

-----BEGIN PRIVACY-ENHANCED MESSAGE-----

Proc-Type: 2001,MIC-CLEAR  
 Originator-Name: webmaster@www.sec.gov  
 Originator-Key-Asymmetric:  
 MFgwCgYEVQgBAQICAf8DSgAwRwJAW2sNKK9AVtBzYZmr6aGjlWYK3XmZv3dTINen  
 TWSM7vrzLADbmYQaionwg5sDW3P6oaM5D3tdezXMm7z1T+B+twIDAQAB  
 MIC-Info: RSA-MD5,RSA,  
 TVVfqFDxZ3XjSm3YbewbHIlqCrsJgtXhgUF3H7jU3qRmPrLrkw6WsEMiuODRNjfx  
 UiWfMmt0pcxHpnTX+PAykA==

<SEC-DOCUMENT>0000930661-99-000635.txt : 19990331  
 <SEC-HEADER>0000930661-99-000635.hdr.sgml : 19990331  
 ACCESSION NUMBER: 0000930661-99-000635  
 CONFORMED SUBMISSION TYPE: 10-K405  
 PUBLIC DOCUMENT COUNT: 5  
 CONFORMED PERIOD OF REPORT: 19981231  
 FILED AS OF DATE: 19990330

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME:	ENTRUST TECHNOLOGIES INC
CENTRAL INDEX KEY:	0001031283
STANDARD INDUSTRIAL CLASSIFICATION:	SERVICES-COMPUTER PROGRAMMING SERVICES [7371]
IRS NUMBER:	621670648
FISCAL YEAR END:	0123

FILING VALUES:

FORM TYPE:	10-K405
SEC ACT:	
SEC FILE NUMBER:	000-24733
FILM NUMBER:	99579185

BUSINESS ADDRESS:

STREET 1:	2323 NORTH CENTRAL EXPRESSWAY
CITY:	RICHARDSON
STATE:	TX
ZIP:	75080
BUSINESS PHONE:	9729948000

MAIL ADDRESS:

STREET 1:	2323 NORTH CENTR4AL EXPWY
STREET 2:	2323 NORTH CENTR4AL EXPWY
CITY:	RICHARDSON
STATE:	TX
ZIP:	75080

</SEC-HEADER>  
 <DOCUMENT>  
 <TYPE>10-K405  
 <SEQUENCE>1  
 <DESCRIPTION>FORM 10-K405  
 <TEXT>

<PAGE>

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

FORM 10-K

FOR ANNUAL AND TRANSITION  
 REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF  
 THE SECURITIES EXCHANGE ACT OF 1934

(Mark one)

Annual report pursuant to Section 13 or 15(d) of the  
 Securities Exchange Act of 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

COMMISSION FILE NUMBER 000-24733

ENTRUST TECHNOLOGIES INC.  
(Exact name of registrant as specified in its charter)

MARYLAND (State or other jurisdiction of incorporation or organization) 62-1670648 (IRS employer identification no.)

ONE PRESTON PARK SOUTH, SUITE 400  
4975 PRESTON PARK BLVD.  
PLANO, TX 75093  
(Address of principal executive offices & zip code)  
Registrant's telephone number, including area code: (972) 943-7300

Securities registered pursuant to Section 12(b) of the Act: none  
Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01 par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the common equity held by non-affiliates of the registrant, computed using the closing sale price of common stock on March 23, 1999, as reported on the Nasdaq National Market, was approximately \$390,000,000 (affiliates included for this computation only: directors, executive officers and holders of more than 5% of the registrant's common stock).

The number of shares outstanding of the registrant's common stock as of March 23, 1999 was 43,327,156. The number of shares outstanding of the registrant's special voting stock as of March 23, 1999 was 5,157,289.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered with the Notice of Annual Meeting of Stockholders to be held May 5, 1999 are incorporated by reference into Part III of this Form 10-K.

<PAGE>

ENTRUST TECHNOLOGIES INC.

TABLE OF CONTENTS

<TABLE>  
<CAPTION>

PART I.		Page
		----
<S>	<C>	<C>
Item 1.	Business.....	3
Item 2.	Properties.....	14
Item 3.	Legal Proceedings.....	14
Item 4.	Submission of Matters to a Vote of Security Holders.....	15
	Executive Officers and Directors of the Registrant.....	15

<CAPTION>

<S>	<C>	<C>
PART II.		Page

Item 5.	Market for Registrant's Common Stock and Related Stockholder Matters.....	16
Item 6.	Selected Financial Data.....	16
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	17
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.....	29
Item 8.	Financial Statements and Supplementary Data.....	30
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	30

<CAPTION>  
PART III.

Item 10.	Directors and Executive Officers of the Registrant.....	31
Item 11.	Executive Compensation.....	31
Item 12.	Security Ownership of Certain Beneficial Owners and Management.....	31
Item 13.	Certain Relationships and Related Transactions.....	31

<CAPTION>  
PART IV.

Item 14.	Exhibits, Financial Statements and Reports on Form 8-K.....	32
SIGNATURES.....		33

</TABLE>  
<PAGE>

This report contains forward-looking statements that involve risks and uncertainties. The statements contained in this report that are not purely historical are forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, among other things, statements regarding our expectations, beliefs, intentions or strategies regarding the future. All forward looking statements included in this report are based on information available to us up to and including the date of this document, and we assume no obligation to update any such forward looking statements. Our actual results could differ significantly from those anticipated in these forward looking statements as a result of certain factors, including those set forth below, under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview", and "-- Certain Factors that May Affect Our Business" and elsewhere in this report. You should also carefully review the risks outlined in other documents that we file from time-to-time with the Securities and Exchange Commission, including our Quarterly Reports on Form 10-Q that we will file in 1999.

Entrust is a registered trademark, and Entrust-Ready, the Entrust design (Elmer), Entrust/Authority, Entrust/Admin, Entrust/Directory, Entrust/Entelligence, Entrust/Web Connector, Entrust/Commerce CA, Entrust Commerce Connector, Entrust/VPN Connector, Entrust/Lite, Entrust/Solo, Entrust/ICE, Entrust/Express, Entrust/Direct, Entrust/Client, Entrust/Engine, Entrust/TrueDelete, Entrust/Unity, Entrust/Timestamp, Entrust/Toolkit, Entrust/PKI, Entrust InSource, Entrust Worldwide, Entrust Partner and Entrust SecureSummit are trademarks or service marks, of Entrust Technologies Limited, a majority-owned subsidiary of Entrust Technologies Inc. Other trademarks and service marks used in this Form 10-K are the property of their respective owners.

PART I.

ITEM 1. BUSINESS

Entrust Technologies' public-key infrastructure (PKI) solutions provide enterprises with the ability to more effectively manage trusted, secure electronic communications and transactions over today's advanced networks, including the Internet, extranets and intranets. Since its initial release in 1994, Entrust software has been licensed for use in more than 700 global enterprises, government entities and financial institutions.

Industry Background

The widespread adoption in recent years of public and private networks has revolutionized the manner in which organizations communicate and conduct business. These advanced networks provide an attractive medium for communications and commerce because of their global reach, accessibility, use of

open standards and ability to permit interactions on a real-time basis. Proliferation of these networks has facilitated the storage, analysis and communication of critical information within and between organizations. At the same time, they have afforded businesses a user-friendly, low-cost way to conduct a wide variety of commercial functions electronically. Today, organizations are increasingly utilizing these networks to access new markets, improve customer service and streamline business processes through applications such as e-mail, e-forms, Web browsing, remote access, virtual private networks, intranet-based applications, on-line customer support, and supply-chain management applications.

#### Need For Secure Transactions

The very openness and accessibility that have stimulated the adoption and growth of public and private networks create threats to the privacy and integrity of information that is transmitted across or stored on them. According to a 1997 industry survey, 70% of consumers and businesses surveyed cited security concerns as the principal impediments to a broader use of the Internet for commercial applications. Key consumer security concerns include merchant impersonation, fraud and the risk that third parties may intercept and use personal information such as credit card numbers, all of which may inhibit the broader adoption of electronic commerce. Businesses relying on public and private networks for internal communications risk the theft, loss, alteration or dissemination of confidential data, loss of reputation and economic loss through fraud. Threats to corporate data security arise both from external sources such as competitors and computer hackers, as well as internal sources, such as curious or disgruntled employees and contractors. According to a recent FBI report, among U.S. enterprises reporting that they had experienced computer security breaches, the average financial losses from internal breaches were significantly higher than the losses sustained from external breaches. These business risks have driven the demand for effective and robust network and information security products.

3

&lt;PAGE&gt;

The security risks associated with communications and commerce over public and private networks have accentuated the need for information security solutions that address the five critical network security needs:

Access Control--Only authorized users should access, view or modify certain data

Confidentiality--Data in transit over the network or in storage should not be disclosed to unauthorized persons

Integrity--Data should not be altered or compromised by unauthorized manipulation

Authentication--The identity of the data sender should be verified

Non-Repudiation--The sender of a transmission should not be able to deny or repudiate the transmission

A wide range of products and services has been introduced to address one or more of these five critical network security needs. For example, access control is provided by products such as firewalls and password tokens, which limit network access only to users having recognized addresses or entering recognized passwords, but are limited in their flexibility and do not address such requirements as confidentiality, integrity, authentication and non-repudiation. Encryption devices and programs provide confidentiality, but are device-dependent and do not address issues of access control, integrity, authentication and non-repudiation. The lack of flexibility and scalability inherent in these solutions has led to the development of public-key encryption and digital certification systems combined in a public-key infrastructure, which can address all five critical network security needs.

#### Public-Key Security

A public-key infrastructure uses encryption algorithms in combination with authentication and verification technology offered by digital certificates to provide the user with a secure and reliable means of communicating and effecting transactions over public and private networks.

Public-Key Encryption. Digital messages are encrypted and decrypted using a  
-----

cipher or key. Public-key encryption systems assign each user a pair of linked keys: a "public" key, which the user provides to others, and a "private" key, which the user keeps secret. A user wishing to send a secure transmission encrypts the transmission using the recipient's public key. To decode the transmission, the recipient uses a private key that is uniquely able to decode messages encoded with his or her corresponding public key. Thus, the successful exchange of encrypted messages using a public key system requires that message senders have the public keys for all recipients to whom they desire to send messages, and that the recipients decode messages with their own private keys. Public-key encryption provides a high level of data security, and thus addresses an enterprise's need for confidentiality of electronic transmissions. However, because encryption alone does not give the recipient of a message any information about the sender or ensure that a message is not altered en route, the requirements for access control, integrity, authentication and non-repudiation are not satisfied.

Digital Certification. The ability to ensure access control, authentication

-----  
and non-repudiation of digital transmissions can be achieved with digital certification systems, which enable a recipient to verify that a message originates from the expected sender. These systems use public and private keys to create digital signatures. These signatures are encoded using the sender's private key. Upon receipt of the message, the recipient obtains a copy of the sender's public key, which verifies that the message originated from the expected sender. Digital certificates thus function as electronic passports that not only authenticate their owners' identities and verify their owners' membership in certain organizations, but also establish their owners' authority to engage in a given transaction. Digital signature and certification technology also ensures the integrity of a message by enclosing an encrypted summary or "hash" of the message with the sender's digital signature. When the signature and hash are decrypted using the sender's public key, the system can automatically detect whether the message was altered since it was signed.

Market Acceptance of Digital Certification. Because of its security

-----  
benefits, digital certification has gained significant market acceptance, particularly in sectors in which information security is critical, such as government, finance, health care and telecommunications. Industry sources believe that by 2000 digital certificates will be nearly as widely adopted by the general public as e-mail is today. At least 40 U.S. states, as well as the U.S. and Canadian governments and the European Union, have adopted or are considering digital signature statutes that recognize the legal validity of digitally signed documents. In addition, the banking industry's Secure Electronic Transaction (SET) standard for Internet credit card purchases, as well as the Internet secure packet transmission standard (IPsec) adopted by most firewall, routing and access vendors, depend on digital certification.

4

&lt;PAGE&gt;

Need For a Public-Key Infrastructure

The increasing acceptance of digital certificates has given rise to numerous products and services that issue digital certificates or that are able to work with digital certificates. However, the mere issuance of digital certificates does not ensure that a user's access is properly monitored, that privileges associated with access are accurately and currently defined, or that the certificates in question have not been withdrawn or replaced. Indeed, the proliferation of users and certificates greatly complicates management of these issues, which are critical to maintaining an effective security environment across and between enterprises. To address these needs, enterprises must have a robust public-key infrastructure that supplements certificate issuance functions with full life cycle management of public and private keys, including issuance, authentication, storage, retrieval, backup, recovery, updating and revocation, in an easy-to-use, cost-effective manner.

Moreover, unless digital certificates and private keys can be easily utilized on a consistent and reliable basis across multiple applications (such as e-mail, browser, electronic commerce, electronic forms and remote access), organizations will face the challenge and cost of maintaining a separate security infrastructure for each application, requiring separate keys and certificates, multiple passwords and inconsistent or incomplete security implementations. Furthermore, any PKI must be able to support an enterprise's security requirements as the enterprise grows, business functions are altered and underlying IT technologies evolve. To be effective, a public-key

infrastructure must be able to accommodate a large number of users and integrate diverse computing resources into a consolidated, reliable and secure computing environment that meets the five critical network security needs of access control, confidentiality, authentication, integrity and non-repudiation. Achievement of these goals requires a highly functional and flexible public-key infrastructure for the management of network security features across an enterprise and between organizations.

#### The Entrust Solution

Entrust Technologies develops, markets and distributes a comprehensive public-key infrastructure solution that enables enterprises to effectively manage secure communications and transactions across a wide range of applications. The Entrust PKI solution addresses the five critical network security needs of enterprises and allows for consistent enterprise-wide security policy management, enabling any enterprise to establish its own flexible, highly reliable PKI. Entrust also offers users encryption functionality and full digital signature and certification management in a single, easy-to-use, integrated and automated solution. Among the benefits offered by Entrust's PKI solution are:

**Comprehensive Functionality.** We believe that we are the only provider of a  
-----  
comprehensive PKI solution offering the functionality necessary for the full life cycle management of keys and digital certificates including: certificate issuance, certificate authentication, key storage and backup, key retrieval and recovery, certificate updating, certificate revocation and cross-certification of PKIs.

**Multiple Certificate Types.** The Entrust PKI supports multiple certificate  
-----  
types and configurations, including enterprise certificates that can be used across multiple applications, Web certificates for secure Web transactions, electronic commerce certificates supporting secure credit card transactions using the SET standard and certificates for communications technologies such as VPNs.

**Open, Versatile Platform.** The Entrust PKI enables secure transmissions  
-----  
across a wide range of computing platforms (including Windows NT and UNIX servers and Windows, UNIX, Macintosh and JAVA clients), enterprise applications (including e-mail, browser, electronic commerce, electronic forms and remote access), network infrastructure (including firewalls, network operating systems and directories), and open industry standards (such as the lightweight directory access protocol ("LDAP"), PKIX, and PKCS 11).

**Highly-Scalable Architecture.** Entrust products employ a distributed  
-----  
computing architecture and directory management techniques that make them highly scalable. We believe that our PKI solution can be configured to handle millions of simultaneous users.

**Ease Of Use.** Entrust products automatically enable complex certification  
-----  
and key recovery functions without user interaction; most functions are initiated using simple point and click graphical interfaces and are accessed via a single user login.

**Reduced Cost Of Ownership.** Because the Entrust PKI's comprehensive  
-----  
functionality reduces duplication of personnel, its ease of use simplifies training, and its ability to interact with a wide variety of platforms and

5

<PAGE>

applications avoids the need to purchase multiple security systems, the Entrust PKI enables enterprises to significantly reduce overall costs for addressing security requirements.

#### Strategy

Our objective is to maintain and enhance our position as the leading provider of comprehensive PKI solutions. Key elements of our strategy to achieve this objective include the following:

#### Maintain Product Leadership. Entrust's PKI solution has been deployed

-----  
commercially through multiple versions for over four years. Our technological leadership is attributable in large part to our research and development team, which includes researchers with international reputations in their fields. We intend to maintain and enhance our technological leadership in the PKI solutions market by continuing to invest in product research and development, to extend the functionality and interoperability of our products, and to participate actively in industry standards-setting organizations.

#### Target Large Customers. We target our sales and marketing activities at

-----  
Global 2000 organizations and large governmental entities having significant requirements for comprehensive PKI solutions and the resources to deploy them broadly. To address this market, we maintain an experienced direct sales force and an active marketing program targeted at large organizations. We are expanding our sales force to address our target market more fully, and we are supplementing our sales force with a services capability to facilitate implementation and deployment of products by large organizations.

#### Target Vertical Markets Offering Broad Deployment Opportunities. We target

-----  
organizations in the government, finance, health care, telecommunications and large manufacturing sectors, which have thousands of customers, subscribers and service recipients who will, directly or indirectly, benefit from the secure communications and transactions enabled by Entrust's PKI solution. We believe that the successful implementation of our PKI solution within these selected vertical markets will enable us to leverage the adoption of our products by such organizations to include their customers, subscribers and service recipients.

#### Promote Brand Awareness. Our goal is to equate our brand name with trusted

-----  
enterprise security. We undertake a variety of activities to promote the recognition of our brand identity and products, including the promotion and sponsorship of industry groups and conferences such as the Entrust Secure Summit in June 1999. We also promote our product standards and architecture by participating actively in numerous industry standards-setting bodies.

#### Expand Strategic Relationships. In order to encourage widespread

-----  
acceptance of our PKI solution, we have established an Entrust Partner Program which currently includes:

- . VAR and OEM partners, such as Compaq, Check Point Software, Hewlett-Packard, and IBM, which resell our products with their hardware and networking solutions, as well as Check Point Software, Novell, and TimeStep, which bundle our PKI solution with their own software products;
- . consultant and system integration partners, such as PricewaterhouseCoopers, Ernst & Young, and KPMG, which recommend and implement Entrust-Ready solutions as part of their overall service offerings;
- . development partners, which have introduced more than 90 off-the-shelf Entrust-Ready products and applications (e.g., SAP, PeopleSoft, Oracle, Sybase, Nortel Networks, Novell GroupWise, Novell Netware, Axent, Jetform, Shana, etc); and
- . interoperability partners such as Cisco, Shiva (a wholly-owned subsidiary of Intel Corporation), Netscape, Lotus Development, Microsoft and Network Associates, which offer products that utilize the security features of the Entrust PKI solution.

We intend to continue to invest in and enhance the Entrust Partner Program both to offer complete end-to-end security solutions to our customers and to broaden adoption of our PKI solution across markets and geographic areas.

#### Expand Global Presence. We intend to expand our global operations and

-----  
currently have more than 65 employees based in Europe. With our acquisition of r3 Security Engineering AG ("r3") in June 1998, we obtained substantial European research and development expertise for the development of our PKI solution targeted at the European market. We have supplemented our established direct sales and distribution channels through the addition of distribution partners in central and eastern Europe and Japan.

<PAGE>

Products and Product Development

The Entrust PKI solution provides an integrated, open and scalable security framework that addresses an enterprise's data security needs across multiple platforms and applications, including e-mail, browsers, electronic forms, remote access and other product offerings from leading vendors. It also includes robust features (such as support of dual key pairs) that make it well suited for secure electronic commerce applications. The Entrust solution includes:

- . a core PKI solution, which centrally manages and administers an enterprise's security infrastructure;
- . desktop applications that tightly integrate features with Entrust's core PKI and common third-party desktop applications; and
- . application developer toolkits that provide open application programming interfaces (APIs) for the rapid development of Entrust-Ready applications.

The Entrust core PKI solution comprises software that manages and administers life cycles of keys and digital certificates throughout an enterprise, an LDAP-compliant directory for the storage and retrieval of keys, and application software that enables users to utilize the functions provided by the PKI. The core PKI solution is a powerful and flexible platform for the generation and management of keys and digital certificates, for enterprise users across multiple applications within an organization. Web certificates are available for browsers and servers for transaction authentication. Electronic commerce certificates for secure credit card transactions (using the SET standard) are also available. The core solution is also configured to support the generation of certificates for evolving communications technologies, such as VPNs, and multiple hardware devices, such as smart cards, PC cards, biometric devices and third-party key storage systems.

Entrust Core PKI Solution

Our core PKI solution is designed with an open and flexible software architecture that operates on a wide range of client/server enterprise operating system platforms, including Windows NT, HP-UX, Solaris and AIX servers, and Windows, HP-UX, Solaris, AIX, JAVA and Macintosh clients. Our security kernel supports a wide variety of encryption algorithms, including RSA, as well as symmetric and hashing algorithms, allowing customers to select those algorithms best suited for their requirements. The core system uses the industry LDAP standard to interoperate with most other major directory systems, allowing customers to utilize existing directory systems and facilitating access to other directories as required. The system architecture enables us to add functionality as customer needs evolve and grow and allows the core system to support the generation and maintenance of new certificate types easily, responding to technology developments and market pressures. The system's distributed computing architecture and directory management techniques also enable the PKI to be scaled as an enterprise's public-key security needs increase or as users are added to existing infrastructures. We believe that our core PKI solution will be able to handle millions of simultaneous users.

The initial version of the Entrust PKI was released in 1994, with major upgrades in 1996, 1997, and 1998; historically, the core solution has generated a major portion of our revenues. The next major release of the core PKI, version 5.0, is expected to occur in 1999. The following table lists the products that constitute Entrust's core PKI solution, as well as a brief description and the introduction date of each product.

<PAGE>

<TABLE>  
<CAPTION>

PRODUCT NAME -----	DESCRIPTION -----
<S> ENTRUST/AUTHORITY.....	<C> Provides comprehensive certification authority and key recovery capabilities, among numerous other functions.
ENTRUST/ADMIN.....	Performs PKI administrative tasks.
ENTRUST ELECTRONIC IDENTITIES.....	Enterprise user "accounts" that authorize use of different types of



Entrust/Client and Entrust/Engine.....	certificates, including: Enables use of enterprise certificates with multiple enterprise applications.
Entrust/Web Connector.....	Enables use of digital certificates with popular browsers, such as those offered by Microsoft and Netscape.
Entrust/Commerce Connector.....	Enables use of digital certificates with standards-based SET wallets, merchant servers and payment gateways.
Entrust/VPN Connector.....	Enables use of digital certificates in standards-based VPN devices.
Entrust/Timestamp.....	Securely establishes the time at which data was digitally signed.

</TABLE>

We license our Entrust/Authority and Entrust/Admin products at a combined list price of \$25,000 per server. Entrust offers an LDAP-compliant directory product (from ICL) to enterprises for a list price of \$3,000 for installations of up to 1,000 users and \$3,000 plus a per-user fee for installations of more than 1,000 users. Enterprise Electronic Identities have a list price of \$159 per licensed user, which allows the management of multiple keys and certificates across all Entrust-Ready applications in the enterprise. As a part of our core PKI solution, the enterprise Electronic Identities are offered on a registered-user basis. If an enterprise solution is not required, we also offer customers with specialized security needs the ability to issue Web and electronic commerce certificates at a charge of \$2 per certificate. The actual license fees paid by customers vary widely, based on the number of products licensed, registered users, enabled platforms and volume discounts, if any.

Entrust/Authority. Entrust/Authority is the central component of the  
-----  
Entrust PKI solution. Entrust/Authority provides the Certification Authority (CA) function for the Entrust core PKI, and enables an enterprise to create, issue, manage, back-up, update and revoke electronic identities. Entrust/Authority also provides a secure enterprise key recovery system, issues certificate revocation information, and establishes cross-certification relationships with other trusted certification authorities. Key update operations are performed automatically and transparently, minimizing the need for on-going user involvement. A sophisticated audit reporting system monitors all security aspects of Entrust/Authority operations.

Entrust/Admin. Entrust/Admin provides administrative capabilities to three  
-----  
types of personnel: security officers, Entrust administrators and directory administrators. Through an easy-to-use graphical interface, security officers can define the high-level security policies governing the operation of an Entrust system, such as default lifetimes for encryption and signature key pairs and the frequency with which certificate revocation lists (CRLs) are automatically distributed. Entrust administrators perform the system's day-to-day administrative duties, including creating and deleting user identities, changing users' names, helping users recover lost keys and forgotten passwords, and revoking users' certificates when necessary. Entrust/Admin also allows directory administrators to perform administrative tasks associated with the directory on an automated, high-volume basis.

Entrust Electronic Identities. An Entrust Electronic Identity is an  
-----  
individual user's "account" or profile within the PKI. Entrust offers Electronic Identities for full enterprise use, or for more limited Web or electronic commerce use. Each enterprise Electronic Identity can support numerous key pairs and certificates over its lifetime, which may be utilized across multiple Entrust-Ready and other third party applications. Updating of key pairs and certificates is performed automatically and transparently and, therefore, administrative overhead is reduced. Entrust's Electronic Identities are implemented on client-side software that provides an easy-to-use interface enabling users within an Entrust PKI to secure and unsecure files. This software also allows users to specify options (such as file compression) and select cryptographic algorithms while making the complexities of key and certificate management transparent. A Web Electronic Identity enables a user to use certificates with popular Web browsers and Web servers, such as those offered by Netscape and Microsoft. These Web certificates can have lifetimes that span multiple years and do not require renewal on a yearly basis. Electronic Commerce Identities enable secure electronic commerce through the issuance and management of certificates for SET wallets, merchant servers and payment gateways.

In addition to our enterprise core PKI solution, we also offer an introductory PKI product, Entrust/Solo, which provides individual users with public-key encryption and digital certificate capabilities. Entrust/Solo, which may be downloaded from the Internet, is licensed for \$49 for commercial use and for free for non-commercial use.

#### Entrust Applications

Our core PKI solution has been configured to support a wide variety of applications from multiple vendors to enhance our flexibility and usefulness. We have also developed a number of applications in order to meet specific customer demands and facilitate the implementation of the Entrust core PKI solution. These products both complement and interact with the core PKI to offer the user enhanced functionality and increased interoperability with third-party applications, or operate as independent products, offering distinct functionality.

The following table lists applications that we offer, including a brief description, product pricing and the introduction date for the product.

<TABLE>  
<CAPTION>

INTRODUCTION DATE	PRODUCT NAME	DESCRIPTION	PRICING	
---	-----	-----	-----	-
<S>	<C>		<C>	<C>
Entrust/ICE 1997		Provides security for files and folders	\$39 per user	March
Entrust/Express 1997		Provides security for popular e-mail applications, such as Microsoft's exchange and Outlook products and Qualcomm's Eudora	\$39 per user	June
Entrust/Direct September 1997		Provides Entrust's automated key and certificate management features to secure Web sessions	\$15 per user	
Entrust/Unity February 1999		Provides Entrust's automated key and certificate management features to Netscape and Microsoft products (Microsoft version expected to be released in Q2 1999)	\$15 per user	
Entrust/TrueDelete 1998		Securely deletes files	Bundled with other Entrust applications	April
Entrust for SAP R/3 January 1999		Provides PKI security for SAP systems and applications. Certified by SAP		
Entrust for PeopleSoft January 1999		Provides PKI security for PeopleSoft systems and applications. Certified by PeopleSoft		

</TABLE>

#### Application Developer Toolkit

Because key and certificate management represents the most difficult aspect of adding security to an application, we have provided the Entrust/Toolkit to enable application developers to make third-party applications Entrust-Ready while keeping the complexities of key and certificate management transparent. The Entrust/Toolkit is a family of open, easy-to-integrate security APIs that provide security services, including full key life cycle management, to a broad range of applications.

#### New Product Development

Entrust devotes significant resources to the development of new and enhanced product functionality to maintain its technology and product leadership. We employ a number of different methods for identifying product extension opportunities and new product candidates, including user group meetings and direct feedback, an active program of partnership and cooperation with companies developing complementary technologies, and continued participation and leadership in industry standards-setting bodies such as the Internet Engineering Task Force (IETF), the North American Clearinghouse

Association (NACHA), the American National Standards Institute (ANSI) and others.

Some of our current and planned product development efforts include the use of certificate distribution with new devices (such as cellular telephones, pagers and personal digital assistants), attribute certificates for privilege management, electronic notary services, and monitoring and assessment systems. We are also continuing to increase the number of third-party applications and services that our PKI solution can manage, including VPN devices and routers and other popular user applications. Entrust scientists are also actively engaged in the development and improvement of the advanced cryptographic algorithms for use in Entrust products, including exploration of the use of highly efficient algorithms such as elliptic-curve encryption.

9

&lt;PAGE&gt;

#### Professional Services and Support

We believe that a high level of service and support is critical to our success, and that a close and active service and support relationship is important to facilitate rapid implementation of our solutions, assure customer satisfaction and provide us with important information regarding evolving customer requirements. Toward that end, we have made a significant investment in expanding our professional services and support organization, which, as of December 31, 1998, consisted of 79 employees. Our professional services providers have a broad range of experience in network security and include mathematicians, cryptographers and system designers.

Our professional services organization provides consulting and systems integration services to support customers in designing, implementing and running our PKI solutions. Activities of the professional services organization are supplemented with a professional services partner program that includes PricewaterhouseCoopers, Ernst & Young, and KPMG. To facilitate the integration of PKI management into the customer's business operations, we also offer our Entrust InSource service, in which we provide on-site PKI management for customers on a long-term basis, or while the customer implements and trains personnel.

Our support offerings also include direct telephone consulting support by experienced technical account representatives, toll-free telephone customer support, 24-hour pager access, e-mail and fax support, Internet access to our knowledge repository, and discussion group access. Payment of an annual maintenance fee also entitles customers to receive software enhancements to their licensed versions of our solution.

#### Research and Development

Our research and development efforts are focused on developing new products, core technologies and enhancements to existing product lines to maintain and extend our technology and product leadership position. We spent approximately \$2.9 million, \$5.7 million and \$12.8 million on research and development in 1996, 1997 and 1998, respectively.

As of December 31, 1998, our research and development staff consisted of 160 employees, several of whom have international reputations in their respective disciplines. With the addition of R3, we have added significant research and development capabilities in Europe, including an internationally recognized cryptographic team.

Our research and development staff is active in several prominent standards-setting bodies, including IETF, ANSI, the Internet PKIX group and ISO, and has contributed to a number of standards in the Internet and data security areas. We believe that we are well situated to respond to changes in relevant industry standards and to continue to participate in the development of these standards as the requirements of enterprises and users become increasingly complex.

#### Customers

Our customers are generally domestic and foreign government entities and Global 2000 companies, including financial, health care, telecommunications and large manufacturing organizations. As of December 31, 1998, we had licensed our software to more than 500 customers. The following is a representative list of our current customers that have accounted for more than \$200,000 of revenues

each:

<TABLE>		
<S>	<C>	<C>
Banco Nazionale di LAVORNO	Government of Ontario	Royal Canadian Mounted Police
Bell Emergis	Industry Canada	SECOM
Canadian Dept. of National Defense	Interpay	S.W.I.F.T.
Citibank	J.P. Morgan	Schlumberger
Columbia/HCA Healthcare Corporation	Kansas Bureau of Investigation	Science Applications International
Digital Medical Systems	Lucent Technologies	United Kingdom Post Office
FDIC	Nortel	U.S. Coast Guard
Federal Express	Royal Bank of Scotland	U.S. Postal Service
</TABLE>		

Historically, a limited number of customers have accounted for a significant percentage of our revenues. In 1995, two customers accounted for 53% and 18% of revenues, respectively. In 1996, three customers accounted for an aggregate of 64% of revenues, and 29%, 20% and 15% of revenues, respectively. In 1997, the three largest customers accounted for 19%, 12% and 11% of revenues, respectively. In 1998, the three largest customers accounted for 23% of total revenues for the year, with no individual customer accounting for 10% or more of revenues. Although our

10

<PAGE>

largest customers have varied from period to period, we anticipate that our results of operations in any given period will continue to depend to a significant extent upon revenues from a small number of customers.

#### Sales, Marketing and Business Development

We offer our products and services through a multi-tiered approach reflecting the characteristics and buying behavior of the markets we cover. As of December 31, 1998, we had 158 employees in sales, marketing and business development.

##### Direct Sales

To address our target market of Global 2000 organizations, we sell our products and services in North America, the United Kingdom and Germany primarily through a direct sales force. We believe that direct coverage by our sales force is necessary in light of the early stage of PKI adoption and the sophisticated requirements of our targeted customer base. We also believe that a direct sales force gives us a competitive advantage in responding to customer needs as they evolve. Our direct sales force is divided into five North American regions, the United Kingdom and Germany. Within each region, teams are assigned specific accounts as their exclusive responsibility. We have also focused our sales efforts on key vertical markets that have a critical need for security and understand the value it creates for their businesses. These markets include government, finance, health care, telecommunications and large manufacturing.

We have established a General Markets Sales Group responsible for pursuing identified customer opportunities outside the defined responsibilities of the regional sales teams and accelerating the sales cycle. The direct sales organization is also supplemented by targeted direct mail and telemarketing campaigns developed by our marketing organization.

##### Indirect Sales

To supplement our direct sales force, we have established an Entrust Partner Program involving a range of technology, marketing and sales relationships including:

- . VAR and OEM partners that focus on creating bundled solutions to permit customers to purchase total desktop applications incorporating Entrust functionality. These partners include Compaq, Hewlett-Packard, IBM and Tandem, which resell our products with their hardware and networking solutions, as well as Check Point Software and Symantec, which plan to bundle the Company's PKI solutions with their own software products.
- . Interoperability partners such as Cisco, Shiva, Netscape and Lotus Development, which offer products that utilize the security features of the Entrust PKI solution.

- . Consultant and systems integration partners that recommend and implement Entrust-Ready security solutions as part of their overall service offerings to customers, thereby differentiating their offerings through the inclusion of PKI functionality. These partners include PricewaterhouseCoopers, Ernst & Young and KPMG.
- . Referral partners that refer their consulting and integration customers in designated markets to the Entrust PKI solution.
- . Distributors and agents that promote and sell our products in defined geographic markets.

#### Marketing

To support our sales force, we have a marketing group whose goals are to create a consistent, focused communication strategy that increases awareness of our PKI solution and brand name, and to leverage that awareness in the identification of new sales opportunities. The marketing group conducts marketing programs that include direct mail, trade shows, annual seminar series, executive breakfasts and ongoing customer communication programs. We have organized a number of major trade shows, including the Entrust SecureSummit '99 to be held in Orlando in June 1999. We also provide frequent Web updates, search engine registration, online advertising and product downloads. Our marketing personnel are dedicated to maximizing brand success and periodically evaluating our brand recognition.

11

&lt;PAGE&gt;

#### Business Development

To identify and develop strategic relationships with targeted industry partners more effectively, we have a business development organization of 26 persons that pursues selected business development activities, including the administration and promotion of our Entrust Partner Program. These activities permit us to strengthen our relationships with existing strategic partners and identify and encourage new providers of software, network, computing and communications products to make their products Entrust-Ready.

#### Competition

Our products are targeted at the new and rapidly evolving market for PKI solutions. Although the competitive environment in this market has yet to develop fully, we anticipate that it will be intensely competitive, subject to rapid change and significantly affected by new product and service introductions and other market activities by industry participants.

Because of the broad functionality of our PKI solution, we compete with vendors offering a wide range of security products and services. We compete with companies offering commercial certification authority products and services such as VeriSign, GTE Cybertrust Solutions, XCert and IBM in the market for issuing and maintaining digital certificates for use on public and private networks. Certain of these companies, such as IBM and XCert, provide a product-based solution, while others, such as VeriSign and GTE Cybertrust Solutions, are primarily service providers. We also compete with companies, such as Baltimore Technologies of Ireland, which offer PKI product solutions for enterprises. In addition, we are competing with established companies developing new PKI offerings, such as Security Dynamics and Network Associates, which have each announced their intention to introduce PKI products that would be integrated with their other security product offerings, as well as Microsoft Corporation, which has announced a certificate server product based on its existing security framework in the near future. We expect that there will be additional entrants to this marketplace. In addition, other major networking vendors could, in the future, bundle digital certificates with their product offerings. We typically compete with these vendors and service providers on the basis of our ability to provide a centrally managed, real-time, comprehensive infrastructure with the features and functionality to support enterprise applications. In addition, we compete in the emerging market for providing security across VPNs with most major networking device companies, such as Ascend and Cisco, as well as firewall vendors such as AXENT (Raptor) and Check Point Software.

We believe that the principal competitive factors affecting the market for PKI technology include technical features, ease of use, quality/reliability, level of security, scalability, customer service and support and price. Although we believe that our products currently compete favorably with respect to such

factors, there can be no assurance that we can maintain our competitive position against current and potential competitors. See "Certain Factors That May Affect Our Business". Many of our current and potential competitors have longer operating histories, greater name recognition, larger installed bases and significantly greater financial, technical, marketing and sales resources than Entrust. As a result, they may be able to react more quickly to emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products than us. In addition, certain of our current competitors in particular segments of the security marketplace may in the future broaden or enhance their offerings to provide a more comprehensive solution competing more fully with our functionality. We may also compete in the future for sales of Entrust products against its OEM licensees, who resell the Entrust solution under their own brand names.

#### Regulatory Matters

Our products are subject to special export restrictions administered by the governments of the United States, Canada and other countries. Our products are also subject to import restrictions and/or use restrictions imposed by countries such as France. Consequently, our ability to export our products to destinations outside of the U.S. and Canada is subject to a variety of government approvals or licensing requirements. These export controls may also restrict our ability to make some products available for sale via international computer networks such as the Internet. Re-export of the products between countries other than the U.S. and Canada may be subject to the export control laws of those countries in addition to those provisions of the U.S. and/or Canadian export control laws which apply to re-exports. In light of these restrictions, depending on the country of destination, industry sector, and/or end-user, some of our products made available abroad may contain significantly weaker encryption capabilities than those available to customers in the U.S. and Canada, and there can be no assurance that we will continue to be able to export our products to any destinations outside of the U.S. and Canada. Such restrictions could potentially have an adverse effect on our business, financial condition or results of operations. See "Certain Factors That May Affect Our Business."

12

&lt;PAGE&gt;

Under an interim rule published December 31, 1998, the U.S. Government revamped export regulations that apply to products that contain or use cryptography. All software products that use 56-bit or less key length for symmetric encryption are allowed to be exported to any country other than Cuba, Iran, Iraq, Libya, North Korea, Sudan and Syria (T7 countries) after a technical review. Products that use keys of greater than 56-bit strength and comply with a Key Management Infrastructure exemption and with a key recoverable product definition can obtain more favorable export consideration and an agreement to export to any country other than the T7. The U.S. Government has also defined four sectors that allow for the exportation of greater than 56-bit strength products which are not key recoverable under a License Exception: U.S. subsidiaries in any country except the T7, banks, financial institutions and insurance companies, health and medical companies, and on-line merchants in 46 countries (Supplement 3 countries). A one-time technical review or prior licensing is required to utilize the License Exception. Entrust has obtained an Export Licensing Arrangement which will allow the export of the PKI Infrastructure, Direct, and ICE to the four sectors under the License Exception and an application has been submitted for the rest of our products which, if approved, will allow them to also be exported under the License Exception. If a broad category for export licensing does not apply to a specific situation, a case by case export permit is required.

Under the current U.S. government policy, U.S. encryption export controls do not apply to encryption products which meet all of the following criteria: (i) are produced and exported from outside of the U.S.; (ii) do not contain U.S.-origin encryption technologies, unless such technologies are "publicly available"; (iii) do not contain U.S.-origin encryption source code, unless such source code is publicly available and obtained in printed (i.e., "hard copy") form; (iv) are developed and produced without technical assistance from any U.S. person or entity; and (v) contain no more than a de minimis amount of U.S.-origin non-encryption software or technology. We believe, and have informed the U.S. government, that certain of our products are exempt from U.S. encryption export restrictions under these criteria. However, we have not obtained any formal U.S. government ruling that any of our products produced and shipped from outside the U.S. may be exempt from U.S. encryption export controls, and there can be no assurance that the U.S. government will refrain from asserting jurisdiction over one or more of our products. Such a decision by the U.S.

government to assert jurisdiction could result in penalties for past shipments and could restrict future sales of our products outside the U.S. and Canada, having a potentially significant adverse effect on our business, financial condition and results of operations.

#### Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws, nondisclosure agreements and other contractual provisions to establish, maintain and protect our proprietary rights. We own eight issued U.S. patents (along with corresponding, pending foreign patent applications) and 40 pending U.S. patent applications relating to the Entrust products. These patents are and will continue to be subject to certain license grants to others, including Northern Telecom and its cross licensees, under patent cross license agreements. We have copyright and trade secret rights for our products, consisting mainly of source code and product documentation. We use a printed "shrink-wrap" license for users of our products in order to protect certain of our copyrights and trade secrets. We attempt to protect our trade secrets and other proprietary information through agreements with suppliers, non-disclosure and non-competition agreements with employees and consultants and other security measures.

There can be no assurance that we will seek patents on our technology or products, that any such patents will be issued or that any such additional patents will be sufficiently broad to protect our technology or products. The status of computer-related patents involves complex legal and factual questions and the breadth of claims allowed is uncertain. Accordingly, there can be no assurance that patent applications which we file will result in patents being issued or that our existing patents, and any patents that may be issued to us in the future, will afford protection against competitors with similar technology, nor can there be any assurance that patents issued to us will not be infringed upon or designed around by others or that others will not obtain patents that we would need to license or design around. If existing or future patents containing broad claims are upheld by the courts, the holders of such patents might be in a position to require companies to obtain licenses. There can be no assurance that licenses that might be required for our products would be available on reasonable terms, if at all.

We rely on outside licensors, including RSA, for patent and/or software license rights in encryption technology that is incorporated into and is necessary for the operation of our products. Our success will depend in part on our continued ability to have access to such technologies that are or may become important to the functionality of our products. Any inability to continue to procure or use such technology could have a significant adverse effect on our business, financial condition and results of operations.

13

&lt;PAGE&gt;

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult, and while we are unable to determine the extent to which piracy of our software products exists, such piracy can be expected to be a persistent problem, particularly in international markets and as a result of the growing use of the Internet. Some courts have held that shrink-wrap licenses, because they are not signed by the licensee, are not enforceable. There can also be no assurance that our trade secrets or confidentiality agreements will provide meaningful protection of our proprietary information. Furthermore, there can be no assurance that others will not independently develop similar technologies or duplicate any technology developed by us or that our technology will not infringe upon patents of other rights owned by others. Our inability to protect our proprietary rights could have a significant adverse effect on our business, financial condition or results of operations.

As the number of information security products in the industry increases and the functionality of these products further overlaps, software developers and publishers may increasingly become subject to claims of infringement or misappropriation of the intellectual property or proprietary right of others. There can be no assurance that third parties will not assert infringement or misappropriation claims against us in the future with respect to current or future products. Further, we may be subject to additional risk as we enter into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protections of our rights may be ineffective in such countries, and technology developed in such countries may

not be protectable in jurisdictions where protection is ordinarily available.

Any claims or litigation, with or without merit, to defend or enforce our intellectual property could be costly and could result in a diversion of management's attention, which could have a significant adverse effect on our business, financial condition or results of operations. Adverse determinations in such claims or litigation could also have a significant adverse effect on our business, financial condition or results of operations.

#### Employees

As of December 31, 1998, Entrust had 456 full-time employees, 324 of whom were employed by Entrust Technologies Limited, our Canadian subsidiary. Of our employees, 160 were involved in research and development, 158 in sales, marketing and business development, 79 in professional and customer support services and 59 in administration and finance. No employees are covered by any collective bargaining agreements, and we believe that our relationship with our employees is good. The future success of Entrust, however, will depend upon our ability to attract and retain qualified personnel. Competition for such personnel is often intense, and there can be no assurance that we will be able to attract and retain adequate numbers of qualified personnel in the future.

#### CORPORATE INFORMATION

##### STOCKHOLDER INFORMATION

American Securities Transfer and Trust Inc.  
1825 Lawrence Street, Suite 444  
Denver, CO 80202-1817  
Phone: 303-298-5370  
Fax: 303-298-5380

##### LEGAL COUNSEL

Hale & Dorr LLP  
60 State Street  
Boston, Massachusetts 02109

##### INDEPENDENT AUDITORS

Deloitte & Touche LLP  
2200 Ross Avenue  
Suite 1600  
Dallas, Texas 75201

##### FOR MORE INFORMATION

Please contact Entrust Technologies' Investor Relations Department at:  
Phone: 613-248-3200  
E-mail: [investor@entrust.com](mailto:investor@entrust.com)  
-----

#### ITEM 2. PROPERTIES

Entrust's U.S. headquarters, including its executive offices and administrative facilities, is located in Plano, Texas, where it leases approximately 8,716 square feet of office space. We also lease approximately 69,000 square feet of office space at our Canadian headquarters in Ottawa, Ontario, Canada, with an additional 29,149 square feet of office space in the Ottawa area to accommodate expected growth in administrative, sales and marketing, research and development and operations personnel. Entrust also has offices located in London, England and Zurich, Switzerland.

We also have sales offices in Chicago, Illinois, McLean, Virginia, New York, New York and St. Louis, Missouri, a sales and business development office in Menlo Park, California and a sales and professional services office in Raleigh, North Carolina. Entrust leases a sales and support office in Bad Homburg, Germany.

#### ITEM 3. LEGAL PROCEEDINGS

Entrust is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a significant adverse effect on our consolidated results of operations or consolidated financial position.

On February 19, 1999, Surety Technologies Inc. and Bell Communications



Research, Inc. filed a complaint against Entrust Technologies Inc. in the United States District Court for the Eastern District of Virginia alleging that the Entrust/Timestamp product and services infringe U.S. Patent No. 5,136,647 (reissued as Re 34,954). The plaintiffs have requested that Entrust be enjoined from further infringement and pay damages for infringement, treble

14

&lt;PAGE&gt;

damages for willful infringement and costs. We believe that the allegations are without merit and intend to vigorously defend the lawsuit.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our shareholders during the fourth quarter of 1998.

#### EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT

The executive officers and directors of Entrust, their ages and positions are as follows:

<TABLE>  
<CAPTION>

NAME	AGE	POSITION
----	---	-----
<S>	<C>	<C>
John A. Ryan	42	President, Chief Executive Officer and Director
Brian O'Higgins	42	Executive Vice President and Chief Technology Officer
Bradley N. Ross	39	President of European Operations
Michele L. Axelson	49	Senior Vice President, Finance and Chief Financial Officer
Richard D. Spurr	45	Senior Vice President, Sales And Marketing
Hansen Downer	47	Vice President, Professional Services
F. William Conner	40	Director, Chairman of the Board
Frank A. Dunn	44	Director
Robert S. Morris	43	Director
Terrell B. Jones	50	Director

</TABLE>

John A. Ryan has served as President and Chief Executive Officer and as a director of Entrust since its founding in December 1996. From October 1995 until December 1996 he served as the Vice President and General Manager for the Multimedia and Internet Solutions business unit of Northern Telecom (together with its subsidiaries and affiliates, "Nortel"). Prior to that time, from August 1992 until October 1995, he served as Assistant Vice President, Marketing for the Enterprise Network group of Nortel. Since joining Nortel in 1981, he has also served in various senior positions in marketing, customer service and finance.

Brian O'Higgins has served as Executive Vice President and Chief Technology Officer of Entrust since its founding in December 1996. Mr. O'Higgins co-founded the Nortel Secure Networks ("NSN") business unit in 1994, which became Entrust Technologies Inc. in December 1996. Previously, he was employed by Bell Northern Research Ltd. ("BNR"), the research and development subsidiary of Northern Telecom Limited, which he joined in 1979.

Bradley N. Ross has served as President of European Operations since March 1998. From December 1996 until March 1998, he served as Entrust's Executive Vice President Marketing and Product Line Management. Mr. Ross co-founded NSN in 1994 with Mr. O'Higgins, which became Entrust Technologies Inc. in December 1996. Previously, he was employed by BNR, which he joined in 1982 and held various positions in software design and program management for Nortel's switching products.

Michele L. Axelson has served as Senior Vice President, Finance and Chief Financial Officer since joining Entrust in May 1998. From June 1996 until May 1998, she served as the Senior Vice President and Chief Financial Officer for Scopus Technologies Inc., an enterprise customer care software company. Prior to that time, from 1979 until June 1996, Ms. Axelson held various positions at Arthur Andersen LLP, an international public accounting firm, and was a partner of that firm from 1989 until June 1996.

Richard D. Spurr has served as Senior Vice President, Sales and Marketing of Entrust since March 1998. Prior to that time, he served as Senior Vice President of Global Sales since joining Entrust in June 1997. Prior to joining

Entrust, from December 1990 to March 1997, he held numerous executive positions for SEER Technologies, Inc., a developer of component-based software applications, including Vice President of Strategic Alliances from January 1994 to November 1996 and Vice President of Major Accounts from December 1996 to March 1997. From June 1974 until December 1990, Mr. Spurr served in various sales and sales management positions with IBM.

Hansen Downer has served as Vice President, Professional Services since he joined Entrust in December 1997. From February 1997 to November 1997, Mr. Downer served as Vice President of Sales, Marketing and New Product Development at Interpath Communications, Inc., an Internet service provider. From March 1996 until August 1996, Mr. Downer served as Vice President of Customer Service and Telecom Network Design for the Physician's Desktop Company, a network development company and a subsidiary of Imonics Corporation. From May 1995 until March 1996, Mr. Downer served as Vice President of Business Development at Imonics Corporation, a client server systems integration company focused on the health care industry. Prior to that time, from 1979 to December 1994, he worked for Nortel in a number of roles.

15

&lt;PAGE&gt;

Each executive officer serves at the discretion of the Board of Directors and holds office until his or her successor is elected and qualified or until his or her earlier resignation or removal. There are no family relationships among any of the directors or executive officers of Entrust.

F. William Conner has been a director of Entrust since July 1997 and Chairman of the Board since October 1998. He has served as Executive Vice President of Nortel Network Corporate Marketing and Communications since September 1998. Mr Conner served as Senior Vice President and President of Nortel's Enterprise Data Networks line of business from February 1998 until September 1998. From August 1995 until February 1998, Mr Conner served as Executive Vice President, Sales and Marketing for the Enterprise Networks line of business of Nortel. Prior to that time, from 1992 until July 1995, Mr. Conner held a variety of sales and marketing executive positions in Nortel's voice and data enterprise lines of businesses.

Frank A. Dunn has been a director of Entrust since July 1997. He has served as Chief Financial Officer of Nortel Networks since January 1999. Mr Dunn served as the Senior Vice President of Finance and Planning of Nortel from March 1996 to January 1999. From January 1994 until March 1996, Mr Dunn served as Vice President of Finance for Nortel's North American lines of business, a management division within Northern Telecom Limited ("NTL"). Prior to that time, from March 1993 until January 1994, Mr Dunn served as NTL's Corporate Controller.

Robert S. Morris has been a director of Entrust since January 1997. Mr Morris founded Olympus Partners, a private investment firm, in 1989 and serves as Managing Partner of Olympus Private Placement Fund L.P., Olympus Growth Fund II, L.P., Olympus Executive Fund. L.P. and Olympus Growth Fund III, L.P. Mr Morris serves on the boards of directors of TriNet Corporate Realty Trust, Inc. and Candlewood Hotel Company. Inc.

Terrell B. Jones has been a director of Entrust since November 1998. He has served as Chief Information Officer and Senior Vice President of the SABRE Group Holdings, Inc., an information technology company, as well as President of SABRE Interactive since July 1996. He previously served as President of SABRE computer Services for American Airlines from 1993 to 1996.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Entrust's common stock is traded on the Nasdaq National Market under the symbol "ENTU". Prior to August 17, 1998, the date of our initial public offering, there was no public market for our common stock. Following the initial public offering, the following high and low sales prices were reported by the Nasdaq National Market in each quarter:

<TABLE>  
<CAPTION>

Year Ended December 31, 1998	High	Low
-----	----	----
<S>	<C>	<C>

Third Quarter (beginning August 18, 1998).....	\$20.00	\$13.25
Fourth Quarter.....	\$28.19	\$ 9.00

&lt;/TABLE&gt;

As of March 23, 1999, Entrust had approximately 131 holders of record of common stock. Because many of these shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these holders of record.

Entrust has never declared or paid any cash dividends on its capital stock and does not expect to pay any such dividends in the foreseeable future.

#### Use of Proceeds

On August 21, 1998, Entrust completed an initial public offering of its Common stock, \$.01 par value (the "Offering"). The Registration Statement on Form S-1 (File No. 333-57275) was declared effective by the Securities and Exchange Commission (the "SEC") on August 17, 1998 and we commenced the offering on that date.

After deducting the underwriting discounts and commissions and the Offering expenses, the net proceeds to Entrust from the Offering were approximately \$79,097,515.

As of December 31, 1998, approximately \$2,000,000 of the net proceeds of the Offering had been used to fund working capital and expansion of Entrust's facilities, with the remainder having been invested in short-term, interest-bearing, investment grade securities. The entire amount of the net proceeds has been allocated for general corporate purposes and working capital, including product development and the possible acquisition of additional businesses and technologies that are complementary to our current or future business. None of the proceed amounts were paid directly or indirectly to any director, officer, or general partner of Entrust or their associates, persons owning 10 percent or more of any class of equity securities of Entrust, or an affiliate of Entrust.

#### ITEM 6. SELECTED FINANCIAL DATA

The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Result of Operations" and Entrust's Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K.

16

&lt;PAGE&gt;

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1994	1995	1996	1997	1998
	(in thousands, except per share data)				
	(1)	(1)	(1)	<C>	<C>
	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Revenues:					
License.....	\$1,194	\$ 1,845	\$ 8,689	\$16,486	\$ 36,773
Services and maintenance.....	2,687	2,128	4,113	8,520	12,215
Total revenues.....	3,881	3,973	12,802	25,006	48,988
Cost of revenues:					
License.....	6	34	393	502	1,985
Services and maintenance.....	1,179	950	3,157	4,414	7,546
Total cost of revenues.....	1,185	984	3,550	4,916	9,531
Gross profit.....	2,696	2,989	9,252	20,090	39,457
Operating expenses:					
Sales and marketing.....	1,083	1,914	3,858	11,193	26,802
Research and development.....	898	2,287	2,874	5,692	12,840
General and administrative.....	688	1,212	2,464	3,695	5,046
Acquired in-process R&D and goodwill amortization.....	--	--	--	--	20,564

Total operating expenses.....	2,669	5,413	9,196	20,580	65,252
Income (loss) from operations.....	27	(2,424)	56	(490)	(25,795)
Interest income.....	--	--	--	723	1,807
Income (loss) before benefit for income taxes.....	27	(2,424)	56	233	(23,988)
Benefit for income taxes.....	111	301	331	281	160
Net income (loss).....	\$ 138	\$(2,123)	\$ 387	\$ 514	\$(23,828)
Net income (loss) per basic share(2).....				\$0.02	\$(0.68)
Net income (loss) per diluted share(2).....				\$0.01	\$(0.68)
Shares used in basic per share computation(2).....				30,700	35,255
Shares used in diluted per share computation(2).....				41,743	35,255

&lt;CAPTION&gt;

	DECEMBER 31,				
	1994	1995	1996	1997	1998
	(in thousands)				
BALANCE SHEET DATA:					
<S>	<C>	<C>	<C>	<C>	<C>
Cash, cash equivalents and short-term investments.....	\$ --	\$ --	\$ --	\$12,638	\$ 81,067
Working capital (deficit).....	1,831	1,016	(1,186)	13,707	77,438
Total assets.....	2,231	2,190	3,687	24,757	107,829
Shareholders' equity (deficit).....	2,095	1,672	(60)	14,662	87,059

- (1) Represents the operations of the Secure Networks group, a division of Northern Telecom Limited. See Note 1 of Notes to Entrust's Consolidated Financial Statements.
- (2) See Note 2 of Notes to Entrust's Consolidated Financial Statements for the calculation of basic and diluted net income per share.

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### Overview

Entrust develops, markets and sells products and services that allow enterprises to manage trusted, secure electronic communications and transactions over today's advanced networks, including the Internet, extranets and intranets. Our solution automates the management of digital certificates, which are similar to electronic passports, through public key infrastructure ("PKI") technology designed to assure the privacy and authenticity of internal and external electronic communications. The Entrust PKI is an integrated, open and scalable software framework that operates across multiple platforms, network devices and applications, including e-mail, browsers, electronic commerce, electronic forms, remote access and other product offerings from leading vendors.

We were originally established in January 1994 as the Secure Networks group of Nortel to pursue the development and sale of PKI products. During December 1996, Nortel restructured its Secure Networks group by incorporating Entrust Technologies Inc. in Maryland and Entrust Technologies Limited in Ontario, Canada. As a result of the restructuring and concurrent private placement, the assets and business of the Secure Networks group were transferred to the newly incorporated companies, and Entrust Technologies Inc. became a majority-owned subsidiary of Nortel and Entrust Technologies Limited became a majority-owned subsidiary of Entrust Technologies Inc. In 1998, Entrust Technologies (UK) Limited was incorporated in the United Kingdom as a wholly-

17

&lt;PAGE&gt;

owned subsidiary of Entrust Technologies Inc. In June 1998, Entrust Technologies Inc. acquired 100% ownership of r3 Security Engineering AG, a professional services organization specializing in electronic security consulting, located in Switzerland. Entrust Technologies Inc. completed an initial public offering of Common stock in August 1998.

## Results of Operations

The following table sets forth certain consolidated statement of operations data expressed as a percentage of total revenues for the years indicated:

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Year Ended December 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
Revenues:			
License.....	67.9%	65.9%	75.1%
Services and maintenance.....	32.1	34.1	24.9
Total revenues.....	100.0	100.0	100.0
Cost of revenues:			
License.....	3.0	2.0	4.1
Services and maintenance.....	24.7	17.7	15.4
Total cost of revenues.....	27.7	19.7	19.5
Gross profit.....	72.3	80.3	80.5
Operating expenses:			
Sales and marketing.....	30.1	44.8	54.7
Research and development.....	22.4	22.7	26.2
General and administrative.....	19.3	14.7	10.3
Acquired in-process R&D and goodwill amortization.....	-	-	42.0
Total operating expenses.....	71.8	82.2	133.2
Income (loss) from operations.....	0.5	(1.9)	(52.7)
Interest income.....	-	2.9	3.7
Income (loss) before benefit for income taxes.....	0.5	1.0	(49.0)
Benefit for income taxes.....	2.5	1.1	0.3
Net income (loss).....	3.0%	2.1%	(48.7)%

&lt;/TABLE&gt;

## Revenues

We recognize revenues in accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position ("SOP") 97-2 "Software Revenue Recognition." Our revenues are generated primarily from licensing the rights to our software products to end-users and, to a lesser extent, from sublicense fees charged to resellers. We also generate revenues from consulting, training and post-contract support ("maintenance") performed for customers who license our products. Prior to 1998, our revenue recognition policy was in accordance with the provisions of the previous authoritative guidance provided by SOP 91-1, "Software Revenue Recognition."

Accordingly, revenues from perpetual software license agreements are recognized as revenues upon receipt of an executed license agreement, or an unconditional order under an existing license agreement, and shipment of the software, if there are no significant remaining vendor obligations and collection of the receivable is probable.

Revenues from maintenance services are recognized ratably over the term of the maintenance period, which is typically one year. If maintenance services are included free of charge or discounted in a license agreement, such amounts are unbundled from the license fee at their fair market value based upon the value established by independent sales of such maintenance services to customers.

We use the percentage of completion method to account for large custom development contracts. Under this method, we recognize revenues and profit as the work on the contract progresses. Revenues are recognized by applying the percentage of the total cost incurred to date divided by the total estimated

contract cost to the total contract value, and any projected loss is recognized immediately. Total project cost estimates in each case are reviewed on a regular basis.

Consulting and training revenues are generally recognized as the services are performed. Consulting services are typically performed under separate service agreements and are usually performed on a time and materials basis. Such services primarily consist of implementation services related to the installation and deployment of our products and do not include significant customization or development of the underlying software code.

18

&lt;PAGE&gt;

#### Total Revenues

Total revenues increased 95% from \$12.8 million in 1996 to \$25.0 million in 1997 and increased 96% to \$49.0 million in 1998. Geographically, revenues derived from sales outside North America accounted for 4%, 5% and 23% of total revenues for the years ended December 31, 1996, 1997 and 1998, respectively. We have invested significantly in expanding our international operations in 1998 through the acquisition of r3 Security Engineering AG ("r3"), the formation of Entrust Japan, and the hiring of additional sales and marketing personnel. In 1996, three customers accounted for an aggregate of 64% of revenues for that year, and individually these customers accounted for 29%, 20% and 15% of revenues, respectively. In 1997, three customers individually accounted for 19%, 12% and 11% of revenues, respectively. In 1998, no single customer accounted for 10% or more of total revenues.

There can be no assurance that total revenues will continue to grow at the rate experienced in prior periods.

#### License Revenues

License revenues increased 90% from \$8.7 million in 1996 to \$16.5 million in 1997 and increased 123% to \$36.8 million in 1998, representing 68%, 66% and 75% of total revenues in the respective years. The increase in license revenues in absolute dollars was primarily due to increasing market awareness and acceptance of our product offerings. During 1998, we continued our strategy of expanding our direct sales and marketing organization while focusing on targeted customers and vertical market segments. This strategy was successful in increasing sales in the Financial, Telecom, Manufacturing and Healthcare market segments. Sales to the Government market segment remained strong despite decreasing as a percentage of total license revenues. The increase in license revenues as a percentage of total revenues reflected our continued focus on the product side of the business and the increased use of third-party consulting firms and systems integrators to provide implementation services to our customers.

#### Services and Maintenance Revenues

Services and maintenance revenues increased 107% from \$4.1 million in 1996 to \$8.5 million in 1997 and increased 44% to \$12.2 million in 1998, representing 32%, 34% and 25% of total revenues in the respective periods. The increase in services and maintenance revenues was primarily the result of an increase in demand for consulting services and customer support, and increases in maintenance revenues from a larger installed product base. The decrease in services and maintenance revenues as a percentage of total revenues was largely due to our focus on building the product side of the business and building successful partnering relationships with third-party service providers to provide services to customers.

#### Cost of Revenues

##### Cost of License Revenues

Cost of license revenues consists primarily of costs associated with product media, documentation, packaging and royalties to third-party software vendors. Cost of license revenues was \$393,000 in 1996, \$502,000 in 1997, and \$2.0 million in 1998, representing 3%, 2% and 4% of total revenues for the respective years. The increase in cost of license revenues in absolute dollars for 1998 and 1997 was primarily a result of higher royalty fees paid to third-party software vendors. We have incorporated a higher level of third-party software in our products, primarily in the Enterprise Desktop Suite applications introduced in 1998.

#### Cost of Services and Maintenance Revenues

Cost of services and maintenance revenues consists primarily of personnel costs associated with customer support, training and consulting services, as well as costs paid to third party consulting firms for their services. Cost of services and maintenance revenues was \$3.2 million in 1996, \$4.4 million in 1997 and \$7.5 million in 1998, representing 25%, 18% and 15% of total revenues for the respective years. The increase in absolute dollars reflects the increased costs associated with the higher levels of services and maintenance revenues during 1998 and 1997. The decrease as a percentage of total revenues was primarily a result of license revenues growing more rapidly than service and maintenance revenues. The higher percentage of cost of services and maintenance revenues as a percentage of total cost of revenues in 1997 and 1996 (79% in 1998 compared to 90% in 1997 and 89% in 1996) reflected the cost of hardware components related to system integration arrangements during those years. We did not have a significant hardware component of our system integration arrangements in 1998.

19

&lt;PAGE&gt;

Services and maintenance gross profit as a percentage of services and maintenance revenues was 48% in 1997 and 38% for 1998. This decrease in the services and maintenance margin reflected the investment made during 1998 in expanding our customer support organization to support the growing customer base and the impact on productivity related to the integration of the r3 consulting organization during the third and fourth quarters of 1998. Also, investments were made in building our consulting organization in order to prepare for expected future increases in demand for these services. Therefore, utilization rates experienced in 1998 were not comparable to previous years and not necessarily indicative of future years.

#### Operating Expenses

##### Sales and Marketing

Sales and marketing expenses increased from \$3.9 million in 1996 to \$11.2 million in 1997 and \$26.8 million in 1998, representing 30%, 45% and 55% of total revenues in the respective periods. These increases in absolute dollars and as a percentage of total revenues were primarily the result of costs associated with the expansion of our sales and marketing organization to support increased revenue targets, both domestically and internationally. We have continued our strategy of investing in hiring and training our direct sales organization in anticipation of future market growth, and investing in marketing efforts in support of new products launches. Failure of these investments to generate future revenues could have a significant adverse effect on our operations.

##### Research and Development

Research and development expenses increased from \$2.9 million in 1996 to \$5.7 million in 1997 and \$12.8 million in 1998, representing 22%, 23% and 26% of total revenues in the respective periods. The increased investment in research and development expenses in absolute dollars and as a percentage of total revenues in 1997 and 1998 primarily reflected higher expenses related to increased staffing of software engineers and contractors. These employees were added in connection with the continuing expansion and enhancement of our product offerings and our commitment to quality assurance and testing. In addition, the acquisition of r3 in June 1998 increased the size of our global research and development team. We believe we must continue to invest in research and development in order to maintain our technological leadership position and, thus, we expect research and development expenses to continue to increase in absolute dollars as we hire additional experienced security experts and software engineers.

In accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed", we have evaluated the establishment of technological feasibility of our various products during the development phase. The time period during which costs could be capitalized from the point of reaching technological feasibility, which has been defined as development of a beta model, until the time of general product release is very short and, consequently, the amounts that could be capitalized are not material to our financial position or results of operations. Therefore, we charged all product development expenses to operations in the

period incurred.

#### General and Administrative

General and administrative expenses increased from \$2.5 million in 1996 to \$3.7 million in 1997 and \$5.0 million in 1998, representing 19%, 15% and 10% of total revenues in the respective periods. The increase in general and administrative expenses in absolute dollars reflected our continued investment in increased staffing and related expenses to enhance the infrastructure required to support our growth, including investor relation programs, improved management information systems and support and outside professional service firms.

#### Acquired In-process Research and Development and Goodwill Amortization

On June 8, 1998, we completed the acquisition of r3, a company based in Zurich, Switzerland that provides consulting, applied research and product development services related to commercial security and encryption solutions. Pursuant to the Share Purchase Agreements dated May 30, 1998, entered into between us and the shareholders of r3, we agreed to acquire all the outstanding shares of r3 in exchange for an aggregate of 1,167,288 shares of our Common stock and cash consideration of approximately \$4.4 million. This acquisition was recorded under the purchase method of accounting, and, therefore, the results of operations of r3 and the fair value of the acquired assets and liabilities are included in our financial statements beginning on the acquisition date. Upon consummation of the acquisition, r3 became a wholly owned subsidiary of Entrust Technologies Inc.

20

<PAGE>

In connection with the acquisition, we obtained an appraisal of the intangible assets, which resulted in \$20.2 million of the purchase price being allocated to in-process research and development that has not yet reached technological feasibility and has no alternative future use, which was expensed in the year ended December 31, 1998. In addition, \$356,000 of amortization has been recorded with respect to the goodwill that arose as a result of this acquisition in 1998.

The value assigned to purchased in-process technology was determined by identifying research and development projects in areas for which technological feasibility has not yet been established. This relates primarily to the completion of a suite of encryption and security applications (the "r3 Suite"). The value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects and discounting the net cash flows back to their present value.

The nature of the efforts to develop the purchased in-process technology into commercially viable products relate to the completion of all planning, designing, prototyping, security testing and verification activities that are necessary to ensure that the r3 Suite is produced to meet design specifications, including functions, features and technical performance requirements. The efforts to develop the purchased in-process technology also include verifying the technology's compatibility and interoperability with other applications. The estimated cost for completion of this activity is approximately \$2.3 million in 1998, \$3.2 million in 1999, \$3.7 million in 2000 and \$2.9 million in 2001. However, these estimates are subject to change, given the uncertainties of the development process, and no assurance can be given that deviations from these estimates will not occur.

The revenue forecasts used to value the in-process research and development are based on our estimates of market size and growth, expected trends in technology (such as new encryption and security algorithms) and the nature and expected timing of new product introductions by us and our competitors. Historically, r3 has generated revenues from consulting engagements and future revenue growth is almost entirely dependent upon the in-process projects. The estimated revenues for the in-process projects peak in 2002 and then decline rapidly as other new products are expected to enter the market. If these projects are not successfully developed, the sales and profitability of the combined company may be adversely affected in future periods.

The estimated cost of sales as a percentage of revenues used in the valuation decrease over time primarily due to the strategic shift from consulting revenues to product revenues and r3's expected ability to achieve



efficiencies due to economies of scale. As a result of the shift in strategy, the estimated cost of sales as a percentage of revenues is expected to decrease from 80% in 1998 to 20% in 2002, once we have successfully introduced the in-process products.

The estimated selling, general and administrative expenses are expected to increase as r3's business model shifts from consulting to product-based revenues. Selling, general and administrative expenses are expected to significantly increase between 1998 and 2000 as we must create the necessary sales infrastructure to successfully accomplish our strategic shift.

r3's margins for earnings before interest and taxes ("EBIT") are projected to increase as we introduce our in-process products and as revenues increase, EBIT margins were negative in 1998, due primarily to significant investment in the research and developmental projects. As revenues grow, we are expecting to achieve efficiencies due to economies of scale, and EBIT margins are projected to increase.

The rates utilized to discount the net cash flows back to their present value are based on several studies of venture capital rates of return. Because of the nature of the forecast and the risks associated with the developmental projects, a discount rate of 40% was appropriate for the business enterprise and the in-process projects. This discount rate is commensurate with r3's stage of development; the uncertainties in the economic estimates described above; the inherent uncertainty surrounding the successful development of the purchased in-process technology; the useful life of such technology; the profitability levels of such technology and the uncertainty of technological advances that are unknown at this time.

The combined company is expected to benefit from the favorable reputations of Entrust in the North American encryption and securities market and r3's favorable reputation in the European market. Additionally, the combined company is expected to benefit from the utilization and integration of Entrust's technology, marketing and financial resources.

21

&lt;PAGE&gt;

The forecasts we used in valuing in-process research and development were based upon assumptions we believe to be reasonable but which are inherently uncertain and unpredictable. Our assumptions may be incomplete or inaccurate, and unanticipated events and circumstances are likely to occur. For these reasons, actual results may vary from the results forecasted.

#### Interest Income

Interest income increased to \$723,000 in 1997 and \$1.8 million in 1998, representing 3% and 4% of total revenues in the respective periods. Interest income was not significant in 1996. The increase in interest income in 1998 reflected the interest earned on the net proceeds of the initial public offering in August 1998, while the increase in interest income in 1997 represented interest earned on the net proceeds of the private placement of shares in January 1997.

#### Provision for Income Taxes

We have recorded income tax benefits of \$331,000, \$281,000 and \$160,000 in 1996, 1997 and 1998, respectively. Income taxes are accounted for in accordance with Statement of Accounting Standards No. 109. The effective income tax rates differed from the statutory rates primarily due to the impact of the Canadian research and development tax credits claimed.

#### Quarterly Results of Operations

Our quarterly operating results have varied substantially in the past and are likely to vary substantially from quarter to quarter in the future due to a variety of factors. In particular, our period-to-period operating results are significantly dependent upon the completion date of large license agreements. In this regard, the purchase of our products often requires a significant capital investment which customers may view as a discretionary cost and, therefore, a purchase that can be deferred or canceled due to budgetary or other business reasons. Estimating future revenues is also difficult because we ship our products soon after an order is received and, therefore, we do not have a significant backlog. Thus, quarterly license revenues are heavily dependent upon

orders received and shipped within the same quarter. Moreover, we have generally recorded a significant portion of our total quarterly revenues in the third month of a quarter, with a concentration of these revenues in the last half of that third month. This concentration of revenues is influenced by customer tendencies to make significant capital expenditures at the end of a fiscal quarter. We expect these revenue patterns to continue for the foreseeable future. In addition, quarterly license revenues are dependent on the timing of revenue recognition, which can be affected by many factors, including the timing of customer installations and acceptance. In this regard, we have from time to time experienced delays in recognizing revenues with respect to certain orders. In any period a significant portion of our revenue may be derived from large sales to a limited number of customers. Despite the uncertainties in its revenue patterns, our operating expenses are based upon anticipated revenue levels and such expenses are incurred on an approximately ratable basis throughout the quarter. As a result, if expected revenues are delayed or otherwise not realized in a quarter for any reason, our business, operating results and financial condition would be adversely affected in a significant way. See " Certain Factors That May Affect Our Business."

The following tables set forth certain unaudited consolidated quarterly statement of operations data for the eight quarters ended December 31, 1998, as well as such data expressed as a percentage of our total revenue for the periods indicated. This data has been derived from unaudited consolidated financial statements that, in our opinion, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of such information when read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Form 10-K. The operating results for any quarter are not necessarily indicative of results for any future period.

22

<PAGE>  
<TABLE>  
<CAPTION>

Dec 31, 1998	QUARTER ENDED						
	Mar 31, 1997	June 30, 1997	Sept 30, 1997	Dec 31, 1997	Mar 31, 1998	June 30, 1998	Sept 30, 1998
	(in thousands, except per share data)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>							
STATEMENT OF OPERATIONS DATA:							
Revenues:							
License..... \$11,133	\$ 2,632	\$ 3,045	\$ 4,949	\$ 5,860	\$ 7,681	\$ 8,164	\$ 9,795
Services and maintenance..... 3,878	1,471	2,743	2,137	2,169	2,243	2,850	3,244
Total revenues..... 15,011	4,103	5,788	7,086	8,029	9,924	11,014	13,039
Cost of revenues:							
License..... 666	104	125	131	142	342	470	507
Services and maintenance..... 2,348	628	1,483	1,174	1,129	1,478	1,620	2,100
Total cost of revenues..... 3,014	732	1,608	1,305	1,271	1,820	2,090	2,607
Gross profit..... 11,997	3,371	4,180	5,781	6,758	8,104	8,924	10,432
Operating expenses:							
Sales and marketing..... 8,464	1,698	2,301	3,528	3,666	4,936	6,072	7,330
Research and development.....	952	1,125	1,700	1,915	2,285	3,072	3,669

3,814							
General and administrative.....	686	793	1,026	1,190	1,064	1,207	1,356
1,419							
Acquired in-process R&D and goodwill amortization.....	--	--	--	--	--	20,208	178
178							
-----							
Total operating expenses.....	3,336	4,219	6,254	6,771	8,285	30,559	12,533
13,875							
-----							
Income (loss) from operations.....	35	(39)	(473)	(13)	(181)	(21,635)	(2,101)
(1,878)							
Interest income.....	209	206	164	144	146	71	517
1,073							
-----							
Income (loss) before (provision) benefit for income taxes.....	244	167	(309)	131	(35)	(21,564)	(1,584)
(805)							
(Provision) benefit for income taxes.....	(20)	5	226	70	160	--	--
--							
-----							
Net income (loss).....	\$ 224	\$ 172	\$ (83)	\$ 201	\$ 125	\$(21,564)	\$(1,584)
\$ (805)							
=====							
Net income (loss) per share							
Basic.....	\$0.01	\$0.01	\$ --	\$0.01	\$ ---	\$(0.70)	\$(0.04)
\$(0.02)							
=====							
Diluted.....	\$0.01	\$ --	\$ --	\$ --	\$ ---	\$(0.70)	\$(0.04)
\$(0.02)							
=====							
Shares used in per share computation....							
Basic.....	30,700	30,700	30,700	30,700	30,700	30,997	36,830
42,491							
=====							
Diluted.....	41,064	41,064	41,869	41,908	45,231	30,997	36,830
42,491							
=====							

<CAPTION>

	QUARTER ENDED						
	Mar 31,	June 30,	Sept 30,	Dec 31,	Mar 31,	June 30,	Sept 30,
	1997	1997	1997	1997	1998	1998	1998
Dec 31,							
1998							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>							

STATEMENT OF OPERATIONS DATA:

Revenues:							
License.....	64.1%	52.6%	69.8%	73.0%	77.4%	74.1%	75.1%
74.1%							
Services and maintenance.....	35.9	47.4	30.2	27.0	22.6	25.9	24.9
25.9							
-----							
Total revenues.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
100.0							
-----							
Cost of revenues:							
License.....	2.5	2.2	1.8	1.8	3.4	4.3	3.9
4.4							
Services and maintenance.....	15.3	25.6	16.6	14.0	14.9	14.7	16.1

15.6							
-----							
Total cost of revenues.....	17.8	27.8	18.4	15.8	18.3	19.0	20.0
20.0							
-----							
Gross profit.....	82.2	72.2	81.6	84.2	81.7	81.0	80.0
80.0							
-----							
Operating expenses:							
Sales and marketing.....	41.4	39.8	49.8	45.7	49.8	55.1	56.2
56.4							
Research and development.....	23.2	19.4	24.0	23.9	23.0	27.9	28.1
25.4							
General and administrative.....	16.7	13.7	14.5	14.8	10.7	11.0	10.4
9.5							
Acquired in-process R&D and goodwill amortization.....	--	--	--	--	--	183.5	1.4
1.2							
-----							
Total operating expenses.....	81.3	72.9	88.3	84.4	83.5	277.5	96.1
92.5							
-----							
Income (loss) from operations.....	0.9	(0.7)	(6.7)	(0.2)	(1.8)	*	(16.1)
(12.5)							
Interest income.....	5.1	3.6	2.3	1.8	1.5	0.6	4.0
7.1							
-----							
Income (loss) before (provision) benefit for income taxes.....	6.0	2.9	(4.4)	1.6	(0.3)	*	(12.1)
(5.4)							
(Provision) benefit for income taxes.....	(0.5)	0.1	3.2	0.9	1.6	--	--
--							
-----							
Net income (loss).....	5.5%	3.0%	(1.2)%	2.5%	1.3%	*	(12.1)%
(5.4)%							
=====							

=====  
</TABLE>

\*Not meaningful

23

<PAGE>

#### Liquidity and Capital Resources

We utilized cash of \$0.7 million for operating activities during 1998. This use of cash was primarily a result of the net loss (after adjusting for the non-cash write-off of the acquired in-process research and development), an increase in accounts receivable, and a decrease in the amounts due to the related party. These uses were partially offset by the increases in accounts payable, accrued liabilities, and deferred income. The average days sales outstanding for accounts receivable increased from 80 days at December 31, 1997 to 84 days at December 31, 1998. For purposes of calculating average days sales outstanding, we divide ending accounts receivable by the current quarter's revenues and multiply this amount by 90 days. The level of accounts receivable at each year end will be affected by the concentration of revenues in the final weeks of each year and may be negatively affected by the expanded international revenues in relation to total revenues as licenses to international customers often have longer payment terms.

During 1998, we invested \$68.7 million in short-term investments (net of \$76.4 million of dispositions of short-term investments), invested \$4.4 million in the acquisition of r3, invested \$0.4 million for a 10% interest in Entrust Japan, and invested \$3.8 million in property and equipment. The property and

equipment investments were primarily computer hardware and leasehold improvements to support the growing organization.

Cash provided by financing activities during 1998 was primarily the net proceeds from the issuance of Common stock as a result of our initial public offering of \$79.1 million. This was partly offset by cash used in the repayment of long-term debt in the amount of \$1.4 million.

As of December 31, 1998, our principal sources of liquidity were our cash and short-term investments of \$81.1 million. It is our belief that cash flows from operations, existing cash and cash equivalents and short-term investments will be sufficient to meet our needs for at least the next twelve months.

#### Certain Factors That May Affect Our Business

##### We Have a Limited Operating History

We have only a limited operating history on which to base an evaluation of our business and prospects. Our quarterly revenues and operating results have varied substantially and may continue to fluctuate due to a number of factors, including, but not limited to, the following:

- . The timing, size and nature of our licensing transactions;
- . The market acceptance of new products or product enhancements by us or our competitors;
- . Product and price competition;
- . The relative proportions of revenues derived from licenses and services and maintenance;
- . Changes in our operating expenses;
- . Personnel changes;
- . Foreign currency exchange rates; and
- . Fluctuations in economic and financial market conditions.

To address these risks we must, among other things:

- . Successfully market our products to our new and existing customers;
- . Attract, integrate, train, retain and motivate qualified personnel;
- . Respond to competitive developments;
- . Successfully introduce new products; and
- . Successfully introduce enhancements to our product line to address new technologies and standards.

We cannot be certain that we will successfully address any of these risks.

##### Certain of Our PKI Solution Transactions Have Lengthy Sales and Implementation Cycles

The timing, size and nature of individual licensing transactions are important factors in our quarterly results of operations. Transactions for the Entrust PKI solution often involve large expenditures, and the sales cycles for

24

<PAGE>

these transactions are often lengthy and unpredictable. In addition, the sales cycle associated with these transactions is subject to a number of uncertainties, including, but not limited to:

- . customers' budgetary constraints;
- . the timing of customers' budget cycles; and
- . customers' internal approval processes.

There can be no assurance that we will be successful in closing such large transactions on a timely basis or at all.

Estimating future revenues is difficult because we ship our products soon after an order is received and as such we do not have a significant backlog. Thus, quarterly license revenues are heavily dependent upon orders received and shipped within the same quarter. Moreover, we historically have recorded 60% to 80% of our total quarterly revenues in the third month of the quarter, with a concentration of revenues in the second half of that month. We expect that this concentration of revenues which is, in part, attributable to the tendency of certain customers to make significant capital expenditures at the end of a fiscal quarter and to sales patterns within the software industry, will continue for the foreseeable future.

Our expense levels are based, in significant part, on our expectations as to future revenues and are largely fixed in the short term. Therefore, the following uncertainties exist:

- . we may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenues;
- . any significant shortfall of revenues in relation to our expectations would have an immediate and significantly adverse effect on our financial condition and results of operations for that quarter;
- . we plan to increase operating expenses to expand our research and development, managerial, finance, sales and marketing and service and support organization; and
- . the timing of such expansion and the rate at which new personnel become productive could cause significant fluctuations in quarterly and annual results of operations.

Due to all of the foregoing factors, we believe that:

- . period-to-period comparisons of our results or operations are not necessarily meaningful;
- . results in any particular quarter are not necessarily indicative of future performance;
- . future revenues and results of operations may vary substantially from quarter to quarter; and
- . in future quarter, our results of operations may be below the expectations of public market analysts and investors

In any case, the price of our common stock could be adversely affected in a serious manner. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### Our Business Success Depends on Risks Associated with the Information Security Market

The market for Entrust's PKI solution is at an early stage of development. A decline in demand for our products could result from:

- . competition;
- . technology change;
- . the public's perception of the need for security products;
- . developments in the hardware and software environments in which these products operate; and
- . general economic conditions,

Any such decline could have a significant adverse effect on our business, financial condition or results of operations.

Continued growth of this market will depend, in large part, on the

following:

- . the continued expansion of Internet usage and in the number of organizations adopting or expanding intranets and extranets;
- . the ability of their respective infrastructures to support an increasing number of users and services;
- . the public recognition of the potential threat posed by computer hackers and other unauthorized users; and
- . the continued development of new and improved services for implementation across private and public networks.

In addition, a well-publicized actual or perceived breach of network or computer security at one of our customers, regardless of whether such breach is attributable to our products, or any significant advance in techniques for decoding or "cracking" encrypted information could adversely affect the market's perception of us and our products, and could have an adverse effect on our business, financial condition or results of operations.

#### We Face Intense Competition in Our Market

Our products are targeted at the new and rapidly evolving market for PKI solutions. Although the competitive environment in this market has yet to develop fully, we anticipate that it will be intensely competitive, subject to rapid change and significantly affected by new product and service introductions and other market activities of industry participants.

Because of the broad functionality of our PKI solution, we compete with vendors offering a wide range of security products and services, as follows:

- . we compete with companies offering commercial certification authority products and services, such as VeriSign, GTE Cybertrust Solutions, Baltimore Technologies and IBM;
- . we are competing with established companies, such as Security Dynamics and Network Associates, which have each announced their intention to introduce PKI products that would be integrated with their other security offerings, as well as Microsoft, which has announced its intention to offer a certificate server product building on its existing security framework in the near future;
- . other major networking vendors could, in the future, bundle digital certificates with their product offerings;
- . we expect that competition from established and emerging companies in the financial and telecommunications industries will also increase in the near term; and
- . certain of our primary long-term competitors may not yet have entered the market.

Increased competition could result in pricing pressures, reduced margins or the failure of our products and services to achieve or maintain market acceptance, any of which could have a serious adverse effect on our business, financial condition and results of operations. A more detailed discussion regarding our competition appears in Item 1 of Part I of this Form 10-K.

#### Our Industry is Subject to Rapid Technological Change

The emerging market for network security products and related services is characterized by rapid technological developments, frequent new product introductions and evolving industry standards.

The emerging nature of this market and its rapid evolution will require us to improve the performance, features and reliability of our products and services, particularly in response to competitive offerings, and to be first to market with new products and services or enhancements to existing products and services. Our failure to develop and introduce new products and services successfully on a timely basis and to achieve market acceptance for such products and services could have a significant adverse effect on our business, financial condition and results of operations.

#### Our Industry Faces Strict Regulation

Certain of our products are subject to export controls under laws of the U.S., Canada and other countries, and we believe that we have obtained all necessary export approvals. There can be no assurance, however, that the list of

products and countries for which exports are restricted, and the regulatory policies with respect thereto, will not be revised from time to time. Our inability to obtain required government approvals under these regulations could adversely affect our ability to sell products abroad or make products available for sale via international computer networks such as the Internet. Furthermore, U.S. governmental controls on the exportation of encryption products and technology may in the future restrict our ability to freely export some of our products with the most powerful information security encryption technology. We are currently authorized under exemptions contained in an interim U.S. export procedure to export products with encryption technology that is more powerful than would be permitted in the absence of such authorization. There can be no assurance that the interim regulations will not be modified, and that we will continue to meet the qualifications for exemption thereunder. Furthermore, there can be no assurance that foreign customers will seek export versions of our products. As a result, foreign competitors subject to less stringent export controls on their products may be able to compete more effectively than us in the global information security market. There can be no assurance that these factors will not have a material adverse effect on our business, financial condition or results of operations. A more detailed discussion regarding industry regulation appears in Item 1 of Part I of this Form 10-K.

#### We Must Manage Our Growth

We are currently experiencing rapid growth that places a significant strain on our management and other resources. Our business has grown significantly in size and complexity over the past three years. The growth in the size and complexity of our business as well as its customer base has placed, and is expected to continue to place, a significant strain on our management and operations. In addition, certain of our senior management have had limited experience in managing publicly traded companies. We anticipate that continued growth, if any, will require us to recruit and hire a substantial number of new development, managerial, finance, sales and marketing and support personnel. We may not be successful at hiring or retaining such personnel. Our ability to compete effectively and to manage future growth, if any, will depend on, among other things:

- . our ability to continue to implement and improve operational, financial and management information systems on a timely basis; and
- . to expand, train, motivate and manage our work force.

Our personnel, systems, procedures and controls may not be adequate to support our operations. The geographic dispersal of our operations, including the separation of our headquarters in Plano, Texas, from its research and development facility in Ottawa, Canada, may make it more difficult to manage our growth.

#### Possible Future Acquisitions could Impact Our Expected Results

It is possible, as part of our future growth strategy, that we will from time-to-time acquire or make investments in companies, technologies, product solutions, or professional services offerings. With respect to these acquisitions, we would face the difficulties of assimilating their personnel and operations with our present business, and the problems of retaining and motivating key personnel from acquired businesses. In addition, these acquisitions may disrupt ongoing operations, divert management from day-to-day business, and adversely impact our results of operations. Certainly, these types of transactions often result in charges to earnings for such things as amortization of goodwill, that might arise under purchase accounting, or in-process research and development expenses.

#### We are a Global Company

Entrust has experienced a degree of success in expanding sales outside of the U.S. and Canada. In 1998, 23% of our sales were derived from outside North America compared to 5% in 1997, and we expect to continue to increase our sales in international markets. In order to continue to expand international sales, we must establish additional foreign operations, hire additional personnel and establish relationships with additional partners. This expansion will require significant management attention and financial resources and could have an adverse effect on our business, financial condition and results of operations. In addition, there can be no assurance that we will be able to maintain or increase international market demand for our products and services. Although our international sales are primarily denominated in U.S. dollars, we may increasingly denominate sales in local foreign currencies in the future. Also,



we expect to incur an increasing amount of payroll and other obligations in foreign currencies. A change in the value of the U.S. dollar relative to foreign currencies could make our products more expensive and, therefore, potentially less competitive in those markets and could otherwise impact on our ability to meet our foreign currency denominated obligations. In addition, our international business may be subject to a variety of other risks, including:

27

&lt;PAGE&gt;

- . difficulties in collecting international accounts receivable;
- . difficulties in obtaining U.S. export licenses, especially for products containing encryption technology;
- . potentially longer payment cycles for customer payments;
- . increased costs associated with maintaining international marketing efforts;
- . introduction of non-tariff barriers and higher duty rates;
- . difficulties in enforcement of contractual obligations and intellectual property rights;
- . difficulties managing personnel and operations in remote locations;
- . increase complexity in corporate tax structure globally; and
- . potential adverse impact resulting from introduction of Euro dollar currency.

There can be no assurance that we will be able to resolve all these risks without adverse effects on our future international sales and, consequently, on our business, financial condition or results of operations.

#### Our Stock Price May be Volatile in Future

The trading price of our common stock has been, and is expected to continue to be, highly volatile and may be significantly and adversely affected by factors such as:

- . actual or anticipated fluctuations in our operating results;
- . announcements of technological innovations;
- . new products or new contracts by us or our competitors;
- . developments with respect to patents, copyrights or propriety rights;
- . conditions and trends in the software industry;
- . changes in financial estimates by securities analysts; and
- . general market conditions and other factors.

The public equity markets have from time to time experienced significant price and volume fluctuations that have particularly affected the market prices for the stock of technology companies as a group but have been unrelated to the performance of particular companies. The market price of our Common stock may be adversely affected by these broad market fluctuations, as well as:

- . shortfalls in sales or earnings as compared with securities analysts' expectations;
- . changes in such analysts' recommendations or projections; and
- . general economic and market conditions.

#### Year 2000 Compliance

The "Year 2000 Issue" refers generally to the problems that some software may have in determining the correct century for a given year. For example, software with date-sensitive functions that is not Year 2000 Compliant may not be able to distinguish whether "00" means 1900 or 2000, which may result in failures or the creation of erroneous results

We have developed a Year 2000 readiness plan for the current versions of its products. The plan includes assessment, implementation, validation testing, and contingency planning. We have assessed the capability of the current versions of our products sold to handle the Year 2000 and have identified the code changes (if any) required to make each of these products Year 2000 Compliant. We have a plan in place, with resources assigned, to complete any necessary code changes and testing by April 1999. The costs of this effort are not significant and are included in our operating costs. We believe that, upon completion of the updates mentioned above, our products and systems will be Year 2000 Compliant and, therefore, that the likelihood of a significant impact due to problems is remote. In addition, we expect that the cost of these projects over the next twelve months will not have a significant effect on our business, results of operations or financial condition. We continue to maintain an up-to-date listing of the Year 2000 readiness of our various products on our Web site

and we plan to respond to customer concerns about prior versions of our products on a case-by-case basis.

We have defined "Year 2000 Compliant" to mean the ability to perform date and time dependent operations between December 31, 1999, and January 1, 2000, without any significant, service affecting non-conformances to the accompanying user documentation. This does not, however, mean that the software will be free of all defects, errors

28

&lt;PAGE&gt;

or inaccuracies. The definition of Year 2000 Compliant assumes that our software products receive accurate and correctly formatted date and time information from the underlying operating system, firmware, hardware and any other software with which our products interact. Year 2000 Compliance also assumes that our customers continue to contract for maintenance and support of our products. We have not specifically tested software obtained from third parties (licensed software, shareware, and freeware) that is incorporated into our products, but we are seeking assurances from our vendors that licensed software is Year 2000 Compliant. We believe that due to the relatively small third-party component, the likelihood of a significant impact is remote. We also have not tested our products on all platforms or all versions of operating systems that we currently support and have advised our customers to verify that their platforms and operating systems support the transition to the year 2000. We are preparing a contingency plan for unanticipated product failures which we anticipate completing by mid-1999.

Our internal systems include both its information technology ("IT") and non-IT systems. We completed an assessment of our material internal IT systems during 1998 and expect to complete an assessment of our non-IT systems in the first half of 1999. With respect to the IT systems, we have applied available software updates and "patches" as required by our vendors to make their software Year 2000 Compliant. Certain vendors have yet to provide such updates to their software. However, these updates will be made as the software is available or an alternate source will be found for the required functionality. In addition, we plan to test our internal computing environment for Year 2000 Compliance in the third quarter of 1999. To the extent that we are not able to test certain technology provided by third-party vendors, we are seeking assurances from our vendors that their systems are Year 2000 Compliant. We are obtaining these assurances in writing from published vendor materials and expect this activity to be completed in the first half of 1999. Although we are not currently aware of any significant operational issues or costs associated with preparing our internal IT and non-IT systems for the Year 2000, we may experience unanticipated problems and costs caused by undetected errors or defects in the technology used in our internal IT and non-IT systems. We are preparing a contingency plan for unanticipated system failures which we anticipate completing by mid-1999.

We do not have any information concerning the Year 2000 Compliance status of our customers. As is the case with other similarly situated software companies, if our current or future customers fail to achieve Year 2000 Compliance, our business, results of operations or financial condition could be significantly adversely affected. Furthermore, the purchasing patterns of our customers or potential customers may be affected by Year 2000 issues as companies expend significant resources to correct their current systems for Year 2000 Compliance. These expenditures may result in reduced funds being available to our customers to implement or to purchase our products. This would have a significant adverse effect on our business, financial condition and results of operations.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### Risk Associated with Interest Rates

Our investment policy states that we will invest our cash reserves, including cash, cash equivalents and short-term investments, in investments that are designed to preserve principal, maintain liquidity and maximize return. We actively manage our investments in accordance with the objectives above. Accordingly, some of these investments are subject to market risk; whereby a change in market interest rates will cause the principal amount of the underlying investment to fluctuate. Therefore, a depreciation in principal value of an investment is possible in situations where the investment is made at a fixed interest rate and the market interest rate then subsequently increases. We try to manage this risk by maintaining our cash and cash equivalents, and

short-term investments with high quality financial institutions and investment managers. We also restrict the investments to securities with short-term maturities, such that, at December 31, 1998, all of our short-term investments had maturities of less than one year from that date.

The following table presents the cash and cash equivalents and short-term investments that we held at December 31, 1998, that would have been subject to market risk, and the related ranges of maturities as of that date:

<TABLE>  
<CAPTION>

Months	MATURITY (in thousands)		
	Within 3 Months	3-6 Months	6-12
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Investments classified as cash and cash equivalents.....	\$109	-	
-			
Investments classified a short-term investments.....	\$27,800	\$45,191	
\$4,364			
----	-----	-----	---
Total.....	\$27,909	\$45,191	
\$4,364			
=====	=====	=====	
Fair Value.....	\$27,909	\$45,191	
\$4,364			
=====	=====	=====	

</TABLE>

<PAGE>

Risk Associated with Exchange Rates

We are subject to foreign currency exchange risk as a result of exposures to changes in currency exchange rates, specifically between the United States and Canada, the United Kingdom, and Switzerland. However, this exposure is considered to be minimal due to the fact that the United Kingdom and Swiss operations are not significant, and the Canadian operations are naturally hedged against exchange rate fluctuations since both revenues and expenses are denominated in Canadian dollars. Therefore, an unfavorable change in the exchange rate for the Canadian subsidiary would result in lower revenues when translated into U.S. dollars, but the expenses would be lowered in a corresponding fashion.

As a result, we do not engage in formal hedging activities, but we do periodically review the potential impact of this risk to ensure that the risk of significant potential losses remains minimal.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements together with the related notes and the report of Deloitte & Touche LLP, independent auditors, are set forth in the index to Consolidated Financial Statements at Item 14 and incorporated herein by this reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

<PAGE>

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K as we intend to file our definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 5, 1999, pursuant to Regulation 14A of

the Securities Exchange Act of 1934, as amended (the "Proxy Statement"), not later than 120 days after the end of the fiscal year covered by this Report, and certain information included in the Proxy Statement is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

- (a) Executive Officers and Directors -- The information in the section entitled "Executive Officers and Directors of the Registrant" in Part I hereof is incorporated herein by reference.
- (b) Directors -- The information in the section entitled "Directors and Nominees for Director" in the Proxy Statement is incorporated herein by reference.

The disclosure required by Item 405 of Regulation S-K is incorporated by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information in the sections entitled "Compensation of Executive Officers," "Director Compensation" and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information in the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information in the section entitled "Certain Transactions" in the Proxy Statement is incorporated herein by reference.

31

<PAGE>

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 8-K

- (a) The following documents are filed as part of this Form 10-K:
  - 1. Consolidated Financial Statements. The following consolidated financial statements of Entrust Technologies Inc. are filed as part of this Form 10-K on the pages indicated:

<TABLE>	
<CAPTION>	
ENTRUST TECHNOLOGIES INC.	Page
	-----
<S>	<C>
Independent Auditors' Report.....	34
Consolidated Balance Sheets as of December 31, 1997 and 1998.....	35
Consolidated Statements of Operations for the years ended December 31, 1996, 1997 and 1998.....	36
Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 1996, 1997 and 1998.....	37
Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1997 and 1998.....	39
Notes to Consolidated Financial Statements.....	40
</TABLE>	

- 2. Schedules other than the ones listed above are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.
- 3. Exhibits. The exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K

No reports on Form 8-K were filed in the quarter ended December 31, 1998.

&lt;PAGE&gt;

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 26th day of March, 1999.

ENTRUST TECHNOLOGIES INC.

-----  
(Registrant)

By: /s/ John A. Ryan

-----  
John A. Ryan  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 26th day of March, 1999.

Signature -----	Title -----
/s/ John A. Ryan ----- John A. Ryan	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Michele L. Axelson ----- Michele L. Axelson	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ F. William Conner ----- F. William Conner	Chairman of the Board
/s/ Frank A. Dunn ----- Frank A. Dunn	Director
/s/ Robert S. Morris ----- Robert S. Morris	Director
/s/ Terrell B. Jones ----- Terrell B. Jones	Director

&lt;PAGE&gt;

## INDEPENDENT AUDITORS' REPORT

To the Directors and Shareholders of Entrust Technologies Inc:

We have audited the consolidated balance sheets of Entrust Technologies Inc. as of December 31, 1997 and 1998, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by

management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Entrust Technologies Inc. at December 31, 1997 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP  
-----  
Dallas, Texas

February 5, 1999  
(February 19, 1999 as to Note 11, second paragraph)

34

&lt;PAGE&gt;

## ENTRUST TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS  
(in thousands of dollars, except share data)

<TABLE>  
<CAPTION>

	December 31,	
	1997	1998
	-----	-----
ASSETS		
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents.....	\$ 4,025	\$ 3,712
Short-term investments.....	8,613	77,355
Accounts receivable (net of allowance for doubtful accounts of \$416 in 1997 and \$753 in 1998).....	7,152	14,013
Other receivables.....	2,089	2,102
Prepaid expenses.....	455	994
	-----	-----
Total current assets.....	22,334	98,176
Goodwill, net.....	-	3,210
Property and equipment, net.....	1,680	4,874
Other long-term assets.....	743	1,569
	-----	-----
Total assets.....	\$24,757	\$107,829
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 1,236	\$ 7,187
Accrued liabilities.....	2,066	4,992
Deferred income.....	3,068	7,791
Due to related party.....	2,257	768
	-----	-----
Total current liabilities.....	8,627	20,738
Long-term debt and other long-term liabilities.....	1,468	32
	-----	-----
Total liabilities.....	10,095	20,770
	-----	-----
Shareholders' equity:		
Preferred stock, par value \$0.01 per share; 5,000,000 authorized; none issued and outstanding.....	-	-
Common stock:		
Common, par value \$0.01 per share; 100,000,000 authorized; none and 42,492,681 issued and outstanding shares at December 31, 1997 and 1998, respectively.....	-	425
Series A common, par value \$0.01 per share; 100,000,000 authorized; 20,300,000 and none issued and outstanding shares at December 31, 1997 and 1998, respectively.....	203	-
Series B common, par value \$0.01 per share; convertible and exchangeable; 260,000 authorized; 221,052 and none issued and outstanding shares at December 31, 1997 and 1998, respectively.....	2	-

Series B, non-voting common, par value \$0.01 per share; exchangeable; 260,000 authorized; 38,948 and none issued and outstanding shares at December 31, 1997 and 1998, respectively.....	-	-
Special voting stock, par value \$0.01 per share; exchangeable; 15,000,000 authorized; 7,700,000 and 5,157,289 issued and outstanding shares at December 31, 1997 and 1998, respectively.....	77	52
Additional paid-in capital.....	15,744	112,483
Unearned deferred compensation.....	-	(635)
Accumulated other comprehensive loss.....	(15)	(89)
Accumulated deficit.....	(1,349)	(25,177)
Total shareholders' equity.....	14,662	87,059
Total liabilities and shareholders' equity.....	\$24,757	\$107,829
	=====	=====

&lt;/TABLE&gt;

See accompanying notes to consolidated financial statements.

35

&lt;PAGE&gt;

## ENTRUST TECHNOLOGIES INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of dollars, except share and per share data)

<TABLE>  
<CAPTION>

	Year Ended December 31,		
	1996	1997	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Revenues:			
License.....	\$ 8,689	\$ 16,486	\$ 36,773
Services and maintenance.....	4,113	8,520	12,215
Total revenues.....	12,802	25,006	48,988
Cost of revenues:			
License.....	393	502	1,985
Services and maintenance.....	3,157	4,414	7,546
Total cost of revenues.....	3,550	4,916	9,531
Gross profit.....	9,252	20,090	39,457
Operating expenses:			
Sales and marketing.....	3,858	11,193	26,802
Research and development.....	2,874	5,692	12,840
General and administrative.....	2,464	3,695	5,046
Acquired in-process research and development and goodwill amortization.....	-	-	20,564
Total operating expenses.....	9,196	20,580	65,252
Income (loss) from operations.....	56	(490)	(25,795)
Interest income.....	-	723	1,807
Income (loss) before benefit for income taxes.....	56	233	(23,988)
Benefit for income taxes.....	331	281	160
Net income (loss).....	\$ 387	\$ 514	\$ (23,828)
	=====	=====	=====
Net income (loss) per share:			
Basic.....	-	\$0.02	\$(0.68)
Diluted.....	-	\$0.01	\$(0.68)
Weighted average common shares used in per share computations:			
Basic.....	-	30,700,000	35,254,735
Diluted.....	-	41,742,972	35,254,735

&lt;/TABLE&gt;

See accompanying notes to consolidated financial statements.

<PAGE>

ENTRUST TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME

for the years ended December 31, 1996, 1997 and 1998  
(in thousands of dollars, except share data)

<TABLE>  
<CAPTION>

Series B

	Common		Series A		Series B	
	Shares	Amount	Shares	Amount	Shares	Amount
Non-Voting						
Common						
Stock						
-----						
	Shares	Amount	Shares	Amount	Shares	Amount
-----						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<C>						
Balances at December 31, 1995.....	--	\$ --	--	\$ --	--	\$ --
Change in shareholder's net investment.....	--	--	--	--	--	--
Comprehensive income:						
Net income and total comprehensive income.....	--	--	--	--	--	--
-----						
Balances at December 31, 1996....	--	--	--	--	--	--
Series A common shares issued....	--	--	20,300,000	203	--	--
Special Voting shares issued....	--	--	--	--	--	--
Series B common shares issued....	--	--	--	--	221,052	2
Series B Non-Voting common shares issues.....	--	--	--	--	--	--
38,948	--	--				
Share capital issuance costs.....	--	--	--	--	--	--
Change in shareholder's net investment.....	--	--	--	--	--	--
Comprehensive income (loss):						
Net income.....	--	--	--	--	--	--
Translation adjustment.....	--	--	--	--	--	--
-----						
Balances at December 31, 1997.....	--	--	20,300,000	203	221,052	2
38,948	--	--				
Series A common shares issued on option exercise.....	--	--	14,346	--	--	--
Unearned compensation related to						



stock options granted.....	--	--	--	--	--	--
Deferred compensation earned.....	--	--	--	--	--	--
Series A common shares converted.	20,314,346	203	(20,314,346)	(203)	--	--
Series B common shares converted.	13,063,836	131	--	--	(221,052)	(2)
(38,948)	--	--	--	--	--	--
Special voting shares exchanged..	2,542,711	25	--	--	--	--
Redeemable series A common shares issued and converted.....	1,167,288	12	--	--	--	--
Common shares issued.....	5,400,000	54	--	--	--	--
Common shares issuance costs.....	--	--	--	--	--	--
Common shares issued on option exercise.....	4,500	--	--	--	--	--
Comprehensive income (loss):						
Net income.....	--	--	--	--	--	--
Translation adjustment.....	--	--	--	--	--	--

-----

Balances at December 31, 1998.....	42,492,681	\$425	--	\$ --	--	\$ --
\$ --	=====	=====	=====	=====	=====	=====

</TABLE>

<TABLE>

<CAPTION>

	Special Voting Stock		Additional Paid-In Capital
	Shares	Amount	
	-----	-----	-----
	<C>	<C>	<C>
Balances at December 31, 1995.....	--	\$ --	\$ --
Change in shareholders' net investment.....	--	--	--
Comprehensive income:			
Net income and total comprehensive income.....	--	--	--
-----			
Balances at December 31, 1996....	--	--	--
Series A common shares issued....	--	--	(173)
Special Voting shares issued.....	7,700,000	77	(66)
Series B common shares issued....	--	--	15,302
Series B Non-Voting common shares issues.....	--	--	2,696
Share capital issuance costs.....	--	--	(2,015)
Change in shareholder's net investment.....	--	--	--
Comprehensive income (loss):			
Net income.....	--	--	--
Translation adjustment.....	--	--	--
-----			
Balances at December 31, 1997.....	7,700,000	77	15,744
Series A common shares issued on option exercise.....	--	--	31
Unearned compensation related to stock options granted.....	--	--	784
Deferred compensation earned.....	--	--	--
Series A common shares converted.	--	--	--
Series B common shares converted.	--	--	(129)

Special voting shares exchanged..	(2,542,711)	(25)	--
Redeemable series A common shares issued and converted.....	--	--	17,001
Common shares issued.....	--	--	86,346
Common shares issuance costs.....	--	--	(7,302)
Common shares issued on option exercise.....	--	--	8
Comprehensive income (loss):			
Net income.....	--	--	--
Translation adjustment.....	--	--	--
-----			
Balances at December 31, 1998.....	5,157,289	\$ 52	\$112,483
	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

37

<PAGE>

ENTRUST TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME (Continued)

for the years ended December 31, 1996, 1997 and 1998  
(in thousands of dollars, except share data)

<TABLE>  
<CAPTION>

Total	Unearned Deferred	Accumulated Other	Accumulated Other	Comprehensive
Shareholders'	Compensation	Comprehensive	Income	Income
Equity		Loss	(Deficit)	(Loss)
	-----	----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>				
Balances at December 31, 1995.....	\$ --	\$ --	\$ 1,672	
\$ 1,672				
Change in shareholder's net investment...	--	--	(2,119)	
(2,119)				
Comprehensive income:				
Net income and total comprehensive				
income.....	--	--	387	\$ 387
387				
-----				
Balances at December 31, 1996.....	--	--	(60)	
(60)				
Series A common shares issued.....	--	--	--	
30				
Special Voting shares issued.....	--	--	--	
11				
Series B common shares issues.....	--	--	--	
15,304				
Series B Non-Voting common shares issues..	--	--	--	
2,696				
Share capital issuance costs.....	--	--	--	
(2,015)				
Change in shareholder's net investment...	--	--	(1,803)	
(1,803)				
Comprehensive income (loss):				
Net income.....	--	--	514	\$ 514
514				
Translation adjustment.....	--	(15)	--	(15)
(15)				
-----				
Total comprehensive income.....				\$ 499

				=====
Balances at December 31, 1997.....	--	(15)	(1,349)	
14,662				
Series A common shares issued on option exercise.....	--	--	--	
31				
Unearned compensation related to stock options granted.....	(784)	--	--	
--				
Deferred compensation earned.....	149	--	--	
149				
Series A common shares converted.....	--	--	--	
--				
Series B common shares converted.....	--	--	--	
--				
Special voting shares exchanged.....	--	--	--	
--				
Redeemable series A common shares issued and converted.....	--	--	--	
17,013				
Common shares issued.....	--	--	--	
86,400				
Common shares issuance costs.....	--	--	--	
(7,302)				
Common shares issued on option exercise.....	--	--	--	
8				
Comprehensive income (loss):				
Net income.....	--	--	(23,828)	\$(23,828)
(23,828)				
Translation adjustment.....	--	(74)	--	(74)
(74)				
-----				
Total comprehensive income.....				\$(23,902)
				=====
Balances at December 31, 1998.....	\$(635)	\$ (89)	\$(25,177)	
\$ 87,059				
	=====	=====	=====	

=====  
</TABLE>

See accompanying notes to consolidated financial statements.

<PAGE>

ENTRUST TECHNOLOGIES INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands of dollars)

<TABLE>  
<CAPTION>

		Year Ended December	
		-----	
		1996	1997
		-----	
31,			
-----			
1998			
-----			
<S>		<C>	<C>
<C>			
Cash flows from operating activities:			
Net income (loss).....		\$ 387	\$ 514
\$ (23,828)			
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....		204	360

1,261		
Adjustment to cumulative translation account.....	--	(15)
(74)		
Deferred income taxes.....	4	(743)
(143)		
Deferred compensation earned.....	--	--
149		
Acquired in-process research and development.....	--	--
20,208		
Changes in operating assets and liabilities:		
Increase in accounts receivable.....	(967)	(4,665)
(6,212)		
Increase in other receivables.....	--	(2,089)
(125)		
Increase in prepaid expenses.....	(40)	(400)
(504)		
Increase in other assets.....	--	--
(178)		
Increase in accounts payable.....	647	335
4,755		
Increase in accrued liabilities.....	891	1,121
1,998		
Increase in deferred income.....	1,686	1,186
4,573		
Increase (decrease) due to related party.....	--	2,257
(2,588)		
	-----	-----
Net cash provided by (used in) operating activities.....	2,812	(2,139)
(708)		
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment.....	(693)	(895)
(3,791)		
Purchases of short-term investments.....	--	(12,308)
(145,188)		
Dispositions of short-term investments.....	--	3,695
76,446		
Investment in Entrust Japan, at cost.....	--	--
(393)		
Payment on purchase of r3 Security Engineering AG.....	--	--
(4,391)		
	-----	-----
Net cash used in investing activities.....	(693)	(9,508)
(77,317)		
	-----	-----
Cash flows from financing activities:		
Proceeds from long-term debt.....	--	1,449
--		
Repayment of long-term debt.....	--	--
(1,425)		
Transfers from Nortel.....	9,716	--
--		
Transfers to Nortel.....	(11,835)	(1,803)
--		
Proceeds from exercise of stock options.....	--	--
39		
Proceeds from issuance of 5,400,000 common shares, net of issuance costs of \$7,302.....	--	--
79,098		
Proceeds from issuance of common and special voting stock, net of issuance costs of \$2,015.....	--	16,026
--		
	-----	-----

-----		
Net cash provided by (used in) financing activities.....	(2,119)	15,672
77,712		
-----		
Net change in cash and cash equivalents.....	--	4,025
(313)		
Cash and cash equivalents at beginning of year.....	--	--
4,025		
-----		
Cash and cash equivalents at end of year.....	\$ --	\$4,025
\$ 3,712		
=====		
Non-cash investing and financing activities:		
Issuance of redeemable Series A common stock		
(and subsequent conversion into common stock)		
related to the acquisition of r3 Security		
Engineering AG.....	\$ --	\$ --
\$ 17,013		
=====		

</TABLE>

See accompanying notes to consolidated financial statements.

<PAGE>

ENTRUST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of dollars, except share and per share data)

1. Background and Basis of Presentation

Background

In January 1994, Northern Telecom Limited, and its subsidiary Northern Telecom Inc. (collectively 'Nortel'), established the Secure Networks group (the 'Division') to pursue the development and sales of public key infrastructure ('PKI') products. PKI products combine powerful public key data encryption technology with transparent, life cycle digital certificate management to enable users to communicate securely over public and private networks.

During 1996, Nortel announced its intention to create a separate company, Entrust Technologies Inc. (the 'Company') consisting of the operations of the Division (the 'Separation'). The Company was incorporated in December 1996 with nominal share capital, all of which was contributed by Nortel. At the close of business on December 31, 1996, Nortel transferred to the Company certain of the assets and liabilities, intellectual property, rights, licenses and contracts of the Division of Nortel.

In exchange, Nortel received 20,300,000 shares of the Company's Series A Common stock, 7,700,000 shares of the Company's Special Voting stock, and cash consideration. At the close of business on December 31, 1996, the Company issued 260,000 shares of its Series B common stock in a private placement for \$100 per share less underwriting costs and commissions of \$7.75 per share. After the completion of the private placement, Nortel owned approximately 73.0% of the outstanding shares of the Company's common stock assuming conversion of the Series B common stock and Series B Non-Voting common stock into an aggregate of 13,063,836 shares of Series A common stock.

On August 21, 1998, the Company closed its initial public offering ("IPO"), issuing 5,400,000 shares of its Common stock at an initial public offering price of \$16 per share. The net proceeds to the Company from the offering, after deducting underwriting discounts and commissions and offering expenses incurred by the Company, were approximately \$79.1 million. See note 8 for further detail regarding changes in the issued capital of the Company. Immediately following the IPO, Nortel owned approximately 55.3% of the Company's Common stock.

Basis of presentation

The historical comparative year results, comprising the statements of operations, shareholders' equity and cash flows for the year ended December 31, 1996, represent the operations of the Division transferred to the Company from Nortel in the Separation (the ''Company Business''). These historical results of the Division present the financial position of the Division as a separate reporting entity independent of Nortel and its subsidiaries, as if the Division was a stand-alone entity for that period. The 1996 consolidated financial statements have been prepared using the historical basis in the assets and liabilities and historical results of operations related to the Company Business. Changes in shareholder's net investment in 1996 represent Nortel's contribution of its net investment after giving effect to the net income (loss) of the Division and net cash transfers to or from the Division. The shareholder's net investment was not transferred to the Company as part of the Separation.

The 1996 consolidated financial statements, presented here for comparison purposes, include certain Nortel corporate costs that were allocated to the Division using procedures deemed appropriate for the nature of the expenses involved. The procedures utilized various allocation bases such as invested net assets, number of employees and related payroll costs, and direct effort expended. Management believes that the allocations reflected in the 1996 consolidated financial statements are reasonable, but they were not necessarily indicative of the costs that would have been incurred had the Division functioned as a stand-alone company. No Nortel corporate costs were allocated to the Company, in this way, in the years ended December 31, 1997 and 1998. After the Separation, Nortel continued to provide certain ''corporate'' services to the Company. Fees charged for such services are based on Nortel's internal usage-based fee structures where applicable or Nortel's direct cost of services, including total compensation and out-of-pocket expenses.

40

&lt;PAGE&gt;

## 2. Significant Accounting Policies

### Consolidation

The consolidated financial statements of the Company include the accounts of its majority-owned Canadian subsidiary, Entrust Technologies Limited, its wholly-owned U.K. subsidiary, Entrust Technologies (UK) Limited and, its wholly-owned Swiss subsidiary, r3 Security Engineering AG. The minority interest in the Canadian subsidiary has been insignificant to date. All significant intercompany transactions and accounts are eliminated in consolidation.

### Translation of foreign currencies

The accounts of the Company's subsidiaries have been translated into U.S. dollars. Assets and liabilities have been translated at the exchange rates in effect at the balance sheet date. Revenues, expenses and cash flow amounts are translated at average rates for the period. The resulting translation adjustments are included in comprehensive income as a separate component of shareholders' equity. Gains and losses from foreign currency transactions are included in the determination of net income and are not material.

The Company does not use hedging or derivatives and, as a result, may be exposed to currency translation adjustments in the future. However, the Company transacts the majority of its international sales in U.S. dollars, except for Canada where the Company has both significant costs and revenues, which the Company believes mitigates the potential impact of currency fluctuations.

### Revenue recognition

The Company generates revenues primarily from licensing the rights to its software products to end-users and from sublicense fees from resellers. The Company also generates revenues from consulting, training and post-contract support (''maintenance''). In October 1997, the AICPA issued Statement of Position (''SOP'') No. 97-2, ''Software Revenue Recognition'', which the Company adopted, effective January 1, 1998. Such adoption had no effect on the Company's method of recognizing revenues. Prior to 1998, the Company's revenue recognition policy was in accordance with the provisions of the preceding authoritative guidance provided by SOP 91-1 ''Software Revenue Recognition''.

Revenues from perpetual software license agreements are recognized as revenue upon receipt of an executed license agreement, or an unconditional order

under an existing license agreement, and shipment of the software, if there are no significant remaining vendor obligations and collection of the receivable is probable.

Consulting and training revenues are generally recognized as the services are performed. Consulting services are typically performed under separate service agreements and are usually performed on a time and materials basis. Such services primarily consist of implementation services related to the installation and deployment of the Company's products and do not include significant customization or development of the underlying software code.

The Company uses the percentage of completion method to account for large custom development contracts. Under this method, the Company recognizes revenue and profit as the work on the contract progresses. Revenues are recognized by applying the percentage of the total cost incurred to date divided by the total estimated contract cost to the total contract value, and any projected loss is recognized immediately. The total project cost estimates are reviewed on a regular basis.

Revenues from maintenance are recognized ratably over the term of the maintenance period, which is typically one year. If maintenance services are included free of charge or discounted in a license agreement, such amounts are unbundled from the license fee at their fair market value based upon the value established by independent sales of such maintenance to customers.

#### Cost of revenues

Cost of licenses includes the cost of media, product packaging, documentation and other production costs and third-party royalties.

41

&lt;PAGE&gt;

Cost of services and maintenance consists primarily of salaries, benefits and allocated overhead costs related to consulting, training and customer support personnel, including the cost of third-party consultants engaged by the Company.

#### Research and development costs

To date the Company has not capitalized any software development costs under Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or otherwise Marketed". The Company has defined attainment of technological feasibility as completion of a working model. The period of time beginning with the establishment of a working model and ending when a product is offered for sale is typically very short. Accordingly, costs that were eligible for capitalization were insignificant.

#### Property and equipment

Property and equipment is stated at cost. Depreciation is calculated generally using the straight-line method over the estimated useful lives of the assets. The expected useful lives of the furniture and fixtures, computer and telecom equipment and software is three to five years and the remaining term of the facility lease for leasehold improvements.

When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operations. Maintenance and repairs are charged to operations as incurred.

Assets are reviewed for impairment on the basis of undiscounted cash flows. If the cash flows are less than the asset's carrying value, the asset is written down to its fair value.

#### Goodwill and other assets

Goodwill is stated net of accumulated amortization of \$356 at December 31, 1998. Goodwill is being amortized on a straight-line basis over five years. Included in other assets is an investment of \$393, which represents a 10% ownership interest in Entrust Japan.

#### Other receivables

Other receivables include federal income tax and Canadian goods and services tax refunds of \$1,644 and \$973 at December 31, 1997 and 1998, respectively. Other receivables also includes work-in-process relating to a long-term percentage-of-completion contract of \$432 and \$826 at December 31, 1997 and 1998, respectively.

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company's cash and cash equivalents are maintained with a bank and a brokerage institution. Prior to January 1, 1997, the Company, as a division of Nortel, participated in the Nortel cash management system and, accordingly, did not maintain cash balances other than minimal amounts.

Short-term investments

Short-term investments consist of investments in a strategic cash management account. This account is invested primarily in securities guaranteed by the U.S. government or its agencies and highly rated municipal and corporate bonds with a remaining maturity of not more than 12 months. The Company has the intent and ability to hold all investments until maturity. Therefore, all such investments are classified as held to maturity investments and stated at amortized cost. At December 31, 1997 and 1998, the amortized cost of the Company's investments approximated fair value.

42

<PAGE>

The Company's investments consist of the following:

<TABLE>  
<CAPTION>

	December 31, 1997		December 31, 1998	
of	Amortized Cost Basis	Maturity of Securities Within One Year	Amortized Cost Basis	Maturity Securities Within One Year
Foreign debt securities.....	\$1,011	\$1,011	\$ --	\$ --
Municipal debt securities.....	3,686	3,686	--	--
U.S. government agency debt securities.....	3,916	3,916	7,825	7,825
Corporate debt securities.....	--	--	69,530	69,530
	-----	-----	-----	-----
	\$8,613	\$8,613	\$77,355	\$77,355
	=====	=====	=====	=====

</TABLE>  
Stock based compensation

Stock based compensation arising from stock option grants is accounted for by the intrinsic value method under Accounting Principles Board ("APB") Opinion No. 25. Statement of Financial Accounting Standards ("SFAS") No. 123 encourages (but does not require) the cost of stock-based compensation arrangements with employees to be measured based on the fair value of the equity instrument awarded. As permitted by SFAS No. 123, the Company applies APB Opinion No. 25 to its stock-based compensation awards to employees and discloses in Note 9 the required pro forma effect on net income and earnings per share.

Income taxes

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of



existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in net income in the year of change. A valuation allowance is recorded for those deferred income tax assets whose recoverability is not sufficiently likely. As the Company operated as a division of Nortel in 1996, it did not file separate income tax returns. Income tax expense has been estimated based upon an application of Nortel's effective tax rate for that period.

Net income (loss) per share

Basic net income (loss) per share is computed by dividing the net income (loss) by the weighted average number of shares of Common stock of all classes outstanding during 1997 and 1998. Diluted net income (loss) per share is computed by dividing the net income (loss) by the weighted average number of shares of Common stock and potential Common stock outstanding, and when dilutive, exchangeable Special Voting stock on an as-if exchanged basis, and options to purchase Common stock using the treasury stock method. The dilutive effect of the exchangeable Special Voting stock and the options to purchase Common stock are excluded from the computation of diluted net income (loss) per share if their effect is antidilutive. For the year ended December 31, 1998, the antidilutive effect excluded from the diluted net loss per share computation due to the exchangeable Special Voting stock outstanding was 6,767,673 shares, conversion rights of Series B was 1,687,096 shares, and options to purchase Common stock was 5,437,769 shares.

Net income (loss) per share has been calculated as follows:

<TABLE>  
<CAPTION>

	December	
31,	-----	
-----	1997	
1998	-----	
-----	<C>	<C>
<S>	<C>	<C>
Net income (loss) available to common shareholders (in thousands).....	\$	514 \$
(23,828)		
		=====
=====		
Weighted average common shares outstanding:		
Basic:		
Basic weighted average common shares outstanding.....	30,700,000	
35,254,735		
-----		
Basic net income (loss) per share.....	\$	0.02 \$
(0.68)		
		=====
=====		
Diluted:		
Basic weighted average common shares outstanding.....	30,700,000	
35,254,735		
-----		
Exchange rights on Special Voting stock.....	7,700,000	
N/A		
Additional conversion rights of Series B Voting and Non-Voting common stock.....	2,663,836	
N/A		
Net effect of dilutive options using the treasury stock method.....	679,136	
N/A		
-----		
Subtotal.....	11,042,972	
N/A		
-----		
Diluted weighted average common shares outstanding.....	41,742,972	
35,254,735		
		=====

```

=====
Diluted net income (loss) per share..... $      0.01 $
(0.68)
=====
</TABLE>

```

<PAGE>

Concentration of credit risk

Financial instruments that potentially subject the Company to market and credit risk consist principally of cash equivalents, short-term investments and accounts receivable. The Company has investment policies that limit the amount of credit exposure to any one issuer and restrict placement of these investments to issuers evaluated as credit worthy. The Company maintains its cash equivalents, and short-term investments, with high quality financial institutions and investment managers. The Company performs periodic reviews of the credit standing of its investments and the financial institutions managing those investments.

The Company's customer base consists primarily of large, well-established companies or government agencies. Five customers accounted for approximately 55% and 45% of accounts receivable as of December 31, 1997 and 1998 respectively. The Company performs ongoing credit evaluations of its customers, and generally, does not require collateral from its customers to support accounts receivable. Requests to extend significant credit to customers are reviewed and approved by senior management. The Company maintains an allowance for potential losses due to credit risk, but has not experienced significant write-offs. Management believes that the reserves for losses are adequate. The following table summarizes the changes in the allowance for doubtful accounts:

<TABLE>  
<CAPTION>

	December 31,	
	1997	1998
<S>	<C>	<C>
Allowance for doubtful accounts, beginning of period.....	\$ 129	\$ 416
Additional provision, net.....	287	337
	-----	-----
Allowance for doubtful accounts, end of period.....	\$ 416	\$ 753
	=====	=====

</TABLE>

The Company is subject to foreign currency exchange risk in the form of exposures to changes in currency exchange rates between the United States and Canada, Germany, Switzerland and the United Kingdom. Management periodically reviews the potential financial impact of this risk and currently believes that the Company is not subject to significant potential losses as a result.

Recent pronouncements

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued SOP No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP No. 98-1"). SOP No. 98-1 requires that certain costs related to the development or purchase of internal use software be capitalized and amortized over the estimated useful life of the software. SOP No. 98-1 is effective beginning in 1999. The Company does not expect the adoption of SOP No. 98-1 to have a material impact on its results of operations.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), which establishes accounting and reporting standards for derivative instruments. SFAS No. 133 is effective beginning in 2000. The Company currently does not use hedging or derivatives and, as a result, does not anticipate any impact on the financial statements.

In December 1998, the AICPA issued SOP No. 98-9, "Modifications of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions" ("SOP No. 98-9"). SOP No. 98-9 requires recognition of revenue using the "residual method" in a multiple-element software arrangement, whereby the total fair value

of undelivered elements is deferred and recognized in accordance with the provisions of SOP No. 97-2, "Software Revenue Recognition". The Company will be required to implement the provisions of SOP No. 98-9 beginning in 2000. The Company does not expect the adoption of SOP No. 98-9 to have a material impact on its results of operations.

Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

<PAGE>

3. ACQUISITION OF r3 SECURITY ENGINEERING AG AND ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT

On June 8, 1998, the Company completed the acquisition of r3 Security Engineering AG ('r3'), a company based in Zurich, Switzerland which provides consulting, applied research and product development services related to commercial security and encryption solutions. The Company acquired all the outstanding shares of r3 for an aggregate purchase price of \$23,774, which included approximately \$4,391 in cash, \$17,013 representing 1,167,288 shares of Redeemable Series A common stock (subsequently converted into Common stock upon the closing of the Company's initial public offering), approximately \$994 in assumed net liabilities and acquisition expenses, and approximately \$1,376 of adjustments to the June 8, 1998 opening balance sheet of r3 to record the acquired assets and liabilities at fair value.

This acquisition has been accounted for under the purchase method of accounting. In connection with the purchase price allocation, the Company obtained an independent appraisal of the intangible assets which indicated approximately \$20,208 of the acquired intangible assets consisted of in-process product development. The development of these projects had not reached technological feasibility and the technology has no alternative future use. Further, management estimates that related development costs will continue to be incurred and, accordingly, the \$20,208 was included as an expense in the consolidated statement of operations for the year ended December 31, 1998. Goodwill of \$3,566 was recorded as a result of this acquisition.

The following unaudited pro forma data summarize the combined results of operations of Entrust Technologies Inc. and r3 as if the acquisition had taken place as of the beginning of the years presented, and accordingly, excludes the \$20,208 write-off of in-process research and development in 1998 as it would have been a charge to beginning retained earnings, and includes a full year of goodwill amortization for each year presented.

<TABLE>  
<CAPTION>

December 31,	Year ended
-----	-----
	1997
1998	-----
-----	-----
<S>	<C>
<C>	
Revenues.....	\$28,635
\$50,589	=====
Net loss.....	(705)
(4,923)	=====
Basic and diluted net loss per share.....	(0.02)
(0.14)	=====
=====	=====

</TABLE>

4. PROPERTY AND EQUIPMENT

Property and equipment, at cost, consist of the following:

<TABLE>  
<CAPTION>

	December 31,	
	-----	
	1997	
	-----	
--		
1998		
--		
<S>	<C>	<C>
Computer and telecom equipment.....	\$1,491	\$
3,345		
Furniture and fixtures.....	86	
1,180		
Leasehold improvements.....	639	
1,504		
Internal-use software.....	218	
668		
--		
	2,434	
6,697		
Less: accumulated depreciation and amortization.....	(754)	
(1,823)		
--		
Total property and equipment, net.....	\$1,680	\$
4,874		
	=====	

</TABLE>

5. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

<TABLE>  
<CAPTION>

	December 31,	
	-----	
	1997	1998
	-----	
--		
--		
<S>	<C>	<C>
Payroll and related benefits.....	\$1,532	
\$3,127		
Other.....	534	
1,865		
--		
	\$2,066	
\$4,992		
	=====	

</TABLE>

6. LONG-TERM DEBT

At December 31, 1997, the Company had an installment note with a financial institution for \$1,449. This obligation was unsecured with interest at an effective rate of 6.9% per annum and was retired in 1998.

<PAGE>

7. INCOME TAXES

The following table presents the U.S. and foreign components of income (loss) before income taxes and the provision for income taxes. 1996 figures are

estimated on a pro forma basis for comparative purposes.

<TABLE>  
<CAPTION>

December 31,	Year ended		
-----	-----		
1998	1996	1997	-
-----	-----	-----	-----
<S>	<C>	<C>	
<C>			
Income (loss) before income taxes			
United States.....	\$ (8)	\$ 2	
\$(22,108)			
Foreign.....	64	231	
(1,880)			
-----	-----	-----	-
	\$ 56	\$ 233	
\$(23,988)			
=====	=====	=====	
(Provision) benefit for income taxes			
Current:			
Federal.....	\$ --	\$(337)	\$
140			
State and local.....	--	(76)	
79			
Foreign.....	331	(49)	
(202)			
-----	-----	-----	-
	331	(462)	
17			
-----	-----	-----	-
Deferred:			
Federal.....	--	119	
(52)			
State and local.....	--	28	
7			
Foreign.....		596	
188			
-----	-----	-----	-
	--	743	
143			
-----	-----	-----	-
Total benefit for income taxes.....	\$ 331	\$ 281	\$
160			
-----	=====	=====	

</TABLE>

A reconciliation between income taxes computed at the federal statutory rate and income tax benefit is shown below:

<TABLE>  
<CAPTION>

1998	Year ended December 31,		
-----	-----		
1998	1996	1997	-
-----	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
Income tax (provision) benefit at federal statutory rate.....	\$ (19)	\$ (79)	\$
8,156			
State and local taxes, net of federal benefits.....	--	(48)	
57			
Foreign earnings benefit (tax) at different rate.....	(6)	15	

80	Acquired in-process research and development and other expenses not deductible for tax purposes.....	--	--	
(6,913)	Valuation allowances on benefit of tax losses.....	--	--	
(1,220)	Foreign research and development tax credits utilized.....	331	393	
--	Utilization of tax loss carry-forwards.....	25	--	
		-----	-----	--
160	Total benefit for income taxes.....	\$ 331	\$ 281	\$
		=====	=====	

=====  
</TABLE>

Deferred income taxes represent the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) net operating loss (NOL) and tax credit carry-forwards. The tax effects of significant items comprising the Company's net deferred tax benefits (liabilities) are as follows:

<TABLE>  
<CAPTION>

		December 31,	
		-----	
		1997	
		-----	
1998			
<S>		<C>	<C>
Current asset:			
157	Accruals and valuation allowances not currently deductible.....	\$ -	\$
426	Deferred income currently taxable.....	347	
		-----	--
583	Total.....	347	
		-----	--
Non-current asset (liability):			
(34)	Accelerated depreciation for tax purposes.....	(7)	
1,220	United States and Foreign NOL carry-forwards.....	-	
(1,220)	Valuation allowance.....	-	
1,307	Foreign research and development tax credit carry-forwards.....	384	
(989)	Valuation allowance.....	-	
		-----	--
284	Total.....	377	
		-----	--
867	Net deferred tax asset.....	\$ 724	\$
		=====	

=====  
</TABLE>

As at December 31, 1998, the Company has available the following income tax carry-forwards to reduce future income tax liabilities:

<TABLE>  
<CAPTION>

	Amount	Period Expiring
	-----	-----
<S>	<C>	<C>
Net operating losses (tax benefits):		
United States.....	\$ 598	2018
Foreign.....	622	2005
	-----	
	1,220	
Foreign research and development tax credits.....	1,307	2007-2008
	-----	
	\$2,527	
	=====	

</TABLE>

## 8. CAPITAL STOCK

On January 24, 1997, the Board of Directors declared a 10-for-1 stock split effected in the form of a stock dividend, payable to the shareholders of Series A common stock and Special Voting stock. On June 18, 1998, the Board of Directors approved an increase in the authorized number of shares of Series A common stock from 15,000,000 to 100,000,000, Preferred stock from 500,000 to 5,000,000 and Special Voting stock from 2,500,000 to 15,000,000.

The Board of Directors also approved on June 18, 1998 a 4-for-1 stock split, effected in the form of a stock dividend payable to the shareholders of Series A common stock and Special Voting stock. In addition, the Board of Directors approved an amendment to the Company's Articles of Incorporation, which redesignated the Series A common stock as Common stock effective upon the completion of the Company's initial public offering. The consolidated financial statements have been restated to reflect the increase in the number of authorized shares and these stock splits.

Concurrent with the closing of the initial public offering on August 21, 1998, each of the 20,314,346 outstanding shares of the Company's Series A common stock and each of the 1,167,288 outstanding shares of the Company's Redeemable Series A common stock were automatically converted into one share of Common stock. Also, the 260,000 outstanding shares of the Company's Series B (including non-voting) common stock were automatically converted into 13,063,836 shares of Common stock. Furthermore, the majority shareholder of the Company exercised its option to exchange 2,542,711 shares of the Company's Special Voting stock into the equivalent number of shares of Common stock. After this exchange, the remaining number of issued and outstanding Special Voting shares was 5,157,289.

### Common Stock

The holders of Common stock are entitled to one vote per share and are entitled to dividends when and if declared by the Board of Directors of the Company. The Company is authorized to issue up to 100,000,000 shares of Common stock.

### Series A and Series B Common Stock

The holders of Series A and Series B common stock were entitled to one vote per share and were entitled to dividends when and if declared by the Board of Directors of the Company. The Series B Non-Voting common stock had the same rights and privileges as the Series B common stock except for the non-voting nature of the stock and it is exchangeable at the option of the holder into Series B common stock. The Company's Series B common stock and Series B Non-Voting common stock were automatically converted into 13,063,836 shares of Common stock upon completion of the public offering of the Company's Common stock. Also, the Company's Series A common stock was converted to Common stock upon completion of the public offering. As of December 31, 1998, there were no issued and outstanding shares of the Company's Series A and Series B common stock.

### Redeemable Series A Common Stock

The holders of the Redeemable Series A common stock were entitled to the same rights and privileges as the Series A common stock. The 1,167,288 of these

issued and outstanding shares were converted to an equivalent number of shares of Common stock upon completion of the public offering of the Company's Common stock. As of December 31, 1998, there were no issued and outstanding shares of the Company's Redeemable Series A common stock.

<PAGE>

Special Voting Stock

The holders of the Special Voting stock also hold an equivalent number of Exchangeable shares in the Company's majority-owned subsidiary, Entrust Technologies Limited. At any time prior to December 31, 2006, the holders of the Special Voting stock have the right to exchange their shares of Special Voting stock and their Exchangeable Shares in Entrust Technologies Limited into 5,157,289 shares of Common stock. The Company generally also has the right to demand such exchange on or before December 31, 2006.

Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of Preferred stock in one or more series. Each such series of Preferred stock shall have such rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights and liquidation preferences, as shall be determined by the Board of Directors. As of December 31, 1998, the Company had not issued any shares of Preferred stock.

9. STOCK OPTIONS

Employee Stock Option Plan

During the year ended December 31, 1997, the Company's shareholders approved the 1996 Stock Incentive Plan (the "Plan") applicable to the Company's full-time employees, officers, directors, and consultants and authorized 7,228,920 shares of Series A common stock (Common stock following the Company's public offering) for issuance thereunder. In May 1998, the Company's shareholders increased the authorized number of shares available for issuance under this plan to 7,630,920. On June 18, 1998, the Company's Board of Directors approved an increase of 2,369,080 in the number of shares available under the Plan, subject to shareholder approval. In July 1998, 400,000 of the shares available for issuance under the Plan were transferred to the Employee Stock Purchase Plan. The options under the Plan are granted at the then-current fair market value of the Series A common stock (Common stock following the Company's public offering) of the Company and generally may be exercised in equal proportions over the defined vesting period for each grant, generally two to four years, and expire on the tenth anniversary or upon termination of employment.

A summary of the activity under the Plan is set forth below:

<TABLE>

<CAPTION>

Outstanding	Options	
-----	-----	
Weighted	Shares	
Average	Available	Number of
Exercise Price	for Grant	Shares
-----	-----	-----
<S>	<C>	<C>
<C>		
Balance at December 31, 1996	--	--
Authorized.....	7,228,920	--
Granted.....	(6,628,800)	6,628,800
\$ 2.16		
Forfeited.....	140,720	
(140,720) 2.13		
	-----	-----
Balance at December 31, 1997.....	740,840	6,488,080
2.16		
Authorized.....	2,371,080	--



Granted.....		(1,673,016)	1,673,016
11.79			
Forfeited.....		121,324	
(121,324)	4.44		
Exercised.....		--	
(18,846)	2.13		
Balance at December 31, 1998.....		1,560,228	8,020,926
4.13		=====	=====

</TABLE>

The number of outstanding options exercisable into common stock was 2,887,097 at December 31, 1998. The weighted average exercise price of these exercisable outstanding options was \$2.50.

The following table summarizes information concerning currently outstanding options as at December 31, 1998:

<TABLE>

<CAPTION>

Exercisable	Options Outstanding			Options	
	Number of	Weighted	Weighted	Number of	
Average	Options	Average	Average	Options	
Exercise	Outstanding	Remaining	Exercise	Exercisable	
Range of Exercise Prices	Contractual Life	Price	Price		
Price					
<S>	<C>	<C>	<C>	<C>	<C>
\$2.13 to \$2.50.....	6,390,314	8.2 years	\$ 2.17	2,801,097	\$
2.16					
\$6.25.....	624,512	9.2 years	\$ 6.25	----	
N/A					
\$12.08 to \$17.63.....	863,600	9.6 years	\$14.47	86,000	
\$13.45					
\$19.50 to \$26.25.....	142,500	9.9 years	\$20.75	----	
N/A					
	8,020,926			2,887,097	
	=====			=====	

</TABLE>

<PAGE>

Employee Stock Purchase Plan

The Company's 1998 Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors in July 1998 and approved by the stockholders of the Company in August 1998. The Purchase Plan authorized the issuance of up to a total of 400,000 shares of common stock to participating employees.

All employees of the Company, including directors of the Company who are employees, and all employees of any participating subsidiaries whose customary employment is more than 20 hours per week and more than five months in any calendar year are eligible to participate in the Purchase Plan.

Under the terms of the Purchase Plan, the price per share paid by each participant on the last day of the Offering Period is an amount equal to 90% of the fair market value of the Common stock on either the first day or the last day of the Offering Period, whichever is lower.

The Purchase Plan terminates on July 21, 2000 or such earlier date as the Board determines. Upon termination of the Purchase Plan all amounts in the accounts of participating employees will be promptly refunded.

Stock based compensation

The Company applies APB Opinion No. 25 and related interpretations in

accounting for its employee stock-based compensation plans. Accordingly, compensation expense has been recognized for its stock-based compensation plans in the year ended December 31, 1998 because the exercise price of some options granted in that period were determined, for accounting purposes, to be below the fair value of the underlying stock as of the grant date for such stock options. In connection with the granting of these options, the Company has recorded unearned deferred compensation of \$784 for the year ended December 31, 1998. This amount is being amortized over the vesting period of four years from the date of grant, with \$149 amortized into compensation expense as of December 31, 1998. For all other periods disclosed, the exercise price of each option granted was equal to the fair value of the underlying stock at the date of grant. Had compensation costs for the Company's Stock Incentive Plan been determined based on the fair value at the grant date for awards under the Plan, consistent with the methodology prescribed under SFAS 123, the Company's net income (loss) and net income (loss) per share would have been as follows, on a pro forma basis.

<TABLE>  
<CAPTION>

	Year ended December 31,		
	1996	1997	1998
Net income (loss), as reported.....	\$ 387	\$ 514	
Estimated additional stock based compensation costs under SFAS 123.....	--	(1,535)	
Pro forma net income (loss).....	\$ 387	\$(1,021)	
Basic and diluted net income (loss) per share.....	--	\$ (0.03)	\$

</TABLE>

The fair value of all options granted prior to the Company's initial public offering on August 17, 1998 were estimated as of the date of grant using the minimum value model. The fair value of all options granted subsequent to the Company's initial public offering were estimated as of the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used in the calculations.

<TABLE>  
<CAPTION>

	Year ended December 31,		
	1996	1997	1998
Expected option life, in years.....	--	6	
Risk free interest rate.....	--	6.22%	
Dividend yield.....	--	--	--
Volatility.....	--	--	--

</TABLE>

The weighted average fair value for stock options granted during 1997 and 1998 was \$0.66 and \$5.47 per option, respectively.

10. RELATED PARTY TRANSACTIONS

Significant related party transactions with the Company's parent, Nortel, and affiliated companies, not otherwise disclosed in the financial statements, include the following.

The Company paid \$3,656 and \$273 in the years ended December 31, 1996 and 1997, respectively, for research and development services provided by Bell Northern Research Ltd. ('BNR'), a subsidiary of Nortel. The

49

&lt;PAGE&gt;

research and development services and other costs of revenue were purchased at cost from BNR. Purchases from BNR are settled through the intercompany accounting system of Nortel.

Revenues include sales to Nortel for the years ended December 31, 1996, 1997, and 1998 of \$300, \$495, and \$1,916, respectively. Revenues for the years ended December 31, 1997 and 1998 include sales to Nortel-affiliated companies totaling \$332 and \$2,076, respectively. Sales to Nortel-affiliated companies were immaterial in 1996.

During the years ended December 31, 1997 and 1998, the Company reimbursed Nortel for expenses paid by Nortel on behalf of the Company, net of revenues collected by Nortel on behalf of the Company. The net expenses reimbursed amounted to \$5,610 and \$1,390 for the years ended December 31, 1997 and 1998, respectively. These amounts have been recorded in these financial statements at the carrying amount of the transactions involved.

Balances due to/from the related party, arising from the sales of product and receipt of services referred to above, are typically payable net 30 days from the date of the related intercompany invoice. At December 31, 1998, accounts receivable included \$1,724 related to Nortel.

## 11. COMMITMENTS AND CONTINGENCIES

### Lease commitments

The Company leases administrative and sales offices and certain property and equipment under noncancellable operating leases expiring through 2003 with certain renewal options. Total rent expense under such leases for the years ended December 31, 1996, 1997, and 1998 were \$100, \$956, and \$3,083, respectively. At December 31, 1998, the future minimum lease payments under operating leases were as follows:

<TABLE>	<C>
<S>	
1999.....	3,480
2000.....	3,113
2001.....	2,196
2002.....	1,127
Thereafter.....	262
	-----
Total future minimum lease payments.....	\$10,178
	=====

&lt;/TABLE&gt;

### Legal proceedings

From time to time, the Company is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. On February 19, 1999, a patent infringement suit was filed against the Company. The plaintiffs have requested that the Company be enjoined from further infringement and pay damages for infringement, treble damages for willful infringement and costs. It is the Company's belief that the allegations are without merit and the Company intends to vigorously defend the lawsuit. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of such legal matters will have a material adverse effect on consolidated results of operations or consolidated financial position.

## 12. EMPLOYEE SAVINGS PLAN

The Company has a defined contribution retirement savings plan covering substantially all of its full-time employees. This plan qualifies under Section 401(k) of the Internal Revenue Code for participating U.S. based employees. The Company matches 50% of employee contributions up to 3% of their individual compensation. Matching contributions made by the Company totaled \$183 and \$383 for the years ended December 31, 1997 and 1998, respectively.

## 13. SEGMENT, GEOGRAPHIC AND MAJOR CUSTOMER INFORMATION

## Segment information

The Company conducts business in one operating segment; namely, the design, production and sale of software products and related services for encryption and digital signature. The nature of the Company's different products and services is similar and, in general, the type of customers for those products and services is not distinguishable.

The Company does, however, prepare information for internal use by the Chief Operating Decision Maker ("CODM"), the President and Chief Executive Officer, on a geographic basis. Accordingly, under SFAS 131, the Company has included a summary of the segment financial information reported to the CODM as follows in the next section regarding geographic information. The Company's CODM does not view geographic segment results below net income (loss) before income taxes and, therefore, the provision for income taxes is not broken out by geographic segment below. The accounting policies of the reportable geographic segments are the same as those described in the summary of significant accounting policies.

50

&lt;PAGE&gt;

## Geographic information

Revenues are attributed to specific geographical areas based on where the sales order originated. Long-lived assets and total assets of the Company are those that are identified with operations in the geographic areas.

The Company operates in three main geographic areas as follows:

<TABLE>  
<CAPTION>

	Year Ended December 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
Revenues			
United States.....	\$ 9,758	\$14,978	\$25,861
Canada.....	2,571	8,669	11,832
Europe and Asia.....	473	1,359	11,295
Total revenues.....	\$12,802	\$25,006	\$48,988
Segment operating income (loss):			
United States.....	\$ (8)	\$ (720)	\$ (3,297)
Canada.....	268	356	(167)
Europe and Asia.....	-	234	(862)
Total segment operating income (loss).....	260	(130)	(4,326)
Depreciation and amortization expense:			
United States.....	--	1	410
Canada.....	204	356	573
Europe and Asia.....	--	3	278
Total depreciation and amortization.....	204	360	1,261
Interest income:			
United States.....	--	723	1,807
Acquired in-process research and development:			
United States.....	--	--	20,208
Net income (loss) before income taxes:			
United States.....	(8)	2	(22,108)

Canada.....	64	--	(740)
Europe and Asia.....	--	231	(1,140)
	-----	-----	-----
Total net income (loss) before income taxes.....	\$ 56	\$ 233	\$(23,988)
	=====	=====	=====

December 31,

	-----	-----	-----
	1996	1997	1998
	-----	-----	-----
Long-lived assets (generally depreciated over three to five years):			
United States.....	\$ --	\$ 118	\$ 4,323
Canada.....	1,145	1,540	3,510
Europe and Asia.....	--	40	775
	-----	-----	-----
Total long-lived assets.....	\$ 1,145	\$ 1,698	\$ 8,608
	=====	=====	=====
Total assets:			
United States.....	\$ 2,025	\$18,637	\$ 95,110
Canada.....	1,662	4,689	8,244
Europe and Asia.....	--	1,431	4,475
	-----	-----	-----
Total.....	\$ 3,687	\$24,757	\$107,829
	=====	=====	=====

</TABLE>

Major customer information

In 1996, three customers accounted for an aggregate of 64% of revenues for the year, and individually these customers accounted for 29%, 20% and 15% of revenues for that year. In 1997, three customers accounted for an aggregate of 42% of revenues. One of these customers was the same customer who accounted for 29% of 1996 revenues and this customer accounted for 19% of revenues for 1997. The other two major customers in 1997 accounted for 12% and 11% of revenues, respectively. In 1998, no individual customer accounted for 10% or more of revenues.

<PAGE>

Exhibit Index

-----

<TABLE>  
<CAPTION>

Exhibit Number	Description	Form	Number
-----	-----	---	-----
<S>	<C>	<C>	<C>
2.1*	Asset Transfer Agreement, dated as of December 31, 1996, between the Registrant and Northern Telecom Inc	S-1	2.1
2.2*	Asset Transfer Agreement, dated as of December 31, 1996, between Entrust Technologies Limited and Northern Telecom Limited	S-1	2.2
2.3*	Share Purchase Agreement, dated as of May 30, 1998, as amended,		
	between the Registrant and Rainer A. Rueppel	S-1	2.3
2.4*	Share Purchase Agreement, dated as of May 30, 1998, as amended, between the Registrant and Invision AG	S-1	2.4
2.5*	Form of Share Purchase Agreement between the Registrant and the minority stockholders of r/3/ Security Engineering AG	S-1	2.5
3.1*	Amended and Restated Articles of Incorporation of the Registrant	S-1	3.2
3.2*	Amended and Restated Bylaws of the Registrant	S-1	3.4
4.1*	Specimen certificate for shares of Common Stock	S-1	4.1
10.1*	Amended and Restated Registration Rights Agreement, dated as of July 30, 1998, by and among the Registrant and certain stockholders	S-1	10.3
10.2*	Strategic Alliance Agreement, dated as of December 31, 1996, between		

	the Registrant and Northern Telecom Limited	S-1	10.5
10.3*	Services Agreement, dated as of December 31, 1996, between the Registrant and Northern Telecom Limited	S-1	10.6
10.4*	Support Agreement, dated as of December 31, 1996, between the Registrant and Entrust Technologies Limited	S-1	10.7
10.5*	Share Exchange Agreement, dated as of December 31, 1996, among the Registrant, Entrust Technologies Limited and Northern Telecom Limited	S-1	10.8
10.6*#	Letter Agreement, dated as of April 21, 1997, between the Registrant and John A. Ryan	S-1	10.9
10.7*#	Letter Agreement, dated as of November 18, 1996, between Northern Telecom Limited, on behalf of the Registrant, and Brian O'Higgins	S-1	10.10
10.8*#	Letter Agreement, dated as of November 18, 1996, between Northern Telecom Limited, on behalf of the Registrant, and Bradley N. Ross	S-1	10.11
10.9*#	Letter Agreement, dated as of June 4, 1997, between the Registrant and Richard D. Spurr	S-1	10.12
10.10*#	Letter Agreement, dated as of November 14, 1997, between the Registrant and Hansen Downer	S-1	10.13
10.11*#	Amended and Restated 1996 Stock Incentive Plan	S-1	10.14
10.12*	Standard Office Building Lease Agreement, dated as of July 11, 1997, between G&F International, Inc. and the Registrant.	S-1	10.15
10.13*	Lease Agreement, dated as of January 28, 1998, between Colonnade Development Incorporated and Entrust Technologies Limited	S-1	10.16
10.14*#	1998 Employee Stock Purchase Plan	S-1	10.17
10.15*#	Letter Agreement, dated as of July 2, 1998, between the Registrant and Michele L. Axelson	S-1	10.18
10.16	Standard Office Building Lease Agreement, dated as of January 19, 1999, between HMS Office L.P. and the Registrant		Enclosed herewith
21	Subsidiaries of the Registrant		Enclosed herewith
23.1	Consent of Deloitte & Touche LLP		Enclosed herewith
27	Financial Data Schedule (in EDGAR version only)		Enclosed herewith

&lt;/TABLE&gt;

\* Incorporated herein by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-57275).

# Management contract or compensatory plan or arrangement filed in response to Item 14(a)(3) of the instructions to Form 10-K.

52

&lt;/TEXT&gt;

&lt;/DOCUMENT&gt;

&lt;DOCUMENT&gt;

&lt;TYPE&gt;EX-10.16

&lt;SEQUENCE&gt;2

&lt;DESCRIPTION&gt;OFFICE BUILDING LEASE

&lt;TEXT&gt;

&lt;PAGE&gt;

EXHIBIT 10.16

PRESTON PARK SOUTH

LEASE AGREEMENT

between

HMS OFFICE, L.P. ("LANDLORD")

and

ENTRUST TECHNOLOGIES, INCORPORATED ("TENANT")

Date: January 19, 1999

&lt;PAGE&gt;

TABLE OF CONTENTS

<TABLE>  
<CAPTION>

	Page
<S>	<C>
I.....	-1-
1.1    LEASED PREMISES.....	-1-
II.....	-3-
2.1    TERM.....	-3-
2.2    USE.....	-3-
2.3    INITIAL LEASEHOLD IMPROVEMENTS.....	-3-
2.4    SURVIVAL.....	-3-
2.5    RELOCATION RIGHT.....	-4-
III    -5-	
3.1    RENTAL PAYMENTS.....	-5-
3.2    BASE RENTAL.....	-5-
3.3    SECURITY DEPOSIT.....	-9-
IV    -10-	
4.1    SERVICES TO BE FURNISHED BY LANDLORD.....	-10-
4.2    KEYS AND LOCKS.....	-13-
4.3    WINDOW COVERINGS.....	-13-
4.4    GRAPHICS.....	-13-
4.5    REPAIRS BY LANDLORD.....	-13-
4.6    PEACEFUL ENJOYMENT.....	-13-
4.7    NO WARRANTIES.....	-13-
4.8    FORCE MAJEURE.....	-13-
V.....	-14-
5.1    PAYMENTS BY TENANT.....	-14-
5.2    DAMAGE TO PROJECT.....	-14-
5.3    CARE OF THE LEASED PREMISES.....	-14-
5.4    ASSIGNMENT AND SUBLETTING.....	-14-
5.5    ALTERATIONS, ADDITIONS, AND IMPROVEMENTS.....	-17-
5.6    LEGAL USE AND VIOLATIONS OF INSURANCE COVERAGE.....	-19-
5.7    LEGAL REQUIREMENTS; RULES OF THE PROJECT.....	-19-
5.8    RIGHTS RESERVED BY LANDLORD.....	-20-
5.9    NUISANCE.....	-20-
5.10    SUBORDINATION.....	-20-
5.11    ESTOPPEL CERTIFICATE.....	-21-
5.12    TENANT'S REMEDIES.....	-21-
5.13    NAME OF BUILDING AND PROJECT.....	-21-
VI.....	-21-
6.1    CONDEMNATION.....	-21-
6.2    DAMAGES FROM CERTAIN CAUSES.....	-22-
6.3    INTENTIONALLY OMITTED.....	-22-
6.4    HOLDING OVER.....	-22-
6.5    CASUALTY.....	-22-
6.6    ATTORNEYS' FEES.....	-23-
6.7    ASSIGNMENTS BY LANDLORD.....	-23-
</TABLE>	
	-i-
<PAGE>	
<TABLE>	
<S>	<C>
6.8    DEFAULT BY TENANT.....	-23-
6.9    INSOLVENCY OR BANKRUPTCY.....	-26-
6.10    NON-WAIVER.....	-26-
6.11    CASUALTY INSURANCE.....	-26-
6.12    LIABILITY INSURANCE.....	-26-
6.13    HOLD HARMLESS.....	-27-
6.14    WAIVER OF SUBROGATION RIGHTS.....	-27-
6.15    PARKING.....	-27-
6.16    SEVERABILITY.....	-28-
6.17    NOTICES.....	-28-
6.18    SUCCESSORS.....	-29-
6.19    ENTIRETY.....	-29-

6.20	FINANCIAL STATEMENTS.....	-29-
6.21	AMENDMENTS.....	-30-
6.22	BROKERS.....	-30-
6.23	VACATING THE LEASED PREMISES.....	-30-
VII.....		-30-
7.1	RENEWAL OPTION.....	-30-
7.2	RIGHT OF OFFER.....	-32-
VIII.....		-33-
8.1	MISCELLANEOUS.....	-33-

</TABLE>

EXHIBITS

- - - - -

- A - Description of Land
- B - Floor Plan of Leased Premises
- C-1 - Tenant Improvements Work Schedule
- C-2 - Schedule of Building Standard Improvements
- D - Certificate of Commencement Date
- E - Project Rules & Regulations

- ii -

<PAGE>

INDEX

- - - - -

DEFINED TERMS

- - - - -

<TABLE>

<CAPTION>

TERM	PAGE
- - - - -	- - - - -
<S>	<C>
Access Equipment.....	-13-
Actual Tenant.....	-17-
Additional Contractor.....	C-1-6
Additional Electrical Equipment.....	-11-
Adjacent Building.....	-1-
Affiliate.....	-15-
Annual Reconciliation Payment.....	-6-
Base Rental.....	-5-
Base Rental Adjustment.....	-6-
Base Rental Rate.....	-5-
Basic Cost Component.....	-6-
Basic Costs.....	-6-
Bid Documents.....	C-1-2
Bidding Contractors.....	C-1-1
Building.....	-1-
Building Operating Hours.....	-10-
Building Standard.....	C-1-1
Building Standard Improvements.....	C-2-1
Building Standard Rated Electrical Design Load.....	-11-
Building Standard Services.....	-10-
Business Days.....	-34-
Commencement Date.....	C-1-5
Common Areas.....	-2-
Company.....	-14-
Completion Date.....	C-1-5
Complex.....	-1-
Construction Allowance.....	C-1-2
Construction Contract.....	C-1-2
Construction Cost.....	C-1-3
Contractor Date.....	C-1-2
Control.....	-15-
Costs.....	-20-
Effective Date.....	-1-
Election Notice.....	-30-
Environmental Laws.....	-19-
Event of Default.....	-23-
Expense Stop.....	-31-



First Month's Rent.....	-9-
Garage.....	-1-
General Common Areas.....	-2-
Governmental Authority.....	-19-
Hazardous Materials.....	-19-
Holidays.....	-10-
Initial Leased Premises.....	C-1-1
Intent Notice.....	-30-
Interest Rate.....	-5-

</TABLE>

<PAGE>

<TABLE>

<S>	<C>
Land.....	-1-
Landlord.....	-1-
Lease.....	-1-
Leased Premises.....	-1-
Legal Requirements.....	-19-
Long Lead Time Items.....	C-1-5
Market Base Rental Rate.....	-31-
Net Rentable Area.....	-1-
New Premises.....	-4-
Notice.....	-15-
Notice of Substantial Completion.....	C-1-4
Offer Election.....	-32-
Offer Election Period.....	-32-
Offer Notice.....	-32-
Offer Space.....	-32-
Operating Expenses.....	-6-
Outside Contractor.....	-18-
Parking Permits.....	-27-
Parking Rental.....	-28-
PCB.....	-20-
Permitted Affiliate.....	-15-
Project.....	-1-
Project Rules.....	-19-
Punch List.....	C-1-3
Release.....	-20-
Relocation Effective Date.....	-4-
Relocation Notice.....	-4-
Remaining Allowance.....	C-1-2
Renewal Option.....	-30-
Renewal Term.....	-30-
Rent.....	-5-
Reportable Quantity.....	-20-
Revised Bid Documents.....	C-1-2
Right of Offer.....	-32-
RO Expense Stop.....	-33-
RO Space.....	-32-
RO Space Rental Commencement Date.....	-33-
Security Deposit.....	-9-
Service Areas.....	-2-
Substantial Completion.....	C-1-4
Substantially Complete.....	C-1-4
Successor.....	-20-
Superior Rights.....	-32-
Tenant.....	-1-
Tenant Amounts.....	C-1-3
Tenant Architect.....	C-1-1
Tenant Contractor.....	C-1-1
Tenant Delay.....	C-1-5
Tenant Engineering Drawings.....	C-1-1
Tenant Improvements.....	C-1-1
Tenant Working Drawings.....	C-1-1
Term.....	-3-

</TABLE>

<PAGE>

<TABLE>

<S>	<C>
-----	-----

Usable Area..... -2-  
</TABLE>

-v-

<PAGE>

LEASE AGREEMENT

THE STATE OF TEXAS  
COUNTY OF COLLIN

THIS LEASE AGREEMENT (this "Lease") is made and entered into as of January 19, 1999 (the "Effective Date") between HMS OFFICE, L.P., a Delaware limited partnership ("Landlord"), and ENTRUST TECHNOLOGIES, INCORPORATED, a Maryland corporation ("Tenant").

W I T N E S S E T H:

In consideration of the sum of Ten Dollars (\$10.00) and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and each in consideration of the duties, covenants and obligations of the other hereunder, Landlord and Tenant hereby agree as follows:

1.

1.1. LEASED PREMISES. Subject to and upon the terms, provisions and conditions hereinafter set forth, Landlord does hereby lease to Tenant and Tenant does hereby lease from Landlord those certain premises (the "Leased Premises") in the building commonly referred to as One Preston Park South as of the date hereof (the "Building") located at 4975 Preston Park Boulevard in Plano, Texas on the land (the "Land") described on Exhibit A (the Building, the Land, and all additional improvements and additional facilities now or hereafter located on the Land that serve the Building or the tenants of the Building hereinafter referred to as the "Project"), such Leased Premises being more particularly described as follows:

Approximately 8,716 square feet of Net Rentable Area (defined below) on Floor 4 of the Building as reflected on the floor plan of Floor 4 attached hereto as Exhibit B.

"Garage" shall mean the parking garage located adjacent to the Building which serves the Complex (defined below).

"Adjacent Building" shall mean the building located on the Land and commonly referred to as Two Preston Park South, 4965 Preston Park Boulevard, Plano, Texas.

"Complex" shall mean the Land and the development as it may be modified from time to time commonly referred to as Preston Park South located on the Land, including without limitation, the Building, the Adjacent Building, the basement tunnel which connects the Building with the Adjacent Building, the Garage, all central plants, surface parking areas, plaza areas, driveways, walkways, sidewalks, landscaping and water amenities, and other improvements which are adjacent or related thereto, together with such additional improvements and additional facilities now or hereafter located on the Land that serve any of the foregoing.

"Net Rentable Area" shall mean the area or areas of space within the

Building determined as follows: (i) Net Rentable Area in the case of a full floor leased to a single tenant is determined by measuring from the inside surface of the outer pane of glass and extensions of the plane thereof in non-glass areas to the inside surface of the opposite outer pane of glass and extensions of the plane thereof in non-glass areas and shall include all areas enclosed by such surfaces, excluding only Service Areas (defined below) and General Common Areas (defined below), plus an allocation of the square footage of the General Common Areas, and (ii) Net Rentable Area in the case of a floor leased to more than one tenant (i.e., a multi-tenant floor) shall include the total square footage of all floor areas enclosed by the inside surface of the outer pane of glass and extensions of the plane thereof in non-glass areas and by demising walls (measured from the midpoint of demising walls), excluding only Service Areas and General Common Areas, plus an

-1-

<PAGE>

allocation of the square footage of the Common Areas (defined below) and the General Common Areas. In determining Net Rentable Area pursuant to (i) and (ii) above, no deduction from Net Rentable Area shall be made for columns or projections necessary to the Building.

"Service Areas" shall mean the total square footage within vertical

-----  
penetrations such as (and measured from the midpoint of the walls enclosing) Building stairs, elevator shafts, fire towers, flues, vents, stacks, vertical pipe shafts, and vertical ducts; however, structural columns are not included in Service Areas. Areas for the specific use of Tenant or other tenants of the Project or installed at the request of Tenant or other tenants such as special stairs or elevators are not included within the definition of Service Areas.

"General Common Areas" shall mean the total square footage within (and

-----  
measured from the midpoint of the walls enclosing or from the inside surface of the outer pane of glass enclosing, or extensions of the plane thereof in non-glass areas) the Building's elevator machine rooms, main mechanical rooms, loading dock facilities, telephone switch rooms, main electrical rooms, public lobbies (including the main floor lobby of the Building), engineering, security, postal and cleaning areas, and other areas not leased or held for lease within the Building but which are necessary or desirable for the proper utilization of the Building or to provide customary services to the Building. The allocation of the square footage of the General Common Areas referred to in this Section 1.1 shall be equal to the total square footage of the General Common Areas multiplied by a fraction, the numerator of which is the Net Rentable Area of the Leased Premises (excluding the allocation of the General Common Areas) and the denominator of which is the total of all Net Rentable Area of space leased or held for lease as office space or retail space contained in the Building (excluding the allocation of the General Common Areas).

"Common Areas" shall mean the total square footage of all areas within

-----  
(and measured from the midpoint of the walls enclosing or inside surface of the outer pane of glass enclosing) public corridors, elevator foyers, rest rooms, mechanical rooms, janitor closets, telephone, electrical and equipment rooms, and other similar facilities for the use of all tenants on the floor on which the Leased Premises are located. The allocation of the square footage of the Common Areas shall be equal to the total square footage of the Common Areas on said floor multiplied by a fraction, the numerator of which is the Net Rentable Area of the portion of the Leased Premises (excluding the allocations of General Common Areas and Common Areas) located on said floor and the denominator of which is the total of all Net Rentable Area on said floor (excluding the allocations of General Common Areas and Common Areas).

"Usable Area" shall mean (A) in the case of a full floor leased

-----  
entirely by a single tenant, the Net Rentable Area of the floor area minus the allocation of General Common Areas (it being agreed that Common Areas are included in the calculations of Usable Area in the case of a full floor leased entirely by a single tenant), and (B) in the case of a floor not leased entirely by one tenant, the Net Rentable Area of the floor area minus the allocation of General Common Areas and Common Areas which were included in Net Rentable Area pursuant to this Section 1.1.

"Initial Leased Premises" shall mean the Leased Premises as of the

Effective Date (and therefore shall specifically exclude any space added to the Leased Premises after the Effective Date).

The Net Rentable Area in the Initial Leased Premises has been calculated as of the Effective Date on the basis of the foregoing definition and is hereby stipulated for all purposes hereof to be 8,716 square feet as of the Effective Date (and such amount shall not be adjusted as a result of minor variations resulting from actual construction and completion of the Leased Premises for occupancy so long as such work is done in accordance with the terms and provisions of this Lease).

-2-

<PAGE>

II.

#### 2.1 TERM.

(a) Subject to and upon the terms and conditions set forth herein, or in any exhibit or addendum attached hereto, the term of this Lease (the "Initial Term") shall commence on the Commencement Date (as defined in Exhibit C-1) and shall expire as to the entire Leased Premises (subject to the provisions of Section 7.1 and 7.2 hereof) at 6:00 P.M. on the day immediately preceding the same date of the thirty-sixth (36th) calendar month after the Commencement Date. The Initial Term of this Lease may be renewed pursuant to Section 7.1 hereof (the Initial Term and, to the extent renewed and extended, the Renewal Term [defined in Section 7.1] are hereinafter collectively called the "Term").

(b) After the Commencement Date, Landlord shall submit to Tenant and Tenant shall execute and deliver to Landlord within fifteen (15) days of Tenant's receipt thereof from Landlord, a declaration (in the form attached as Exhibit D) to confirm the date upon which the Commencement Date occurred. Tenant

shall have ten (10) days after receipt of such declaration to give written notice to Landlord objecting to the declaration, failing which Tenant shall be deemed to have agreed the declaration is correct and Tenant shall be required to execute the declaration within five (5) days after the expiration of such previous ten (10) day period. If Tenant objects to such declaration within such ten (10) day period, Landlord and Tenant shall work together to resolve their differences. After such differences have been resolved, Landlord and Tenant shall execute the corrected declaration. All payments of Base Rental as adjusted by the Base Rental Adjustment (each as defined in Article III), Parking Rental (defined in Section 6.15) and all other payments required of Tenant herein shall be made as and when required herein, notwithstanding any unresolved objections to the declaration. All such payments shall be based upon Landlord's determination of the Commencement Date of which Landlord will notify Tenant (however, if such Commencement Date occurs as the result of Tenant's occupancy of such portion of the Leased Premises, such notice shall not be required) until such objections have been finally resolved, whereupon any overpayment or any underpayment theretofore made shall be adjusted by reducing or increasing, as the case may be, the next installment of Base Rental coming due by the amount of such overpayment or underpayment, as applicable (and no interest or penalty shall be applied thereto).

2.2 USE. The Leased Premises are to be used and occupied by Tenant solely for general office purposes consistent with the uses of first class high-rise office buildings in metropolitan Dallas, Texas, and for no other purpose. Notwithstanding anything to the contrary in this Lease, the Leased Premises shall not be used for any purpose which would (i) adversely affect the appearance of the Complex, (ii) be visible from the exterior of, or the public areas of, the Complex, (iii) adversely affect ventilation in other areas of the Complex (including without limitation, the creation of offensive odors), (iv) create unreasonable elevator loads, (v) cause structural loads to be exceeded, (vi) create unreasonable noise levels, (vii) otherwise unreasonably interfere with Complex operations or other tenants of the Complex, or (viii) violate Legal Requirements (defined in Section 5.7 hereof). In all events, Tenant shall not engage in any activity which is not in keeping with the first-class standards of the Complex.

Without limiting the foregoing, Tenant agrees that Tenant will not use any part of the Leased Premises for the following uses: health care services (provided that management, administration and related services provided to a

health care provider shall not be prohibited hereby; however, in no event may any portion of the Leased Premises be used for the treatment of patients), telephone or telegraph agency, radio, television or other communication station, employment agency, public restaurant or bar, retail, wholesale or discount shop for sale of merchandise, retail service shop, school or classroom (except as incidental to office uses but not as the principal use thereof), or governmental or quasi-governmental bureau, department or agency.

2.3 INITIAL LEASEHOLD IMPROVEMENTS. Landlord and Tenant each shall comply with the provisions of the Tenant Improvements Work Schedule attached hereto as Exhibit C-1.

-----

2.4 SURVIVAL. Any claim, cause of action, liability or obligation arising during the Term and under the provisions hereof in favor of a party hereto and against or obligating the other party hereto shall survive the expiration or any earlier termination of this Lease.

-3-

<PAGE>

2.5 RELOCATION RIGHT. If the Leased Premises are less than 10,000 square feet of Net Rentable Area, then upon written notice to Tenant (the "Relocation Notice"), Landlord may substitute for the Leased Premises other

-----  
premises in the Complex (the "New Premises"), in which event the New Premises  
-----  
shall be deemed to be the Leased Premises for all purposes under this Lease, provided:

(a) The New Premises must be of substantially comparable size to the Leased Premises and constitute contiguous space on a floor;

(b) To the extent Tenant shall have incurred any expense in the preparation of the Tenant Working Drawings and/or Tenant Improvements (each as defined in Exhibit C-1 hereto and as may be applicable depending upon

-----  
which, if any, of the foregoing has then been prepared, purchased or installed at the time of Landlord's election to relocate the Leased Premises), Landlord and Tenant shall cooperate in good faith to cause each of such applicable leasehold improvements to be reproduced for the New Premises as closely as practicable as those planned to be installed or installed (as applicable) in the Leased Premises and at Landlord's expense so that Tenant shall not bear the expense in connection therewith by reason of the exercise by Landlord of the relocation right contained herein, and Landlord shall reimburse Tenant for the reasonable actual costs incurred by Tenant to physically move Tenant's personal property from the Leased Premises to the New Premises plus the costs incurred by Tenant to (i) install the office telecommunications and computer equipment then located in the Leased Premises, and (ii) reprint Tenant's stationery and business cards in stock (not to exceed a three (3) month's supply);

(c) The effective date of such substitution (the "Relocation  
-----  
Effective Date") shall be the date specified in the Relocation Notice  
-----

(which date shall not be earlier than sixty (60) days after the date of such Relocation Notice) or, if Landlord is required to perform tenant finish work pursuant to subsection (b) above, then the date such tenant finish work is substantially completed (which date shall be accelerated a day for each day the performance of the tenant finish work is delayed by the actions of Tenant or its agents, employees, contractors or representatives, either by changes to the plans for such work, or otherwise, so that the Relocation Effective Date will be the date the Relocation Effective Date would have occurred but for such delays).

Tenant shall move from the Leased Premises to the New Premises and shall surrender possession of the Leased Premises as provided in Section 5.3 by the Relocation Effective Date. If Tenant occupies the Leased Premises after the Relocation Effective Date, then Tenant's occupancy of the Leased Premises shall be a tenancy at will (and without limiting all other rights and remedies available to Landlord, including without limitation, instituting a forcible detainer suit), Tenant shall pay the Base Rental and Base Rental Adjustment for the Leased Premises as provided in Section 6.4 and all other Rent (defined in Section 3.1) due therefor

until such occupancy of the Leased Premises ends (which amounts shall be in addition to, and not in lieu of, the Rent due for the New Premises); and

(d) All of the terms, covenants and conditions of this Lease, including without limitation, the Base Rental and other Rent payable under this Lease, shall remain the same for the New Premises as are stated herein to be applicable for the Leased Premises except the Lease shall be amended (i) to identify the space comprising the New Premises after such relocation as the Leased Premises, (ii) to state the Net Rentable Area of the New Premises, and (iii) to adjust the Base Rental as necessary due to any differences in the Net Rentable Area of the New Premises (however, if the New Premises is larger than the Leased Premises, the Base Rental as to the New Premises shall increase no more than five percent (5%) of the Base Rental that would have been payable by Tenant as to the Leased Premises if such relocation had not occurred).

-4-

<PAGE>

III.

### 3.1 RENTAL PAYMENTS.

(a) Commencing on the Commencement Date and continuing thereafter throughout the Term, Tenant hereby agrees to pay Base Rental (defined in Section 3.2) as adjusted by the Base Rental Adjustment (defined in Section 3.2) in accordance with this Section 3.1 and Section 3.2. Base Rental as adjusted by the Base Rental Adjustment (excluding the Annual Reconciliation Payment [defined in Section 3.2 below]) shall be due and payable in twelve (12) equal monthly installments on the first day of each calendar month during the Term (subject to the provisions of subsection (b) below), and Tenant hereby agrees to so pay such rent monthly in advance and without demand to One Preston Park South - HMS Office, L.P., P. O. Box 95403, Chicago, Illinois 60694-5403 (or such other address as may be designated by Landlord from time to time). Notwithstanding the foregoing, Base Rental for the first (1st) month of the Term shall be paid to Landlord on the Effective Date as provided in Section 3.3 below. Parking Rental shall be due and payable in accordance with this Section 3.1 and Section 6.15.

(b) If the Commencement Date is other than the first day of a calendar month or if this Lease expires or terminates on other than the last day of a calendar month, then the installments of Base Rental and Parking Rental for such month or months shall be prorated and the installment or installments so prorated shall be paid in advance. Said installments for such prorated month or months shall be calculated by multiplying the equal monthly installment by a fraction, the numerator of which shall be the number of days of the Term occurring during said commencement or expiration month, as the case may be, and the denominator of which shall be the number of days in said month. Landlord and Tenant hereby agree that the provisions of this Section 3.1(b) shall survive the expiration or termination of this Lease.

(c) Tenant agrees to pay all rent and other sums of money as shall become due from and payable by Tenant to Landlord under this Lease (collectively, the "Rent") at the times and in the manner provided in this

----

Lease, without abatement, notice, demand, set-off or counterclaim. All Rent in addition to Base Rental shall constitute additional rental under this Lease and Landlord shall be entitled to exercise the same rights and remedies provided for in this Lease for the nonpayment of any Rent. All Rent owed by Tenant to Landlord under this Lease shall bear interest from the date due until payment is received at the rate (the "Interest Rate") equal to the lesser of (i) a per

-----

annum rate equal to the "prime rate" or "base rate" announced by Chase Manhattan Bank or its successor, from time to time (or if the "prime rate" or "base rate" is discontinued, the rate announced by such bank as that being charged to its most creditworthy commercial borrowers), plus three percent (3%), or (ii) the maximum contract interest rate per annum allowed by law.

(d) If Tenant fails to pay any regular monthly installment of Rent by the fifth (5th) day of the month in which the installment is due, or any other sum or money owed to Landlord within five (5) days after such sums are due and owing to Landlord, Tenant shall pay a late charge equal to the greater of (i) \$250.00, or (ii) an amount equal to five percent (5%) of the amount due, for each and every thirty (30) day period that said amount remains unpaid (but in no event shall the amount of such late charge exceed an amount based upon the highest legally permissible contract rate chargeable at any time by Landlord

under the circumstances) to compensate Landlord for the administrative expenses incurred. Should Tenant make a partial payment of past due amounts, the amount of such partial payment shall be applied first to reduce all accrued and unpaid late charges, in inverse order of maturity, and then to reduce all other past due amounts, in inverse order of their maturity.

### 3.2 BASE RENTAL.

(a) Tenant hereby agrees to pay as the base annual rental ("Base Rental") for the lease and use of the Leased Premises, an annual amount equal to the product of (x) Twenty-Five and 35/100 Dollars (\$25.35) ("Base Rental Rate"), multiplied by (y) the number of square feet of Net Rentable Area comprising the Leased Premises, subject to increase pursuant to subsection (b) below.

-5-

<PAGE>

From and after the expiration of the Initial Term (to the extent Tenant renews and extends this Lease pursuant to Section 7.1), Tenant agrees to pay Base Rental for the Leased Premises at the Base Rental Rate determined in accordance with the provisions of Section 7.1, subject to increase pursuant to subsection (b) below.

(b) The Base Rental payable under subsection (a) shall be adjusted from time to time in accordance with the following provisions (any such adjustment hereinafter the "Base Rental Adjustment"):

(i) Base Rental includes a component (the "Basic Cost Component")

attributable to Basic Costs (hereinafter defined) equal to \$8.44 per square foot of Net Rentable Area in the Leased Premises. The Basic Cost Component is based on an estimate of Basic Costs to be incurred during calendar year 1999 as of the Effective Date. Prior to January 1 of each calendar year during the Term after the calendar year in which the Commencement Date occurs, or as soon thereafter as reasonably practical, Landlord shall provide an estimate of Basic Costs for the forthcoming calendar year. Tenant shall pay Base Rental for such forthcoming calendar year equal to the Base Rental set forth in subsection (a) above for such time period adjusted upward by an amount equal to the product of (A) the difference between the Basic Cost Component and the coming calendar year's estimated Basic Costs per square foot of Net Rentable Area in the Building, multiplied by (B) the Net Rentable Area of the Leased Premises.

(ii) By June 1 of each calendar year during Tenant's occupancy, or as soon thereafter as reasonably practical, Landlord shall furnish to Tenant a statement of Basic Costs for the previous calendar year or partial calendar year, as applicable, occurring during the Term. If actual Basic Costs for such calendar year or partial calendar year, as applicable, are greater than Landlord's estimate thereof pursuant to clause (i) above, Tenant shall be obligated to pay to Landlord within thirty (30) days of the delivery of such statement a lump sum payment (which payment shall be deemed a payment of Rent hereunder for all purposes) equal to the product of (x) the Net Rentable Area in the Leased Premises, multiplied by (y) the amount by which actual Basic Costs per square foot of Net Rentable Area in the Building exceed Landlord's estimate thereof for such calendar year or partial calendar year, as applicable. If actual Basic Costs for such calendar year or partial calendar year, as applicable, are less than Landlord's estimate thereof pursuant to clause (i) above, Landlord shall promptly after delivery of such statement make a lump sum payment to Tenant (or at Landlord's option, Landlord may credit such lump sum amount against remaining Base Rental installments for the current calendar year) equal to the product of (A) the Net Rentable Area in the Leased Premises, multiplied by (B) the amount by which estimated Basic Costs per square foot of Net Rentable Area in the Building exceed the actual amount thereof (to the extent such excess was actually paid by Tenant, but in no event shall such payment or credit be in an amount which would result in Tenant paying Base Rental for the applicable calendar year in an amount less than the annual Base Rental specified in subsection (a) above). The effect of this reconciliation payment (the "Annual Reconciliation Payment") is that Tenant

will pay during the Term its proportionate share (as defined in clause

(iii) below) of Basic Costs increases over the Basic Cost Component, and no more. Additionally, Landlord shall not collect from Tenant pursuant to this subsection (b)(ii) any increase in Base Rental in an amount which would result in Landlord collecting from all tenants in the Building in any one (1) calendar year an amount in excess of one hundred percent (100%) of Basic Costs for such calendar year. The provisions of this subsection (ii) shall survive the expiration or earlier termination of this Lease.

(iii) All increases in Basic Costs shall be paid by Tenant in the proportion that the Net Rentable Area of the Leased Premises bears to ninety-five percent (95%) of the total Net Rentable Area of the space leased or held for lease in the Building, or to the total Net Rentable Area of space leased in the Building (if such total leased area is greater than ninety-five percent (95%) of the total Net Rentable Area of space leased or held for lease in the Building).

(iv) Nothing contained in this subsection (b) shall be construed at any time so as to reduce the annual Base Rental payable hereunder below the amount set forth in subsection (a) above.

(c) "Basic Costs," as that term is used herein, shall

-----  
 consist of all Operating Expenses (defined below) of the Project as reasonably allocated by Landlord, computed on an accrual basis and determined in accordance

-6-

<PAGE>

with generally accepted accounting principles consistently applied. "Operating

-----  
 Expenses," as that term is used herein, shall mean all expenses and costs (but

-----  
 excluding charges separately paid by other tenants of the Project or other third parties other than through the payment of its share of operating expenses) of every kind and nature that Landlord shall pay or become obligated to pay because of or in connection with the ownership, maintenance, repair, and operation of the Project, including but not limited to, the following:

(i) Wages, salaries, fees and all related expenses (including, without limitation, taxes, insurance, burdens and benefits and costs incurred in providing same) of all personnel engaged in the operation, maintenance, repair and access control of the Project and personnel who provide traffic control relating to ingress and egress to and from the Garage and surrounding public streets.

(ii) Cost of all supplies, tools, equipment and materials, whether purchased or leased, used in the operation, maintenance, repair and/or access control of the Project.

(iii) Cost of utilities for the Project, including but not limited to, water, steam, sewer, waste disposal, gas and electricity, and power for heating, lighting, air conditioning and ventilating the Project (including all Common Areas, General Common Areas and Service Areas).

(iv) Management fees paid to the property manager for the management of the Project (provided, however, in no event shall Landlord include in Operating Expenses in any one calendar year a net management fee in excess of three percent (3%) of the gross revenues of the Project for such calendar year; and, provided further, however, in lieu thereof, Landlord may charge Tenant separately, and not as a part of Basic Costs, for a management fee contribution which shall not in any one (1) calendar year exceed three percent (3%) of the Base Rental and the Base Rental Adjustment payable by Tenant for such calendar year) and the cost of all maintenance and service agreements for the Project and the equipment therein, including but not limited to, access control service, window cleaning, traffic control, janitorial service, landscape maintenance, and elevator maintenance.

(v) Legal and accounting costs for the Project, including a reasonable allocation of off-site costs, together with the costs of annual audits of the Project operating costs by certified public accountants.

(vi) Cost of all insurance relating to the Project, including but not limited to, fire and extended coverage insurance, rental loss or abatement insurance, and casualty and liability insurance applicable to the



Project and Landlord's personal property used in connection therewith, plus the cost of all deductible payments made by Landlord in connection therewith.

(vii) Cost of repairs, replacements and general maintenance (excluding repairs, replacements and general maintenance paid for with proceeds of insurance or condemnation or by third parties).

(viii) Any and all common area maintenance costs related to public areas, including without limitation, sidewalks and landscaping for the Project.

(ix) All taxes, assessments and governmental charges, whether or not directly paid by Landlord, whether federal, state, county or municipal and whether they be by taxing districts or any Governmental Authority (defined in Section 5.7 hereof) presently taxing the Project or by others subsequently created, attributable to the Project or its operation and an allocation to the Project of the taxes, assessments and governmental charges for the roads which service the Complex, but excluding, however, taxes and assessments attributable to the personal property of tenants, federal and state taxes on income, death taxes, franchise taxes, and any taxes imposed or measured on or by the income of Landlord from the operation of the Project or imposed in connection with any change of ownership of the Project; provided, however, if the taxing authorities do not separately assess the Project, Landlord may make a reasonable allocation of the taxes, assessments or charges to give effect to this sentence, and provided further, however, that if at any time during the Term, the present method of taxation or assessment shall be so changed that the whole or any part of the taxes,

-7-

<PAGE>

assessments, levies, impositions or charges now levied, assessed or imposed on real estate and the improvements thereon shall be discontinued and as a substitute therefor, or in lieu of or in addition thereto, taxes, assessments, levies, impositions or charges shall be levied, assessed or imposed, wholly or partially, as a capital levy or otherwise, on the rents received from the Project or the rents reserved herein or any part thereof, then such substitute or additional taxes, assessments, levies, impositions or charges, to the extent so levied, assessed or imposed with respect to the Project, shall be deemed to be included within Operating Expenses. Consultation, accounting and legal fees and other fees and costs resulting from any challenge of tax assessments as reasonably allocated by Landlord also shall be included in Operating Expenses. Tenant hereby waives any and all rights under Legal Requirements to an administrative or judicial review of any determination of the appraised value of the Project, including without limitation, any rights available under the Texas Tax Code (as amended). It is agreed that Tenant will be responsible for ad valorem taxes on its personal property and on the value of the leasehold improvements in the Leased Premises to the extent that the same exceed Building Standard Improvements (defined in Exhibit C-2) (and if the taxing authorities do not separately assess Tenant's leasehold improvements, Landlord may make a reasonable allocation of the ad valorem taxes allocated to the Project to give effect to this sentence). All taxes, assessments and governmental charges shall be included in Operating Expenses in the calendar year in which such taxes, assessments or governmental charges are levied, assessed or imposed without regard to when such taxes, assessments or governmental charges are payable; provided, however, in the case of special taxes and assessments which may be payable in installments, only the amount of each installment accruing during a calendar year shall be included in the Operating Expenses for such year.

(x) Amortization of the cost, together with reasonable financing charges, of furnishing and installing capital investment items which are (1) included in the Basic Cost Component and any unamortized amount of such costs for subsequent years, (2) primarily for the purpose of reducing Operating Expenses or avoiding increases in Operating Expenses in Landlord's good faith estimate, (3) primarily for the purpose of promoting safety, (4) required to comply with the Americans with Disabilities Act of 1990, as amended, 42 U.S.C. ss. 12101 et seq., or (5) required by Legal Requirements that become effective after the Commencement Date. All such costs shall be

amortized over the useful life of the capital investment items with the useful life and amortization schedule being determined in accordance with generally accepted accounting principles.

(xi) Costs of licenses, permits and inspection fees related to the Project.

(xii) Any allocation of expenditures for service, repair, maintenance or operation of the Complex attributable to the Project, determined in accordance with generally accepted accounting principles.

(xiii) Cost of an office in the Building or allocation of a central office in the Complex (if applicable) maintained for management of the Project (but not the costs reasonably allocable to any portion of such office used for leasing activities for the Project).

Anything in the foregoing provisions hereof to the contrary notwithstanding, Operating Expenses shall not include the following:

(A) Leasing commissions, attorneys' fees, costs, disbursements and other expenses incurred in connection with negotiations for leases with tenants, other occupants, or prospective tenants or other occupants of the Project, or similar costs incurred in connection with disputes with tenants, other occupants, or prospective tenants or other occupants of the Project.

(B) Non-cash items, such as deductions for depreciation or obsolescence of the Project and the Project equipment, or interest on capital invested (except as provided in clause (x) above).

(C) Payments of principal and interest or other finance charges made on any debt (except as provided in clause (x) above), and rental payments made under any ground or underlying lease or leases,

-8-

<PAGE>

except to the extent that a portion of such payments is expressly for ad valorem/real estate taxes or insurance premiums on the Project.

(D) Costs incurred by Landlord in the sale, financing, refinancing, mortgaging, selling or change of ownership of the Project, including brokerage commissions, attorneys' and accountants' fees, closing costs, title insurance premiums, transfer taxes and interest charges.

(E) Costs which are to be capitalized in accordance with generally accepted accounting principles not included under Section 3.2(c)(i) through (xiii).

(F) Costs and expenses attributable to the initial construction of the Project.

(G) Any penalty charges incurred by Landlord due to Landlord's late payment of taxes, utility bills or other amounts included in Operating Expenses except to the extent Landlord was contesting the payment of any such item in good faith.

(H) Allowances and other costs and expenses incurred in fixturing, furnishing, renovating or otherwise improving, decorating or redecorating space for tenants or prospective tenants of the Building, or vacant leasable space in the Building (including permit, license and inspection costs but excluding normal maintenance, repair and replacement costs).

(I) Cost of any political or charitable donations or contributions.

(d) If an Annual Reconciliation Payment is due by Tenant to Landlord with respect to the immediately preceding calendar year pursuant to Section 3.2(b)(ii) above, Tenant, at its sole cost and expense, shall have the right to be exercised by giving notice to Landlord within sixty (60) days after receipt

of the statement of Basic Costs for such previous calendar year) to audit and/or inspect Landlord's books and records pertaining only to items affecting Basic Costs for such preceding calendar year; provided that such audit and/or inspection must be commenced and concluded by December 31 of the year following the year to which any such disputed item relates; and provided further that such audit and/or inspection does not unreasonably interfere with the conduct of Landlord's business. Notwithstanding the foregoing, if Tenant elects to audit and/or inspect Landlord's books and records to the extent permitted above, Landlord, in its sole discretion, may elect to furnish Tenant a copy of an audit prepared by a certified public accountant in lieu of Tenant performing the aforementioned audit and/or review.

(e) Notwithstanding any other provision herein to the contrary, it is agreed that in the event the Net Rentable Area of space leased or held for lease in the Building is not fully occupied or provided with Building Standard Services (defined in Section 4.1) during any partial year or any full calendar year, Basic Costs shall be computed for such year as though the Net Rentable Area of space leased or held for lease in the Building had been fully occupied and provided with Building Standard Services.

3.3. SECURITY DEPOSIT. Tenant hereby agrees to pay to Landlord on the Effective Date, in cash or by certified check, (a) a sum equal to the Base Rental payment for the first (1st) calendar month of the Term equal in amount to Eighteen Thousand Four Hundred Twelve and 55/100 Dollars (\$18,412.55) (the "First Month's Rent") plus (b) a sum equal to Eighteen Thousand Four Hundred

-----  
Twelve and 55/100 Dollars (\$18,412.55) (the sums in (a) and (b) collectively, the "Security Deposit"). Tenant hereby grants to Landlord a security interest in

-----  
the Security Deposit. Upon the occurrence of an Event of Default, Landlord, from time to time, without prejudice to any other remedy, may use the Security Deposit to the extent necessary to make good any arrears of Base Rental, Base Rental Adjustment, Parking Rental or to pay any other sums owed to Landlord, including any sums described in Section 6.8 or to pay the cost of any damage, injury, expense, or liability caused by any default by Tenant under this Lease. Landlord shall have, and Landlord expressly retains and preserves, all rights of setoff and recoupment and any and all similar remedies available under applicable laws or in equity. To the extent an Event of Default has not occurred under this Lease, that portion of the Security Deposit equal to the First Month's Rent (to the extent such portion of the Security Deposit has not otherwise been applied by Landlord pursuant to this Section 3.3) shall be applied by Landlord to Base Rental due by Tenant on

-9-

<PAGE>

the Commencement Date (and if the Commencement Date does not occur on the first (1st) day of a calendar month and therefore, the First Month's Rent exceeds the Base Rental owed by Tenant on the Commencement Date, such excess portion of the First Month's Rent shall be applied to Base Rental owed by Tenant on the first (1st) day of the calendar month immediately after the Commencement Date). If an Event of Default has not occurred, any remaining balance of the Security Deposit held by Landlord pursuant to this Section 3.3 shall be returned by Landlord to Tenant within a reasonable period of time after the termination or expiration of this Lease. The Security Deposit shall not be considered an advance payment of rental or a measure of Landlord's damages in case of a default by Tenant. Tenant shall not be entitled to receive and shall not receive any interest on the Security Deposit, and Landlord may commingle the same with other monies of Landlord. In the event Landlord applies the Security Deposit or any portion thereof to the payment of any sum described above and this Lease is not terminated, Tenant immediately shall deposit with Landlord an amount of money equal to the amount so applied and such amount shall be deemed to be part of the Security Deposit.

#### IV.

##### 4.1 SERVICES TO BE FURNISHED BY LANDLORD.

(a) Landlord shall furnish Tenant during Tenant's occupancy of the Leased Premises the following Building standard services (the "Building

-----  
Standard Services") so long as an Event of Default has not occurred:  
-----

(i) Subject to Legal Requirements, common use rest rooms with hot and cold domestic water at locations provided for general use of other tenants in the Building.

(ii) Central heat and air conditioning in season, subject to curtailment as required by Legal Requirements. Landlord shall furnish such service to Tenant between the hours (the "Building Operating

Hours") of 8:00 A.M. and 6:00 P.M., Monday through Friday, and 8:00

A.M. and 1:00 P.M., Saturday, excluding Holidays (defined below), with equipment designed to perform so that the average indoor conditions maintained in the Leased Premises during Building Operating Hours shall be a minimum of 72 F dry bulb +/-2 in the winter when the outdoor temperature is not lower than 22 F dry bulb and a maximum of 78 F dry bulb +/-2 in the summer when the outdoor temperature is not higher than 92 F dry bulb, assuming sustained peak loading conditions of one (1) person per 311 square feet of Usable Area and a combined light and power demand load of three (3) watts per square foot of Usable Area. As used herein, "Holidays" shall mean the following days (or the day observed in lieu thereof by national banks): New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

Upon request of Tenant made in accordance with the Project Rules (defined in Section 5.7), Landlord will furnish air conditioning, ventilating and heating at times other than Building Operating Hours, in which event Tenant shall pay Landlord the then current charges incurred by Landlord to provide such services. As of the Effective Date, the after hour HVAC charge is \$35.00 per hour per floor (subject to a two (2) hour minimum); however such charge is subject to increase by Landlord based upon actual increases in costs that Landlord may incur.

(iii) Routine maintenance and electric lighting service for all Common Areas on floors on which the Leased Premises are located not leased entirely by Tenant, General Common Areas and Service Areas of the Building.

(iv) Janitorial service on a five (5) day per week basis (excluding the Holidays); provided, however, if Tenant's leasehold improvements (including floor coverings) are other than Building Standard Improvements, include a lunchroom, coffee bar or other similar facility for its employees or otherwise require special or additional cleaning in excess of the Building Standard Services, Tenant shall pay the actual additional cleaning cost, if any, incurred by Landlord as the result thereof plus a charge equal to ten percent (10%) of such additional costs for administrative cost recovery.

-10-

<PAGE>

(v) Sufficient electrical capacity transformed to a panel box located in the core of each floor of the Leased Premises for (A) machines of low electrical consumption at standard voltage (120 volts, single-phase) to the extent that the total demand load at 100% capacity of said machines of low electrical consumption does not exceed two (2) watts per square foot of Usable Area, and (B) lighting and equipment at high voltage (277 volts, single-phase) to the extent that the total demand load at 100% capacity of said lighting and equipment does not exceed two (2) watts per square foot of Usable Area (each such rated electrical design load to be hereinafter referred to as the "Building Standard Rated Electrical Design Load").

Should Tenant's non-linear electrical load (created by equipment such as personal computers, television sets, laser printers, copiers or other electronic devices connected to the power system) result in harmonic distortion conditions which cause any adverse effects in the Project, including but not limited to, deration of any transformer, distribution stepdown transformer failures, overheating or melting of neutral conductors, or malfunctioning of various electronic components, Tenant acknowledges that Tenant, at Tenant's sole cost, shall be obligated to eliminate such harmonic distortion conditions and to repair any damage which results from such harmonic distortion

within thirty (30) days of Landlord's request. If Tenant fails to eliminate such harmonic distortion and repair such damage caused thereby within such thirty (30) day period, Landlord, at its option, may make such corrections deemed necessary by Landlord to eliminate such harmonic distortion and make such repairs, and Tenant shall pay to Landlord on demand Landlord's cost thereof plus a charge equal to fifteen percent (15%) of such costs for administrative cost recovery.

Tenant shall cause Tenant's electrical system serving any equipment producing non-linear electrical loads to be designed to accommodate such non-linear electrical loads, including but not limited to, over-sizing neutral conductors, derating transformers and/or providing power line filters. The Tenant Working Drawings (defined in Exhibit C-1) shall include a calculation of Tenant's fully

connected design load with and without demand factors and shall indicate the number of watts of un-metered and sub-metered loads.

If Tenant's electrical equipment and lighting require electrical circuits, transformers or other additional equipment in excess of Tenant's pro rata share of the Building's electrical or HVAC systems (which additional equipment shall be hereinafter referred to as the "Additional Electrical Equipment"), Tenant may (at Tenant's cost,

including the cost to design, install, maintain and replace the Additional Electrical Equipment [including the meters]) install the same, provided such installation is compatible with existing Building systems, will not compromise Landlord's ability to provide services to Tenant or other tenants of the Building and will not be burdensome to the Project or to Landlord, in Landlord's reasonable opinion, and Tenant shall pay all operating costs related to that requirement (including, without limitation, the cost of electricity, water or other services consumed through, or in connection with, the Additional Electrical Equipment).

The method of design and installation of any Additional Electrical Equipment (including any related meter) required by Tenant shall be subject to the prior written approval of Landlord and shall be performed by Landlord at Tenant's sole cost (including a charge equal to ten percent (10%) of such cost for the review and installation of such Additional Electrical Equipment for administrative cost recovery).

Tenant shall pay to Landlord the cost of electricity consumed in excess of the Building Standard Rated Electrical Design Load as determined by meter, or if not metered, as otherwise reasonably estimated by Landlord, plus any actual accounting expenses incurred by Landlord in connection with the metering thereof. Landlord may cause the entire Leased Premises to be separately metered (at Tenant's expense, including, without limitation, the cost of installing, maintaining, repairing and replacing such meters to the extent necessary), in which event Tenant shall pay the actual cost of electricity consumed by Tenant.

(vi) All Building Standard (defined in Exhibit C-1) fluorescent

bulb and ballast replacement in all areas of the Building and all incandescent bulb replacement in the Common Areas on floors on which the Leased Premises are located not leased entirely by Tenant, General Common Areas and Service Areas.

-11-

<PAGE>

(vii) Perimeter access control for the Building during hours other than Building Operating Hours; PROVIDED, HOWEVER, LANDLORD SHALL HAVE NO RESPONSIBILITY TO PREVENT, AND SHALL NOT BE LIABLE TO TENANT, ITS AGENTS, EMPLOYEES, CONTRACTORS, VISITORS OR INVITEES FOR, LOSSES DUE TO THEFT OR BURGLARY, OR FOR DAMAGES OR INJURY TO PERSONS OR PROPERTY DONE BY PERSONS GAINING ACCESS TO THE LEASED PREMISES, THE PROJECT OR THE COMPLEX, AND TENANT HEREBY RELEASES LANDLORD FROM ALL LIABILITY FOR SUCH LOSSES, DAMAGES OR INJURY, EVEN IF CAUSED BY LANDLORD'S NEGLIGENCE (BUT NOT TO THE EXTENT CAUSED BY LANDLORD'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT). Tenant shall cooperate fully in Landlord's efforts to maintain access control in the Building and

shall follow all regulations promulgated by Landlord with respect thereto.

(viii) Non-exclusive multiple cab passenger elevator service to the Leased Premises during Building Operating Hours, with passenger elevator service to the Leased Premises by at least one (1) cab twenty-four (24) hours per day, and non-exclusive freight elevator service to the Leased Premises during Building Operating Hours with such freight elevator service available at other times upon reasonable prior notice (however, all of the foregoing shall be subject to temporary cessation for ordinary repair and maintenance and during times when life safety systems override normal Building operating systems).

In the event Tenant desires Landlord to provide any of the aforementioned services (including heating and air-conditioning) in amounts in excess of Building Standard Services or in addition to the Building Operating Hours, and provided such services are compatible with existing Building systems, will not compromise Landlord's ability to provide services to Tenant or other tenants of the Building and are not burdensome to the Complex or to Landlord, in Landlord's opinion, and so long as an Event of Default is not in existence, Landlord may elect (but is not required) to provide such excess or additional services and Tenant shall pay Landlord as additional rent hereunder the cost of providing such excess or additional services, including without limitation, design, metering, installation and operating costs plus a charge equal to ten percent (10%) of such costs for administrative cost recovery.

(b) To the extent the services described in Section 4.1(a) require electricity, water, gas, steam or other utility services supplied by public utilities, Landlord's covenants hereunder shall impose on Landlord only the obligation to use its good faith, reasonable efforts to cause the applicable public utilities to furnish the same. Landlord shall not be responsible for, and shall have no liability with respect to, the quality or condition of any services provided by such public utilities.

(c) Failure by Landlord to any extent to furnish any of the aforementioned services to Tenant, the Leased Premises or the Project, or any cessation (including any partial curtailment) thereof, shall not render Landlord liable in any respect for damages to person, property or otherwise, nor to be construed as an eviction of Tenant, nor work an abatement of Rent, nor relieve Tenant from fulfillment of any covenant or agreement hereof. Should any of the equipment or machinery utilized in supplying the services listed herein break down, or for any cause cease to function properly, such failure shall not work as an abatement of Rent, nor be construed as an eviction of Tenant, nor relieve Tenant from fulfilling any covenant or agreement contained herein, nor render Landlord liable for damages; provided, however, that should any of such services be interrupted or terminated as a result of Landlord's negligence but not as the result of (i) curtailment in services imposed by any Governmental Authority, (ii) failure of the public utilities to furnish necessary services, or (iii) Tenant's negligence, gross negligence or willful misconduct (a "Service Interruption") and if, as a result of such Service Interruption, the Leased Premises (or any part thereof) is untenable, and such Service Interruption continues for a period of five (5) or more consecutive Business Days after Tenant delivered written notice to Landlord of such Service Interruption, then all Rent including, without limitation, Base Rental and Base Rental Adjustment shall abate as to those portions of the Leased Premises rendered untenable from and including the sixth (6th) Business Day after Landlord's receipt of such written notice from Tenant and shall continue until such space is again tenable. The foregoing rental abatement shall constitute Tenant's sole and exclusive remedy involving or with respect to a Service Interruption. Notwithstanding the foregoing, if a Service Interruption occurs as a result of or in connection with a fire or other casualty or a taking or condemnation for a public purpose (or a conveyance in lieu thereof), the foregoing rental abatement shall not be available to Tenant, and Landlord's and Tenant's rights and obligations with respect thereto are governed by the provisions of Section 6.1 in the case of a taking or condemnation (or a conveyance

-12-

<PAGE>

in lieu thereof) or Section 6.5 in the case of a fire or other casualty. Should any of the equipment or machinery utilized in supplying the services listed herein break down, or for any cause cease to function properly, Landlord shall use reasonable diligence to repair same promptly.

4.2 KEYS AND LOCKS. Landlord shall furnish Tenant with thirty-three(33) keys and/or access cards (collectively, the "Access Equipment") for

-----  
each corridor door entering the Leased Premises (and additional Access Equipment on an order signed by Tenant, at a charge by Landlord equal to the cost of such Access Equipment plus an additional charge of ten percent (10%) of such cost for administrative cost recovery). All such Access Equipment shall remain the property of Landlord. No additional locks shall be allowed on any door of the Leased Premises and Tenant shall not make or permit to be made any duplicate Access Equipment, except those furnished by Landlord. Upon termination of this Lease, Tenant shall surrender to Landlord all Access Equipment to the Leased Premises and give to Landlord the keys and/or combination for all locks for safes, safe cabinets and vault doors, if any, in the Leased Premises.

4.3 WINDOW COVERINGS. Landlord shall provide and install Building Standard interior window coverings on all exterior windows in the Building as Building Standard Improvements. Tenant agrees to use the Building Standard window coverings on all exterior windows of the Building. Tenant shall not place or maintain any window coverings, blinds or drapes on any exterior window (other than those supplied by Landlord) without Landlord's prior written approval which Landlord shall have the right to grant or withhold in its absolute and sole discretion. Tenant acknowledges that breach of this covenant will directly and adversely affect the exterior appearance of the Project and the operation of the heating, ventilating and air conditioning systems.

4.4 GRAPHICS. Landlord shall provide and install Tenant's name and suite numerals adjacent to the main entrance door to the Leased Premises. All such letters and numerals shall be in the Building Standard graphics. All graphics of Tenant visible in or from public corridors, elevator cabs or other public areas shall be Building Standard graphics and subject to Landlord's prior written approval in its sole and absolute discretion. Landlord also will be responsible for the initial installation of Tenant's name and suite number in the Building directory located in the main lobby on Floor 1 of the Building. Landlord shall not be liable for any inconvenience or damage occurring as the result of any error or omission in any directory or graphics.

4.5 REPAIRS BY LANDLORD. Landlord shall be required only to make such improvements, repairs or replacements as may be required for normal maintenance of the Leased Premises, and such additional maintenance as may be necessary because of damage by persons other than Tenant, its agents, employees, invitees or visitors. The obligation of Landlord to maintain and repair the Leased Premises shall be limited to the Building Standard Improvements. Landlord shall not otherwise be obligated to make improvements to, or repairs of, the Leased Premises. All leasehold improvements other than the Building Standard Improvements will be maintained by Tenant or, at Tenant's request, by Landlord at Tenant's expense which shall be an amount equal to Landlord's actual cost plus an additional charge of fifteen percent (15%) of such cost for administrative cost recovery.

4.6 PEACEFUL ENJOYMENT. Tenant shall, and may peacefully have, hold and enjoy the Leased Premises, subject to the other terms hereof, provided that Tenant pays the Rent herein recited and performs all of Tenant's covenants and agreements herein contained. It is understood and agreed that this covenant and any and all other covenants of Landlord contained in this Lease shall be binding upon Landlord and its successors only with respect to breaches occurring during its and their respective ownerships of Landlord's interest hereunder.

4.7 NO WARRANTIES. LANDLORD'S DUTIES AND WARRANTIES ARE LIMITED TO THOSE EXPRESSLY STATED IN THIS LEASE AND SHALL NOT INCLUDE ANY IMPLIED DUTIES OR IMPLIED WARRANTIES, NOW OR IN THE FUTURE. NO REPRESENTATIONS OR WARRANTIES HAVE BEEN MADE BY LANDLORD OTHER THAN THOSE CONTAINED IN THIS LEASE. TENANT HEREBY WAIVES ANY AND ALL WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE LEASED PREMISES WHICH MAY EXIST BY OPERATION OF LAW OR IN EQUITY, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OF HABITABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

-13-

<PAGE>

4.8 FORCE MAJEURE. Landlord and Tenant shall be excused for the period of any delay and shall not be deemed in default with respect to the performance of any of the terms, covenants and conditions of this Lease when prevented from so doing by a cause or causes beyond Landlord's or Tenant's control, respectively, which shall include without limitation, all labor disputes, governmental regulations or controls, fire or other casualty, inability to obtain any materials or services, or acts of God; provided,

however, in no event shall the foregoing (1) excuse Landlord or Tenant from, or delay the due date of, any payment obligations under this Lease, or (2) extend the time period within which, or deadline dates by which, notices must be forwarded under this Lease.

V.

5.1 PAYMENTS BY TENANT. Tenant shall pay all Rent at the times and in the manner herein provided. Any failure by Tenant to pay Rent shall give rise to the rights and remedies provided in Section 6.8.

5.2 DAMAGE TO PROJECT. Subject to the provisions of Section 6.14, at Tenant's own cost and expense, and by use of a contractor or contractors approved in writing by Landlord, Tenant shall repair or replace in accordance with all Legal Requirements any damage or injury done to the Leased Premises, the Project or the Complex, or any portion thereof, caused by Tenant or Tenant's agents, employees, invitees or visitors, which repairs or replacements must be made to the same or as good a condition as existed prior to such injury or damage; provided, however, Landlord, at its option, may make such repairs or replacements, and Tenant shall repay Landlord on demand the actual cost thereof (plus a charge equal to ten percent (10%) of such costs for administrative cost recovery).

5.3 CARE OF THE LEASED PREMISES. Subject to the provisions of Section 4.5, at Tenant's own cost and expense, and by use of a contractor or contractors approved in writing by Landlord, Tenant shall keep the Leased Premises and all leasehold improvements in a good and presentable condition, at least similar to the condition as of the Commencement Date, normal wear and tear excepted, and shall perform all repairs and improvements required by any Legal Requirement. If Tenant fails to commence any such repairs to the Leased Premises and the leasehold improvements within ten (10) days after written notice from Landlord, and thereafter diligently proceed with such repair until completion, Landlord, at its option, may make such repair or any replacement deemed necessary by Landlord, and Tenant shall pay to Landlord on demand Landlord's cost thereof plus a charge equal to fifteen percent (15%) of such costs for administrative cost recovery. Tenant shall not commit or allow any waste or damage to be committed on any portion of the Leased Premises, the Project or the Complex. Upon the expiration or any earlier termination of this Lease, Tenant shall deliver up said Leased Premises to Landlord in as good a condition as such premises existed on the date of initial occupancy of the Leased Premises, ordinary wear and tear excepted. Upon the expiration or termination of this Lease, Landlord shall have the right to re-enter and resume possession immediately of the Leased Premises and Tenant's leasehold improvements.

5.4 ASSIGNMENT AND SUBLETTING.

5.5 Except as provided in Section 5.4(b), Tenant shall not, without Landlord's prior written consent (which may be withheld in Landlord's absolute discretion), (i) assign, convey, mortgage, pledge, encumber, or otherwise transfer (whether voluntarily, by operation of law, or otherwise) this Lease or any interest hereunder; (ii) allow any lien to be placed upon Tenant's interest hereunder; (iii) sublet the Leased Premises or any part thereof; or (iv) permit the use or occupancy of the Leased Premises or any part thereof by any one other than Tenant. Any attempt to consummate any of the foregoing without Landlord's consent shall be of no force or effect and shall be an Event of Default under this Lease. For purposes hereof, 5.6. the transfer of the ownership or voting rights in a controlling interest of the voting stock of Tenant (if Tenant is a corporation), 5.7. the transfer of a general partnership interest or the transfer of twenty-five percent (25%) of the limited partnership interests in Tenant (if Tenant is a partnership), 5.8. the merger or consolidation of Tenant with or into any other corporation or entity, or (D) a sale or transfer of fifty percent (50%) or more of Tenant's assets, at any time throughout the Term shall be deemed to be an assignment of this Lease.

Notwithstanding the provisions of the first sentence of this subsection (a), the consent of Landlord need not be obtained if the assignment or subletting is to an Affiliate (defined below) of Entrust Technologies, Incorporated

-14-

<PAGE>

("Company") so long as (1) the assignee or sublessee shall be engaged in the

-----



same field of services as Company, (2) the assignee or sublessee is engaged in a business customarily acceptable for a tenant in a first class high-rise office building in metropolitan Dallas, Texas, (3) any assignee shall assume all of the obligations of Company under this Lease, (4) at the time of such assignment or subletting, this Lease is in full force and effect and there is no breach under this Lease on the part of Tenant, and (5) the assignee's or sublessee's proposed use of the Leased Premises is not in violation of this Lease (such Affiliate of Company complying with clauses (1), (2), (3), (4) and (5), hereinafter a "Permitted Affiliate"). At least ten (10) days prior to the effective date of

-----  
any such assignment or sublease to a Permitted Affiliate, Tenant agrees to furnish Landlord with notice of such assignment or sublease and copies of the instruments effecting any such assignment or sublease. Additionally, within thirty (30) days after the effective date of any such assignment or sublease to a Permitted Affiliate, Tenant agrees to furnish Landlord with copies of the fully executed instruments effecting any such assignment or sublease and documentation establishing Tenant's satisfaction of the requirements set forth above applicable to any such sublease or assignment. Any such assignee of Tenant must assume and agree in writing to fully perform and observe all of the obligations and agreements of Tenant under this Lease and any such sublessee shall sublease such portion of the Leased Premises subject to the provisions of this Lease. No such assignment or subletting shall relieve Company, any other tenant, or any guarantor of this Lease of any covenants or obligations under this Lease or any such guaranty and Company, any other tenant, and any guarantors of this Lease shall remain fully liable hereunder and thereunder. Notwithstanding anything to the contrary set forth in this Lease, the rights granted to Company under this paragraph of subsection (a) as to assignments and subleases to Permitted Affiliates shall not be assignable by Company, shall inure only to the benefit of Company and shall not be enforceable by any assignee or sublessee of Company.

As used herein, "Affiliate" shall mean any person or entity

-----  
controlling, controlled by, or under common control with, another person or entity. "Control" as used herein means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such controlled person or entity (the ownership, directly or indirectly, of at least fifty-one percent (51%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, at least fifty-one percent (51%) of the voting interest in, any person or entity shall be presumed to constitute such control).

(b) Notwithstanding the provisions of Section 5.4(a) above, Tenant shall be permitted to sublease the Leased Premises or assign its interest in this Lease after Tenant initially occupies the Leased Premises subject to the provisions of this Section 5.4(b). If Tenant should desire to assign this Lease or sublet the Leased Premises or any part thereof, Tenant shall give Landlord written notice (which shall specify the proposed economic terms and duration of the proposed sublease or assignment and shall contain information concerning the business, reputation and creditworthiness of the proposed sublessee or assignee as shall be sufficient to allow Landlord to form a commercially reasonable judgment with respect thereto) of Tenant's desire to sublease or assign at least forty-five (45) days in advance of the date on which Tenant desires to make such sublease or assignment (the "Notice"). Landlord then shall have thirty (30) days following receipt of such Notice within which to notify Tenant in writing that Landlord elects, in its sole and absolute discretion, to 5.10. permit Tenant to assign this Lease or sublet such space subject to Landlord's approval of the assignee or sublessee, or 5.11. terminate this Lease as to the space so affected as of the date so specified by Tenant (and as to option (ii) only Tenant will be relieved of all further obligations hereunder as to such terminated space). If Landlord should fail to notify Tenant in writing of such election within said thirty (30) day period, Landlord shall be deemed to have elected option (i). If Landlord elects, or is deemed to have elected, option (i), Landlord shall not unreasonably withhold such consent to such sublessee or assignee if (1) any such sublessee or assignee is creditworthy as determined by Landlord and is of a character, kind and type customarily found in first-class office buildings in metropolitan Dallas, Texas, (2) such sublease or assignment does not violate any lease agreement with any other tenant or potential tenant with which Landlord has entered into a lease or a letter of intent (as applicable) in the Complex, and (3) the use of the Leased Premises by such proposed assignee or sublessee is permitted under this Lease. Without limiting the foregoing, in no event shall the following be considered as suitable assignees or sublessees under this subsection (b): any governmental body, agency or bureau (of the United States, any state, county, municipality or any subdivision thereof); any foreign government or subdivision thereof; any health care professional or health care

service organization; schools or similar organizations; employment agencies; radio, television or other communication stations; restaurants; and retailers offering retail services from the Leased Premises. If Landlord elects, or is deemed to have elected, option (i) and fails to approve or disapprove any such sublessee or assignee within ten (10) days following Landlord's election or

-15-

<PAGE>

deemed election of option (i), such sublessee or assignee and the proposed sublease or assignment shall be deemed disapproved. If Landlord elects, or is deemed to have elected, option (i) and the proposed sublessee or assignee is approved by Landlord, the following shall apply to the sublease or assignment (and shall be conditions thereto):

(1) Each sublessee or assignee shall fully observe all covenants of this Lease, including without limitation, the provisions of Section 2.2 of this Lease, and no consent by Landlord to an assignment or sublease shall be deemed in any manner to be a consent to (A) a use not permitted under Section 2.2, or (B) an assignment by Tenant of any rights which are otherwise not assignable pursuant to other provisions of this Lease;

(2) At the time of any such assignment or subletting, this Lease is in full force and effect and there is no breach under this Lease on the part of Tenant;

(3) Any such assignment or subletting shall be subject to all the terms, covenants and conditions of this Lease and any assignee must assume in writing all the rights and obligations of the assignor hereunder;

(4) If the aggregate rental, bonus or other consideration paid by the assignee or sublessee of any such space exceeds the sum of (A) the Base Rental as adjusted by the Base Rental Adjustment paid to Landlord for such space during the applicable period, plus (B) the reasonable out-of-pocket third party costs and expenses actually incurred by Tenant under or in connection with such sublease or assignment for (x) broker's commissions paid by Tenant with regard to the transfer, (y) reasonable legal fees with regard to the transfer, and (z) expenses of finishing out or renovation of the space involved [but specifically excluding any charges payable to partners, shareholders or employees of Tenant in connection with such sublease or assignment]), then such excess shall be paid to Landlord within fifteen (15) days after receipt by Tenant together with all consideration received in connection with such assignment. With any payment made by Tenant to Landlord under this clause (4), Tenant shall furnish Landlord with an accounting prepared and certified to by Tenant of its determination of the sums owed to Landlord hereunder;

(5) No assignment or subletting by Tenant shall relieve Tenant or any guarantor of this Lease of any obligations or covenants under this Lease or any such guaranty and Tenant and any guarantor of this Lease shall remain fully liable hereunder or thereunder (as applicable); and

(6) A copy of the original sublease or assignment (and all amendments thereto) shall be delivered to Landlord within fifteen (15) days from the effective date thereof.

If the proposed sublessee or assignee is approved by Landlord and Tenant fails to enter into the sublease or assignment with the approved sublessee or assignee within one hundred eighty (180) days after the date Tenant submitted its proposal to Landlord, then Landlord's approval of the proposed sublease or assignment shall be deemed null and void and Tenant must comply again with all of the conditions of this Section 5.4.

(c) If, in accordance with this Section 5.4, the Leased Premises or any part thereof is sublet or occupied by other than Tenant or this Lease is assigned, Landlord, during the continuance of a breach under this Lease on the part of Tenant, if any, may collect rent from the subtenant, assignee or occupant, and apply the net amount collected to Rent due by Tenant to Landlord under this Lease, and Tenant hereby authorizes and directs any such assignee or sublessee to make such payments of rent direct to Landlord upon receipt of notice from Landlord. Additionally, Landlord is authorized and empowered, on

behalf of Tenant, to endorse the name of Tenant upon any check, draft, or other instrument payable to Tenant evidencing payment of rent, or any part thereof, and to receive and apply the proceeds therefrom in accordance with the terms of this Lease. No such subletting, assignment, occupancy, or collection shall be deemed (i) a waiver of any of Tenant's covenants contained in this Lease, (ii) a release of any guarantor of this Lease from further performance of its covenants under such guaranty, (iii) a release of Tenant from further performance by Tenant of its covenants under this Lease, or (iv) a waiver of any of Landlord's other rights hereunder.

-16-

<PAGE>

(d) Notwithstanding the giving by Landlord of its consent to any sublease or assignment with respect to the Leased Premises, no sublessee or assignee may exercise any renewal options, expansion options, rights of first offer or similar rights under this Lease except (x) in accordance with a separate written agreement entered into directly between such sublessee or assignee and Landlord, or (y) the expansion options and the renewal options may be exercised by any permitted assignee (but not a sublessee) of Tenant's entire interest under this Lease that is a Permitted Affiliate, provided in the event of clauses (x) or (y) Tenant continues to be liable for the performance of all obligations hereunder, as increased or otherwise affected by the exercise of such rights. Tenant may not exercise any renewal options, expansion options, rights of first offer or similar rights under this Lease if Tenant has assigned all of its interest in this Lease to other than a Permitted Affiliate.

(e) Any attempted assignment or sublease by Tenant in violation of the terms and covenants hereof shall be void and shall be an Event of Default under this Lease. Any consent by Landlord to a particular assignment or sublease shall not constitute Landlord's consent to any other or subsequent assignment or sublease, and any proposed sublease or assignment by a sublessee of Tenant shall be subject to the provisions hereof as if it were a proposed sublease or assignment by Tenant.

(f) In any subletting undertaken by Tenant, Tenant shall reasonably seek to obtain not less than fair market rental value for subleased space. In any assignment of this Lease in whole or in part, Tenant shall seek to obtain from the assignee consideration reflecting a value of not less than fair market rental value for the space subject to such assignment. Notwithstanding anything to the contrary contained in this Section 5.4, Tenant shall not be permitted to sublease any portion of the Leased Premises or assign this Lease to (i) any person or entity that is actually a tenant of the Building or Complex at the time the Notice is furnished to Landlord (an "Actual Tenant"), or (ii) any

-----  
Affiliate of an Actual Tenant if such Affiliate intends to use a significant portion of the Leased Premises subject to such assignment or sublease for purposes of the conduct of the business then being conducted by the Actual Tenant in its leased premises or such Affiliate is entering into such assignment or sublease as a means to circumvent the provisions of clause (i) above.

(g) Any improvements, additions, or alterations to the Building or the Project that are required by Legal Requirements, or are reasonably deemed necessary or appropriate by Landlord, as a result of any subletting or assignment hereunder, shall be installed and provided without cost or expense to Landlord.

#### 5.5 ALTERATIONS, ADDITIONS, AND IMPROVEMENTS.

(a) Tenant shall not permit the Leased Premises to be used for any purpose other than that stated in Section 2.2 hereof, or make or allow to be made any alterations, physical additions or improvements in or to the Leased Premises, or place signs on or in the Leased Premises which are visible from outside the Leased Premises, without first obtaining the prior written consent of Landlord (which consent may be withheld in Landlord's sole discretion). Notwithstanding the foregoing, Landlord will not unreasonably withhold its consent to alterations, physical additions or changes to the Leased Premises that do not adversely affect the Building structural, mechanical, electrical, plumbing, heating, ventilating, air conditioning, life safety or other base Building improvements or systems, provided such changes (i) are not visible from the exterior of the Leased Premises or the Building, (ii) do not affect the exterior of the Building, the structure of the Building or any public areas of the Project, (iii) do not violate any provision of this Lease, (iv) do not violate any Legal Requirements, and (v) will not interfere with the use and occupancy of any other portion of the Project or the Complex by any other tenant

or occupant of the Project or the Complex. If Landlord consents to said alterations, improvements, or additions, or placement of signs, Landlord may impose such conditions with respect thereto as are reasonably appropriate, including without limitation, requiring Tenant to furnish Landlord with security for the payment of all costs to be incurred in connection with such work, insurance against liabilities which may arise out of such work, plans and specifications, and permits for such work. Tenant's plans and specifications and construction means and methods shall be subject to Landlord's written approval. Tenant shall furnish to Landlord any documents and information requested by Landlord in connection with the exercise of its rights hereunder. Landlord may hire outside consultants to review such documents and information furnished to Landlord and Tenant shall reimburse Landlord for the cost thereof, including reasonable attorneys' fees, upon demand.

-17-

<PAGE>

(b) The work necessary to make any permitted alterations, improvements, or additions to the Leased Premises shall be done at Tenant's expense by contractors approved in writing by Landlord (each such contractor hereinafter referred to as an "Outside Contractor") or, at Landlord's election,

-----  
by Landlord (without cost or expense to Landlord). If Landlord performs any such work, upon completion of such work Tenant shall pay Landlord a fee for Landlord's supervision and administration of such work equal to ten percent (10%) of the cost of such work. All work performed by an Outside Contractor shall be performed in a good and workmanlike manner and in compliance with all Legal Requirements, Landlord's requirements (including without limitation Paragraph 5 of Exhibit C-1), the provisions of this Section 5.5 and all

-----  
applicable Project Rules. Tenant shall give Landlord at least ten (10) days prior written notice before the commencement of any work pursuant to this Section 5.5. Additionally, if Landlord does not perform such work it shall be Tenant's responsibility to ensure that the Outside Contractor shall (i) conduct its work in such a manner so as not to unreasonably interfere with any other construction occurring on or in the Project or the Complex or with the transaction of business in the Project and in the Complex; (ii) comply with such reasonable rules and regulations applicable to all work being performed in the Project as may be promulgated from time to time by Landlord; (iii) maintain such insurance and bonds in full force and effect as may be reasonably requested by Landlord or as required by Legal Requirements; and (iv) be responsible for reaching agreement with Landlord as to the reasonable terms and conditions for all contractor items relating to conducting its work. As a condition precedent to Landlord's approving the Outside Contractor pursuant hereto, Tenant and the Outside Contractor shall deliver to Landlord such assurances or instruments as Landlord may reasonably require to evidence the Outside Contractor's compliance or agreement to comply with the provisions of clauses (i), (ii), (iii), and (iv) of this subsection (b). Landlord retains the right to make periodic inspections to assure conformity of the work of the Outside Contractor with the aforementioned rules and regulations and with the plans and specifications approved by Landlord. Within thirty (30) days after substantial completion of any work by Tenant, Tenant, at Tenant's cost and expense, shall furnish Landlord "as-built" drawings of such work and shall cause the architect(s) and/or engineer(s) that performed in connection with the work to prepare a report, in form and substance acceptable to Landlord, for the benefit of Landlord, certifying to the compliance of the work constructed by any Outside Contractor with the plans and specifications approved by Landlord. Each Outside Contractor shall not perform and, upon the request of Landlord, whether written or oral, each Outside Contractor shall cease to perform, any activity that is disruptive to the conduct of business within the Project or Complex or other tenants or occupants of the Project or Complex.

(c) Any and all such alterations, physical additions or improvements, when made to the Leased Premises by Tenant or on Tenant's behalf, shall at once become the property of Landlord and shall be surrendered to Landlord upon the termination of this Lease by lapse of time or otherwise; provided, however, this sentence shall not apply to movable equipment, trade fixtures or furniture owned by Tenant. Notwithstanding the foregoing, Tenant shall be obligated to repair any damage to the Leased Premises caused by the removal by Tenant of any such movables and to restore any areas affected by such removal of such movables such that the areas so affected are consistent with surrounding areas. If Tenant fails to remove such movables upon termination of this Lease, Landlord may have the same removed and any resulting damage repaired at Tenant's expense. In such event, such movables will automatically become the property of Landlord and may be disposed of by Landlord in its sole discretion,

without any right of reimbursement therefor to Tenant.

(d) Tenant shall not allow any liens to be filed against the Leased Premises or the Project in connection with the installation of Tenant's improvements in, or any repair or alteration work to, the Leased Premises performed by Tenant or an Outside Contractor. If any such liens shall be filed, Tenant shall cause the same to be released within ten (10) days after the filing thereof by bonding or other method acceptable to Landlord; provided, however, this sentence shall not apply to movable equipment or furniture owned by Tenant. If Tenant shall fail to timely cancel or discharge said lien or liens as required above, Landlord, at its sole option, may cancel or discharge the same and Tenant shall pay to Landlord upon demand, Landlord's cost thereof plus a charge equal to fifteen percent (15%) of such costs for administrative cost recovery. Upon completion of any such work, Tenant shall deliver to Landlord evidence of payment, contractors' affidavits and full and final waivers of all liens for, labor, services, or material. Tenant shall indemnify and hold harmless Landlord and Landlord's mortgagee from all losses, costs, damages, claims and expenses (including attorneys' fees and costs of suits), liabilities or causes of action arising out of or relating to any alterations, additions or improvements that Tenant or any Outside Contractor makes to the Leased Premises, including any occasioned by the filing of any mechanic's, materialman's, construction or other liens or claims (and all costs or expenses

-18-

<PAGE>

associated therewith) asserted, filed or arising out of any such work. All materialmen, contractors, artisans, mechanics, laborers and other parties hereafter contracting with Tenant for the furnishing of any labor, services, materials, supplies or equipment with respect to any portion of the Leased Premises are hereby charged with notice that they must look solely to Tenant for payment of same and Tenant's purchase orders, contracts and subcontracts in connection therewith must clearly state this requirement. Landlord shall have the right at all times to post and keep posted on the Leased Premises any notices permitted or required by Legal Requirements, or that Landlord shall deem proper for the protection of Landlord, the Leased Premises, the Project and any other party having an interest therein, from liens. Without limiting the generality of the foregoing, Tenant shall repair or cause to be repaired at its expense all damage caused by any Outside Contractor, its subcontractors or their employees. Tenant shall reimburse Landlord for any costs incurred by Landlord to repair any damage caused by any Outside Contractor or any costs incurred by Landlord in requiring any Outside Contractor's compliance with the rules and regulations. Additionally, Tenant shall reimburse Landlord for the reasonable costs Landlord may incur to have an engineer review all mechanical, structural, electrical, plumbing and life safety systems installed by any Outside Contractor.

(e) Tenant agrees specifically that no food, soft drink or other vending machine will be installed within the Leased Premises without Landlord's prior written approval; provided, however, such approval shall not be withheld provided (i) the use of such machines is restricted to Tenant's employees and clients (but not to the general public), and (ii) Landlord approves the location, visibility and condition thereof.

5.6 LEGAL USE AND VIOLATIONS OF INSURANCE COVERAGE. Tenant shall not occupy or use the Leased Premises, or permit any portion of the Leased Premises to be occupied or used, for any business or purpose other than that stated in Section 2.2 hereof, or for any business or purpose which is unlawful, disreputable or deemed to be extra-hazardous on account of fire, which creates noxious or offensive odors emanating from the Leased Premises, or generates chemicals or hazardous substances. Tenant shall not use, operate or maintain the Leased Premises in such manner that any of the rates for any insurance carried by Landlord or any other owner or occupant of premises in the Complex shall thereby be increased, or in such manner as will affect or cause a cancellation of any such insurance policy.

5.7 LEGAL REQUIREMENTS; RULES OF THE PROJECT.

(a) As used in this Lease, "Legal Requirements" shall mean any -----  
applicable law, statute, ordinance, order, rule, regulation, decree or requirement of a Governmental Authority, and "Governmental Authority" shall mean -----  
the United States, the state, county, city and political subdivisions in which the Project is located or which exercise jurisdiction over the Project, and any

agency, department, commission, board, bureau or instrumentality of any of them which exercise jurisdiction over the Project. Tenant shall comply with (and shall indemnify Landlord for Tenant's failure to comply with), and shall cause its employees, contractors and agents to comply with, and shall use its best efforts to cause its customers, visitors and invitees to comply with, all Legal Requirements relating to the use, condition or occupancy of the Leased Premises (including, without limitation, the Americans with Disabilities Act, all Legal Requirements applicable to Tenant's business and operations in the Leased Premises and all orders and requirements imposed by any Health Officer, Fire Marshall, Building Inspector or other Governmental Authority) and with the rules of the Project adopted by Landlord from time to time for the safety, care and cleanliness of the Leased Premises and the Project and for preservation of good order therein (the "Project Rules"). In the event of any conflict between the

-----  
provisions of this Lease and the Project Rules, the provisions of this Lease shall control. The initial Project Rules are attached hereto as Exhibit E.  
-----

(b) Without limiting the provisions of subsection (a) above, Tenant shall comply with all applicable Legal Requirements regarding health, safety or the environment (the "Environmental Laws"), including without

-----  
limitation the application for and maintenance of all required permits, the submittal of all notices and reports, proper labeling, training and recordkeeping, and timely and appropriate response to any Release (defined below) or other discharge of a substance under Environmental Laws. In no way limiting the generality of the foregoing, Tenant shall not cause or permit the use, generation, storage, Release or disposal in or about the Leased Premises, the Project or the Complex of any substances, materials or wastes subject to regulation under Legal Requirements from time to time in effect concerning hazardous, toxic or radioactive materials (collectively, the "Hazardous

-----  
Materials"), unless Tenant shall  
-----

<PAGE>

have received Landlord's prior written consent, which consent Landlord may withhold or revoke at any time in its sole discretion. Additionally, Tenant shall not permit to be present upon the Leased Premises, or contained in any transformers or other equipment thereon, any PCB's. "PCB" means any oil or other

---  
substance containing polychlorinated biphenyl (as defined in 40 CFR 761.3). Tenant shall not permit any asbestos, or any structures, fixtures, equipment or other objects or materials containing asbestos on the Leased Premises. Tenant shall immediately notify Landlord of the presence of any Reportable Quantity (defined below) of a Hazardous Material on or about the Leased Premises. As used in this Lease, "Reportable Quantity" shall mean that amount defined in the

-----  
Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Federal Water Pollution Control Act, as amended, pertinent regulations thereunder or other relevant Environmental Laws.

Tenant shall indemnify, protect, defend (with counsel reasonably approved by Landlord) and hold Landlord, the directors, officers, shareholders, employees and agents of Landlord, and Landlord's mortgagee harmless from any and all obligations, claims, administrative proceedings, judgements, damages, fines, costs, and liabilities, including reasonable attorneys' fees incurred in enforcing this Lease, performance on Tenant's behalf, or collecting any sums due hereunder, (collectively, the "Costs") that arise directly or indirectly from or in connection with the presence, suspected presence, Release (defined below), or suspected Release of Hazardous Materials arising out of, in connection with, or by reason of the action or inaction of Tenant, or Tenant's officers, directors, partners, agents, employees, contractors, subtenants, invitees and visitors. As used in this Lease, "Release" shall mean any spilling, leaking, pumping,

-----  
pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment (including the abandonment or discarding of barrels, containers and other closed receptacles). If Landlord incurs any Costs, Tenant shall pay to Landlord the amount thereof upon demand. Without limiting the generality of the foregoing, there shall be included in Costs, capital, operating, and maintenance costs incurred in connection with any investigation or monitoring of site conditions, any clean up, containment, remedial, removal or restoration work required or performed by any federal,

state or local governmental agency or political subdivision or performed by any nongovernmental entity or person.

5.8 RIGHTS RESERVED BY LANDLORD. Tenant shall permit Landlord or its agents or representatives to enter into and upon any part of the Leased Premises at all reasonable hours and upon reasonable notice (except for emergencies and routine cleaning for which such entry may be made at any time and without notice) to inspect same, clean or make repairs, alterations or additions thereto and to show same to prospective tenants, subtenants, mortgagees and purchasers as Landlord may deem necessary or desirable. Additionally, Landlord shall have the right from time to time, without unreasonable interference with Tenant's use of the Leased Premises, to decorate and to make repairs, alterations, additions, changes or improvements, whether structural or otherwise, in and about the Complex, or any part thereof, to enter upon the Leased Premises therefor, and to alter or relocate entrances, passageways, doors, corridors, elevators, stairs, rest rooms, or other General Common Areas, Service Areas or Common Areas, and during the continuance of such work, to temporarily close doors, entryways, public space and corridors in the Complex. Tenant shall not be entitled to any abatement or reduction of any sums due under this Lease by reason of the foregoing activities, nor shall such activities be construed to be an eviction of Tenant, a default by Landlord hereunder, or a breach of the covenant of quiet enjoyment.

5.9 NUISANCE. Tenant shall conduct its business and control its agents, employees, invitees, contractors and visitors in such a manner as not to create any nuisance, or interfere with, annoy or disturb any other tenant or Landlord in its operation of the Complex.

5.10 SUBORDINATION. This Lease is subject and subordinate to each ground or land lease which may now or hereafter cover all or any part of the Project and to each mortgage or deed of trust which may now or hereafter encumber all or any portion of the Project and to all renewals, modifications, consolidations, replacements and extensions thereof. This Section 5.10 shall be self-operative and no further instrument of subordination need be required by any mortgagee or lessor. Tenant, however, upon Landlord's request, shall execute promptly any appropriate certificate or instrument in confirmation of such subordination. In the event of the enforcement by the lessor under any such ground or land lease or the trustee, the mortgagee or the beneficiary under any such mortgage or deed of trust of the remedies provided for by law or by such ground or land lease, mortgage or deed of trust, Tenant, upon request of any person or party succeeding to the interest of Landlord as a result of such enforcement (collectively, "Successor"),

-----

-20-

<PAGE>

automatically will become the tenant of such Successor without change in the terms or other provisions of this Lease; provided, however, that such Successor shall not be (a) subject to any credits, offsets, defenses or claims which Tenant may have against any prior landlord, (b) bound by any payment of Rent for more than one (1) month in advance, except prepayments in the nature of security for the performance by Tenant of its obligations under this Lease, (c) bound by any amendment or modification of this Lease made after the applicable ground or land lease, mortgage or deed of trust is placed against the Project (and Tenant has been given notice thereof) without the written consent of such trustee, mortgagee, beneficiary or landlord, (d) liable for any act, omission, neglect or default of any prior landlord, or (e) required to make any capital improvements to the Complex or the Leased Premises which Landlord may have agreed to make but had not completed. Notwithstanding the foregoing, the holder of any ground or land lease that may affect all or any portion of the Project or the holder of any mortgage or deed of trust that may encumber all or any portion of the Project may elect at any time to cause their interest in the Project to be subordinate and junior to Tenant's interest under this Lease by filing an instrument in the real property records of Collin County, Texas effecting such election and providing Tenant with notice of such election.

5.11. ESTOPPEL CERTIFICATE. Within ten (10) Business Days after Landlord's request, Tenant will execute an estoppel certificate certifying as to such facts (if true) as Landlord (or mortgagees, ground or land lessors or proposed purchasers of the Project) may reasonably request (including, in the case of mortgagees or ground or land lessors, reasonable notice and cure provisions). Failure to deliver such estoppel certificate within such ten (10) Business Day period shall be deemed Tenant's agreement to and acknowledgment of the statements contained therein.

5.12. TENANT'S REMEDIES. Tenant specifically agrees to look solely to Landlord's (or its successors') interest in the Project for the recovery of any judgment from Landlord, it being agreed that Landlord (and if Landlord is a partnership, its partners [direct or indirect, general or limited], or if Landlord is a corporation, its directors, officers or any successors in interest) shall never be personally liable for any such judgment.

5.13. NAME OF BUILDING AND PROJECT. Tenant shall not utilize the name of the Building, the Project or the Complex for any purpose whatsoever, except to identify the location of the Leased Premises in Tenant's address. Landlord shall have the right to change the name of the Building and/or the Complex or the design or construction thereof whenever Landlord, in its sole discretion, deems it appropriate without any liability to Tenant and without any consent of Tenant being necessary.

## VI.

### 6.1. CONDEMNATION.

(a) If the Leased Premises shall be taken or condemned (or sold in lieu thereof) for any public purpose to such an extent as to render the Leased Premises untenable, either party shall have the right to terminate this Lease by giving notice of such election to terminate to the other party within ten (10) days from the date of such condemnation or taking (or sale in lieu thereof), which termination shall be effective on the date of the transfer of possession of the Leased Premises to the condemning authority. If only a portion thereof shall be so taken so as not to render the remainder untenable, this Lease shall not terminate, and Base Rental shall be diminished by an equitable amount (based upon the square footage of Net Rentable Area so taken) and Landlord shall, to the extent practicable, restore the Leased Premises so that the remaining portion of the Leased Premises shall be partitioned off from the portion so taken or condemned; however, Landlord shall be obligated to restore or rebuild the damaged property only to the extent the holder of any mortgage or deed of trust or the landlord under any ground lease makes the proceeds of such taking available to Landlord for the purposes of rebuilding and restoration, or if no mortgage or ground lease then affects the Complex or Project, then only to the extent of the net proceeds of such taking. If all or substantially all of the Complex or Project (whether or not the Leased Premises are affected), or a portion of the Complex or Project (whether or not the Leased Premises are affected) as to cause the remainder of the Complex or Project not to be economically feasible to operate, as reasonably determined by Landlord, should be taken or condemned (or sold in lieu thereof) for any public purpose, then this Lease, at the option of Landlord upon the giving of notice to Tenant within ten (10) days from the date of such condemnation or taking (or sale in lieu thereof), shall cease and terminate effective on the date of

-21-

<PAGE>

the transfer of possession of the Leased Premises to the condemning authority. If this Lease is terminated in accordance with this Section 6.1(a), Base Rental shall be apportioned on a per diem basis and shall be payable through the effective date of the termination. All proceeds from any taking or condemnation (or sale in lieu thereof) of the Leased Premises or any portion of the Complex shall belong to and be paid to Landlord, and Tenant shall not be entitled to any portion of such award (except that Tenant shall have all rights permitted under the laws of the State of Texas to appear, claim and prove in proceedings relative to such taking). 6.3. the value of any fixtures, furnishings, and other personal property which are taken but which under the terms of this Lease Tenant is permitted to remove at the end of the Term, 6.4. the unamortized cost [such costs having been amortized on a straight line basis over the Term excluding any renewal terms] of Tenant's leasehold improvements which are taken that Tenant is not permitted to remove at the end of the Term and which were installed solely at Tenant's expense [i.e., not paid for by Landlord or purchased with allowances provided by Landlord], and 6.5. relocation and moving expenses, but not the value of Tenant's leasehold estate created by this Lease and only so long as such claims in no way diminish the award Landlord receives from the condemning authority).

(b) In the event of any taking or condemnation for any public purpose of the Leased Premises or any portion thereof occurs for one hundred eighty (180) days or less, then it shall be deemed a temporary taking, this Lease shall continue in full force and effect, Landlord shall be under no obligation to make any repairs or alterations, and at Landlord's option either



(i) there shall be no abatement of Base Rental and all proceeds of such taking relating to the Term occurring during such taking shall belong to Tenant, or (ii) Base Rental shall be diminished by an equitable amount (based upon the square footage of Net Rentable Area so taken) for the period of time the Leased Premises are so taken and Landlord shall be entitled to the proceeds of such taking.

6.2. DAMAGES FROM CERTAIN CAUSES. Landlord shall not be liable or responsible to Tenant for any loss or damage to any property or person occasioned by theft, fire, casualty, vandalism, acts of God, public enemy, injunction, riot, strike, inability to procure materials, insurrection, war, court order, requisition or order of governmental body or authority, or for any other causes beyond Landlord's reasonable control, or for any damage or inconvenience which may arise through repair or alteration of the Leased Premises, the Project, or the Complex. All goods, property or personal effects stored or placed by Tenant in or about the Complex shall be at the sole risk of Tenant.

### 6.3. INTENTIONALLY OMITTED.

6.4. HOLDING OVER. In the event of holding over by Tenant after expiration or termination of this Lease without the consent of Landlord, Tenant shall be deemed a tenant at will and shall pay, as Base Rental for each month or any part thereof of any such holdover period, the greater of (a) one hundred seventy-five percent (175%) of the Base Rental and Base Rental Adjustment which Tenant was obligated to pay for the month immediately preceding the end of the Term, or (b) one hundred seventy-five percent (175%) of the prevailing market rent for the Leased Premises (as reasonably determined by Landlord), (plus any additional rent provided for under this Lease). No holding over by Tenant after the Term shall operate to extend the Term. Additionally, in the event of any unauthorized holding over by Tenant, Tenant shall indemnify Landlord against (i) all claims for damages by any other lessee to whom Landlord may have leased all or any part of the Leased Premises covered hereby, and (ii) all other losses, costs and expenses, including attorneys' fees, incurred by Landlord by reason of such holding over. Any holding over with the consent of Landlord in writing shall thereafter constitute this Lease a lease from month to month.

6.5. CASUALTY. In the event of a fire or other casualty in the Leased Premises, Tenant shall immediately give notice thereof to Landlord. If the Leased Premises shall be destroyed by fire or other casualty so as to render the Leased Premises untenable in whole or in part, Base Rental shall abate equitably thereafter as to the portion of the Leased Premises rendered untenable (based upon the square footage of the Net Rentable Area rendered untenable) until the earlier to occur of 6.10. sixty (60) days after the date Tenant is permitted to commence repair of its leasehold improvements for the portion of the Leased Premises so damaged, or 6.11. the date the Leased Premises are made tenantable. Landlord agrees to commence and prosecute repair of the Building Standard Improvements promptly and with all due diligence, and Tenant agrees to commence and prosecute repair of its leasehold improvements promptly and with all due diligence, subject in each case to delays for insurance adjustments and delays caused by matters beyond the applicable party's control, zoning laws and building codes then in effect, and to the termination rights set forth below. In the event any portion of the Complex is damaged by fire or other casualty, and if such damage is such that Landlord

-22-

<PAGE>

cannot reasonably be expected to substantially complete its repair work within one hundred eighty (180) days after the date of casualty, as reasonably estimated by a responsible contractor selected by Landlord, then Landlord shall have the right to terminate this Lease and all Rent owing under this Lease up to the time of such destruction or termination shall be paid by Tenant and thenceforth this Lease shall cease and come to an end. Landlord shall give Tenant written notice of its decisions, estimates or elections under this Section 6.5 within sixty (60) days after any such damage or destruction. In the event any portion of the Leased Premises is damaged by fire or other casualty, and if such damage is such that Landlord cannot reasonably be expected to substantially complete its repair work of the Building Standard Improvements within the Leased Premises within one hundred eighty (180) days after the date of the casualty to the extent necessary to allow Tenant to commence repair of its leasehold improvements, as reasonably estimated by a responsible contractor selected by Landlord, and Landlord has not terminated this Lease as herein provided, then Tenant shall have the right, within thirty (30) days after Landlord delivers the estimate to Tenant of time to restore, to terminate this

Lease. Notwithstanding anything to the contrary contained in this Section 6.5, if at the time of any damage to the Complex, less than one (1) year remains in the Term, then Landlord, at Landlord's sole option, shall have the right to terminate this Lease. Additionally, notwithstanding anything to the contrary contained in this Section 6.5, (a) Landlord shall be obligated to restore or rebuild (i) the damaged property only to the extent of the net insurance proceeds made available to Landlord for restoration or rebuilding by the holder of any mortgage or deed of trust or lessor under any ground lease, and (ii) only the portion of the Leased Premises that consists of Building Standard Improvements and only to the condition that existed immediately prior to the casualty, and nothing herein shall be construed to obligate Landlord under any circumstances to repair or restore any of Tenant's leasehold improvements in excess of Building Standard Improvements, and (b) if the Leased Premises, the Project, or the Complex, or any portion thereof, shall be damaged through the negligence or willful misconduct of Tenant or any of its agents, employees or invitees, the cost of any repairs made by Landlord not covered by insurance proceeds received by Landlord shall be paid by Tenant and Rent shall continue unabated.

6.6. ATTORNEYS' FEES. In the event Tenant or Landlord defaults in the performance of any of the terms, covenants, agreements or conditions contained in this Lease and the nondefaulting party places the enforcement of this Lease, or any part thereof, or the collection of any sums due, or to become due hereunder, or recovery of the possession of the Leased Premises, in the hands of an attorney, or files suit upon the same, the defaulting party agrees, to the extent permitted by applicable law, to pay the nondefaulting party all reasonable attorneys' fees incurred by the nondefaulting party if such suit is successful. In addition, if Tenant requests any consent of Landlord to any assignment or sublease, or otherwise requests any consent or other action on the part of Landlord, and Landlord deems it necessary for any documents to be prepared or reviewed by its counsel, Tenant shall pay all reasonable attorneys' fees and expenses incurred by Landlord in connection therewith.

6.7. ASSIGNMENTS BY LANDLORD. Landlord shall have the right to transfer and assign, in whole or in part, all its rights and obligations hereunder and in the Project and/or the Complex and property referred to herein, and in such event and upon its transferee's assumption of Landlord's obligations thereafter accruing hereunder (any such transferee to have the benefit of, and be subject to, the provisions of Section 4.6 and Section 5.12), no further liability or obligation shall thereafter accrue against Landlord hereunder. Upon request by Landlord, Tenant agrees to execute a certificate certifying such facts (if true) as Landlord may reasonably require in connection with any such assignment by Landlord.

6.8. DEFAULT BY TENANT. The occurrence of any of the following events and the expiration of any grace periods hereafter described shall constitute an "Event of Default" under this Lease on the part of Tenant:

-----

(a) Tenant shall fail to pay any sum to be paid by Tenant under this Lease, and such failure shall continue for five (5) days after Tenant's receipt of written notice from Landlord (provided that Landlord shall only be obligated to give Tenant written notice of any monetary default twice in any twelve (12) month period, and thereafter Tenant shall be deemed in default within five (5) days after failure to make such payment without requirement of notice from Landlord);

-23-

<PAGE>

(b) Tenant shall assign its interest in this Lease or sublet any portion of the Leased Premises except as permitted in this Lease or Tenant shall otherwise breach the provisions of Section 5.4 of this Lease;

(c) a breach shall be made in the performance of any of the other covenants or conditions which Tenant is required to observe and to perform (other than those referred to in subsections (a) and (b) above), and such breach shall continue for fifteen (15) days after notice from Landlord of such breach (unless with respect to any default which cannot be cured within fifteen (15) days due to causes beyond Tenant's reasonable control, Tenant, in good faith, after receiving such notice, shall have commenced and thereafter shall continue diligently to perform all action necessary to cure such default);

(d) if Tenant or any guarantor of this Lease is a corporation, Tenant or any such guarantor shall cease to exist as a corporation in good standing in the state of its incorporation, or, if Tenant or any guarantor of this Lease is a partnership or other entity, Tenant or any such guarantor shall be dissolved or otherwise liquidated;

(e) if the interest of Tenant under this Lease shall be subjected to any attachment, execution, levy or other judicial seizure pursuant to any order or decree entered against Tenant in any legal proceeding that is not stayed (so as to prevent seizure) pending appeal and such order or decree is not vacated or bonded against so as to prevent seizure upon the earlier to occur of (aa) fifteen (15) days prior to the sale of such interest pursuant to such order or decree, or (bb) thirty (30) days after entry of the order;

(f) Tenant shall fail or refuse to move into or take possession of the Leased Premises within thirty (30) days after the Commencement Date; or

(g) if a breach occurs under, or any guarantor of this Lease neglects or fails to perform or observe, any covenant, term, provision, or condition contained in any such guaranty of this Lease.

If an Event of Default on the part of Tenant shall have occurred under this Lease, then or at any time thereafter while such Event of Default continues, Landlord, at Landlord's option, may have any one or more of the following described remedies in addition to all other rights and remedies provided at law or in equity:

(i) Landlord, with or without terminating this Lease, may immediately or at any time thereafter re-enter the Leased Premises and correct or repair any condition which shall constitute a failure on Tenant's part to keep, observe, perform, satisfy or abide by any term, condition, covenant, agreement or obligation of this Lease and Tenant shall fully reimburse and compensate Landlord on demand for the costs incurred by Landlord in doing so; or

(ii) Landlord may terminate this Lease and forthwith repossess the Leased Premises and remove all persons or property therefrom, and be entitled to recover forthwith as damages a sum of money equal to the total of (A) the cost of recovering the Leased Premises (including, without limitation, reasonable attorneys' fees and costs of suit), (B) the cost as reasonably estimated by Landlord of any alterations of, or repairs to, the Leased Premises which are necessary or proper to prepare the same for reletting, (C) the unpaid Rent owed at the time of termination, plus interest thereon from due date at the Interest Rate, (D) the present value of the balance of the Rent for the remainder of the Term less the present value of the fair market rental value (and in computing the fair market rental value the factors taken into account shall include without limitation the market rental concessions and the time necessary to relet the Leased Premises) of the Leased Premises for said period (in each case using a discount rate of eight percent (8%) per annum), and (E) any other sum of money and damages owed by Tenant to Landlord; or

(iii) Landlord may terminate Tenant's right of possession (but not this Lease) and may repossess the Leased Premises by forcible entry or detainer suit or otherwise without demand or notice of any kind to Tenant and without terminating this Lease, and remove all persons or property therefrom, using such

-24-

<PAGE>

force as may be necessary (Tenant hereby waiving any claim by reason of such reentry, repossession or removal or by issuance of any distress warrant or writ of sequestration), in which event Landlord may (but shall be under no obligation to do so unless required by law), relet the Leased Premises or any part thereof for the account of Tenant for such rent and upon such terms as shall be satisfactory to Landlord (however, to the extent Landlord is so required by law to relet the Leased Premises, Landlord shall be under no obligation to relet the Leased Premises or any portion thereof in preference to any

other space in the Complex or on terms unsatisfactory to Landlord). For the purpose of such reletting Landlord is authorized to decorate or to make any repairs, changes, alterations or additions in or to the Leased Premises, or provide leasing inducements or brokerage commissions that may be necessary or convenient, and (A) if Landlord shall fail or refuse to relet the Leased Premises, or (B) if relet and a sufficient sum shall not be realized from such reletting (after paying the unpaid amounts due hereunder earned but unpaid at the time of reletting plus interest thereon at the Interest Rate, the cost of recovering possession [including, without limitation, attorneys' fees and costs of suit], all of the costs and expenses of such decorations, repairs, changes, alterations and additions and all other expenses of such reletting [including, without limitation, leasing inducements and brokerage commission] and of the collection of the rent accruing therefrom) to satisfy the Rent provided for in this Lease to be paid, then Tenant shall pay to Landlord as damages a sum equal to the amount of the rental reserved in this Lease for such period or periods or, if the Leased Premises have been relet, Tenant shall satisfy and pay any such deficiency upon demand therefor from time to time as the same accrues or becomes due. Tenant agrees that Landlord may file suit to recover any sums falling due under the terms of this Section 6.8 from time to time on one or more occasions without Landlord being obligated to wait until expiration of the Term, and no delivery or recovery of any portion due Landlord hereunder shall be any defense in any action to recover any amount not theretofore reduced to judgment in favor of Landlord, nor shall such reletting be construed as an election on the part of Landlord to terminate this Lease unless a written notice of such intention be given to Tenant by Landlord. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous breach. If Landlord re-enters the Leased Premises or terminates this Lease pursuant to any of the provisions of this Lease, Tenant hereby waives all claims for damages which may be caused by such re-entry or termination by Landlord. No such re-entry or termination shall be considered or construed to be a forcible entry; or

(iv) Landlord is entitled and is hereby authorized, without any notice to Tenant whatsoever, to enter upon the Leased Premises by use of a master key, a duplicate key, picking the locks, or other peaceable means, and to change, alter, and/or modify the door locks on all entry doors of the Leased Premises, thereby excluding Tenant, and its officers, principals, agents, employees, visitors and representatives therefrom. In the event that Landlord has either terminated Tenant's right of possession to the Leased Premises pursuant to the foregoing provisions of this Lease, or has terminated this Lease by reason of the Event of Default, Landlord shall not thereafter be obligated to provide Tenant with a key to the Leased Premises at any time; provided, however, that in any such instance, during Landlord's normal business hours and at the convenience of Landlord, and upon the written request of Tenant accompanied by such written waivers and releases as Landlord may require, Landlord will escort Tenant or its authorized personnel to the Leased Premises to retrieve any personal belongings or other property of Tenant not subject to Landlord's liens or security interests described in this Lease or available under applicable laws. If Landlord elects to exclude Tenant from the Leased Premises without permanently repossessing the Leased Premises or terminating this Lease pursuant to the foregoing provisions of this Lease, then Landlord (at any time prior to permanent repossession or termination) shall not be obligated to provide Tenant a key to re-enter the Leased Premises until such time as all delinquent Rent has been paid in full and all other Events of Default, if any, have been completely cured to Landlord's satisfaction, and Landlord has been given assurance reasonably satisfactory to Landlord evidencing Tenant's ability to satisfy its remaining obligations under this Lease. During any such temporary period of exclusion, Landlord will, during Landlord's regular business hours and at Landlord's convenience, upon written request by Tenant, escort Tenant or its authorized personnel to the Leased Premises to retrieve personal belongings of Tenant or its employees, and such other property of Tenant as is not subject to Landlord's liens and security interests described in this Lease or available under applicable laws. The provisions hereof shall override and control any conflicting provisions of Section 93.002 of the Texas Property Code (as amended).

&lt;PAGE&gt;

6.9. INSOLVENCY OR BANKRUPTCY . The appointment of a receiver to take possession of all or substantially all of the assets of Tenant or any guarantor of any of Tenant's obligations under this Lease, or any general assignment by Tenant for the benefit of creditors, or any action taken or suffered by Tenant or any such guarantor under any insolvency, bankruptcy, or reorganization act, other than an involuntary proceeding that is dismissed or bonded against within twenty (20) days after the filing thereof, shall at Landlord's option, constitute a breach of this Lease by Tenant. Upon the happening of any such event or at any time thereafter, this Lease shall terminate five (5) days after notice of termination from Landlord to Tenant. In no event shall this Lease be assigned or assignable by voluntary or involuntary bankruptcy or a proceeding in lieu thereof and, in no event shall this Lease or any rights or privileges hereunder be an asset of Tenant or any such guarantor under any bankruptcy, insolvency, or reorganization proceeding.

6.10. NON-WAIVER . No failure or delay of Landlord in any one instance to exercise any remedy or power given it herein or to insist upon strict performance by Tenant of any obligation imposed on it herein in any other instance shall constitute a waiver or a modification of the terms hereof by Landlord in any one instance or any right it has herein to demand strict compliance with the terms hereof by Tenant in any other instance. Additionally, no express written waiver by Landlord shall affect any condition other than the condition specified in such express written waiver and only for the time and in the manner specifically stated. A receipt by Landlord of any Rent with knowledge of the breach of any covenant or agreement contained in this Lease shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord. No payment by Tenant or receipt by Landlord of a lesser amount than the Rent due under this Lease shall be deemed to be other than an account of the earliest Rent due hereunder, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or pursue any other remedy in this Lease provided. No course of conduct between Landlord and Tenant, and no acceptance of the keys to or possession of the Leased Premises before the termination of the Term by Landlord or any employee of Landlord shall constitute a waiver of any such breach or of any term, covenant or condition of this Lease or operate as a surrender of this Lease. All of the remedies permitted or available to Landlord under this Lease, or at law or in equity, shall be cumulative and not alternative and the exercise of any such right or remedy shall not constitute a waiver or election of remedies with respect to any other permitted or available right or remedy.

6.11. CASUALTY INSURANCE . Landlord shall maintain fire and extended coverage insurance on the entire Project (excluding leasehold improvements and the personal property of tenants) and on the Building Standard Improvements in amounts desired by Landlord. Said insurance shall be maintained at the expense of Landlord (which expense is to be included in Operating Expenses) with an insurance company authorized to insure properties in the State of Texas. All payments for losses thereunder shall be made solely to Landlord. If the annual premiums to Landlord for such casualty insurance exceed the standard premium rates because of the nature of Tenant's operations, contents or improvements beyond Building Standard Improvements or because the same result in extra-hazardous exposure, then Tenant shall upon receipt of copies of appropriate premium invoices promptly reimburse Landlord for such increases in such premiums. Tenant shall maintain at its expense fire and extended coverage insurance on the full insurable value of all of the leasehold improvements and Tenant's personal property, including removable trade fixtures, located in the Leased Premises and on the full insurable value of all additions and improvements (including fixtures) made by Tenant and not required to be insured by Landlord above. Upon request of Landlord, Tenant shall deliver to Landlord a duly executed certificate of insurance reflecting Tenant's maintenance of the insurance required under this Section 6.11.

6.12. LIABILITY INSURANCE. Landlord and Tenant each shall maintain separate policies of commercial general liability insurance with the premiums thereon fully paid in advance, issued by and binding upon an insurance company authorized to transact business in Texas and of good financial standing, such insurance to afford minimum protection of not less than \$2,000,000.00 in respect of bodily injury or death and/or property damage in respect of any one occurrence; provided, however, that Tenant shall carry such greater limits of coverage as Landlord may reasonably request from time to time so long as

Landlord maintains similar limits of coverage. The insurance required to be maintained by Tenant hereunder shall name Landlord's mortgagee as an additional insured.

<PAGE>

6.13. HOLD HARMLESS. Except as otherwise expressly provided in this Lease to the contrary, Landlord shall not be liable to Tenant, or to Tenant's agents, servants or employees for any damage to person or property caused by the negligence or intentional torts of Tenant, or its agents, servants or employees, and Tenant agrees to indemnify and hold Landlord harmless from all liability and claims for any such damage. Except as otherwise expressly provided in this Lease to the contrary, Tenant shall not be liable to Landlord, or to Landlord's agents, servants or employees for any damage to person or property caused by the negligence or intentional torts of Landlord, or its agents, servants or employees, and Landlord agrees to indemnify and hold Tenant harmless from all liability and claims for any such damage.

6.20. WAIVER OF SUBROGATION RIGHTS. ANYTHING IN THIS LEASE TO THE CONTRARY NOTWITHSTANDING, LANDLORD AND TENANT EACH HEREBY WAIVES ANY AND ALL RIGHTS OF RECOVERY, CLAIM, ACTION OR CAUSE-OF-ACTION, AGAINST THE OTHER, ITS AGENTS (INCLUDING PARTNERS, BOTH GENERAL AND LIMITED), OFFICERS, DIRECTORS, SHAREHOLDERS, CUSTOMERS, INVITEES, OR EMPLOYEES, FOR ANY LOSS OR DAMAGE THAT MAY OCCUR TO THE LEASED PREMISES, OR ANY IMPROVEMENTS THERETO, OR THE COMPLEX OF WHICH THE LEASED PREMISES ARE A PART, OR ANY IMPROVEMENTS THEREON, OR ANY PERSONAL PROPERTY OF SUCH PARTY THEREIN, BY REASON OF FIRE, THE ELEMENTS OR ANY OTHER CAUSE WHICH IS OR IS REQUIRED TO BE INSURED AGAINST UNDER THE INSURANCE POLICIES REFERRED TO IN SECTION 6.11 HEREOF, REGARDLESS OF CAUSE OR ORIGIN, INCLUDING NEGLIGENCE OF THE OTHER PARTY HERETO, ITS AGENTS, PARTNERS, SHAREHOLDERS, OFFICERS, DIRECTORS, CUSTOMERS, INVITEES OR EMPLOYEES, AND COVENANTS THAT NO INSURER SHALL HOLD ANY RIGHT OF SUBROGATION AGAINST SUCH OTHER PARTY. LANDLORD AND TENANT SHALL ADVISE INSURERS OF THE FOREGOING WAIVER AND SUCH WAIVER SHALL BE A PART OF EACH POLICY MAINTAINED BY SUCH PARTY.

6.15. PARKING .

(a) At all times during the Term, Landlord agrees to furnish and Tenant agrees to pay for and lease, parking rights for (i) twenty-six (26) vehicles in the general parking area ("General Parking Permits") and (ii) zero (0) vehicles in the reserved parking area ("Reserved Parking Permits"), as each such area is designated by Landlord in the Garage (collectively, the "Parking Permits"). No specific spaces in the Garage are to be assigned to Tenant but Landlord will issue to Tenant the aforesaid number of parking stickers and/or cards each of which will authorize parking in the Garage of a vehicle on which the sticker is displayed, or Landlord will provide a reasonable alternative means of identifying and controlling vehicles authorized to be parked in the Garage. Landlord may designate the area within which each such vehicle may be parked, and Landlord may change such designations from time to time.

Additionally, commencing on the Commencement Date and continuing through and until the Expiration Date, Tenant shall have the right, subject to availability, which shall be determined by Landlord in Landlord's sole discretion, to elect at any time during the Term to lease up to an aggregate of fourteen (14) additional permits (the "Optional Parking Permits") to park vehicles in the general parking area designated by Landlord in the Garage. Tenant shall request such Optional Parking Permits from Landlord in writing at least thirty (30) Business Days prior to the commencement of the calendar month Tenant requires such permits. If Landlord determines such requested Optional Parking Permits are available and such Optional Parking Permits are leased to Tenant, Landlord or Tenant may terminate Tenant's right to any or all of the Optional Parking Permits then issued to Tenant upon thirty (30) Business Days written notice to the other party prior to the commencement of the calendar month Landlord or Tenant requires such termination (but Tenant may request the issuance or termination of such Optional Parking Permits only one (1) time with respect to each calendar month of the Term of the Lease); provided however, at no time during the Term of the Lease shall the number of Optional Parking Permits issued to Tenant during any calendar month exceed fourteen (14) such permits. Any Optional Parking Permits leased by Tenant pursuant to this paragraph shall be included within the defined terms General Parking Permits and

Parking Permits for all purposes of this Section 6.15 from the date such permits are made available to Tenant and for the remainder of the Term (except as provided in this paragraph).

-27-

<PAGE>

(b) As rental for the Parking Permits ("Parking Rental"), Tenant covenants and agrees to pay Landlord during the Term, as additional rental hereunder, (i) during the Initial Term (A) the sum of \$30.00 per month (plus any applicable sales tax) for each of the parking stickers/cards to be issued by Landlord as herein provided for the General Parking Permits, and (B) the sum of \$60.00 per month (plus any applicable sales tax) for each of the parking stickers/cards to be issued by Landlord as herein provided for the Reserved Parking Permits, and (ii) during the Renewal Term (if applicable), the amount determined in accordance with Section 7.1 plus any applicable sales tax for each of the parking stickers/cards to be issued by Landlord as herein provided for the Parking Permits. Such Parking Rental shall be payable monthly in advance on the first day of each and every month during the Term, and a pro rata portion of such sums shall be payable for any partial calendar month in the event this Lease commences (or ends) on a date other than the first (or last) day of a calendar month. Tenant's obligation to pay the Parking Rental shall be considered an obligation to pay Rent for all purposes hereunder and shall be secured in like manner as is Tenant's obligation to pay Rent.

Notwithstanding any of the foregoing, provided an Event of Default has not occurred, Landlord shall abate all Parking Rental as to the aforementioned Parking Permits for the period from the Commencement Date through and until the day immediately preceding the same date of the eighteenth (18th) month after the Commencement Date.

(c) If the parking spaces covered by the Parking Permits are not available to Tenant during any portion of the Term due to causes beyond the reasonable control of Landlord (including without limitation, as the result of a casualty or condemnation) this Lease shall continue without abatement of Rent (except as otherwise specifically set forth below in this subsection (c)) and Landlord shall use reasonable efforts to make available to Tenant sufficient substitute unassigned parking spaces (in the amount of those spaces not available to Tenant) in the Complex, or, if sufficient parking spaces are not available in the Complex, within a one (1) mile radius of the Complex, until the parking spaces covered by the Parking Permits are made available to Tenant. The substitute parking spaces shall be provided to Tenant at a rental rate not to exceed the rate Tenant would have paid had the parking spaces covered by the Parking Permits been so available to Tenant in the Garage. In the event Landlord does not make substitute parking spaces available to Tenant after notice of such failure is delivered by Tenant to Landlord, Parking Rental shall abate as to the Parking Permits for which parking spaces are not made available until substitute parking spaces or the original parking spaces covered by the Parking Permits are made available to Tenant. Landlord shall use its reasonable efforts to ensure that the parking spaces covered by the Parking Permits are available to Tenant throughout the Term.

(d) Landlord or the operator of the Garage may make, modify and enforce reasonable rules and regulations relating to the parking of vehicles in the Garage, and Tenant shall abide by such rules and regulations and shall exercise reasonable efforts to cause its employees and invitees to abide by such rules and regulations. Additionally, Landlord reserves the right to alter the size of the Garage.

6.16 SEVERABILITY. If any term or provision of this Lease, or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby. Each provision of this Lease shall be valid and shall be enforceable to the extent permitted by law.

6.17 NOTICES. All notices, demands, consents and approvals which may or are required to be given by either party to the other hereunder shall be in writing and shall be given by personal delivery, by an overnight courier, or by deposit in the United States mail, certified, postage prepaid and addressed to the party to be notified at the address for such party specified below, or to such other place as the party to be notified may from time to time designate by at least fifteen (15) days' notice to the notifying party. Notice deposited in the mail in the manner hereinabove described shall be deemed to have been fully given and received (unless otherwise stated in the Lease) on the third (3rd) day

after it is so deposited whether or not actually received. Notice given in any other manner shall be deemed given and received only if and when received by the party to be notified.

-28-

<PAGE>

If to Landlord: HMS Office, L.P.  
c/o Hines Interests Limited Partnership  
One Preston Park South  
4975 Preston Park Boulevard, Suite 660  
Plano, Texas 75093  
Attn: Property Manager

With a copy to: Hines Interests Limited Partnership  
2800 Post Oak Boulevard, Suite 5000  
Houston, Texas 77056  
Attn: E. Staman Ogilvie and  
Tom Owens

If to Tenant  
prior to the  
Commencement Date: Entrust Technologies Incorporated  
2323 North Central Expressway, Suite 360  
Richardson, Texas 75080  
Attn: Dave Wagner

If to Tenant  
on or after the  
Commencement Date: Entrust Technologies  
Incorporated  
4975 Preston Park Boulevard, Suite 400  
Plano, Texas 75093  
Attn: Dave Wagner

Additionally, each of Landlord and Tenant may designate up to three (3) additional addresses to which copies of all notices shall be sent. Furthermore, Tenant agrees to send copies of all notices required or permitted to be given to Landlord under this Section 6.17 to each lessor under any ground or land lease covering all or any portion of the Project and to each holder of a mortgage or deed of trust encumbering all or any portion of the Project that notifies Tenant in writing of its interest and the address to which notices are to be sent. Tenant hereby appoints as an agent to receive the service of all dispossessory or distraint proceedings and notices thereunder the person in charge of or occupying the Leased Premises at the time, and, if no person shall be in charge of or occupying the same, then such service may be made by attaching the same on the main entrance of the Leased Premises.

6.18 SUCCESSORS. This Lease shall be binding upon and inure to the benefit of Landlord, its successors and assigns, and shall be binding upon and inure to the benefit of Tenant, its successors and, to the extent assignment may be approved by Landlord hereunder, Tenant's assigns.

6.19 ENTIRETY. This instrument and any attached addenda or exhibits signed by the parties hereto constitute the entire agreement between Landlord and Tenant. No prior or contemporaneous promises, inducements, representations or agreements, oral or otherwise, between the parties hereto not embodied herein shall be binding or have any force or effect. Tenant will make no claim on account of any representations whatsoever, whether made by any renting agent, broker, officer or other representative of Landlord or which may be contained in any circular, prospectus or advertisement relating to the Leased Premises or the Project, or otherwise, unless the same is specifically set forth in this Lease.

6.20 FINANCIAL STATEMENTS. If Landlord intends to sell all or any portion of the Project or Complex (or any interest therein), or obtain a loan secured by the Project or Complex (or any interest therein), then Tenant shall, within fifteen (15) days of Landlord's written request, furnish Landlord with financial statements, dated no earlier than one (1) year before such request, certified as accurate by Tenant, or, if available, audited financial statements

-29-

<PAGE>



prepared by an independent certified public accountant with copies of the auditor's statement, reflecting Tenant's then current financial condition, or the financial condition of the individuals comprising Tenant, in such form and detail as Landlord may reasonably request.

6.21 AMENDMENTS. This Lease may not be altered, changed or amended, except by an instrument in writing, signed by both parties hereto.

6.22 BROKERS. Except for the commission payable to The Staubach Company ("Broker"), which commission is payable by Landlord pursuant to a separate agreement by and between Landlord and Broker, Tenant hereby warrants and represents that it has not dealt with any other brokers or intermediaries entitled to any compensation in connection with this Lease or Tenant's occupancy of space in the Leased Premises. Each party hereby agrees to hold the other party, its partners and representatives harmless from any and all claims, liabilities, costs and expenses (including reasonable attorneys' fees) arising from any claim for any commissions or other fees by any other broker or agent acting or purporting to have acted on behalf of such party.

6.23 VACATING THE LEASED PREMISES. If no portion of the Leased Premises is occupied by Tenant or its permitted assignee or sublessee for longer than one hundred eighty (180) consecutive days, even though Tenant continues to pay the stipulated Rent under this Lease with respect thereto, and Tenant or its permitted assignee or subtenant fails to re-occupy the same within sixty (60) days after notice from Landlord, then from and after the expiration of said sixty (60) day notice period, Landlord may terminate this Lease as to the Leased Premises, without declaring Tenant in default under this Lease, by delivering written notice to Tenant and Landlord and Tenant shall have no further obligations under this Lease. Space which is vacated on account of fire or other casualty or bona fide remodeling shall not be deemed unoccupied for purposes of this Section 6.23. In no event shall anything contained herein be deemed a waiver by Landlord of its rights under Section 6.8 of this Lease upon the occurrence of an Event of Default.

## VII.

### 7.1 RENEWAL OPTION.

(a) So long as an Event of Default has not occurred and subject to the provisions of this Section 7.1, Tenant is hereby granted a one (1) time option (the "Renewal Option") to renew the Initial Term as to all (but not part)

-----  
of the Leased Premises (including, except as otherwise provided in Section 7.2, any space added to the Leased Premises pursuant to Section 7.2) for a period of three (3) years (the "Renewal Term") such Renewal Term to commence at the

-----  
expiration of the Initial Term. Tenant must furnish Landlord with written notice of its intent to exercise the Renewal Option no later than twelve (12) months prior to the expiration of the Initial Term (the "Intent Notice"). If Tenant

-----  
timely delivers the Intent Notice to Landlord, Landlord shall no later than eleven (11) months prior to the expiration of the Initial Term deliver to Tenant written notice of the Market Base Rental Rate (defined below) as of the commencement of the Renewal Term and the Parking Rental for the Parking Permits (if applicable pursuant to subsection (b)(iii) below). If Tenant timely furnished the Intent Notice to Landlord as provided above, Tenant may exercise the Renewal Option by delivering written notice of such election (the "Election

-----  
Notice") to Landlord no later than thirty (30) days after receipt of Landlord's

-----  
notice of the Market Base Rental Rate. If Tenant timely delivers the Intent Notice and the Election Notice to Landlord, but at any time prior to the commencement of the Renewal Term an Event of Default has occurred, Landlord, at its sole option during the continuance of such Event of Default, may terminate Tenant's election to exercise the Renewal Option and the Renewal Option shall expire and thereafter shall not be exercisable by Tenant. If Tenant fails to timely exercise the Renewal Option by failing to timely deliver the Intent Notice or the Election Notice as provided above, the Renewal Option shall terminate automatically, and Tenant shall have waived forever its right to renew and extend the Initial Term.

(b) The renewal of this Lease pursuant to the exercise of the Renewal Option shall be upon the same terms and conditions of this Lease (including, without limitation, Tenant's obligation to pay the Base Rental

Adjustment), except:

-30-

<PAGE>

(i) the Base Rental Rate for the Leased Premises during the Renewal Term shall be the sum of (A) the Market Base Rental Rate for the Renewal Term as of the commencement of the Renewal Term, plus (B) the Basic Cost Component for the Renewal Term (as adjusted by clause (ii) below); however, in no event shall the Base Rental Rate during the Renewal Term be less than the Base Rental Rate (as adjusted pursuant to Section 3.2(b)(i) of this Lease) Tenant is obligated to pay under this Lease immediately prior to the commencement of the Renewal Term. The Base Rental Rate during the Renewal Term shall be subject to increase as provided in Section 3.2(b) of this Lease and Tenant shall be obligated to pay the Base Rental Adjustment pursuant to Section 3.2(b) of this Lease (taking into account the adjusted Basic Cost Component pursuant to clause (ii) below);

(ii) the Basic Cost Component (as defined in Section 3.2(b)(i) of this Lease) shall be amended for the Renewal Term to equal the Expense Stop (defined below). As used in this clause (ii), "Expense Stop" shall mean Landlord's

-----  
determination of the Basic Costs as of the commencement of the Renewal Term (on a per square foot of Net Rentable Area basis) for the calendar year in which the Renewal Term commences;

(iii) at the time of the Tenant's exercise of the Renewal Option, if Landlord is charging any tenants then entering into leases for office space in the Building for parking spaces in the Garage, Tenant shall pay Landlord, as Parking Rental, a monthly amount equal to the rates charged by Landlord or the operator of the Garage for parking in such location (taking into account whether such parking spaces are for regular or executive parking spaces) for monthly contract parking in the Garage multiplied by the number of Parking Permits leased by Tenant pursuant to this Lease, which Parking Rental shall be payable as provided in Section 6.15(b) of this Lease;

(iv) Tenant shall have no option to renew this Lease beyond the Renewal Term; and

(v) the leasehold improvements will be provided in their then-existing condition (on an "as is" basis) at the time the Renewal Term commences and Tenant shall not be entitled to any construction, buildout or other allowances with respect to the Leased Premises during the Renewal Term.

(c) As used in this Lease, "Market Base Rental Rate" shall

-----  
mean Landlord's determination of the market annual net rental rate (exclusive of expense pass through additions, whether characterized as such or not, and exclusive of any portion of "base rentals" attributable to expenses or to an "expense stop") per square foot of Net Rentable Area for the applicable space and for the time period as to which such rate is being determined, that a willing tenant would pay and a willing landlord would accept, in arm's length bona fide negotiations (taking into consideration all relevant factors including, without limitation, the following factors: rent being charged in other first-class office buildings located in Dallas, Texas, for leases then being entered into for comparable space to the Leased Premises in the comparable elevator bank for which the Market Base Rental Rate is being determined; location, quality, amenities, age and reputation of the buildings in which the space being compared is located; use and size of the space under comparison; location and/or floor level of the subject space and any comparison space within their respective buildings, including view, elevator lobby exposure, etc.; definition of "net rentable area" applicable to the spaces; distinction (if any) between "gross" and "net" rental rates and type, base year or dollar amount for escalation purposes (both operating costs and real estate taxes) if the comparison is on a "gross" lease basis; any other adjustments (including through use of an index) to base rental; extent of services provided or to be provided; extent and condition of leasehold improvements in the subject space and in any

comparison space; cost to tenant of relocating from the subject space to any alternative space or savings from not moving to alternative space; abatements pertaining to the subject space and to any comparison space (including with respect to base rental, operating expenses and/or real estate taxes); inclusion of parking charges in rental, if applicable; lease takeovers/assumptions by the landlord of the comparison space, if applicable; moving allowances granted, if any; relocation allowances granted, if any; club memberships granted, if any; construction, refurbishment and repainting allowances granted, if any; any other concessions or inducements; term or length of lease of subject space and of any comparison space; overall creditworthiness of Tenant and lessees in comparable space; the time the particular rental rate under consideration was agreed upon and became or is to become effective; and payment of a leasing

-31-

<PAGE>

commission, fees, bonuses or other compensation whether to Tenant's representatives or to Landlord, or to any person or entity affiliated with Tenant or Landlord, or otherwise). Landlord and Tenant agree that bona fide written offers to lease comparable space located in the Building or the Complex from third parties may be used as a factor in determining the Market Base Rental Rate.

(d) Tenant may not assign the Renewal Option and no sublessee or assignee of Tenant may exercise the Renewal Option except as expressly provided for under Section 5.4(d) of this Lease.

#### 7.2. RIGHT OF OFFER.

(a) Landlord hereby grants to Tenant a Right of Offer during the Initial Term to include under this Lease all or any portion of the office space which consists of approximately 10,513 square feet of Net Rentable Area on Floor 4 of the Building in the location identified on Exhibit F attached hereto,

-----  
 which is, at the time the Offer Notice (defined below) is delivered to Tenant, identified in the Offer Notice and is not otherwise a part of the Leased Premises (the "Offer Space") upon the terms and conditions set forth in this

-----  
 Section 7.2 (the "Right of Offer").

(b) Notwithstanding anything to the contrary contained herein, Tenant's Right of Offer is and shall be subject and subordinate to any renewal rights, expansion rights, rights of refusal, rights of offer or similar rights or options now held by any tenants of the Building with respect to all or any portion of the Offer Space (the "Superior Rights").

(c) Subject to the provisions of subsections (a) and (b) above, if during the Initial Term and from and after the date on which the tenant leasing all or any portion of the Offer Space gives notice to Landlord that it is vacating said space or any portion thereof, or upon expiration of the term of any lease on said space (and such tenant does not renew such lease) or if Landlord otherwise becomes aware that such space is becoming available and if this Lease is then in full force and effect and an Event of Default under this Lease is not then in existence, Landlord shall offer to Tenant in writing (the "Offer Notice") the right to include all (and not a portion) of said Offer Space

-----  
 which is becoming available (the "RO Space") as a part of the Leased Premises

-----  
 under this Lease upon all of the terms and conditions of this Lease except as otherwise set forth below (which notice shall contain the date upon which the RO Space is expected to be available, Landlord's determination of the Market Base Rental Rate for such space as of the date the RO Space is expected to be available, and the term such space is available for lease by Tenant). Tenant shall exercise its Right of Offer (the "Offer Election") as to all of the RO

-----  
 Space contained in the Offer Notice (and not just a portion), if at all, by written notice to Landlord within five (5) days after the Offer Notice is received by Tenant (the "Offer Election Period").

-----  
 Any time during the Offer Election Period prior to Landlord's receipt of the Offer Election, Landlord may have discussions with other prospective tenants with respect to the RO Space. If (i) Tenant would have had

the right to exercise the Right of Offer except for the existence of an Event of Default, (ii) Tenant does not exercise such Right of Offer prior to the expiration of the Offer Election Period, or (iii) Tenant fails to deliver notice of the Offer Election as provided above, Tenant shall not have exercised the Offer Election as to the applicable RO Space, the Right of Offer shall expire and thereafter shall not be exercisable by Tenant, and Landlord shall be free to lease such space or any portion thereof to any person or entity without regard to Tenant's rights under this Section 7.2. Notwithstanding the foregoing, the provisions of the Right of Offer shall continue to be in effect as to the portion, if any, of the then existing Offer Space not covered by the Offer Notice (subject to the other provisions hereof). If Tenant timely gives notice of its election to exercise a Right of Offer but at any time at or after such election and prior to the addition of such space to the Leased Premises, an Event of Default has occurred, Landlord, at its sole option during the continuance of such Event of Default, may terminate Tenant's Offer Election and the Right of Offer in respect of the subject Offer Notice shall expire and thereafter not be exercisable by Tenant and Landlord shall be free to lease such space or any portion thereof to any person or entity without regard to Tenant's rights under this Section 7.2.

(d) The RO Space leased by Tenant pursuant to this Section 7.2 shall be leased on and subject to the following terms and conditions:

-32-

<PAGE>

(i) the Base Rental Rate (1) during the Initial Term shall be the sum of (aa) the Market Base Rental Rate contained in the Offer Notice, plus (bb) the Basic Cost Component (determined in accordance with the following paragraph), and (B) during the Renewal Term (if Tenant exercises the Renewal Option as to such space pursuant to Section 7.1), shall be the Base Rental Rate for the Leased Premises determined in accordance with Section 7.1. Tenant shall be obligated to pay the Base Rental Adjustment as to the RO Space leased by Tenant in accordance with the provisions of Section 3.2(b) taking into account the adjusted Basic Cost Component as to the RO Space as provided below, and without limiting the foregoing, the Base Rental Rate shall be subject to increase thereafter during the Term as provided in Section 3.2(b) of this Lease.

The Basic Cost Component (as defined in Section 3.2(b)(i) of this Lease) shall be amended for the Initial Term as to the applicable RO Space only to equal the RO Expense Stop (defined below) for such RO Space. As used in this clause (i), "RO Expense Stop"

-----  
as to any particular RO Space shall mean Landlord's determination of the Basic Costs (on a per square foot of Net Rentable Area basis) for the calendar year in which the RO Space Rental Commencement Date occurs for such RO Space.

(ii) Any space for which Tenant elects to exercise its Right of Offer under this Section 7.2 shall become part of the Leased Premises (but shall not be deemed a part of the defined term Initial Leased Premises for purposes of this Lease), and except to the extent expressly provided to the contrary in this Section 7.2 (including without limitation, this subsection (d)), shall be subject to the terms of this Lease applicable thereto, without modification, and the term of this Lease shall commence for such RO Space upon the date such space is delivered to Tenant in an "as is" broom clean condition (the "RO Space Rental Commencement Date"). Landlord shall not

-----  
be obligated to make any improvements to the RO Space and Tenant shall not be entitled to any construction, buildout or other allowance with respect thereto.

(iii) The term of this Lease shall expire for the RO Space upon the expiration of the Term for the Initial Leased Premises, unless as the result of the Superior Rights such space is not available to be leased to Tenant through the expiration of the Term for the Initial Leased Premises (in which event such shorter term specified in the Offer Notice shall apply to the RO Space). In no event shall this Lease continue in force and effect as to any RO Space beyond the termination of this Lease as to the Initial Leased Premises.

(e) Upon the exercise of any Right of Offer pursuant to the

terms hereof, Tenant and Landlord shall execute an amendment to this Lease in form mutually agreed to by Landlord and Tenant, each acting reasonably, which amendment shall delineate and describe the portions of the floor added to this Lease thereby and otherwise appropriately memorialize the Offer Election.

(f) Notwithstanding anything to the contrary contained in this Lease, Tenant may not assign a Right of Offer and no sublessee or assignee of Tenant may exercise a Right of Offer except as expressly provided for under Section 5.4(d) of this Lease.

(g) Landlord shall not be liable for failure to give possession of any RO Space by reason of any holding over or retention of possession by any previous tenants or occupants of same, nor shall such failure impair the validity of this Lease. However, Landlord does agree to use reasonable diligence to deliver possession of the applicable RO Space in accordance with the provisions of this Section 7.2.

#### VIII.

##### 8.1. MISCELLANEOUS.

(a) This Lease is declared to be a Texas contract, and all of the terms hereof shall be construed according to the laws of the State of Texas.

(b) If Tenant is a corporation, partnership or other entity, Tenant warrants that all consents or approvals required of third parties (including but not limited to its Board of Directors or partners, to the extent

-33-

<PAGE>

applicable) for the execution, delivery and performance of this Lease have been obtained and that Tenant has the right and authority to enter into and perform its covenants contained in this Lease. Likewise, if Landlord is a corporation, partnership or other entity, Landlord warrants that all consents or approvals required of third parties (including but not limited to its Board of Directors or partners) for the execution, delivery and performance of this Lease have been obtained and that Landlord has the right and authority to enter into and perform its covenants contained in this Lease.

(c) Wherever in this Lease there is imposed upon Landlord the obligation to use best or reasonable efforts or due diligence, Landlord shall be required to do so only to the extent the same is economically feasible and otherwise will not impose upon Landlord extreme financial or other burdens.

(d) Time is of the essence in this Lease.

(e) The terms and provisions of Exhibits A through F,  
-----  
inclusive, attached hereto are hereby made a part hereof for all purposes.

(f) Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by Landlord or Tenant against the other or any matter whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord to Tenant, the use or occupancy of the Leased Premises by Tenant or any person claiming through or under Tenant, any claim of injury or damage, and any emergency or other statutory remedy; provided, however, the foregoing waiver shall not apply to any action for personal injury or property damage. If Landlord commences any summary or other proceeding for nonpayment of Rent or the recovery of possession of the Leased Premises, Tenant shall not interpose any counterclaim of whatever nature or description in any such proceeding, unless the failure to raise the same would constitute a waiver thereof.

(g) If any right granted in this Lease or other provisions of this Lease is subject to the rule against perpetuities and the same shall not occur or shall not have vested on the date that is twenty-one (21) years after the death of the last to die of all now living descendants of Ronald W. Reagan, George H. W. Bush and Gerald R. Ford, all of whom are former Presidents of the United States of America, then such right or provisions shall terminate as of such date.

(h) Except to the extent expressly provided to the contrary in this Lease, all references to days in this Lease shall refer to calendar

days. All references to "Business Days" in this Lease shall refer to days that

-----  
national banks are open for business in Plano, Texas.

(i) Tenant agrees not to record this Lease. Additionally, Tenant shall not disclose the terms of this Lease to any third party except (i) legal counsel to Tenant, (ii) any assignee of Tenant's interest in this Lease or sublessee of Tenant, (iii) as required by Legal Requirements, or (iv) for financial reporting purposes.

(j) This Lease may be executed in multiple counterparts, each of which shall constitute an original instrument, but all of which shall constitute one and the same agreement.

(k) This Lease shall not be deemed or construed to create or establish any relationship (other than that of landlord and tenant) or partnership or joint venture or similar relationship or agreement between Landlord and Tenant hereunder.

(l) Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or an option for lease, and it is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

(m) The voluntary or other surrender or termination of this Lease by Tenant and/or Landlord shall not work a merger, but, at Landlord's sole option, shall either terminate all existing subleases or subtenancies or shall operate as an assignment to Landlord of all such subleases or subtenancies.

-34-

<PAGE>

In Witness Whereof, the parties hereto have executed this Lease as of the Effective Date.

LANDLORD:

HMS OFFICE, L.P.

By: Hines Office Company, L.L.C.

By: /s/ Tom Owen

-----  
Name: Tom Owen

-----  
Title: Manager  
-----

TENANT:

ENTRUST TECHNOLOGIES, INCORPORATED

By: /s/ [SIGNATURE ILLEGIBLE]^

-----  
Name: [SIGNATURE ILLEGIBLE]^

-----  
Title: CFO  
-----

-35-

<PAGE>

EXHIBIT A

-----  
DESCRIPTION OF LAND  
-----

BEING a tract of land out of the DENTON DARBY SURVEY, Abstract No. 260, in the City of Plano, Collin County, Texas and being all of Lot 1R and 2R, Block A of the 2nd Replat of PRESTON PARK SOUTH ADDITION, an addition to the City of Plano, Texas according to the plat thereof recorded in Cabinet H, Slide 391 of the Map

Records of Collin County, Texas and being all of Lot 3A, Block A of the Final Plat and Conveyance Plat of Lots 3A and 4, Block A of PRESTON PARK SOUTH, an addition to the City of Plano, Texas according to the plat thereof recorded in Cabinet I, Slide 427 of the Map Records of Collin County, Texas and being more particularly described as follows:

BEGINNING at a 1/2" iron rod found with a cap stamped "2419" for the east corner of a corner clip in the intersection of the easterly right-of-way line of Preston Road (State Highway No. 289, 150' ROW at this point) with the northerly right-of-way line of Preston Park Boulevard (90 ROW at this point):

THENCE with the said corner clip, North 44 27' 20" West, a distance of 35.36 feet to a 5/8" iron rod found with cap stamped "2419" for corner in the east right-of-way line of said Preston Road:

THENCE with the easterly right-of-way line of said Preston Road, the following courses and distances to wit:

North 00 32' 40" East, a distance of 259.23 feet to a 5/8" iron rod found with cap stamped "2419" for corner;  
North 11 32' 40" East, a distance of 95.09 feet to an "X" cut in concrete found for corner;  
North 20 11' 54" East, a distance of 243.37 feet to a Hilti nail found in concrete for corner;  
North 00 32' 40" East, a distance of 10.54 feet to a PK nail found in concrete for the southwesterly corner of Lot 1, Block A of the PRESTON PARK VILLAGE ADDITION an addition to the City of Plano, Texas according to the replat thereof recorded in Cabinet F, Slide 704 of the Map Records of Collin County, Texas:

THENCE with the south line of said Lot 1, South 89 27' 20" East passing a 5/8" iron rod set with a yellow plastic cap stamped "NELSON CORP." (hereinafter called 5/8" iron rod set) for the northeast corner of Lot 1R, Block A of the PRESTON PARK SOUTH ADDITION at a distance of 518.17 feet; in all a total distance of 642.75 feet to a 5/8" iron rod set for corner;

THENCE leaving the south line of Lot 1, Block A of PRESTON PARK VILLAGE ADDITION, South 00 25' 00" West, a distance of 310.89 feet to a point for the beginning of a tangent curve to the right, having a central angle of 07 18' 32", a radius of 400.00 feet and a chord bearing and distance of South 04 04' 16" West, 50.99 feet;

THENCE with said curve, an arc distance of 51.02 feet to a point for the beginning of a reverse curve to the left, having a central angle of 07 18' 32"; a radius of 400.00 feet and a chord bearing and distance of South 04 04' 16" West, 50.99 feet;

THENCE with said curve, an arc distance of 51.02 feet to the point of tangency;

THENCE South 00 25' 00" WEST, a distance of 130.87 feet to a 5/8" iron rod set in the northerly right-of-way line of said Preston Park Boulevard for the beginning of a non-tangent curve to the left, having a central angle of 07 34' 14", a radius of 595.00 feet and a chord bearing and distance of South 77 01' 57" West, 78.56 feet;

THENCE with the said northerly right-of-way line, the following courses and distances to wit:

Westerly with said curve, an arc distance of 78.62 feet to a 1/2" iron rod found with cap stamped "2419" for the beginning of a reverse curve to the right, having a central angle of 17 17' 50", a radius of 1225.00 feet and a chord bearing and distance of South 81 53' 45" West, 368.42 feet;

A-1

<PAGE>

Westerly with said curve, an arc distance of 369.82 feet to a P.K. nail found in concrete in the northerly right-of-way line of said Preston Park Boulevard;  
North 89 27' 20" West, a distance of 271.85 feet to the POINT OF BEGINNING and containing 9.8679 acres of land.

A-2

<PAGE>

EXHIBIT B

[FLOOR PLAN OF LEASED PREMISES APPEARS HERE]

<PAGE>

EXHIBIT C-1

-----

TENANT IMPROVEMENTS WORK SCHEDULE

1. Plan Preparation Schedule.

-----

(a) For purposes of this Exhibit C-1 the terms identified below shall have the following meanings:

"Initial Leased Premises" shall mean the Leased Premises as of the Effective Date (and therefore does not include any space added to the Leased Premises after the Effective Date).

"Building Standard" shall mean such materials and improvements as are currently being used by Landlord in the base Building and the Building Standard Improvements, or materials of comparable quality as may be substituted therefor by Landlord. The Tenant Improvements must include the Building Standard Improvements (at Tenant's cost, subject to the provisions of Paragraph 2(a) below).

"Tenant Architect" shall mean the architect selected and employed by Tenant (subject to Landlord's approval and the provisions of Paragraph 1(b) below) for the preparation of the Tenant Working Drawings (excluding the Tenant Engineering Drawings).

"Tenant Working Drawings" shall refer to complete sets of plans and specifications (at least three sets of prints and one set of reproducible copies) prepared by Tenant Architect (subject to the provisions of Paragraph 1(b) below as to the Tenant Engineering Drawings) and approved by Landlord in the form of working drawings identifying the Tenant Improvements for the Initial Leased Premises, including complete sets of detailed architectural, structural, mechanical, electrical and plumbing working drawings for any and all improvements desired by Tenant in the Initial Leased Premises (including the Tenant Engineering Drawings). The Tenant Working Drawings shall include such written instructions or specifications as may be necessary or required to, and otherwise be in form and substance sufficient to, obtain a bid and secure a building permit from the City of Plano for said improvements to commence in due course. Additionally, the Tenant Working Drawings shall contain the warranties provided in Paragraph 2(g) below that Tenant will receive from each of the contractors performing the Tenant Improvements work and Tenant shall be the primary beneficiary of such warranties. Landlord shall not be obligated to, and does not, make any warranties to Tenant with respect to the Tenant Improvements, nor shall Landlord be responsible for any of the warranties from the contractors to Tenant. The Tenant Working Drawings shall be consistent with the Project. The Tenant Working Drawings shall be complete and shall show the full detailed scope of all work to be performed in the Initial Leased Premises, all of which work must be in compliance with Legal Requirements.

"Tenant Engineering Drawings" shall mean complete sets of fully coordinated Tenant Working Drawings for the structural, mechanical, electrical and plumbing aspects of the Tenant Improvements.

"Bidding Contractors" shall mean at least two (2) contractors selected by Tenant and approved by Landlord to be included in the bid process for the Tenant Improvements.

"Tenant Improvements" shall mean all leasehold improvements initially desired by Tenant to be placed in the Initial Leased Premises pursuant



to the Construction Contract (defined below).

"Tenant Contractor" shall mean the Bidding Contractor selected by

-----

Tenant as the general contractor for the construction of the Tenant Improvements.

(b) Tenant shall cause the Tenant Working Drawings to be prepared by Tenant Architect; provided, however, the Tenant Engineering Drawings shall be prepared by engineers selected by Landlord. Tenant Architect shall be responsible for the complete coordination of all architectural and engineering documents. Prior to January 10, 1998, Tenant shall be obligated to furnish the information to Tenant Architect necessary for Tenant Architect

C-1-1

<PAGE>

to prepare the Tenant Working Drawings and shall cooperate with the Tenant Architect in the preparation of the Tenant Working Drawings, and failure to comply with the provisions of this sentence shall constitute a Tenant Delay. The cost of preparing the Tenant Working Drawings, including the Tenant Engineering Drawings, and any changes thereto, shall be paid by Tenant (subject to Paragraph 2(a) below). The Tenant Improvements to be installed in the Initial Leased Premises must comply with Legal Requirements, which shall be Tenant's responsibility.

Upon completion and Tenant approval of the Tenant Working Drawings, Tenant shall deliver the Tenant Working Drawings to Landlord for its review and approval. Landlord shall deliver to Tenant written approval or comments as to necessary changes of the Tenant Working Drawings no later than five (5) days after Landlord receives the Tenant Working Drawings and by said approval Landlord shall acknowledge that Landlord approves the materials, quantity and quality of the Tenant Improvements. In the event the Tenant Working Drawings are to be revised in order to be approved by Landlord, Tenant shall promptly cause the revisions to be made upon receipt of plans and comments from Landlord. Upon such revisions of the Tenant Working Drawings, such revised Tenant Working Drawings shall be resubmitted to Landlord for its review and approval. Final approved Tenant Working Drawings shall be completed no later than January 11, 1999, and if such final approved Tenant Working Drawings are not completed by such date, each day thereafter shall constitute a Tenant Delay.

(c) Upon approval by Landlord of all of the completed Tenant Working Drawings, Landlord will submit the completed Tenant Working Drawings (the "Bid Documents") for pricing to the Bidding Contractors. Upon receipt of

-----

the bids from the Bidding Contractors, Landlord shall consult with Tenant to resolve changes to the Bid Documents necessary to obtain a building permit, achieve cost savings or otherwise coordinate with the Bidding Contractor selected by Landlord as the Tenant Contractor. Landlord shall cause the revised Bid Documents (the "Revised Bid Documents") to be completed and delivered

-----

stamped or labeled as "Issued For Construction."

Tenant Architect shall be responsible for the complete coordination of the Tenant Working Drawings (including the Tenant Engineering Drawings. Landlord, from time to time, shall make written inquiries of Tenant regarding clarifications of matters under the Tenant Working Drawings, the Bid Documents or the Revised Bid Documents. Tenant shall, or Tenant shall cause Tenant's consultants to, respond to Landlord within two (2) Business Days of receipt by Tenant of such written request.

(d) Tenant Architect and Tenant's consultants shall be afforded reasonable access to all work in progress in the Initial Leased Premises provided such other architect and consultants do not interfere with the progress of the construction of the Tenant Improvements and comply with the reasonable rules and regulations of Landlord and the Tenant Contractor. Tenant acknowledges that any interference by Tenant, Tenant Architect or Tenant's other consultants may result in a Tenant Delay. Tenant shall be responsible for the actions and omissions of its consultants, employees, architects, engineers, agents, subcontractors and contractors, including without limitation, the costs of any repairs to the Tenant Improvements work or the Project which become necessary due to their activities within the Initial Leased Premises or the Project.

2. Tenant Improvements Construction.

-----

(a) Landlord shall administer the construction of the Tenant Improvements in accordance with the Revised Bid Documents and the construction of the Tenant Improvements shall be carried out by the Tenant Contractor. Landlord shall enter into a construction contract with the Tenant Contractor (the "Construction Contract"); provided, however, Landlord shall be obligated

-----  
for payments due to the Tenant Contractor under the Construction Contract only to the extent of the amount of Sixty-nine Thousand Seven Hundred Twenty-eight and No/100 Dollars (\$69,728.00) (the "Construction Allowance"). If the

-----  
Construction Cost (defined below) determined as of the date the last payment is paid to the Tenant Contractor under the Construction Contract (the "Contractor Date") is less than the Construction Allowance, then the unused amount of the

-----  
Construction Allowance (the "Remaining Allowance") shall be disbursed to Tenant

-----  
only to reimburse Tenant for any costs paid by Tenant in connection with the preparation of the Tenant Working Drawings (including the Tenant Engineering Drawings) and the expenses of moving to the Initial Leased Premises within ten (10) days after receipt by Landlord of a receipt therefor or other documentation reasonably satisfactory to Landlord evidencing payment of such amounts by Tenant, which evidence must be forwarded to Landlord

C-1-2

<PAGE>

within thirty (30) days after the Contractor Date (and any sums not so disbursed shall be retained by Landlord). As used herein, "Construction Cost" shall mean

-----  
the aggregate amount of sums due to the Tenant Contractor under the Construction Contract for the construction of the Tenant Improvements in the Initial Leased Premises. Tenant shall be obligated to pay to Landlord the amount by which the Construction Cost exceeds the Construction Allowance (the "Tenant Amounts") as

-----  
follows: (i) fifty percent (50%) of the Tenant Amounts shall be payable at such time, and from time to time, as the Construction Cost is determined by Landlord to be in excess of the Construction Allowance, and (ii) the remaining actual Tenant Amounts shall be payable to Landlord at such time as the applicable Tenant Amounts are payable to the Tenant Contractor (and Tenant shall make such payments in clauses (i) and (ii) to Landlord within ten (10) days of receipt of an invoice therefor from Landlord). The Tenant Amounts shall be paid by Tenant to Landlord within fifteen (15) days of receipt of an invoice therefor from Landlord. Notwithstanding anything to the contrary contained herein, in no event shall Landlord be obligated under this subparagraph (a) for an amount in excess of the Construction Allowance. Additionally, Landlord shall be permitted to offset against the Construction Allowance any amounts past due to Landlord by Tenant under this Lease.

(b) After completion of the Tenant Working Drawings, Tenant may make changes in the Tenant Improvements only if (i) Tenant signs a change order requesting the change, (ii) Tenant pays to Landlord at the time of such approval (as a part of the Tenant Amounts) fifty percent (50%) of the net increase in cost of the Tenant Improvements that will result from any changes to the Tenant Improvements made by Tenant, but only to the extent that such net increase will cause the Construction Cost to exceed or further exceed the Construction Allowance; (iii) Tenant agrees in writing (x) to accept responsibility for Tenant Delays that may result, if any, and (y) to pay all costs (in excess of those paid by Tenant in (ii) above) resulting from such change to the extent any such change causes the Construction Cost to exceed or further exceed the Construction Allowance at such time as such sums are payable to the Tenant Contractor (which payment shall be made to Landlord within ten (10) Days of receipt of an invoice therefor from Landlord); and (iv) Landlord approves the change by signing the change order. Additionally, Tenant shall be obligated to pay Landlord, as a part of the Tenant Amounts, a construction management fee equal to fifteen percent (15%) of such net increase in costs resulting from any such change to the Revised Bid Documents within ten (10) days of receipt of an invoice therefor from Landlord. It is agreed and understood that notwithstanding anything to the contrary contained in this Lease, Tenant shall have no obligation to pay Landlord a construction management fee in connection with the Tenant Improvements installed in the Initial Leased Premises pursuant to this Exhibit C-1 except as stated in this subsection (b) with respect to change

-----  
orders. As used in this Exhibit C-1, the terms "Tenant Working Drawings", "Bid

Documents" and "Revised Bid Documents" include all changes thereto made pursuant  
to this subparagraph (b).

(c) Assuming the Tenant Working Drawings (including the Tenant Engineering Drawings if applicable) and the Revised Bid Documents are sufficient to allow Landlord to do so, Landlord shall, or Landlord shall direct the Tenant Contractor to, obtain a building permit and any other permits or approvals necessary for the construction of the Tenant Improvements work. Landlord shall not be responsible for any delays associated with failure of Tenant or Tenant Architect and Tenant's other consultants to bring the Tenant Working Drawings and the Revised Bid Documents in compliance with applicable building codes, and a failure by Tenant to so modify the Tenant Working Drawings or the Revised Bid Documents so as to allow Landlord to obtain such permits shall relieve Landlord of all obligations to obtain such permits and approvals and shall constitute a Tenant Delay.

(d) Within five (5) days of Landlord's request, Tenant shall furnish Landlord with a written list of Tenant's authorized construction representatives for the Tenant Improvements. Only the authorized construction representatives on that list are authorized to (i) approve or change the Tenant Working Drawings (including the Tenant Engineering Drawings) or the Revised Bid Documents, (ii) sign any change order, receipt or other document on behalf of Tenant related to the Tenant Improvements, or (iii) take any other action with respect to the construction of the Tenant Improvements permitted to be taken by Tenant hereunder. Tenant, from time to time, may change or add to the list of authorized construction representatives by giving Landlord written notice of the addition or change.

(e) When the Tenant Improvements work is nearing Substantial Completion (defined below), Landlord will notify Tenant requesting a discrepancy list (the "Punch List") of the items of the Tenant Improvements work, if any,  
which Tenant or the Tenant Architect (acting reasonably and in good faith) shall deem incomplete. Tenant shall deliver to Landlord the Punch List within five (5) Business Days after receipt of Landlord's request, failing which

C-1-3

<PAGE>

Tenant shall be deemed to have agreed that no incomplete items exist and therefore the Tenant Improvements work has been completed and Landlord shall not be required to complete any incomplete items which, in fact, may exist.

When Landlord considers the Tenant Improvements work to be Substantially Complete, it shall deliver to Tenant, for Tenant's confirmation (which shall not be unreasonably withheld), notice thereof (the "Notice of Substantial Completion") which will stipulate the items from the Punch List  
which remain incomplete. Failure of Tenant to respond to the Notice of Substantial Completion within three (3) Business Days after delivery to Tenant shall constitute Tenant's confirmation thereof. Landlord shall release the Initial Leased Premises to Tenant on the date the Notice of Substantial Completion is confirmed by Tenant.

Notwithstanding any provisions above to the contrary, if the Initial Leased Premises or any part thereof is used or occupied by Tenant prior to Tenant's confirmation of the Notice of Substantial Completion, it is agreed that the Initial Leased Premises are accepted by Tenant "as is" and Landlord shall have no obligation to complete any items not listed in the Punch List and attached to the Notice of Substantial Completion. The date of Substantial Completion shall be deemed to occur on the earlier to occur of (i) the date Tenant first uses or occupies all or any portion of the Initial Leased Premises, or (ii) the date stipulated in the Notice of Substantial Completion.

The phrases "Substantial Completion" or "Substantially Complete"  
as used in this Exhibit C-1 shall mean (i) that the Tenant Improvements work  
(excluding Long Lead Time Items [defined in Paragraph 4]) has been performed in the Initial Leased Premises in substantial accordance with the Revised Bid Documents except as noted in the Notice of Substantial Completion, (ii) all construction debris has been removed from the Initial Leased Premises and the

Initial Leased Premises are clean, (iii) the Initial Leased Premises may reasonably be used and occupied by Tenant for general office purposes, and (iv) a certificate of occupancy or other governmental authorization has been issued for the Initial Leased Premises to the extent necessary for Tenant's use and occupancy of the Initial Leased Premises for the purposes set forth in Section 2.2 of this Lease.

(f) The receipt by Landlord of Tenant's confirmation of the Notice of Substantial Completion shall constitute a waiver of all claims by Tenant against Landlord except Landlord's failure to complete in due course the incomplete items, if any, described in the Notice of Substantial Completion. LANDLORD SHALL MAKE NO WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE TENANT IMPROVEMENTS WORK. ALL IMPLIED WARRANTIES WITH RESPECT THERETO, INCLUDING BUT NOT LIMITED TO THOSE OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, ARE EXPRESSLY NEGATED AND WAIVED. WITHOUT LIMITING THE FOREGOING, LANDLORD SHALL NOT BE RESPONSIBLE FOR FAILURE OF THE TENANT IMPROVEMENTS WORK. Landlord will assign to Tenant, without recourse, any warranties obtained from contractors, subcontractors and suppliers to the extent such warranties are assignable (and the warranties from the Tenant Contractor shall be governed by the provisions of subparagraph (g) below).

(g) Landlord shall require that the Tenant Contractor provide in the Construction Contract the customary express construction warranties (and Tenant shall be the primary beneficiary of such warranties) to the effect that the incomplete items listed in the Notice of Substantial Completion shall be completed in due course and that with respect to each item installed pursuant to the Construction Contract, for a period of one (1) year from the date the applicable item is installed (i) such item shall be free from latent defects or workmanship and materials and (ii) such item shall comply with the requirements of the Revised Bid Documents (to the extent only any such failure to satisfy (i) or (ii) could not have been discovered upon the date the Notice of Substantial Completion was confirmed by Tenant). EXCEPT AS EXPRESSLY SET FORTH IN THIS EXHIBIT C-1, LANDLORD SHALL NOT BE OBLIGATED TO, AND DOES NOT, MAKE ANY  
- - - - -  
WARRANTIES AND COVENANTS WITH RESPECT TO THE WORK NOR SHALL LANDLORD BE OBLIGATED FOR ANY OF THE WARRANTIES FROM THE TENANT CONTRACTOR TO TENANT.

(h) Unless Landlord agrees otherwise, the Tenant Contractor and the subcontractors shall not have access to the Initial Leased Premises, or be allowed to commence work therein, until such space has been vacated, the Construction Contract has been executed, and all authorizations required pursuant to Legal Requirements have been

C-1-4

<PAGE>

obtained, at which time such access shall be granted subject to the reasonable rules and regulations promulgated by Landlord from time to time governing such contractors.

(3) Communication Equipment.  
-----

(a) It shall be the sole responsibility of Tenant to order, arrange, pay for, and otherwise have installed at the sole cost and expense of Tenant, any communication equipment (including without limitation any telephone and data equipment or any wiring in connection therewith) desired or required as a part of the Tenant Improvements, and any delay resulting from said installation shall be a Tenant Delay.

(b) Landlord shall be required to have the Tenant Contractor install the ceiling system which is a part of the Tenant Improvements work only once and in the normal sequential manner of construction of the Tenant Improvements work. Removal, replacement or repair work to or of the ceiling system necessary to accommodate telephone installation or the work of other craftsmen working directly for the Tenant will be performed at the Tenant's expense.

4. Commencement Date.  
-----

(a) As used in this Lease, "Commencement Date" shall mean the  
-----  
earlier of (i) the first date of use or occupancy of all or any portion of the Initial Leased Premises by Tenant for the purpose of conducting its business, or

(ii) the Completion Date (defined below) for the Initial Leased Premises provided that the Completion Date shall be accelerated by the number of days the achievement of the Completion Date is delayed as the result of Tenant Delays. Notwithstanding anything to the contrary contained herein, Tenant shall not be permitted to occupy the Initial Leased Premises prior to the date of Substantial Completion of the Tenant Improvements if Landlord determines in its sole discretion that such occupancy may cause undue interference or delay in the completion of the Tenant Improvements.

As used in this Exhibit C-1, "Completion Date" with respect to  
-----  
the Initial Leased Premises shall mean the date on which there is Substantial Completion of the Tenant Improvements for the Initial Leased Premises as described in Paragraph 2(e) of this Exhibit C-1. Landlord and Tenant estimate  
-----  
that the Completion Date will be February 1, 1999; however in no event shall such estimate be binding on Landlord or Tenant.

As used in this Exhibit C-1, "Tenant Delay," shall mean the  
-----  
number of days that the occurrence or achievement of the particular event or date identified in this Lease, including without limitation the Completion Date, is delayed as a result of (i) Tenant's failure to meet the dates established in this Exhibit C-1, (ii) Long Lead Time Items (defined below), (iii) any changes  
-----  
to the Tenant Improvements requested to be made by Tenant (and approved by Landlord), (iv) Tenant's failure to sufficiently respond to Landlord's inquiries pursuant to Paragraph 1(c), (v) any breach by Tenant of its obligations under this Lease, including without limitation, the failure to comply with this Exhibit C-1, and (vi) any other delays caused by Tenant or Tenant's engineers,  
-----  
architects (including Tenant Architect), consultants, employees, agents, contractors and subcontractors.

As used in this Exhibit C-1, "Long Lead Time Items" shall mean  
-----  
Tenant Improvements which Landlord, acting in good faith, reasonably believes have a probability of not being completed within sixty (60) days after the date the Revised Bid Documents are stamped or labeled as "Issued For Construction" (due to limited supplies or suppliers, length of time to be manufactured, delivered or installed or otherwise).

As used in this Exhibit C-1, "Force Majeure Events" shall mean  
-----  
events beyond Landlord's reasonable control, which shall include without limitation, fire or casualty, inability to obtain materials or services, acts of God or failure of the Tenant Contractor or any of its subcontractors to perform their obligations in connection with the Tenant Improvements.

(b) Notwithstanding anything to the contrary set forth in this Lease, if the Commencement Date is delayed for any reason (including without limitation, the failure by any current tenant or occupant of any portion of

C-1-5

<PAGE>

the Initial Leased Premises to vacate any portion of the Initial Leased Premises), Landlord shall not be liable or responsible for any claims, damages or liabilities in connection therewith or by reason thereof, nor shall such delay constitute a default by Landlord hereunder. Notwithstanding the foregoing, the Term shall not commence until the Commencement Date occurs, and the Base Rental provided for herein shall not commence to be payable until the Commencement Date. Additionally, notwithstanding the foregoing, if the Commencement Date has not occurred within one hundred eighty (180) days after the Anticipated Completion Date (defined below) (which Anticipated Completion Date shall be extended by one (1) day for each day the Commencement Date is delayed as the result of Force Majeure Events or Tenant Delays) (the Anticipated Completion Date as extended by Force Majeure Events and Tenant Delays is hereinafter referred to as the "Outside Date"), Tenant shall have the right to

-----  
terminate this Lease in its entirety by furnishing written notice to Landlord within thirty (30) days after the Outside Date (provided such notice is received by Landlord prior to the occurrence of the Commencement Date) which shall be Tenant's sole recourse and remedy for such failure by Landlord, and in such event this Lease shall terminate as of the date of Tenant's notice, and Landlord

and Tenant shall have no liabilities to the other arising therefrom or hereunder. If Tenant fails to furnish written notice of termination to Landlord within such thirty (30) day period, Tenant's right to terminate this Lease as provided in this subsection (b) shall terminate and be of no further force and effect.

As used in this Exhibit C-1, "Anticipated Completion Date" shall  
-----  
mean the date set forth in the Construction Contract as the anticipated date of completion of the Tenant Improvements for the Initial Leased Premises.

5. Additional Contractor. Any contractor employed by Tenant or  
-----  
its contractors (an "Additional Contractor") to perform any other work in  
-----  
connection with the Initial Leased Premises prior to the Commencement Date, shall be subject to the following provisions:

(a) Tenant shall obtain the prior written consent of Landlord as to the qualifications of the Additional Contractor to be used by Tenant.

(b) It shall be Tenant's responsibility to ensure that the Additional Contractor shall (i) conduct its work in such a manner so as not to unreasonably interfere with any other construction occurring on or in the Building or the Initial Leased Premises; (ii) comply with such reasonable rules and regulations applicable to all work being performed in the Building and uniformly administered as may be promulgated from time to time by Landlord; (iii) maintain such insurance and bonds in full force and effect as may be reasonably requested by Landlord or as required by Legal Requirements; and (iv) be responsible for reaching agreement with Landlord, as to the terms and conditions for all contractor items relating to conducting its work. As a condition precedent to Landlord's approving the Additional Contractor pursuant hereto, Tenant and the Additional Contractor shall deliver to Landlord such assurances or instruments as Landlord may reasonably require to evidence the Additional Contractor's compliance or agreement to comply with the provisions of clauses (i), (ii), (iii) and (iv) hereof. Landlord retains the right to make periodic inspections to assure conformity of the work of the Additional Contractor with the aforementioned rules and regulations and with the plans and specifications approved by Landlord.

(c) Tenant shall indemnify and hold harmless Landlord, Landlord's mortgagee, the Tenant Contractor, or any of Landlord's other contractors from and against any and all losses, damages, costs (including costs of suits and attorneys' fees), liabilities, or causes of action arising out of or relating to the work of the Additional Contractor, including but not limited to mechanic's, materialman's, construction or other liens or claims (and all costs or expenses associated therewith) asserted, filed or arising out of any such work. All materialmen, contractors, artisans, mechanics, laborers and other parties hereafter contracting with Tenant for the furnishing of any labor, services, materials, supplies or equipment with respect to any portion of the Initial Leased Premises are hereby charged with notice that they must look solely to Tenant for payment of same and Tenant's purchase orders, contracts and subcontracts in connection therewith must clearly state this requirement. Without limiting the generality of the foregoing, Tenant shall repair or cause to be repaired at its expense all damage caused by the Additional Contractor, its subcontractors or their employees. Tenant shall reimburse Landlord for costs incurred by Landlord to repair any damage caused by the Additional Contractor or any costs incurred by Landlord in requiring the Additional Contractor's compliance with the rules and regulations. Additionally, Tenant shall reimburse Landlord for the costs Landlord may incur to have the base

C-1-6

<PAGE>

Building engineer review all mechanical, electrical, plumbing and life safety systems installed by the Additional Contractor.

(d) Tenant, at Tenant's sole cost and expense, shall cause Tenant's architect(s) and/or engineer(s) to prepare a report, in form and substance acceptable to Landlord, for the benefit of Landlord, certifying to the compliance of the work constructed by the Additional Contractor with the plans and specifications approved by Landlord.

(e) The Additional Contractor shall not perform and, upon the request of Landlord, whether written or oral, the Additional Contractor shall

cease to perform, any activity that is disruptive to the conduct of business within the Project.

6. Additional Space. With respect to space added to the Leased

-----  
Premises after the Commencement Date, Tenant must install at its cost, in connection with the construction of its leasehold improvements therein, the Building Standard Improvements. Additionally, Tenant shall be obligated to furnish to Landlord for its approval (which approval shall not be unreasonably withheld) Tenant Working Drawings for any leasehold improvements Tenant desires to install in space added to the Leased Premises after the Commencement Date and to otherwise comply with the provisions of Section 5.5 of this Lease.

7. Time is of the Essence. It is stipulated that time is of the

-----  
essence in connection with Tenant's compliance with the terms of this Exhibit C-

1.  
- -

C-1-7

<PAGE>

EXHIBIT C-2

-----  
SCHEDULE OF BUILDING STANDARD IMPROVEMENTS  
-----

"Building Standard Improvements" shall mean the following leasehold  
-----  
improvements:

Partitions	One (1) lineal foot of Building Standard type II partition per twelve (12) square feet of Net Rentable Area leased outside the core area in the case of a full floor tenant and the Net Rentable Area for a tenant on a partial floor. All required partitions will be 5/8" gypsum board, painted with Building Standard colors to be provided by Landlord.
Ceilings	Acoustical lay-in panel ceiling tile, 24" x 24" x 5/8" thick suspended on a grid throughout the Leased Premises.
Lighting Fixtures	One (1) 2' x 4' recessed 3 tube fluorescent lighting fixture with anodized aluminum 18 cell parabolic shaped louvers, including initial lamping, per one hundred (100) square feet of Net Rentable Area.
Duplex Electric Outlets	One (1) duplex wall-mounted convenience outlet for each one hundred twenty (120) square feet of Net Rentable Area.
Telephone Outlets	One (1) telephone wall outlet for each two hundred ten (210) square feet of Net Rentable Area.
Floor Covering	Building Standard commercial grade carpeting throughout the Leased Premises.
Doors	One (1) full height, solid core door with a metal frame and lever handle latch set hardware per three hundred (300) square feet of Net Rentable Area.
Light Switches	One (1) single pole light switch for each three hundred (300) square feet of Net Rentable Area. Group switching will be provided in open areas.
Window Coverings	One inch (1") horizontal aluminum slat mini-blinds for exterior windows throughout the Leased Premises.

Fire Sprinkler Heads

Ceiling mounted fire sprinkler heads throughout the Leased Premises to conform with light hazard occupancy fire protection system design criteria up to one sprinkler per 125 square feet of Net Rentable Area.

C-2-1

<PAGE>

EXHIBIT D

CERTIFICATE OF COMMENCEMENT DATE

\_\_\_\_\_, 19\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Gentlemen:

Please refer to that certain Lease Agreement (the "Lease") dated \_\_\_\_\_ by and between \_\_\_\_\_, a \_\_\_\_\_ ("Landlord") and the undersigned ("Tenant"), covering office space (the "Leased Premises") in \_\_\_\_\_ located in Collin County, Texas. Capitalized terms not defined herein shall have the meaning given to such terms in the Lease. The undersigned hereby certifies, acknowledges and represents the following to you, all as of the date hereof:

1. The Commencement Date for all purposes under the Lease is \_\_\_\_\_.

2. The Lease has not been amended except as may be set forth at the end of this letter.

The undersigned hereby agrees that this certificate may be relied upon by Landlord and its lenders and partners, as well as their respective successors and assigns.

Very truly yours,

TENANT:

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Amendments to Lease:

D-1

<PAGE>

AGREED AND ACCEPTED  
this \_\_\_\_ day of \_\_\_\_\_, 19\_\_.

LANDLORD:

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

D-2

<PAGE>

EXHIBIT E



-----  
PROJECT RULES & REGULATIONS  
-----

1. Sidewalks, doorways, vestibules, halls, stairways, elevator lobbies and other similar areas in the common areas of the Building shall not be used for the storage of materials or disposal of trash, be obstructed by tenants or Landlord, or be used by tenants or Landlord for any purpose other than entrance to and exit from the tenant's leased areas and the Building and for going from one part of the Building to another part of the Building and/or Complex.

2. Plumbing fixtures shall be used only for the purposes for which they are designed, and no sweepings, rubbish, rags or other unsuitable materials shall be disposed into them. Damage resulting to any such fixtures proven to result from misuse by a tenant, and not by Landlord's cleaning contractors responsible for cleaning the tenant's leased area and the Building, shall be the liability of said tenant.

3. Signs, advertisements, graphics or notices visible in or from public corridors, any common area or public areas of the Building or from outside the Building shall be subject to Landlord's (or Landlord's property manager's) prior written approval. No part of the Complex may be defaced by tenants.

4. Significant movement in or out of the Building of furniture, office equipment, or any other bulky or heavy materials shall be restricted to such hours as Landlord (or Landlord's property manager) shall reasonably designate. Landlord (or Landlord's property manager) will determine the method and routing of the movement of said items so as to ensure the safety of all persons and property concerned and Tenant shall be responsible for all costs and expenses associated therewith. Advance written notice of intent to move such items must be made to the Landlord (or Landlord's property manager) at least twenty-four (24) hours before the time of such move. For nonsignificant movement in or out of the Building of portable items which do not require use of dollies or other moving equipment, notice to Landlord (or Landlord's property manager) shall not be required.

5. All deliveries (including messenger deliveries but excluding deliveries of small hand carried parcels) to a tenant's leased premises shall be made through the freight elevators. Passenger elevators are to be used only for the movement of persons. Delivery vehicles shall be permitted only in such areas as are designated by Landlord, from time to time, for deliveries to the Building. Absolutely no carts or dollies are allowed through the main entrances of the Building or on passenger elevators without the prior written consent of Landlord (or Landlord's property manager). Tenants may obtain the prior written consent of Landlord (or Landlord's property manager) for any exception to the provisions of this Paragraph 5.

After-hours removal of hand carried items must be accompanied by an "Equipment Removal Form" or "Property Pass" [to be provided by Landlord (or Landlord's property manager)]. A letter signed by an authorized representative of a tenant on such tenant's letterhead will also be acceptable. A list of persons authorized to sign the Equipment Removal Form or Property Pass (and any amendments thereto) will be furnished by each tenant to Landlord and Landlord shall be entitled to rely thereon. Each tenant shall have the right to amend such list from time to time upon written notice to Landlord (or Landlord's property manager).

6. Landlord (or Landlord's property manager) shall have the authority to approve the proposed weight and location of any safes and heavy furniture and equipment, which shall in all cases stand on supporting devices approved by Landlord in order to distribute the weight.

7. Corridor doors which lead to common areas of the Building (other than doors opening into the elevator lobby on floors leased entirely to a tenant) shall be kept closed at all times.

E-1

&lt;PAGE&gt;

8. Each tenant shall cooperate with Landlord (and Landlord's property manager) in keeping its leased area neat and clean. No tenant shall employ any person for the purpose of such cleaning other than the Building's

cleaning and maintenance personnel without prior approval of Landlord (or Landlord's property manager).

9. All freight elevator lobbies are to be kept neat and clean. The disposal of trash or storage of materials in these areas is prohibited.

10. No vehicles, bicycles, motorcycles, birds, fish or other animals shall be brought into or kept in, on or about the Building (except for Seeing Eye dogs).

11. Tenants shall not tamper with or attempt to adjust temperature control thermostats in their leased premises and shall not use any additional methods of heating or air-conditioning. Landlord shall promptly respond to each tenant's notices as to, and Landlord (or Landlord's property manager) shall adjust thermostats as required to maintain, the Building standard temperature. Each tenant shall use reasonable efforts to keep all window blinds down and tilted at a 45 degree angle toward the street to help maintain comfortable room temperatures and conserve energy.

12. Each tenant will comply with all access control procedures necessary both during business hours and after hours and on weekends. Landlord will provide each tenant with prior notice of such access control procedures and any changes thereto promptly.

13. Tenants are requested to lock all office doors leading to corridors and to turn out all lights at the close of their working day; provided, however, that no tenant shall be responsible to ensure that Landlord's cleaning contractor locks doors and turns out lights after cleaning the tenant's leased premises.

14. All requests for overtime air conditioning or heating must be submitted in writing to Landlord (or Landlord's property manager) by an authorized representative of the tenant. A list of persons authorized to request such overtime services (and any amendments thereto) will be furnished by the tenant to Landlord and Landlord shall be entitled to rely thereon. Any such request must be made by 2:00 p.m. on the day desired for weekday requests, by 2:00 p.m. Friday for weekend requests and by 2:00 p.m. on the preceding Business Day for holiday requests. Requests made after that time may result in an additional charge to such tenant, if acted upon by Landlord, but Landlord is in no event obligated to act on untimely requests.

15. No flammable or explosive fluids or materials shall be kept or used within the Building except in areas approved by Landlord, and each tenant shall comply with all applicable building and fire codes relating thereto.

16. Tenants may not make any modifications, alterations, additions or repairs to their leased premises and may not install any furniture, fixtures or equipment in their leased premises which is in violation of any applicable building and/or fire code governing their leased premises or the Project. The tenant must obtain prior approval from Landlord (or Landlord's property manager) of any such alterations, modifications and additions and shall deliver "as built" plans therefor to Landlord (or Landlord's property manager), upon completion, except as otherwise permitted in the tenant's lease. Such alterations include, but are not limited to, any communication equipment and associated wiring which must meet fire code. The Contractor conducting the modifications and additions must be a licensed contractor, is subject to all rules and regulations of Landlord (and Landlord's property manager) while performing work in the Building and must obtain all necessary permits and approvals prior to commencing the modifications and additions.

17. No vending machines of any type shall be allowed in tenant space without the prior written consent of Landlord (or Landlord's property manager).

18. All locks for doors in each tenant's leased areas shall be Building Standard except as otherwise permitted by Landlord and no tenant shall place any additional lock or locks on any door in its leased area without Landlord's (or Landlord's property manager's) written consent except as otherwise permitted in such tenant's lease. All requests for duplicate keys shall be made to Landlord (or Landlord's property manager).

19. No tenant shall interfere in any way with other tenants' (or their visitors') quiet enjoyment of their leased premises.

20. Landlord (or Landlord's property manager) will not be liable or responsible for lost or stolen money, jewelry or other personal property from any tenant's leased area or public areas of the Building or Project.

21. No machinery of any kind other than normal office equipment shall be operated by any tenant in its leased area without the prior written consent of Landlord (or Landlord's property manager).

22. Canvassing, peddling, soliciting and distribution of hand bills in the Building (except for activities within a tenant's leased premises which involve only such tenant's employees) is prohibited. Each tenant is requested to notify Landlord (or Landlord's property manager) if such activities occur.

23. A "Tenant Contractor Entrance Authorization" form [to be supplied by Landlord (or Landlord's property manager)] will be required for the following:

(A) Access to Building mechanical, telephone or electrical rooms (e.g., GTE or Southwestern Bell Telephone employees).

(B) After-hours freight elevator use.

(C) After-hours building access by tenant's contractors. Please note that the tenant will be responsible for contacting Landlord's property manager in advance for clearance of such tenant contractors.

All tenants will refer all contractors, contractors' representatives and installation technicians tendering any service to them to Landlord for Landlord's supervision, approval and control before the performance of any contractual services. This provision shall apply to all work performed in the Building (other than work under contract for installation or maintenance of security equipment or banking equipment), including, but not limited to, installations of telephones, telegraph equipment, electrical devices and attachments, and any and all installations of every nature affecting floors, walls, woodwork, trim, windows, ceilings, equipment and any other physical portion of the Building.

24. Smoking is not permitted in the restrooms, stairwells, elevators, public lobbies, public corridors or entrances to the Building.

25. Each tenant and their contractors are responsible for removal of trash resulting from large deliveries or move-ins. Such trash must be removed from the Building and Building facilities may not be used for dumping. If such trash is not promptly removed, Landlord (or Landlord's property manager) may cause such trash to be removed at the tenant's sole cost and expense plus a reasonable additional charge to be determined by Landlord to cover Landlord's administrative costs in connection with such removal.

26. Tenants may not install, leave or store equipment, supplies, furniture or trash in the common areas of the Building (i.e., outside their leased premises).

27. Each tenant shall provide Landlord's property manager with names and telephone numbers of individuals who should be contacted in an emergency.

28. Tenants shall comply with the Building life safety program established by Landlord (or by Landlord's property manager), including without limitation fire drills, training programs and fire warden staffing procedures, and shall exercise all reasonable efforts to cause all tenant employees, invitees and guests to comply with such program.

29. To insure orderly operation of the Building, no ice, mineral or other water, towels, newspapers, etc., shall be delivered to any leased area except by persons appointed or approved by Landlord in writing.

E-3

<PAGE>

30. Should a tenant require telegraphic, telephonic, annunciator

or other communication service, Landlord will direct the electricians where and how wires are to be introduced and placed and none shall be introduced or placed except as Landlord shall approve. Electric current shall not be used for space heaters, cooking or heating devices or similar appliances without Landlord's prior written permission.

31. Nothing shall be swept or thrown into the corridors, halls, elevator shafts or stairways.

32. No portion of any tenant's leased area shall at any time be used or occupied as sleeping or lodging quarters, nor shall personnel occupancy loads exceed limits reasonably established by Landlord for the Building.

<PAGE>

EXHIBIT F

[LOGO]

SUITES 480/470/440 ONE PRESTON PARK SOUTH

[PLAN APPEARS HERE]

RIGHT OF FIRST OFFER SPACE DENOTED BY AREAS LINED ON PLAN.

<PAGE>

March 4, 1999

CERTIFICATE OF COMMENCEMENT DATE

-----

Mr. Dave Wagner  
Entrust Technologies Incorporated  
4975 Preston Park Boulevard  
Suite 400  
Plano, TX 75093

Dear Mr. Wagner:

Please refer to that certain Lease (the "Lease") dated JANUARY 19, 1999 by and between HMS OFFICE, LIMITED PARTNERSHIP, a DELAWARE LIMITED PARTNERSHIP (the "Landlord") and the undersigned ("Tenant"), covering office space (the "Leased Premises"), SUITE 400, in Plano located in Collin county, Texas. Capitalized terms not defined herein shall have the meaning given to such terms in the Lease. The undersigned hereby certifies, acknowledges and represents the following to you, all as of the date hereof:

1. The Commencement Date for all purposes under the Lease is February 19, 1999.
2. The Lease has not been amended except as may be set for at the end of this letter.

The undersigned hereby agrees that this certificate may be relied upon by Landlord and its lenders and partners, as well as their respective successors and assigns.

Please sign where indicated and return this original document to the Management Office, Suite 660 in One Preston Park South.

Sincerely,

Randy L. Galow  
Randy L. Galow, CPM(R)  
Property Manager

TENANT:

ENTRUST TECHNOLOGIES INCORPORATED

By: David J. Wagner

-----  
 (Signature)  
 Name: David J. Wagner

-----  
 (Print Name)  
 Title: Controller & Treasurer  
 -----

Amendments to Lease: None

</TEXT>

</DOCUMENT>

<DOCUMENT>

<TYPE>EX-21

<SEQUENCE>3

<DESCRIPTION>SUBSIDIARIES OF THE REGISTRANT

<TEXT>

<PAGE>

EXHIBIT 21

ENTURST TECHNOLOGIES

SUBSIDIARIES OF THE REGISTRANT

<TABLE>

<CAPTION>

Subsidiary Legal Name ----	Address of Subsidiary -----	Jurisdiction of Incorporation -----	Percentage of Ownership -----
Entrust Technologies Limited	<C> 750 Heron Road Ottawa, ON, Canada K1V 1A7	<C> Ontario	<C> 99.999%
Entrust Technologies (UK) Limited	29 The Forbury Reading, Berkshire England, RG1 3eJ	England	100%
r3 Security Engineering AG	6/th/ Floor, Glatt Tower CH-8301 Glattzentrum Zurich, Switzerland	Switzerland	100%

</TABLE>

</TEXT>

</DOCUMENT>

<DOCUMENT>

<TYPE>EX-23.1

<SEQUENCE>4

<DESCRIPTION>CONSENT OF DELOITTE & TOUCHE LLP

<TEXT>

<PAGE>

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 333-65245 and No. 333-65255 of Entrust Technologies Inc. on Forms S-8 of our report dated February 5, 1999, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 1998.

/s/ DELOITTE & TOUCHE LLP  
 Dallas, Texas

March 26, 1999

</TEXT>

</DOCUMENT>

<DOCUMENT>

<TYPE>EX-27

<SEQUENCE>5  
 <DESCRIPTION>FINANCIAL DATA SCHEDULE  
 <TEXT>

<TABLE> <S> <C>

<PAGE>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<S>	<C>	<C>
<PERIOD-TYPE>	YEAR	YEAR
<FISCAL-YEAR-END>	DEC-31-1997	DEC-31-1998
<PERIOD-START>	JAN-01-1997	JAN-01-1998
<PERIOD-END>	DEC-31-1997	DEC-31-1998
<CASH>	4,025	3,712
<SECURITIES>	8,613	77,355
<RECEIVABLES>	7,152	14,013
<ALLOWANCES>	416	753
<INVENTORY>	0	0
<CURRENT-ASSETS>	22,334	98,176
<PP&E>	1,680	4,874
<DEPRECIATION>	754	1,823
<TOTAL-ASSETS>	24,757	107,829
<CURRENT-LIABILITIES>	8,627	20,738
<BONDS>	0	0
<PREFERRED-MANDATORY>	0	0
<PREFERRED>	0	0
<COMMON>	205	425
<OTHER-SE>	14,457	86,634
<TOTAL-LIABILITY-AND-EQUITY>	24,757	107,829
<SALES>	25,006	48,988
<TOTAL-REVENUES>	25,006	48,988
<CGS>	4,916	9,531
<TOTAL-COSTS>	25,496	74,783
<OTHER-EXPENSES>	0	0
<LOSS-PROVISION>	287	337
<INTEREST-EXPENSE>	0	0
<INCOME-PRETAX>	233	(23,988)
<INCOME-TAX>	(281)	(160)
<INCOME-CONTINUING>	514	(23,828)
<DISCONTINUED>	0	0
<EXTRAORDINARY>	0	0
<CHANGES>	0	0
<NET-INCOME>	514	(23,828)
<EPS-PRIMARY>	0.02	(0.68)
<EPS-DILUTED>	0.01	(0.68)

</TABLE>

</TEXT>

</DOCUMENT>

</SEC-DOCUMENT>

-----END PRIVACY-ENHANCED MESSAGE-----