comparable companies and competitive so that the Board can attract and retain highly qualified directors. Director compensation will be disclosed each year in Aware's proxy statement relating to its Annual Meeting of Stockholders.

## **BOARD PROCEDURAL MATTERS**

### **Number of Meetings and Attendance**

The Board shall be responsible for determining the appropriate number of regular meetings to hold each year. Currently, the Board expects to hold at least four regular meetings each year. Each Director should make every reasonable effort to attend each meeting of the Board and any committee of which the Director is a member, and to be reasonably available to management and other Directors for consultation between meetings. Aware encourages each Director to attend each Annual Meeting of Stockholders.

### **Selection of Agenda Items for Board Meetings**

The Chairman in consultation with the President & CEO will establish the agenda for

each Board meeting. Each Director may suggest the inclusion of additional items on the agenda and may raise issues for discussion at any Board meeting.

### **Advance Distribution of Board Materials**

Information that is important to the matters that will be discussed at Board meetings should be distributed in advance of the meeting, if reasonably practicable. Materials that are proprietary, confidential or otherwise sensitive may be distributed only at the meeting. Directors should carefully review information distributed to them prior to Board and committee meetings so that meeting time can be reserved for substantive discussion.

## **COMMITTEE MATTERS**

### **Number of Committees**

The current standing Committees of the Board are Executive, Audit, Compensation, and Nominating and Corporate Governance. From time to time, the Board may decide to form a new committee or disband an existing committee depending on the then-current circumstances. The Audit, Compensation and Nominating and Corporate Governance committees each has its own written charter that sets forth each such committee's duties and responsibilities.

### **Membership**

The Nominating and Corporate Governance Committee is responsible for recommending to the Board the assignment of Directors to committees. The Nominating and Corporate Governance Committee will consult with the Chairman and the President & CEO and consider the preferences of individual Directors, the needs of Aware, and the qualifications of the Directors.

In general, committee chairpersons and committee members should rotate periodically, but the Board believes that such rotation may be waived in individual cases where there are reasons to maintain an individual Director's committee membership.

### **Committee Chairpersons and Committee Agenda**

Each committee will have a chairperson who, in consultation with the appropriate members of management, will develop the committee's agenda and will direct management to prepare and distribute appropriate written materials prior to the meeting.

### **Committee Meetings**

The committee chairperson, in consultation with committee members, will determine the frequency and length of the meetings of the committee. Board members who are not members of a committee may generally attend meetings of that committee as observers, and may participate in discussions at the discretion of the chairperson, but shall not have voting rights. Attendance of other non-committee members at committee meetings, such as members of management or outside consultants, will be at the pleasure of the committee. The committee chairperson is responsible for apprising the full Board on a regular basis of all committee proceedings, determinations and recommendations.

## **OTHER MATTERS**

### **Evaluating the Board's and each Committee's Performance**

The Board and each committee shall conduct an annual self-evaluation process that is coordinated and led by the Nominating and Corporate Governance Committee. In carrying out this responsibility, the Nominating and Corporate Governance Committee will undertake primary responsibility for reviewing and making recommendations to the Board, from time to time and no less than annually, concerning the role and effectiveness of the Board, committees and, in general, sound practices as to the corporate governance process. This assessment shall include a review and assessment of the Board's and each committee's overall effectiveness. The results of the Board, committee and Director evaluations shall be summarized and presented to the Board.

### **Access to Management**

Directors shall have full and unrestricted access to Aware's management. It is assumed that Directors will use judgment so that this contact is not distracting to the operations of Aware. Furthermore, the Board encourages the Chairman and the President & CEO, from time to time, to invite members of management into Board meetings who: (a) can provide additional insight into the items being discussed because of their personal involvement in these areas; and/or (b) have certain potential that should be cultivated through their exposure to the Board.

### **Access to Independent Advisors**

The Board vests its committees with the authority to obtain advice and assistance from and to retain, at Aware's expense, independent outside financial, legal or other advisors and consultants as each committee determines are necessary or appropriate to carry out its duties.

### **Board Interaction with Third Parties**

Management should coordinate all contacts with outside constituencies, such as the press, customers, investors, analysts or the financial community.

### **Code of Business Ethics; Conflicts of Interest**

Each Director is required to comply with the applicable provisions of Aware's Code of Ethics in effect from time to time. Directors are expected to be mindful of their fiduciary obligations to Aware and avoid any action, position or interest that conflicts with an interest of Aware or gives the appearance of a conflict.

### **Director Confidentiality**

The Board believes maintaining confidentiality of information and deliberations is critical to facilitate open discussion and protect the integrity of the Board and confidential information. Each Director has a fiduciary obligation to maintain the confidentiality of information received in connection with his or her service as a Director, including without limitation any material non-public information concerning Aware.

**Principles Subject to Periodic Review**

These Principles will be subject to a periodic review, first by the Nominating and Corporate Governance Committee and then the full Board to assure that they are in accordance with sound corporate governance. These Principles are not intended to change or interpret any law or regulation, or Aware's Articles of Organization or By-Laws.