



## Aware, Inc. Reports Third Quarter 2008 Financial Results

BEDFORD, Mass., Oct. 23 /PRNewswire-FirstCall/ -- Aware, Inc. (Nasdaq: AWRE), a leading supplier of broadband technology and biometrics software, today reported financial results for its third quarter ended September 30, 2008.

Revenues for the third quarter of 2008 were \$6.4 million, a decrease of 14% compared to \$7.5 million in the same quarter last year. For the nine months ended September 30, 2008, revenues decreased 6% to \$18.4 million, compared to \$19.7 million in the same period a year ago.

The Company reports its net income and basic and diluted net income per share in accordance with U.S. generally accepted accounting principles (GAAP), and additionally, on a non-GAAP basis. Non-GAAP net income, where applicable, excludes the effect of stock-based compensation expense. The company uses the non-GAAP information internally to evaluate its operating performance and believes these non-GAAP measures are useful to investors as they provide additional insight into the underlying operating results. However, non-GAAP measures are not stated in accordance with, should not be considered in isolation from, and are not a substitute for, GAAP measures. A reconciliation of GAAP to non-GAAP results has been provided in the attached financial tables.

The GAAP net loss for the third quarter of 2008 was \$0.7 million, or \$0.03 per diluted share, which included \$0.4 million of stock-based compensation charges in accordance with the provisions of FAS 123<sup>®</sup>. This compared to GAAP net income of \$1.0 million, or \$0.04 per diluted share, for the same period a year ago. GAAP net loss for the nine months ended September 30, 2008 was \$3.2 million, or \$0.13 per share, compared to a net loss of \$32,000, or \$0.00 per share, for the same period a year ago.

The Non-GAAP net loss for the third quarter of 2008, excluding the effect of stock-based compensation, was \$0.3 million, or \$0.01 per diluted share. For the nine months ended September 30, 2008, the company had a non-GAAP net loss, excluding the effect of stock-based compensation, of \$2.1 million, or \$0.09 per share.

Michael Tzannes, Aware's chief executive officer, said, "Biometrics revenues this quarter were again strong, driven by exposure to multiple segments of the biometrics market through a broad base of OEM and system integrator customers. In DSL Test and Diagnostics, we continue to make progress with test infrastructure opportunities driven by the deployment of VDSL2 and IPTV services. Our OEM customer base positions us well in multiple markets. In licensing, our strategy is to leverage our world class silicon intellectual property technology base, and diversify into new revenue opportunities."

Note: Aware's conference call will be broadcast live over the Internet today, October 23, 2008 at 5:00 p.m. Eastern Time. To listen to the call, please go to <http://www.aware.com/ir>. The conference call may also be heard by calling 719-325-4919 and referencing the confirmation number 4405951. A replay of the call will be archived on our website after the call.

### About Aware

Aware is a leading technology and software supplier for the telecommunications and biometrics industries. For more than ten years, Aware has pioneered innovations at telecommunications standards-setting organizations and continues to develop and market DSL silicon intellectual property and test and diagnostics products. Its StratiPHY™ IP product line supports DSL standards, including ADSL2+ and VDSL2, and has been broadly licensed to leading semiconductor companies. Telecom equipment vendors and phone companies use Aware's DSL test and diagnostics modules and Dr. DSL<sup>®</sup> software to help provision DSL circuits globally. Aware is also a veteran of the biometrics industry, providing biometric and imaging software components used in government systems worldwide since 1992. Aware's interoperable, standard-compliant, field-proven imaging products are used in a number of applications, from border management to criminal justice to medical imaging. Aware is a publicly held company (Nasdaq: AWRE) based in Bedford, Massachusetts. <http://www.aware.com>

### Safe Harbor Warning

Portions of this release contain forward-looking statements regarding future events and are subject to risks and uncertainties, such as estimates or projections of future revenue and earnings and the growth of the DSL and biometrics markets. Aware

wishes to caution you that there are factors that could cause actual results to differ materially from the results indicated by such statements. The DSL factors include, but are not limited to: we have a unique business model, our quarterly results are difficult to predict, our DSL licensing and DSL test and diagnostic businesses depend upon a limited number of customers, we derive a significant amount of revenue from a small number of customers, we depend on equipment companies to incorporate our technology into their products, we face intense competition from other DSL vendors, DSL technology competes with other technologies for broadband access, our business could be harmed if our test and diagnostic hardware and software products have quality problems, we depend on a single source contract manufacturer for the manufacture of our DSL hardware products, our manufacturing systems may not be adequate for our DSL test and diagnostics hardware products, we depend on single source suppliers for components in our DSL hardware products, and our business is subject to rapid technological change. The biometric factors include, but are not limited to: market acceptance of our biometric products, changes in contracting practices of government or law enforcement agencies, announcements or introductions of new products by our competitors, delays, failures or problems in our biometric products, problems in our biometrics services business, delays in the adoption of new industry biometric standards, and competitive pressures resulting in lower software product revenues. We refer you to the documents Aware files from time to time with the Securities and Exchange Commission, specifically the section titled Risk Factors in our annual report on Form 10-K for the fiscal year ended December 31, 2007 and other reports and filings made with the Securities and Exchange Commission.

Aware, StratiPHY, and Dr. DSL are trademarks or registered trademarks of Aware, Inc.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Revenue:				
Product sales	\$3,939	\$5,097	\$11,811	\$12,333
Contract revenue	2,014	1,851	5,313	5,260
Royalties	437	508	1,310	2,092
Total revenue	6,390	7,456	18,434	19,685
Costs and expenses:				
Cost of product sales(1)	528	901	1,976	3,087
Cost of contract revenue(1)	1,365	1,553	3,512	4,315
Research and development(1)	2,945	2,528	9,984	7,735
Selling and marketing (1)	1,141	936	3,297	2,808
General and administrative(1)	1,315	1,009	3,793	3,269
Total costs and expenses	7,294	6,927	22,562	21,214
Income/(loss) from operations	(904)	529	(4,128)	(1,529)
Interest income	244	512	942	1,520
Income/(loss) before provision for income taxes	(660)	1,041	(3,186)	(9)
Provision for income taxes	3	6	16	23
Net income/(loss)	(\$663)	\$1,035	(\$3,202)	(\$32)
Net income/(loss) per share - basic	(\$0.03)	\$0.04	(\$0.13)	(\$0.00)
Net income/(loss) per share - diluted	(\$0.03)	\$0.04	(\$0.13)	(\$0.00)
Weighted average shares - basic	23,510	23,757	23,753	23,710
Weighted average shares - diluted	23,510	24,996	23,753	23,710

(1) Effective January 1, 2006 the Company adopted Statement of Financial Accounting Standard No. 123 (Revised), "Share-Based Payment" (FAS 123(R)). The amounts in the tables above include stock-based compensation as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Cost of product sales	\$3	\$4	\$9	\$8
Cost of contract revenue	45	54	105	133
Research and development	136	127	463	311
Sales and marketing	52	32	133	78
General and administrative	161	88	405	262
Total stock-based compensation costs	\$397	\$305	\$1,115	\$792

AWARE, INC.  
Non-GAAP Financial Measures and Reconciliation  
(In thousands, except per share data)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
GAAP net income/(loss)	(\$663)	\$1,035	(\$3,202)	(\$32)
Stock-based compensation	397	305	1,115	792
Non-GAAP net income/(loss)	(\$266)	\$1,340	(\$2,087)	\$760

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
GAAP net income/(loss) per share	(\$0.03)	\$0.04	(\$0.13)	\$0.00
Stock-based compensation	0.02	0.01	0.04	0.03
Non-GAAP net income/(loss) per share	(\$0.01)	\$0.05	(\$0.09)	\$0.03

AWARE, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)  
(unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Cash and investments	\$37,809	\$38,549
Accounts receivable, net	4,366	7,661
Inventories, net	1,776	1,424
Property and equipment, net	7,621	7,872
Other assets, net	749	877
Total assets	\$52,321	\$56,383

LIABILITIES AND STOCKHOLDERS' EQUITY

Total current liabilities	\$2,773	\$2,817
Long-term deferred revenue	330	330
Total stockholders' equity	49,218	53,236
Total liabilities and stockholders' equity	\$52,321	\$56,383

SOURCE Aware, Inc.