TAIWAN FUND INC
Form N-CSRS
May 05, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number: 811-04893

THE TAIWAN FUND, INC.
(Exact name of registrant as specified in charter)
C/O STATE STREET BANK AND TRUST COMPANY,
2 AVENUE DE LAFAYETTE, P.O. BOX 5049,
BOSTON, 02111
(Address of principal executive offices)(Zip code)

(Name and Address of Agent for Service)	Copy to:
State Street Bank and Trust Company Attention: Elizabeth A. Watson Assistant Secretary 2 Avenue de Lafayette, P.O. Box 5049 Boston, Massachusetts 02111	Leonard B. Mackey, Jr., Esq. Clifford Chance US LLP 31 West 52nd Street New York, New York 10019-6131

Registrant s telephone number, including area code: 1-800-636-9242
Date of fiscal year end: August 31
Date of reporting period: February 28, 2010

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THE TAIWAN FUND, INC Semi-Annual Report February 28, 2010 (Unaudited) THE TAIWAN FUND, INC. WHAT S INSIDE

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Chairman s Statement

Dear Stockholders,

I am pleased to present The Taiwan Fund, Inc. s semi-annual report for the six months ended February 28, 2010.

During this period, the Fund s net asset value (NAV) increased by 9.12%* in U.S. dollar terms, whereas the Taiwan Stock Exchange Index (the TAIEX) was up by 11.81%. In the same period, the Fund underperformed the TAIEX by 2.69% primarily due to its cash allocation.

Looking ahead, the Board maintains its confidence in the economic prospects of Taiwan as the signing of Economic Cooperation Framework Agreement (ECFA) with China is planned in June. We expect the free trade agreement will put Taiwan at least on the same footing with other regional countries.

On behalf of the Board, I thank you for your interest and continued support and look forward to sharing with you the results of the Fund over the longer term.

Sincerely,

Harvey Chang
Chairman

* Returns for the Fund are historical total returns that reflect changes in net asset value per share during each period and assume that dividends and capital gains, if any, were reinvested. Returns for the TAIEX are not total returns and reflected only changes in share price but do not assume that cash dividends, if any, were reinvested, and thus are not strictly comparable to the Fund returns. Past performance is not indicative of future results of the Fund.

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Report of the Investment Manager

Investment Performance

The Fund s net asset value (NAV) increased by 9.12%* in U.S. dollar terms for the semi-annual period ended February 28, 2010. In the same period, the Taiwan Stock Exchange Index (TAIEX) increased by 11.81% in U.S. dollar terms and the Fund underperformed the TAIEX by 2.69%.

The underperformance of the Fund was primarily due to cash allocation. As to sector allocation, an underweight position in the handset sector contributed most positively to the performance. In terms of stock selection, stock picking in the handset sector contributed positively to the Fund s performance in the same period.

Market review

The Taiwan equity market was very volatile during the six-month period ended February 28, 2010. Nevertheless, with the abundant liquidity the TAIEX began the period at 6,825.95, reached 8,356.89 in mid-January, corrected to 7,080.90 in early February and subsequently rebounded to 7,436.10 at the end of the period.

In terms of sector performance, the cement and the auto sectors underperformed while the glass and the plastic sectors outperformed the TAIEX. In terms of Fund flows, during the Fund s semi-annual period end, proprietary traders and local institutions were net sellers of NT$11.46 billion and NT$33.13 billion, respectively, while foreign investors were net buyers of NT$164.30 billion. Long margin increased from NT$52.22 million to NT$252.6 billion, representing 1.32% of the total market capitalization.

Economic Outlook

For 2009 as a whole, Taiwan s real gross domestic product (GDP) decreased by 1.87 and net exports contributed 1.48 percentage points

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to the change in real GDP. Meanwhile, real domestic demand declined by 3.82% and contributed -3.34 percentage points to the change in real GDP.

In the fourth quarter of 2009, the external sector showed brilliant performance with the real exports of goods and services advancing by 19.06%. Combining with 5.23% growth in the domestic sector, the preliminary real GDP increased by 9.22% from the same quarter of one year ago. Meanwhile, the GDP growth rate of the third quarter was revised to -0.98% (formerly -1.29%). Expressed as a seasonally adjusted annual rate, the real GDP increased 18.02% in the fourth quarter.

In terms of the outlook for 2010, the latest world economic projection shows that global recovery will be on the track in 2010. Taiwan s exports are anticipated to continue to rebound. Taiwan s real GDP is predicted to grow by 4.72% and consumer price index (CPI) is expected to rise by 1.27%.

Investment Outlook and Strategy

Taiwan s equity market has been one of the best performing markets in Asia. The TAIEX, with its underlying themes of liquidity and linkage to China, is primarily driven by the influx of liquidity. Taiwan s central bank has held the policy discount rate at 1.25% since February 19, 2009. We expect no major changes to Taiwan s monetary policy for the rest of 2010, given that unemployment is still close to a cyclical peak leaving little room for rate hikes.

While there has been incremental progress in the economic cooperation framework (ECFA) negotiations, we still believe that progress will take time given the signing is likely to take place in mid-2010. We believe the ECFA will only put Taiwan on an equal footing with its regional trading partners, but will not provide a significant boost to its GDP growth.

From a top-down view, we find that many economic indicators are peaking. However, the profitability growth (especially in the tech companies) could decelerate on the back of rising costs (driven by RMB appreciation and wage re-pricing activities). We note that the TAIEX has already experienced more than 12 months of earnings upgrades; hence we are concerned that the breadth and pace of earnings revisions will likely narrow or at least decelerate, making stock selection more important than market direction. Our investment

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strategy continues to be through an overweight position in high RMB exposure companies and dividend plays.

In the year ahead, we believe that the Taiwan stock market and healthier cross-strait economic conditions will provide good investment opportunities for investors.

Thank you for your support.

Sincerely,

Shirley Yang
Portfolio Manager

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Portfolio Snapshot*

Top Ten Equity Holdings

Holdings As Of February 28, 2010	%
Taiwan Semiconductor Manufacturing Co., Ltd.	7.4
Hon Hai Precision Industry Co., Ltd.	6.1
MediaTek, Inc.	4.0
Chunghwa Telecom Co., Ltd.	3.6
Nan Ya Plastics Corp.	3.5
Synnex Technology International Corp.	3.4
China Steel Corp.	3.2
Taiwan Mobile Co., Ltd.	3.2
Cathay Financial Holding Co., Ltd.	3.2
Far EasTone Telecommunications Co., Ltd.	3.1

Top Ten Equity Industry Weightings

Weightings As Of February 28, 2010	%
IC Design	10.4
Telecommunications	9.9
Semiconductor Manufacturing	9.4
Financial Services	9.1
Optoelectronics	7.2
Plastics	7.1
Other Electronic	6.1
PC & Peripherals	6.1
Electronics Distribution	5.4

Food	4.3

Top Ten Equity Holdings

Holdings As Of August 31, 2009	%
Taiwan Semiconductor Manufacturing Co., Ltd.	7.8
MediaTek, Inc.	5.7
Hon Hai Precision Industry Co., Ltd.	5.4
Chunghwa Telecom Co., Ltd.	3.9
Cheng Shin Rubber Industry Co., Ltd.	3.5
Synnex Technology International Corp.	3.4
China Steel Corp.	3.2
Fubon Financial Holding Co., Ltd.	2.9
Formosa Petrochemical Corp.	2.6
Au Optronics Corp.	2.6

Top Ten Equity Industry Weightings

Weightings As Of August 31, 2009	%
Semiconductor Manufacturing	10.6
IC Design	8.7
Telecommunications	8.1
Financial Services	8.1
Optoelectronics	6.2
PC & Peripherals	5.4
Other Electronic	5.4
Electronics Distribution	4.9
Rubber	4.8

Food	4.5

* Percentages based on total net assets.

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Sector Allocation– –

Fund holdings are subject to change and percentages shown above are based on total net assets as of February 28, 2010. The pie chart illustrates the allocation of the investment by sector. A complete list of holdings as of February 28, 2010 is contained in the Schedule of Investments included in this report. The most current available data regarding portfolio holdings and industry allocation can be found on our website, www.thetaiwanfund.com. You may also obtain updated holdings by calling (877)-864-5056.

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The Taiwan Fund, Inc.
Schedule of Investments/February 28, 2010 (Showing Percentage of Net Assets) *(unaudited)*

	SHARES		US$ VALUE (NOTE 1)
COMMON STOCKS 94.2%			
BASIC INDUSTRIES 28.9%			
Automobiles, Tires & Accessories 0.6%			
Yulon Nissan Motor Co., Ltd.*	900,000	$	1,686,492
Cement 0.7%			
Asia Cement Corp.	2,000,500		1,833,805
Chemicals 1.5%			
China Steel Chemical Corp.	1,600,000		4,225,427
Electric & Machinery 0.7%			
Yungtay Engineering Co., Ltd.	2,500,000		1,933,120
Food 4.3%			
Great Wall Enterprise Co., Ltd.	5,500,355		5,350,723
Uni-President Enterprises Corp.	6,000,000		6,659,911
			12,010,634
Glass 0.6%			
Taiwan Glass Industrial Corp.	2,000,000		1,789,695
Iron & Steel 3.2%			
China Steel Corp.	9,000,500		9,036,280
Petroleum Services 3.4%			
China Petrochemical Development Corp.*	7,500,000		2,735,989
Formosa Petrochemical Corp.	2,700,500		6,837,028
			9,573,017
Plastics 7.1%			
Formosa Chemicals & Fibre Corp.	2,000,000		4,521,007
Formosa Plastics Corp.	2,500,000		5,394,029
Nan Ya Plastics Corp.	5,000,000		9,899,447
			19,814,483
Retail 2.4%			
President Chain Store Corp.	2,840,000		6,676,623

Rubber 2.1%		
Cheng Shin Rubber Industry Co., Ltd.	3,000,000	5,799,361
Textile 1.2%		
Far Eastern Textile, Ltd.	3,060,000	3,310,687
Transportation 1.1%		
U-Ming Marine Transport Corp.	1,600,000	3,038,117
TOTAL BASIC INDUSTRIES		80,727,741
FINANCE 9.1%		
Financial Services 9.1%		
Cathay Financial Holding Co., Ltd.*	5,500,622	8,866,853
First Financial Holding Co., Ltd.	10,000,512	5,378,715
Fubon Financial Holding Co., Ltd.*	7,000,000	7,748,071
Taishin Financial Holdings Co., Ltd.*	10,255,509	3,453,410
TOTAL FINANCE		25,447,049
MISCELLANEOUS 1.2%		
Athletic Footware 1.2%		
Pou Chen Corp.	4,500,000	3,318,264
TECHNOLOGY 55.0%		
Computer Service & Software 0.5%		
Soft-World International Corp.	300,000	1,389,040
Electronics Distribution 5.4%		
Synnex Technology International Corp.	4,500,000	9,484,761
WPG Holdings Co., Ltd.	3,500,000	5,641,905
		15,126,666
IC Design 10.4%		
ALI Corp.	1,200,000	2,480,630
MediaTek, Inc.	700,400	11,028,201
Novatek Microelectronics Corp. Ltd.	1,700,382	4,787,419
Ralink Technology Corp.	850,000	2,782,758
Realtek Semiconductor Corp.	1,300,000	3,404,786
RichTek Technology Corp.	501,250	4,680,782
		29,164,576
Optoelectronics 7.2%		
Au Optronics Corp.	6,800,715	6,997,384
Everlight Electronics Co., Ltd.	800,239	2,317,942

Innolux Display Corp.	4,000,000	5,687,115
Largan Precision Co., Ltd.	400,000	5,157,066
		20,159,507
Other Electronic 6.1%		
Hon Hai Precision Industry Co., Ltd.	4,300,005	17,027,068
PC & Peripherals 6.1%		

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Compensation benchmarking. In 2009, the Compensation Committee contracted with DolmatConnell & Partners ("DolmatConnell"), a third party compensation consultant to compile compensation benchmark data. DolmatConnell 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 revenue and market capitalization ranges to the Company. The Compensation Peer Group was selected by the Company, reviewed by DolmatConnell and was approved by the Compensation Committee. The companies comprising the Compensation Peer Group for 2009 were:

Bitstream, Inc.	MoSys, Inc.
Cadapult Communications Corp.	NVE Corp.
Ceva, Inc.	PCTEL, Inc.
Digimarc Corporation	Peerless Systems Corp.
Endwave Corporation	Ramtron International Corp.
Entrust, Inc.	TigerLogic Corp.
Ikanos Communications, Inc.	Tollgrade Communications, Inc.
MEMSIC, Inc.	TranSwitch Corp.
MIPS Technologies, Inc.	Virage Logic Corp.

The 2009 Compensation Peer Group differed from the 2008 Compensation Peer Group as follows: ActivIdentity Corporation, Captaris, Inc., Centillium Communications, Inc., Numerex Corporation, SupportSoft, Inc. and Vital Images, Inc. were removed while Bitstream, Inc., MEMSIC, Inc., NVE Corporation, Peerless Systems Corporation, Ramtron International Corporation, and TigerLogic Corporation were added to the Compensation Peer Group. ActivIdentity Corporation, Numerex Corporation and SupportSoft, Inc. were removed as each company had negative net income. Captaris, Inc. and Centillium Communications, Inc. were removed because they were acquired. Vital Images, Inc. was removed because it did not meet the market capitalization targets. The other companies were 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) base salary; (ii) actual total cash compensation (base salary plus most recent annual bonus paid); (iii) target total cash compensation (base salary plus target bonus award); and (iv) long-term incentive compensation (stock options, restricted shares, stock appreciation rights and performance-based shares). These long-term incentives were valued using Black-Scholes for options and stock appreciation rights; grant date value for restricted shares and target award and fiscal year-end stock price for performance shares. The Compensation Committee utilizes this information in determining the cash compensation and long-term incentive compensation to its executive officers.

Compensation program elements. The Company's executive compensation package for 2009 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 2009, Mr. Tzannes was awarded a base salary of $416,000 which was the same base salary as in 2008; Mr. Reiter, was awarded a base salary of $348,400 which was the same base salary as in 2008; Mr. Gross was awarded a base salary of $286,000 which was the same base salary as in 2008; and Mr. Moberg was a awarded a base salary of $250,000 which was the same base salary as in 2008. The Compensation Committee elected to keep base salaries frozen for 2009 in order to control expenses in the midst of a global economic crisis.

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

Cash Incentive Compensation

The annual cash incentive program is designed to provide executives with competitive compensation linked to Company performance goals. On May 19, 2009, the Compensation Committee approved a potential bonus for 2009 of up to $230,000, $275,000, $75,000 and $30,000 to Mr. Tzannes, Mr. Reiter, Mr. Moberg and Mr. Gross, 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.

The award granted to Mr. Tzannes based upon the Compensation Committee's discretion totaled $138,000, which consisted of $57,500 for achieving certain earnings targets for the Company's business and $80,500 for achieving certain operational goals. The award granted to Mr. Tzannes was at 60% of the target bonus of $230,000. The compensation was earned in 2009 and approved and paid in January 2010. Mr. Tzannes' target cash incentive was between the 50th and the 75th percentile of other chief executives in the Compensation Peer Group. The award granted to Mr. Reiter based upon the Compensation Committee's discretion totaled $165,000, which consisted of an award of $68,750 for achieving certain earnings targets for the Company's business and $96,250 for achieving certain operational goals. The award granted to Mr. Reiter was at 60% of the target bonus of $275,000. The compensation was earned in 2009 and approved and paid in January 2010. Mr. Reiter's target cash incentive was above the 75th percentile of other presidents (or comparable executives) in the Compensation Peer Group. The award granted to Mr. Moberg based upon the Compensation Committee's discretion totaled $51,562, which consisted of an award of $18,750 for achieving certain earnings targets for the Company's business and an additional $32,812 for achieving certain operational goals. The award granted to Mr. Moberg was at 50% of the target bonus of $75,000. The compensation was earned in 2009 and approved and paid in January 2010. Mr. Moberg's target cash incentive was at the 50th percentile of comparable executives in the Compensation Peer Group. The award granted to Mr. Gross based upon the Compensation Committee's discretion totaled $15,000, which consisted of an award of $15,000 for achieving certain operational goals. The award granted to Mr. Gross was at 50% of the target bonus of $30,000. The compensation was earned in 2009 and approved and paid in November 2009 as Mr. Gross left the company in November 2009 to join Lantiq. Mr. Gross' target cash incentive was between the 25th and the 50th percentile of comparable executives in the Compensation Peer Group.

The total cash compensation (salary plus cash incentive compensation) for Mr. Tzannes was above 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. Gross was above the 75th percentile of other comparable executives in the Compensation Peer Group. The total cash compensation for Mr. Moberg was at the 75th percentile of other chief financial officers in the Compensation Peer Group.

Stock-based equity incentive compensation

The Company emphasizes long-term equity incentive compensation 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 long-term equity incentive grants, the Company considers the three-year average value resulting from long-term incentive compensation such as restricted stock grants, performance plans, stock appreciation rights 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. In May 2008, the Company granted stock options in the amounts of 172,800, 151,200 and 43,200 to Mr. Tzannes, Mr. Reiter and Mr. Gross, respectively, in recognition of their individual contributions to the Company. Mr. Moberg, who joined the Company as its chief financial officer and treasurer on February 15, 2008, received a stock option award of 200,000 options on February 20, 2008. In May 2009, the Company granted stock appreciation rights in the amounts of 32,000, 24,000, 12,000 and 12,000 to Mr. Tzannes, Mr. Reiter, Mr. Moberg and Mr. Gross, respectively, in recognition of their individual contributions to the Company. The Compensation Committee elected to grant stock appreciation rights instead of stock options because stock appreciation rights provided the potential for lower dilution.

In determining the fair value of each option and stock appreciation right grant, the Company used the following assumptions:

	Year ended December 31			
	2009*	2008	2007	2006
Average risk free interest rate	2.24%	2.17 – 3.16%	3.80 – 4.73%	4.55- 4.99%
Expected life of option grants	6.59 years	6.70 – 7.16 years	6.25 years	3.25 – 6.25 years
Expected volatility of underlying stock	61.66%	51% - 54%	51% - 56%	60% - 67%
Expected dividend yield	-	-	-	-

*2009 grant was for SARs, not stock options

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 2009, the salary and cash incentive compensation for Mr. Tzannes represented approximately 91% of his total compensation. In 2009, the salary and cash incentive compensation for Mr. Reiter represented approximately 92% of his total compensation. In 2009, the salary and cash incentive compensation for Mr. Gross represented approximately 92% of his total compensation. In 2009, the salary and cash incentive compensation for Mr. Moberg represented approximately 92% of his total compensation.

Compensation program elements rationale. In establishing compensation for executives, the Company’s Compensation Committee monitors salaries, other cash compensation and long-term equity incentive compensation 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 long-term equity incentive 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, the chief financial 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 2009, 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

Mark G. McGrath, Chairman
G. David Forney, Jr.
John K. Kerr
Charles K. Stewart

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The compensation committee is currently composed of Messrs. McGrath, Forney, Kerr and Stewart. Mr. Kerr formerly served as Aware's assistant vice president of marketing from June 1992 to November 1994. The Company's executive chairman assists the compensation committee in determining executive compensation including recommendations for executive officer compensation. In 2009, no officer or employee of Aware, including the Company's executives, 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 2009.

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, 2009 by Aware's chief executive officer, Aware's chief financial officer and each other executive officer of Aware:

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation($)(3)	Total ($)
Michael A. Tzannes	2009	416,000	-	-	48,595	138,000	-	7,800	610,395
Chief Executive Officer	2008	412,554	-	-	333,763	119,375	-	7,350	873,042
	2007	397,692	-	-	-	81,342	-	7,200	486,234
Edmund C. Reiter	2009	348,400	-	-	36,446	165,000		7,800	557,646
President	2008	345,514	-	-	292,043	122,500	-	7,350	767,406
	2007	332,692	-	-	-	127,148	-	7,050	466,890
Richard P. Moberg (4)	2009	250,000	-	-	18,223	51,563	-	7,902	327,688
Chief Financial Officer	2008	217,306	-	-	406,620	24,375	-	6,709	655,010
	2007	-	-	-	-	-	-	-	-
Richard W. Gross (5)	2009	279,263	-	-	18,223	15,000	-	7,926	320,412
Senior Vice President,	2008	283,631	-	-	83,441	11,563	-	7,551	386,186

Engineering									
	2007	272,692	-	-	222,420	16,268	-	7,051	518,431

(1) Represents the dollar amount of expense recognized for financial statement reporting purposes attributable to stock options and SARs in accordance with ASC 718 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 2009; Michael Tzannes-$7,350; Edmund Reiter-$7,350; Richard Gross-$7,374; and Richard Moberg-$7,350. Perquisites and other benefits were less than $15,000 in the aggregate for each named executive officer.

(4) Mr. Moberg became our chief financial officer on February 15, 2008.

(5) Mr. Gross resigned as our senior vice president of engineering on November 13, 2009.

Grants of Plan-Based Awards in 2009

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)(1)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Option (#)(2)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards($)(3)
Michael A. Tzannes	05/20/2009	-	-	230,000	-	-	-	-	32,000	2.52	48,595
Edmund C. Reiter	05/20/2009	-	-	275,000	-	-	-	-	24,000	2.52	36,446
Richard P. Moberg	05/20/2009	-	-	75,000	-	-	-	-	12,000	2.52	18,223
Richard W. Gross	05/20/2009	-	-	30,000	-	-	-	-	12,000	2.52	18,223

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

(2) Each SAR grant to Michael Tzannes, Edmund Reiter, Richard Moberg and Richard Gross vests in eight (8) quarterly installments through March 31, 2011 with an expiration date of May 20, 2019.

(3) The value of SAR awards is calculated in accordance with ASC 718 and using a Black-Scholes valuation model with the following assumptions: exercise price and fair market value of $2.52, volatility of 62%, expected term of 6.59 years, and risk-free interest rate of 2.24% for the SAR award to Mr. Tzannes, Mr. Reiter, Mr. Moberg and Mr. Gross.

Outstanding Equity Awards At December 31, 2009

The following table summarizes the stock options outstanding as of December 31, 2009 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, 2009.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock	Market Value of Shares or Units of Stock That	Equity Incentive Plan Awards: Number of	Equity Incentive Plan Awards: Market or

	Options (#) Exercisable	Securities Underlying Unexercised Unearned Options (#) Unexercisable				That Have Not Vested (#)	Have Not Vested ($)	Unearned Shares, Units or Other Rights That Have Not Vested (#)	Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Michael A. Tzannes									
	453,752	-	-	$ 3.27	10/14/13	-	-	-	-
	125,000	-	-	$ 2.95	09/08/14	-	-	-	-
	800,000	-	-	$ 6.07	02/09/15	-	-	-	-
	75,600	97,200 (2)	-	$ 3.44	05/23/18	-	-	-	-
	12,000	20,000 (3)	-	$ 2.52	05/20/19				
Edmund C. Reiter									
	326,635	-	-	$ 3.27	10/14/13	-	-	-	-
	100,000	-	-	$ 2.95	09/08/14	-	-	-	-
	600,000	-	-	$ 6.07	02/09/15	-	-	-	-
	66,150	85,050 (2)	-	$ 3.44	05/23/18	-	-	-	-
	9,000	15,000 (3)	-	$ 2.52	05/20/19				
Richard P. Moberg									
	100,000	100,000 (1)	-	$ 3.77	02/20/18	-	-	-	-
	4,500	7,500 (3)	-	$ 2.52	05/20/19	-	-	-	-
Richard W. Gross (4)									
	201,501	-	-	$ 3.27	10/14/13	-	-	-	-
	50,000	-	-	$ 2.95	09/08/14	-	-	-	-
	42,500	-	-	$ 6.07	02/09/15	-	-	-	-
	37,500	-	-	$ 5.58	02/22/16	-	-	-	-
	51,562	-	-	$ 5.06	02/12/17	-	-	-	-
	16,200	-	-	$ 3.44	05/23/18	-	-	-	-
	3,000	-	-	$ 2.52	05/20/19				

(1) Option vests in 8 quarterly installments on the last day of each quarter from March 31, 2010 through December 31, 2011.
(2) Option vests in 9 quarterly installments on the last day of each quarter from March 31, 2010 through December 31, 2012.
(3) SAR vests in 5 quarterly installments on the last day of each quarter from March 31, 2010 through March 31, 2011.

(4) Mr. Gross resigned as our senior vice president of engineering on November 13, 2009.

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Option Exercises and Stock Vested

The following table summarizes the options exercised during the year ended December 31, 2009 and the value realized upon exercise:

	Option Awards		Stock Awards	
Name	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	-	-	-	-
Richard P. Moberg	-	-	-	-

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, except that executive officers have two (2) years post-termination to exercise vested, unexpired options, while other employees have less than two (2) years post-termination to exercise vested, unexpired options. 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 or other equity awards that are required as a result of a termination, retirement or change in control.

DIRECTOR COMPENSATION

Each non-employee director received $40,000 for serving as a director of Aware in 2009. Aware 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 2010.

In May 2009, the Board of Directors of Aware approved a Compensation Committee recommendation to compensate non-employee directors through cash compensation and through grants of stock appreciation rights ("SARs") under Aware's 2001 Stock Option Plan. Each non-employee director received $40,000 for serving as a director of Aware. Additional cash compensation was provided to the chairs of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. The SARs entitle each holder to receive a payment on the "Payment Date" equal to the product of (a) the excess (if any) of the fair market value of a share of Aware's common stock as of the Payment Date, over $2.52, which is the closing trading price of Aware's common stock on May 20, 2009, the date the SARs were granted, multiplied by (b) the number of SARs granted that have vested as of the Payment Date. Such benefit is payable in the form of shares of Aware's common stock. The SARs vest in eight (8) equal quarterly installments on the last day of each quarter from June 30, 2009 through March 31, 2010. The following table provides information about these grants.

Non-Employee Director Compensation Table for 2009

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)	40,000	-	9,112	-	-	-	49,112
G. David Forney, Jr.(2)	45,000	-	9,112	-	-	-	54,112
Adrian F. Kruse(3)	55,500	-	9,112	-	-	-	64,612
Mark McGrath(4)	49,000	-	9,112	-	-	-	58,112
Charles K. Stewart(5)	40,000	-	9,112	-	-	-	49,112

(1) In 2009, John K. Kerr received 6,000 SARs and $40,000 for serving as a director of Aware. 244,750 options were outstanding as of 12/31/09, of which 225,937 were exercisable as of 12/31/09.
(2) In 2009, G. David Forney, Jr. received 6,000 SARs and $40,000 for serving as a director of Aware and $5,000 for serving as chairman of the nominating and corporate governance committee. 141,599 options were outstanding as of 12/31/09, of which 127,774 were exercisable as of 12/31/09.
(3) In 2009, Adrian F. Kruse received 6,000 SARs for serving as a director of Aware and $15,500 for serving as chairman of the audit committee. 138,200 options were outstanding as of 12/31/09, of which 122,925 were exercisable as of 12/31/09.
(4) In 2009, Mark G. McGrath received 6,000 SARs for serving as a director of Aware and $9,000 for serving as chairman of the compensation committee. 87,700 options were outstanding as of 12/31/09, of which 71,237 were exercisable as of 12/31/09.

(5) In 2009, Charles K. Stewart received 6,000 SARs for serving as a director of Aware. 31,000 options were outstanding as of 12/31/09, of which 21,000 were exercisable as of 12/31/09.

(6) Represents the aggregate grant date fair value of SAR awards granted in 2009 computed in accordance with ASC 718 but with no discount for estimated forfeitures. For an explanation regarding the method of valuation of the Company's option and SAR awards, see the heading "Stock-based equity incentive compensation" in our Compensation Discussion and Analysis. SAR awards valued in each case calculated in accordance with ASC 718 and using a Black-Scholes valuation model with the following assumptions: exercise price and fair market value of $2.52, volatility of 62%, expected term of 6.59 years, and risk-free rate of 2.24% for the option awards to Messrs. Kerr, Forney, Kruse, McGrath, and Stewart.

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

At the close of business on September 15, 2010, there were issued and outstanding 20,039,145 shares of common stock entitled to cast 20,039,145 votes. On September 15, 2010, the closing price of Aware's common stock as reported by the Nasdaq Global Market was $2.33 per share.

Principal stockholders

The following table provides information about the beneficial ownership of Aware's common stock as of September 15, 2010 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 September 15, 2010 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 20,039,145 shares of common stock outstanding as of September 15, 2010. 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 September 15, 2010. All shares included in the "Right to acquire" column represent shares subject to outstanding stock options exercisable within 60 days after September 15, 2010. The information as to each person has been furnished by such person.

Unless otherwise noted in the following table, the address of each person listed in the table is c/o Aware, Inc., 40 Middlesex Turnpike, Bedford, Massachusetts 01730.

	Number of shares beneficially owned			Percent	
Name	Outstanding shares	Right to acquire	Total number	Percent beneficially owned	
Susan Y. Stafford (1) 230 S. LaSalle Street, Suite 688 Chicago, IL 60604	3,395,025	0	3,395,025	16.9	%
John S. Stafford, III (2) 230 S. LaSalle Street, Suite 688 Chicago, IL 60604	2,100,598	0	2,100,598	10.5	%
Dimensional Fund Advisors LP (3). 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	1,431,781	0	1,431,781	7.1	%
James M. Stafford (4) 230 S. LaSalle Street, Suite 688 Chicago, IL 60604	1,358,251	0	1,358,251	6.8	%
John K. Kerr	681,588	209,968	891,556	4.4	%

Michael A. Tzannes (5)	111,033	1,486,752	1,597,785	8.0	%
Edmund C. Reiter	10,161	1,121,135	1,131,296	5.6	%
Richard P. Moberg	0	137,500	137,500	*	
Mark G. McGrath	149,613	80,450	230,063	1.1	%
G. David Forney, Jr.	30,000	116,161	146,161	*	
Adrian F. Kruse	10,000	117,981	127,981	*	
Charles K. Stewart	1,086,221	25,000	1,111,221	5.5	%
All directors and executive officers as a group (8 persons)	2,078,616	3,294,947	5,373,563	26.8	%

* Less than one percent.

(1) The number of shares beneficially owned by Susan Y. Stafford is based upon information in a Schedule 13G filed by Susan Y. Stafford on August 16, 2010.

(2) The number of shares beneficially owned by John S. Stafford, III is based upon information in a Schedule 13G/A filed by John S. Stafford, III on April 28, 2009.

(3) The number of shares beneficially owned by Dimensional Fund Advisors LP is based upon information in a Schedule 13F filed by Dimensional Fund Advisors Inc. on June 30, 2010.

(4) The number of shares beneficially owned by James M. Stafford is based upon information in a Schedule 13G filed by James M. Stafford on February 14, 2003.

(5) 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, 2009, 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, as amended in May 2009, 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 and May 2009.

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	2,159,530	$ 4.38	_
1996 Employee Stock Purchase Plan	—	—	129,484
Equity compensation plans not approved by stockholders:			
2001 Nonqualified Stock Plan	3,860,442	$ 4.45	3,734,871
Total	6,019,972	$ 4.42	3,864,355

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. McGrath, Forney, Kerr and Stewart, 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.

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.

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Except as otherwise provided, stock options granted under the 2001 plan are not exercisable following termination of the holder's employment. Our stock option agreements typically provide for our employees (other than directors and officers) 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 or (c) for six months after the date of termination of the holder's employment by the holder, by the Company or by Normal Retirement (as defined in the Plan). Our stock option agreements typically provide for our directors and officers 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 two years 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 two years following the termination of employment if such termination is the result of the holder's death or (c) for two years after the date of termination of the holder's employment by the holder, by the Company or by Normal Retirement (as defined in the Plan). 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.

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 corporate headquarters no later than December 17, 2010. 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 March 2, 2011.

AVAILABLE INFORMATION

Stockholders of record on September 27, 2010 will receive a copy of this proxy statement.