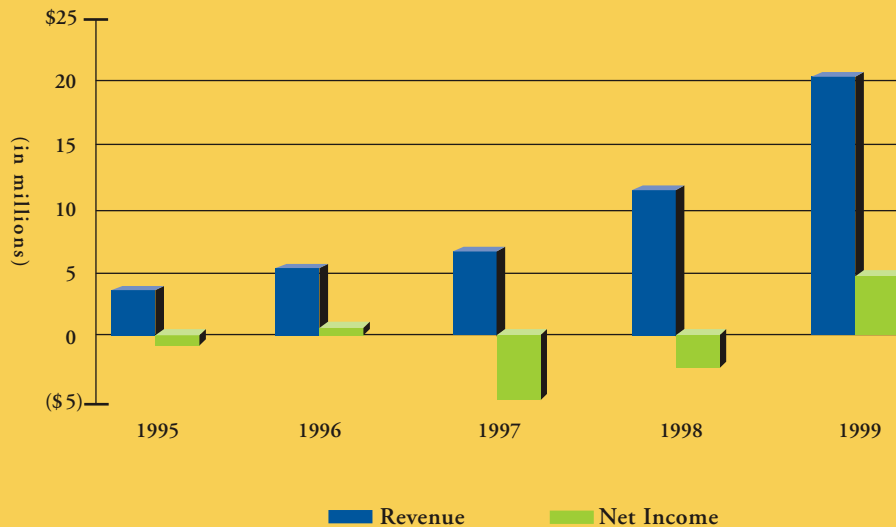


Aware, Inc.  
1999 Annual Report

## Annual Revenue and Net Income



Aware provides digital subscriber line technology that enables simultaneous high-speed data and voice transmissions over existing telephone lines. We license our technology to semiconductor manufacturers that sell chipsets incorporating our technology. Our technology offerings include patents, system design blueprints, semiconductor cores, run-time software, and hardware reference designs. We also sell DSL test and development equipment and image compression software products.

# To Our Shareholders

1999 was a landmark year for Aware. This was the year that our management team's vision to focus on aggressively growing our business using an intellectual property business model was validated. In 1999 we generated nearly \$5 million of profits on \$20.5 million of sales. Royalties, which represent the use of our technology in our customers' products, grew from \$400,000 in 1998 to \$4.4 million in 1999. As DSL deployments by service providers around the world continue to grow, our revenues and profits should continue to grow as well. By focusing on technology licensing, we have been able to align our future with the future of some of the leading companies in the high-tech industry. We believe that success in DSL by Analog Devices, Lucent and Intel, to name just a few, will be synonymous with Aware's success.

The potential market for DSL is enormous: every twisted pair phone line in the world. There are more than 750 million telephone lines today, and the number continues to grow. In order for DSL service to be turned on, a DSL chipset is required at a central office as well as the remote site. Every new DSL consumer device or DSL central office hook-up represents a revenue opportunity for Aware.

Aware's technology offerings are enabling solutions for each of the important facets of this industry:

- **With Analog Devices, we pioneered full-rate ADSL solutions and multimode G.Lite/ADSL solutions for central office and remote site applications.**
- **With Infineon Technologies, we are enabling solutions that cost-effectively combine voice call technology with DSL technology for central office applications.**



Michael A. Tzannes  
President and  
Chief Executive Officer

John K. Kerr  
Chairman of the Board

- With Lucent Microelectronics and Intel, we are enabling complete consumer Internet access solutions that can offer speeds from voiceband modem rates to G.Lite and full-rate ADSL.
- With Siemens, we are designing a new equipment architecture that integrates DSL into traditional central office switches, providing a DSL upgrade path.
- 3COM is using Aware's technology to integrate DSL into their broadband access products.
- With NEC, we are entering the system-on-a-chip market with a dual mode full-rate and G.Lite solution.

By forging ahead as a technology supplier, Aware stands to benefit from each of our customers' successes. Through Aware, our shareholders are able to derive benefits

from the DSL efforts within a number of companies who, by all accounts, are leaders in their respective industries.

Key contributors to this year's financial success were the addition of a number of new customers and new development efforts with existing customers. These projects provide an immediate benefit because of the contract revenue associated with our customers' developments. But even more important, expanding the number of DSL solutions that use our technology is a leading indicator that we will maintain or improve Aware's market share in this explosive industry. We were able to roughly double the number of customer developments from 1998 to 1999, and expect this to continue to grow. With our strong customer base, we expect to be supplying technology to 40-50% of the market in the coming years.



Halil Padir  
Senior Vice President,  
Research & Development

Rick Gross  
Senior Vice President,  
Strategic Development

Michael A. Tzannes  
President and  
Chief Executive Officer  
Director

Richard P. Moberg  
Chief Financial Officer and  
Treasurer

Edmund C. Reiter  
Senior Vice President  
Director

# DSL Landscape

## TECHNOLOGY SUPPLIERS

Aware  
or  
Internal Developments



## SEMICONDUCTOR MANUFACTURERS

Traditional  
or  
Fabless



## SYSTEMS MANUFACTURERS

Telephone  
Company  
Equipment

Customer  
Premises  
Equipment



## SERVICE PROVIDERS

Incumbent and Competitive  
Local Exchange Carriers

International PTTs

Internet Service Providers



## END-USER SERVICE

Internet Access  
+ Voice  
+ Video  
Conferencing  
+ Video

DSL Deployment Path

Essential to our success as the premier supplier of DSL technology is our ability to continue to lead DSL innovation. Our mission is to continue to address the rapidly changing requirements in the DSL industry with engineering innovation and to bring those innovations to standards bodies for global acceptance. Standards bodies are an integral part of our strategy. They serve as a rigorous technology validation forum for our innovations. Today, we offer technology packages for:

- Full-rate ADSL, G.Lite and multimode solutions
- Multiport chipset architectures for space-efficient central office solutions
- ADSL-over-ISDN architectures for international deployments
- Voice enabled DSL for cost-effective multi-service offerings of high-speed data and residential voice
- Techniques to improve provisioning, maintenance and operation of DSL service to help service providers meet their normal standards of reliability

Each of our technology packages is backed by extensive experience in DSL trials, deployments and interoperability tests. Each one leverages advancements in signal processing and digital communications techniques and tools, chip design and verification tools and software development tools. Aware has been first to market on a number of important DSL technology fronts including rate adaptivity and multimode solutions and, most recently, fast-retrain — a technique standardized by the International Telecommunications Union that improves the robustness and versatility of DSL service offerings.

Paralleling our commitment to engineering innovation are our efforts to file patent protection for our inventions. We ended 1999 with 24 issued patents and 20 patent and provisional patent applications.

Through our ongoing commitment to engineering excellence, standards body participation, and patent filings we are building a patent portfolio that is a strong asset for our business.

Looking toward the future, our strategy is to continue to leverage our technology innovations and our process of delivering value as an intellectual property company. The future of ADSL, the future of Aware, and the opportunity for growth as an independent technology supplier have never looked better.

Sincerely,

Michael A. Tzannes  
President and  
Chief Executive Officer

John K. Kerr  
Chairman of the Board

# Corporate Information

## Board of Directors

### **John K. Kerr**

Chairman of the Board  
Aware, Inc.

### **Michael A. Tzannes, Ph.D.**

President and Chief Executive Officer  
Aware, Inc.

### **Edmund C. Reiter, Ph.D.**

Senior Vice President  
Aware, Inc.

### **G. David Forney, Jr., Sc.D.**

Adjunct Professor, MIT  
Vice President (retired), Motorola, Inc.

### **David Ehreth**

Chief Executive Officer  
Westwave Communications, Inc.

## Officers

### **Michael A. Tzannes, Ph.D.**

President and Chief Executive Officer

### **Edmund C. Reiter, Ph.D.**

Senior Vice President

### **Richard P. Moberg**

Chief Financial Officer and Treasurer

### **Richard W. Gross, Ph.D.**

Senior Vice President, Strategic  
Development

### **Halil Padir**

Senior Vice President,  
Research & Development

## **Legal Counsel**

Foley, Hoag & Eliot LLP  
Boston, MA

## **Independent Accountants**

PricewaterhouseCoopers LLP  
Boston, MA

## **Transfer Agent**

EquiServe  
150 Royall Street  
Canton, MA 02021

## **Annual Meeting**

The annual meeting will be held at 10:00 a.m. on Thursday, May 25, 2000 at the Bedford Renaissance Hotel in Bedford, Massachusetts.

## **Stock Listing**

The Company's common stock is traded on the Nasdaq National Market under the symbol AWRE.

## **Corporate Headquarters**

40 Middlesex Turnpike  
Bedford, MA 01730  
781-276-4000

## **West Coast Headquarters**

3685 Mt. Diablo Boulevard  
Lafayette, CA 94549

## **Website**

[www.aware.com](http://www.aware.com)

## **Investor Relations**

For a copy of the Company's Form 10-K, additional copies of this report or other financial information, contact:

## **Aware, Inc.**

**Investor Relations**  
40 Middlesex Turnpike  
Bedford, MA 01730  
781-276-4000

[Click here to view our 1999 10K](#)



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[www.aware.com](http://www.aware.com)