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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)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

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

COMMISSION FILE NUMBER 000-24733

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

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

ONE HANOVER PARK, SUITE 800
16633 DALLAS PARKWAY
ADDISON, TX 75001
(Address of principal executive offices & zip code)
Registrant's telephone number, including area code: (972) 713-5800

Securities registered pursuant to Section 12(b) the Act:	None
Securities registered pursuant to Section 12(g) 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. [_]

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 18, 2002, as reported on the Nasdaq National Market, was approximately $262,000,000 (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 18, 2002 was 64,904,084.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered in connection with the Annual Meeting of Stockholders to be held May 3, 2002 are incorporated by reference into Part III of this Form 10-K.

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ENTRUST, INC.

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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 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 Entrust's expectations, beliefs, intentions or strategies regarding the future. All forward-looking statements included in this report are based on information available to Entrust up to and including the date of this document, and Entrust expressly disclaims any obligation to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise. Entrust's 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--Quarterly Results of Operations," "--Certain Factors That May Affect Our Business" and elsewhere in this report. Readers should also carefully review the risks outlined in other documents that Entrust files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q that Entrust files in 2002.

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PART I

ITEM 1. BUSINESS

Entrust, Inc. is a leading global provider of enhanced Internet security solutions and services that make it safer to do business and complete transactions over the wired and wireless Internet. Entrust has a broad set of products that provide identification, entitlements, verification, privacy and security management capabilities. Major government agencies, financial institutions and global 1000 enterprises in more than 40 countries use the privacy and security provided by Entrust's portfolio of award-winning security technologies.

Entrust's market leadership and expertise in delivering enhanced Internet security solutions are demonstrated by the number of prestigious awards and rankings it received in 2001 from leading security publications and organizations:

- For the third time in five years, Network Magazine named the Entrust Authority certification authority "Product of the Year" in the Authentication and Access Control category.

- For the second year in a row, the Entrust GetAccess secure Web portal was presented with the OSA CrossRoads A-List award as the most comprehensive information security product for personalization and access management of global e-business portals.

- The Entrust Authority certification authority was awarded Network Computing's "Well Connected" Award as the best public-key infrastructure (PKI).

- The Entrust GetAccess secure Web portal was awarded the 2001 MIPS Technologies Best M-Commerce Implementation.

- In an October 11, 2001 Gartner report on the global security software market, which includes the encryption, anti-virus solutions, intrusion detection and firewall sectors, Entrust was ranked as the largest provider of encryption technology--across all operating systems--in the United States and Canada, and No. 2 worldwide. In the area of public-key infrastructure, or PKI, a type of technology used for enhanced Internet security, Entrust ranked No. 1 worldwide.

- In an October 2001 report, IDC ranked the Entrust GetAccess secure Web portal as No. 2 in Worldwide Web Single Sign-On Software revenue.

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Entrust has more than 1,500 customers, including NASA, over 25 United States Federal government agencies, Capital One Bank, Lloyds TSB, the U.S. Coast Guard, the Royal Mail, the U.S. Postal Service, the Royal Canadian Mounted Police and the Government of Canada and has provided security solutions to many enterprises in the key verticals of government, financial services and Global 1000 companies.

Industry Background

In the 2001 Computer Security Institute and Federal Bureau of Investigation Computer Crime and Security Survey, 91 percent of respondents (primarily large corporations and government agencies) reported detecting security breaches in the previous 12 months. Carnegie Mellon noted that there were 52,658 security incident reports in 2001, a 142% increase over the 21,756 reported in 2000.

The tragic events of September 11, 2001, have changed the way the world views security. The threat of cyber-terrorism has found its way onto world agendas, and cyber-criminals are becoming ever more sophisticated. Hackers are potentially capable of penetrating firewalls or launching swift, devastating attacks against communication systems, financial institutions and power grids. The public and private sectors frequently experience the consequences of inadequate Internet security. In today's world, "basic" Internet security - pin and password identification over Secure Sockets Layer, or SSL, which protects information from Web browser to Web server - is not sufficient to protect high-value and high-sensitivity information. Enhanced Internet security is now a critical requirement if businesses are to protect brand equity, and businesses and governments are to protect trust and financial assets, and Entrust believes end-to-end enhanced Internet security is the next critical phase in the Internet's evolution.

Governments and businesses have become increasingly dependent on the Internet as a foundation for communication, collaboration and commerce. Enhanced Internet security is fundamental to preventing and countering threats of cyber-terrorism, and business and government leaders are making implementation of such cyber-defenses a top priority. By delivering enhanced Internet security solutions built on identification, entitlements, verification, privacy and security management capabilities, Entrust can help customers in key market sectors, including government, financial services and global 1000 enterprises, conduct high-value, highly sensitive transactions over the wired and wireless Internet.

Entrust pioneered enhanced Internet security solutions based on PKI technology that makes it safer and more secure to do business over the Internet. Entrust is a leading innovator in the Internet security field. With over 90 patents and pending patent applications, Entrust is also an author, visionary and driver on more than 30 industry standards boards and forums. In addition, Entrust was the first security mover to recognize the value of combining authorization technology with PKI, creating the Entrust Secure Web Portal, and extending this value to XML, wireless devices and other innovations.

Industry Issues

"According to Gartner, by 2004, 80 percent of enterprises will be using the Internet as an integral part of their business processes. Half will experience a financially significant loss due to Internet-borne incidents by that time." Source: June 2001 Press Release--In the report, Gartner also reported that businesses and governments will spend at least ten times more on information security by 2011.

The very openness and accessibility that have stimulated the adoption and growth of private networks, the Internet and the Web, also threaten the privacy of individuals, the confidentiality of business information and the integrity of transactions. Key concerns include risk of theft, alteration,

interception and dissemination of confidential data, as well as fraud, loss of reputation and economic loss. Threats to information security arise from external sources such as competitors and computer hackers, as well as internal sources, such as curious or disgruntled employees and contractors. These risks, which can inhibit customer confidence in Internet-based services, are driving the demand for enhanced and comprehensive network and information-security solutions.

Businesses and governments are expanding their online presence in order to reduce costs and increase customer loyalty and market share. Organizations are creating extranets for vendors, suppliers and preferred customers, setting up virtual private networks to tie offices together, and providing remote access to networks for employees and business partners. Sales, service and membership organizations are striving to increase customer loyalty by personalizing online service and improving customer-relationship management. These trends are driving the need for enhanced Internet security as worldwide levels of access and numbers of highly sensitive transactions proliferate. As businesses and governments move high-value transactions and sensitive, mission-critical data online, organizations will need to be able to identify with whom they are doing business. Being able to make such identifications with confidence will become crucial to the success of online applications.

A new era of enhanced security is upon us. Governments and businesses are moving beyond a reliance on basic security for crucial infrastructure and transactions to deployment and management of enhanced Internet security tools that protect electronic information.

Enhanced Internet Security

"The greatest security threat to businesses over the next twelve months will not be from viruses, outside hackers penetrating defenses, denial of service, or inside jobs. It will be the loss of trust and brand equity." Bob Lonadier, Hurwitz Group, April 2001.

Confidence in the safety of electronic interactions can be increased significantly by security solutions that are built on the following foundations:

Identification: Enhanced identification allows an individual to know with greater confidence with whom he or she is dealing in the electronic world.

Entitlements: Enhanced entitlements enable an organization to grant customers, employees and business partners different levels of access to applications and data.

Verification: Enhanced verification helps to provide an auditable record that helps in binding each party to a transaction and hence helps to reduce the opportunities for repudiation. Verification can take the form of digital signatures and digital receipts, both of which are recognized by legislation in the United States and many European countries.

Privacy: Enhanced privacy entails maintaining data confidentiality throughout the life of a transaction or information exchange, whether it's in transit or storage, as well as maintaining strict policies governing an organization's use and disclosure of information.

Security Management: Enhanced security management enables organizations to more effectively and efficiently manage identification, entitlements, verifications and privacy in ways that reduce the burden on end users and administrators.

Scalable applications can be deployed quickly with a high degree of reliability and availability. Entrust solutions can protect transactions, applications, content and data - from the end user's browser all the way through to the Web server and in storage - without compromising performance.

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Products, Solutions, Applications and Services

IDC noted that PKI will become the standard way to perform authentication on the Internet, October 2001.

Entrust has developed a portfolio of enhanced Internet security products, solutions, applications and services that provide identification, entitlements, verification, privacy and security management.

Entrust products help to improve efficiency, while mitigating risk, enhancing customer confidence and helping to deliver electronic services to millions of people served by governments and businesses around the world.

Entrust's enhanced Internet security solutions enable the integrity and confidentiality of documents, e-mail messages and business transactions. With Entrust solutions, these types of communication are kept more secure and private while traveling over public networks, and also while stored on personal computers, Web servers and back-end data application servers. Entrust solutions can authenticate users via passwords, tokens, biometric devices, smartcards and digital identities. They enable only individuals with authorized credentials to access information in protected documents, e-mails, Web pages and business applications, such as enterprise resource planning, or ERP, customer relationship management, or CRM, and supply chain management, or SCM. Entrust solutions can also permit business critical paper processes to be replicated electronically. Users can digitally sign documents and conduct business online, and get personalized access to information at a Web portal via wired and wireless devices.

Use of Entrust solutions and services by organizations can help in protecting their brand, increase customer share, convert one-time users into repeat customers, and increase loyalty of customers, partners and suppliers by delivering personalized services based on individual preferences. Governments utilizing Entrust solutions and services can serve millions of citizens and businesses, and help to achieve greater efficiencies while implementing national programs by enabling easy access to private and personalized information and services.

Products

"By 2011 businesses and governments will be spending on average at least ten times more on information security." Source: Gartner "The Price of Information Security", June 2001.

Entrust offers a broad portfolio of enhanced Internet security products that make it safer for governments, financial services companies and global 1000 enterprises to perform transactions over the Web.

The Entrust Authority Product Portfolio

The Entrust Authority product portfolio is the backbone of Entrust's enhanced Internet security offerings. It enables identification, entitlements, verification and privacy by providing security management to applications in a consistent, transparent and automated way. Combined with other Entrust and partner products, the Entrust Authority product portfolio provides a flexible and interoperable solution that can be used across multiple applications and various Internet security operations to provide the security required to move critical applications online, and the automated administration to do so.

Entrust Authority Security Manager facilitates several functions, while remaining invisible to the end user, to help meet an organization's enhanced Internet security requirements, including:

. enabling the use of digital signature, digital receipt, encryption and permissions-management services across a wide range of applications and solutions, allowing strong identification, privacy and verification;

. protecting communications in a verifiable manner by securely storing the certification authority private key;

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. providing enhanced security management with the ability to issue identities for both users and devices;

. publishing user certificate revocation lists and offering end-to-end digital ID management;

. offering flexibility, interoperability and choice by accommodating users who log on from different workstations, or use various methods of identification, such as smartcards or biometric devices; and

. providing a scalable solution that will accommodate an enterprise's needs as it grows.

Entrust Authority toolkits provide customers and developers with the ability to apply best-in-class security to almost any business application. These toolkits provide a common set of services to permit developers to rapidly deploy applications for business problems without having to spend valuable development cycles developing these common services.

The Entrust Authority toolkits use standards-based, application programming interfaces to make it possible to implement a single enhanced Internet security architecture across multiple applications and platforms. By minimizing the need for separate administration modules with every deployed application, these toolkits help to address administrative duplication and the overhead of deploying across multiple platforms.

The Entrust GetAccess Product Portfolio

The Entrust GetAccess product portfolio provides organizations with the security, flexibility and performance required to personalize a user's online experience. As a foundation of the Entrust Secure Web Portal solution, Entrust GetAccess software provides a critical aspect of online security. It makes it possible for an organization to more accurately identify the users it is doing business with through its Web portal and provide personalized access to information based on this user identity. Entrust GetAccess software allows multiple online applications to leverage a common infrastructure to manage identities and entitlements, enabling new applications to be deployed more securely and quickly. As security requirements for the portal change, the foundation established by Entrust GetAccess software can be built upon with solutions from the Entrust TruePass product portfolio to provide other enhanced security features such as privacy and verification. The key attributes of the Entrust GetAccess product are as follows:

More efficient identification management

Entrust GetAccess software provides a common infrastructure to administer user identification information for various Web resources. Aside from allowing an organization to perform functions more effectively, this solution can reduce the operational and security risks associated with updating multiple access control mechanisms to reflect change (i.e., employees changing jobs, partnerships dissolving, customers upgrading a service).

Centralization of user entitlement functions

By centralizing all user entitlement functions based on the user identity, role and the resource or application being accessed, Entrust GetAccess software makes it easier for users to navigate to pertinent, targeted information through a personalized menu.

Performance without sacrificing security

Unlike other vendors' products, Entrust GetAccess software does not cache user information on the Web server in order to improve performance. It has been regularly proven that Web servers are not

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safe places to keep sensitive information. Entrust GetAccess software continues to provide competitive performance while maintaining a higher level of security when compared to other vendor solutions by not caching user information on the Web server.

Single sign-on across applications and Web servers

Entrust GetAccess software provides single sign-on across applications and across domains allowing integration with an organization's Web partners and affiliates with a reduced amount of effort. This flexible integration is supported across both wired and wireless devices, including wireless access protocol, or WAP, personal digital assistants, or PDAs, and more.

Proven large-scale deployments

Scalable and easy to administer, Entrust GetAccess software can support millions of pages, dozens of applications, hundreds of Web servers, and millions of users. Services can be distributed across multiple servers to improve response times and provide continuous availability for customers around the globe. Entrust GetAccess software is deployed to over a million users at several client sites to power robust Web portals and used by hundreds more for their intranet and extranet applications.

Seamless integration with Entrust TruePass Products

Entrust GetAccess software works seamlessly with the award-winning Entrust TruePass product portfolio. This integration extends the capabilities of Entrust GetAccess software to enable digital IDs for enhanced identification and digital signatures for transaction verification.

Entrust TruePass Product Portfolio

The Entrust TruePass product portfolio gives organizations the peace of mind to migrate critical applications onto the Internet. It provides the security to move higher-value transactions and highly sensitive information online with greater confidence. Organizations can conduct valuable and sensitive online transactions more securely with customers, citizens, suppliers, partners and employees using Entrust TruePass software to provide strong identification, verification of transactions and end-to-end data privacy. The U.S. National Institute of Standards and Technology and Canada's Communications Security Establishment have awarded Entrust TruePass software the Federal Information Processing Standards 140-1 validation. Entrust TruePass software is the first and only Java application to gain this level of security validation from both agencies.

Entrust TruePass software provides many key features and benefits including:

- Verification of transactions: Digital signatures can provide a permanent audit trail or verifiable record of transactions.

- Strong user identification: Organizations can identify users with more accuracy using digital IDs. Challenge and response questions on personal information and mobile phones can all be used to add additional layers of identification and authentication security.

- Protection of privacy: Data travels encrypted from the Web browser beyond Web servers to a safe back-end location where it is decrypted only when needed by authorized users.

- Easier to use and easier to roam: Privacy and security features are transparent to Web site visitors and, unlike other security solutions, a company's customers, suppliers and partners are able to access secured Web-based services from multiple computers, anywhere, without losing the ability to digitally sign transactions.

- Easier to deploy: Software is not installed on users' desktops and all security features and upgrades are centrally managed at the Web site. Netscape and Microsoft browsers are

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supported on both the Microsoft(R) Windows(TM), Apple(R) Macintosh(TM) and Citrix operating systems, allowing organizations to reach a large audience. In addition, it is possible to use only those capabilities needed to meet current business requirements and add additional features as needs change and grow.

- Seamless integration with Entrust GetAccess Products: Seamless integration with Entrust GetAccess software extends identification and entitlement capabilities to include certificate-based identification.

Entrust Entelligence Product Portfolio

The Entrust Entelligence product portfolio provides an end-to-end, integrated solution that adds enhanced security to existing internal applications, such as e-mail, file/folder encryption and Virtual Private Networks, or VPNs. By integrating seamlessly into the desktop, Entrust Entelligence delivers a single security layer that includes a wide range of enterprise enhanced Internet security capabilities, including identification, privacy, verification and security management. Entrust Entelligence software makes it possible to add security to communications and applications to allow critical business processes to be moved to the Internet with greater confidence. It can be combined with Entrust-Ready products from third-party vendors to provide enhanced security for multiple enterprise applications including Enterprise Resource Planning, document management and legacy applications.

Entrust Entelligence products enable:

- rapid communication by enabling enhanced identification, verification and privacy in e-mail communications;
- increased security of sensitive and high-value information for files and folders;
- the ability to conduct higher value and higher sensitivity transactions on the Intranet with greater confidence through secured Web communications;
- more rapid and easier deployment through interoperability with multiple applications and devices, including tight integration and interoperability with Microsoft capabilities;
- simplicity and ease of use through single sign-on capabilities;
- strong identification and verification in a transaction or communication through encryption and digital signature capabilities; and
- enhanced security management through Entrust Authority Security Manager.

Solutions and Applications

IDC estimates the market for authentication, authorization and administration solutions will grow to $9.4 billion by 2005, August 2001.

Entrust's enhanced Internet security solutions can provide an integrated, open and scalable security framework that can help to address government and business security needs across multiple platforms and applications. Entrust's solutions, with such robust features as multi-application certificates support, are well suited for high-value e-business applications.

Today, Entrust offers a broad portfolio of enhanced Internet security solutions for Enterprise Desktops, Secure Web Portals and Virtual Private Networks.

Enterprise Desktop Solutions

According to Federal Computer Week Online (July 20, 2001), hundreds of FBI laptop computers, including at least one containing classified information, have been stolen or lost. The U.S. Justice

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Department also acknowledged on July 17, 2001, that hundreds of its laptop computers were lost, missing or stolen.

Today, many enterprises communicate electronically through e-mail, and use intranet/extranet Web access to help streamline management of information and knowledge in an increasingly dispersed business world. Organizations are also automating business processes. Applications such as ERP, SCM, CRM, workflow and e-forms have been migrated online to improve productivity and reduce paper costs and overheads. However, most organizations use only basic security solutions, such as a single password, to secure these applications--a level of security that is inadequate for sensitive business requirements.

Enterprise Desktop solutions deliver enhanced security to new and existing applications, helping an enterprise to protect itself, its employees, its partners and the information that passes within its virtual walls.

Key business applications of Enterprise Desktop solutions include:

E-mail: E-mail is fast and convenient, but is not without inherent risks. Additionally, e-mail does not offer the same assurances as conventional communications--such as handwritten signatures and delivery guarantees. Enterprise Desktop solutions:

- turn popular e-mail software programs into more secure reliable communications vehicles;
- deliver enhanced security that provides encryption and digital signature technology;
- allow users to identify senders and receivers of e-mail communications with greater confidence; and
- verify message contents and keep them more private and confidential.

File: Desktop computers and laptops are frequently used to write, negotiate, sell, plan and strategize about an organization's entire future. Without enhanced security, highly sensitive information can be accessed by unauthorized people. With the convenient portability of laptops this information can be easily stolen or lost.

Enterprise Desktop's file encryption and digital signature technology turns hard-drives and networks into more secure-information storage mediums and allows:

- information to be stored in an encrypted fashion until it is needed;
- documents to be encrypted so that only individuals with authorized credentials may view their contents;
- documents to be digitally signed online, which is now recognized in legislation in many jurisdictions;
- documents of a secure nature to be deleted so that all temporary copies will also be eliminated; and
- certain specified documents or folders to be automatically encrypted.

Web: Many organizations are opting to implement intranets that offer employee self-access to information and resources. However, organizations must be certain that all information--especially classified or highly sensitive information--remains strictly confidential. The specialized encryption and digital signature technology of the Enterprise Web Desktop solution allows:

- authentication of individuals logging into Web applications;

- information on a corporate intranet--and data that are transmitted through a Web service--to be kept private, even when the information is not in use;

- entitlements to be used to dictate different levels of authorized access to different employees; and

- verification of transactions made over the Web so that processes requiring signatures can be performed online.

Business Process: To work efficiently, business-process applications must be protected to provide for security of the information. The Enterprise Business Process solution:

- allows organizations to add security to many common strategic applications; and

- integrates many third-party solutions using the Entrust Authority toolkits.

Secure E-Forms: Government and enterprises at all levels are working to reduce paperwork and increase efficiency, and often law mandates these initiatives. For example, the Government Paperwork Elimination Act requires significant paperwork reduction by US federal agencies by 2003. Driving much of the paperwork of governments and enterprises is the use of paper-based forms to collect and process data. The cost of processing these forms manually is huge, from printing paper forms to keying completed forms into a database. Additionally, errors caused by incomplete or incorrect data and transcription mistakes can result in further incremental costs and frustrating delays.

Collecting and processing this information electronically through secure e-forms can significantly reduce costs, which is why e-forms are being used at all levels of government and enterprises as a method of reducing paperwork, lowering costs and increasing efficiency. Elimination of dual data entry, rules to enforce accurate completion and reduced printing costs combine to make e-forms a viable, cost-effective solution to managing a wide variety of processes.

The Secure E-Forms solution:

- moves paper-based processes to the Internet, increasing speed and cost effectiveness;

- offers a binding record with digital signatures including multiple levels;

- allows control of access to the content of the form; and

- allows for easy integration with top e-forms providers like Adobe, Accelio and Shana.

Secure Web Portal Solution

Web-based corporate banking is emerging as an increasingly high-profile sector in financial services. Celent Communications predicts that by 2005, more than 40 percent of leading U.S. banks will offer Internet portals with single sign-on to their business customers, February 2001.

To capitalize on the growing e-business market, organizations need a strategy that retains existing customers, builds new customer relationships and increases market share and revenue. Businesses want to present a single online face to their customers, but often end up operating separate Web sites, such as online banking and brokerage sites. This requires customers to remember and use multiple user names and passwords.

By moving transactions and information sharing to a single online source, Web portals can increase customer convenience and potentially drive higher volumes of transactions. Web portals must be able to provide personalized and secured access to content, applications and data, as well as integrate the organization's online applications into a single access point.

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The Entrust Secure Web Portal solution delivers a broad set of capabilities that help to secure the content, applications and services an organization provides via its Web portal.

To create a personalized online experience, an organization must identify the user with whom it is dealing, and understand and act according to that user's assigned role and authority. The Entrust Secure Web Portal solution automatically manages this information, allowing only authorized users access to the information to which they are entitled. These capabilities can also lead to strengthened online relationships making Web portals a strategic hub for online business processes. Integrating different applications into a portal requires different levels and methods of security. For applications that involve high financial values or sensitive information, creating a permanent and auditable record of the transaction is crucial, as is protecting the privacy of the data.

Key business benefits of Entrust's Secure Web Portal solution include:

- a reduction in cost and speed of deployment of online applications;
- increased opportunities with new online applications;
- protection of information both in transit and storage;
- an ability to add security while maintaining performance; and
- an enhanced online experience for customers.

VPN Solutions

"IDC believes that no VPN should be deployed without using a PKI for key management." Source: IDC, December 2000.

In today's global business environment, it is unusual for workers to be located in a single office. In addition, traditional enterprises of the past have been replaced by virtual enterprises in which mission-critical information is shared among employees, customers, partners and suppliers. All of these geographically dispersed knowledge workers need access to key assets, such as human resources, accounting, production and forecasting systems, as well as databases and shared workgroup documents.

VPNs establish an encrypted tunnel through which users and devices can exchange information. This is a high-speed, cost-effective method for organizations to take advantage of the Internet and reduce communication costs. VPNs, however, are only as secure as the method used to identify the users or devices at each end of the communication. Out-of-the-box VPN products offer a user name/password combination or shared-secret method of authenticating the participants in a secure channel. This exposes organizations to unnecessary risk.

Passwords and shared secrets are widely recognized as being insufficient to secure sensitive information for a variety of reasons, including:

- passwords are stored on local and network devices, and are often easy to find;

. the practice of using the same password/shared secret across multiple devices to simplify management increases the likelihood of compromise and the scope of risk;

. many user name/password implementations send passwords over the Internet without encryption;

. hackers can easily masquerade as legitimate users from any location; and

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. password-hacking tools are readily available, making passwords easy to crack, but not as easy as post-it notes used to affix passwords to machines they are intended to protect.

Entrust VPN solutions bring enhanced security to business communications and transactions conducted across a distributed organization of remote employees, as well as among partners, suppliers and customers. Incorporating the enhanced Internet security capabilities of two Entrust product portfolios, Entrust Entelligence and Entrust Authority, gives users confidence in the integrity and privacy of their e-business interactions.

Entrust VPN solutions provide the following enhanced Internet security features:

. Authentication to provide privacy of interactions and for authorized access to high-value applications and transactions.

. Encryption to protect the confidentiality of information.

. Remote User Support to allow secured access to network resources.

. Remote Office Support to allow secured, permanent network connectivity.

. Digital Signature to indicate if tampering has occurred and to provide evidence to support the contention that a transaction is binding in the event of a dispute.

Entrust VPN solutions create more secure ways to reach out to customers, partners and vendors. This enables stronger relationships and more effective business processes, providing an effective means of connecting remote employees, customers, partners and suppliers to internal networks.

Services

Certificate Services

In an April, 2001 IDC report, large companies rated security and privacy as their two most important concerns, with 93 percent of CIOs rating security as very important and 82 percent rating privacy as very important.

Entrust certificate services provide publicly rooted digital certificates for Web and WAP servers that enable a basic level of security on the Internet. As a basis for more comprehensive secured Web portal initiatives, these certificates provide information about the authenticity of Web sites and provide a basic level of security for online transactions.

Entrust Certificates encompass three types of security services:

Web-server certificates provide identification and enable SSL encryption between Web browsers and servers. Web Server Certificates from Entrust are unique in the market as they are enabled for automatic review of the Certificate Revocation List, or auto CRL, and thus can provide users with a higher level of confidence about the legitimacy of a website.

WAP-server certificates provide Web site identification and enable wireless transport layer security, or WTLS, encryptors between mobile devices, micro-browsers and servers that support the WTLS protocol.

Certificate administrator service reduces acquisition costs by enabling quantities of certificates to be pooled and expiration dates aligned as e-business programs expand across an organization and multiple, distributed SSL-enabled servers become a requirement.

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Services

"Gartner forecasts that worldwide business-to-business (B2B) sales transactions through the Internet will rise from $920 billion in 2001 to $8.5 trillion in 2005." Source: Gartner "Security Concerns Bring Regulation to the Service Industry", November 2001.

The Entrust Professional Services Team has demonstrated its experience by delivering innovative solutions. Many of the Internet security industry's most highly skilled and experienced engineers, cryptographers and cryptologists are on the Entrust team. These experts have helped the world's governments and leading companies address complex security issues. In the process, they have established an outstanding reputation for helping clients convert demanding challenges into exciting opportunities.

Entrust's services include:

Entrust Managed Security Services

As part of its long-term commitment to provide customers with choice and flexibility at every stage of deployment, Entrust has established relationships with expert managed-service providers, including PwC beTRUSTed and EDS. Managed security services offer a high level of security for e-commerce and information transfer within a networked environment combining Entrust's expertise in enhanced Internet security with consulting and integration from some of the world's largest professional services organizations.

Internet Security Consulting Services

Entrust Internet security consulting services empower customers with knowledge by identifying Internet security business drivers related to organizations' needs, requirements and priorities. This knowledge is used to prepare security-requirement analyses and security-policy documents, develop business cases and help speed time-to-market.

Deployment Services

Entrust deployment services provide planning and implementation expertise to assist in the installation and deployment of Entrust enhanced Internet security solutions. For organizations seeking a proven solution aligned with business objectives, Entrust deployment services provide end-to-end project management and execution.

Systems Integration Services

To maximize the impact of an Entrust enhanced Internet security solution, customers can leverage the expertise of Entrust's systems integration team. Common areas of integration include customization of user registration and identification systems, incorporation of entitlements with third-party and legacy applications, improvement of existing legacy and third-party application security, and provision of enhanced user and security management.

With a broad range of expertise and proven experience on multiple platforms, applications and environments, the Entrust system integration team delivers tangible solutions to integrating and customizing challenges. The team also provides for clear alignment with business requirements while driving project success.

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Training

More than 2,800 people completed Entrust training in 2001. Based on Entrust's products and solutions, the courses and certifications provide Internet security knowledge and training in deploying, operating, administering, extending, customizing and supporting Entrust Internet Security Solutions.

As enhanced Internet security enables the Internet evolution, companies are looking for a way to validate the knowledge and skills of their security operations staff. Accordingly, Entrust introduced the Entrust-Certified Registration Authority (RA) Specialist designation. The designation helps provide individuals with the training and skills to manage the day-to-day operations of an Entrust PKI. Because of the sensitive nature of Internet security-related services, Entrust-Certified RA Specialists are not only tested on their ability to administer a PKI, but also on their ability to understand the implications associated with their actions.

Entrust also introduced the Certified Consultant designation. An Entrust-Certified Consultant is taught the training and skills to recommend appropriate Entrust Internet security solutions to satisfy customer needs. In addition, it is intended that an Entrust-Certified Consultant should be able to participate in the creation, maintenance and interpretation of security policies and procedures, and play a primary role in the deployment of large-scale Internet security projects.

An Entrust-Certified Consultant is taught about deployment issues as well as the purpose and structure of Certificate Policies, Certification Practice Statements, PKI Disclosure Statements, and security project deliverables. Prior to pursuing the Entrust-Certified Consultant designation, individuals must have knowledge and practical experience in the field of project management, as well as a solid understanding of general network security issues.

Entrust Cygnacom

Entrust CygnaCom is a wholly owned subsidiary of Entrust and has been providing professional computer security services and cryptographic solutions to governments and businesses since 1994. With a staff of highly qualified engineers, Entrust CygnaCom offers clients a broad package of customized solutions to support information security strategy and securing of transactions. Entrust CygnaCom has performed professional services for a wide range of clients, including the U.S. government and various enterprises in the healthcare and banking industries. Its McLean, Virginia location provides Entrust with a large professional services organization to meet the growing needs of the U.S. federal government. Entrust Cygnacom's facilities were among the first to be accredited by the U.S. Department of Commerce, the National Institute of Standards and Technology, and the National Voluntary Laboratory Accreditation Program for information technology security testing against the federal cryptographic criteria (Common Criteria (ISO/IEC 15408)).

Strategy

Last year was a rebuilding year for Entrust. Major restructuring in the second quarter included realignment of core products, regions and vertical markets. This strategy centralized resources around government, financial services and global 1000 verticals in 20 key countries. Entrust also refocused its primary efforts towards the provision of software solutions, opting to provide products on an outsourced services basis through key third-party providers that specialized in this area.

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Entrust's priority in 2002 is a return to profitability. To help achieve this goal, Entrust plans to drive revenue growth, optimize company structure, maintain control of expenses and cash, and remain focused on customers and potential customers. Key initiatives continue to be:

- Keen geographic focus--Focusing on 20 countries and leveraging partners in non-core geographies;

- Focus on early adopter Vertical Markets--Providing solutions and sales and marketing programs targeted at the government, financial services and global 1000 enterprises;

- Strong go-to-market partners--Developing strategic relationships with key channels to market such as system integrators and system consultants, global and regional distributors and original equipment manufacturer, or OEM, opportunities with other technology manufacturers;

- Increased use of marketing programs--Raising the awareness of Entrust and the need for enhanced Internet security capabilities; and

- New and innovative solutions--Continuing to build on Entrust's leadership position in providing enhanced Internet security products and solutions.

Geographic Focus

Entrust is focused on selling its solutions in North America, Europe and Japan. These core geographies have demonstrated the most potential for early adoption of Entrust solutions.

Entrust supplements other non-core geographies through strategic partner relationships, which increase the leverage of its direct sales channel in the core regions.

In North America, Entrust is focused on a return to revenue growth in its software business after a year that was severely impacted by the downturn in the United States economy. The sales force is well positioned for success with the addition of new leadership, ongoing training programs, an increase in integrated marketing programs and the launch of Entrust Secure Web Portal Solution.

Europe is a domain Entrust will continue to prioritize. The region provided strong growth in the third and fourth quarters of 2001, with customer wins and extensions in the government, financial and wireless markets. Entrust believes this growth will continue in 2002, with increased momentum from governments and enterprises as they add enhanced Internet security to existing network infrastructures.

Vertical Markets

Entrust plans to continue to sharpen its approach to key vertical markets, such as government, financial services and global 1000 enterprises. Entrust plans to remain focused on its core business and on continued work with third-party providers to add security to the networks of governments and enterprises around the globe.

A crucial early focus for Entrust in 2002 will be the financial services vertical, where indications signal further opportunities for growth. One key market indicator is a 2001 report from Evans Data Corp. stating that database software developers in the banking and financial industries had reported more security breaches than developers in any other industry polled.

Entrust plans to continue its focus on governments in 2002. A number of governments are moving quickly to adopt Entrust solutions for adding security to internal transactions as well as to government-

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to-business and government-to-constituent transactions as they move forward with their E-Government initiatives. According to a 2001 Accenture study, Entrust is well positioned in this market space with six of the top eight leading E-Government countries utilizing Entrust solutions for their enhanced Internet security needs.

Go-to-Market Partners

Entrust plans to continue to improve support to its strategic global resellers and regional resellers. Both strategic and regional channels performed well in the fourth quarter of 2001, and Entrust believes there is continued momentum in 2002. Entrust is committed to extending market reach through strategic alliances and resellers, and structuring these relationships so that they are optimally structured to deliver value to customers, shareholders and employees.

Key to this strategy will be to extend Entrust leadership and market coverage through strong relationships with systems integrators, systems consultants and security services providers. In today's market, there is a significant and growing need for enhanced security to enable identification, entitlements, privacy, verification and security management for customer transactions and communications.

While security technology markets grow, there will be an increasing demand and need for services to enable systems to operate effectively and seamlessly. Entrust is working with channels to bring Entrust solutions to a wider market. This approach gives the channel the opportunity to benefit from the growing enhanced security market, while providing customers with premier levels of service and assistance.

Entrust channels have shown a desire to deliver enhanced Internet security practices, products, services and policies. Entrust also works with hardware and software OEMs to package its enhanced Internet security solutions.

In December 2001, Entrust announced a strategic alliance with beTRUSTed, the e-security business of PricewaterhouseCoopers. The Entrust/beTRUSTed alliance is structured to expand the depth of services offered to both companies' clients worldwide. beTRUSTed offers a high level of security for e-commerce and information transfer within a networked environment, combining Entrust's PKI and certification-authority expertise with consulting and integration from PwC. The additional focus of the beTRUSTed sales force on reselling the Entrust enhanced Internet security portfolio expands Entrust's market reach by providing a secondary sales channel for Entrust products on a global scale.

Marketing Programs

Entrust plans to continue to launch marketing programs targeted at increasing the awareness of both its solution and its leadership position in providing enhanced Internet security capabilities. A key area of focus for the programs will be centered on generating sales opportunities in the key vertical markets of government, financial services and the global 1000 in the core geographies of North America, Europe and Asia Pacific.

The November 2001 launch of the Entrust Secure Web Portal solution came as part of Entrust's commitment to deliver on its promise of enhanced Internet security through the integration of PKI and access management capabilities. The Entrust Secure Web Portal solution allows customers the flexibility to install only those pieces of the solution needed to meet current requirements; additional enhanced security features can be added easily as requirements change. Entrust believes it has a strategic advantage in providing this type of solution to the market. It plans to market the solution heavily to enterprises and governments as they move more business applications to the Web.

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Also in November, Entrust launched a government blueprint to help enable governments to conduct Internet-based E-Government and Homeland Security operations with significantly enhanced Internet security.

These programs, along with marketing programs focused on the financial vertical and Web forms, are planned to be implemented during 2002 to help support the sales effort in Entrust's core geographies.

New and innovative solutions

Entrust is entering 2002 in a strong position. Entrust plans to continue to move aggressively to capitalize on its leadership position and advantage as a first mover by delivering a broad set of security capabilities and providing customers with enhanced Internet security to migrate high-value, high-sensitivity transactions to the Internet with greater confidence.

In 2002, Entrust plans to launch more innovative, easily deployable enhanced Internet security solutions. This plan includes feature upgrades to the Entrust Authority product portfolio, added functionality and capabilities to the Entrust TruePass family, and continued integration and enhancements to the Entrust Secure Web Portal solution. Entrust also plans to further improve its desktop and e-mail enhanced security solutions.

To encourage widespread adoption of its solutions, Entrust has enhanced the Entrust-Ready Program with a new Web-based, self-service, partner-driven model. The new program supports third-party software, hardware and directory vendors that want to achieve compatibility and interoperability between their commercially available products and the Entrust-enhanced Internet security portfolio. Program participants are licensed development tools to assist them in adding Entrust-enhanced security to their applications and testing tools and guidelines to check interoperability and compatibility to earn the Entrust-Ready designation. By adding enhanced security functionality to their software, hardware or directory products, and achieving the Entrust-Ready designation, third-party vendors can deliver a more robust product to the market. These products represent key business solutions that can operate with Entrust solutions. To date, more than 150 third-party applications have been granted Entrust-Ready status, including Chrysalis ITS, Oracle, Adobe, Cisco, Datakey and Sun.

Customers

Entrust's customers are domestic and foreign government agencies and global 1000 enterprises, including financial, healthcare, telecommunications and large manufacturing organizations. As of December 31, 2001, Entrust had licensed software to more than 1,500 customers in 40 countries. These customers in turn have used the software to deliver secured Internet services to millions of business and consumer end users.

In 2001, Entrust received a $17.6 million contract--the largest in its history--from Bell Nexxia to deliver enhanced Internet security for the Government of Canada's Secure Channel project. Other major contracts were signed with:

- Vodafone to provide Secure e-Business Services to over 550,000 customers;

- Lloyds TSB to offer its 750,000 business customers a convenient secured online banking experience using Entrust's enhanced Internet security and smartcards;

- China Financial Certification Authority, which plans to use Entrust's enhanced Internet security to issue 100,000 digital ID's to meet online banking demand;

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- Blue Cross Blue Shield of Michigan, which implemented a customized privacy and security protection solution to support a broadened e-business strategy;

- Sprint, which selected Entrust to enhance its online security offerings for enterprise customers. Through the contract, Entrust's enhanced Internet security solutions will be integrated into Sprint's e/Solutions Managed Virtual Private Networks (VPN) and Security Services portfolio;

- Perot Systems Corporation to provide its employees with enhanced, secure, wireless access to the company's Internet and Web portal global corporate network;

- KPN, which is deploying the Entrust GetAccess Web Portal Solution to provide enhanced Internet security for 400,000 business and residential customers; and

- The Royal Canadian Mounted Police to provide enhanced authentication, verification and privacy for more than 75,000 police officers across Canada.

The following is a representative list of customers that have each accounted for more than $200,000 in revenues:

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Bank of Bermuda	Ericsson	Royal Mail
BCE Emergis	Experian	S.W.I.F.T.
BeTRUSTed (PricewaterhouseCoopers)	Government of Ontario	Schlumberger
Blue Cross Blue Shield of Michigan	Government of Canada	Sprint
Bureau of Census	Lloyds TSB	State of Illinois
Canadian Dept. of National Defense	MCI Worldcom	Teledenmark
China Financial Certification Authority	NASA	Telenor
Citibank	New York Life	Telia
Columbia/HCA Healthcare Corporation	Nortel Networks	Thomson Consumer Electronics
Credit Suisse	Perot Systems	U.S. Coast Guard
CrestCo	Personal Path Systems	U.S. Department of Energy
Countrywide	Pharmacia Upjohn	U.S. Patent and Trademark
Office		
EDS	Royal Canadian Mounted Police	U.S. Postal Service
Egg		

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Research and Development

Entrust's research and development efforts are focused on developing new products, core technologies and improvements to existing enhanced Internet security solutions, allowing it to maintain and extend its technology and product leadership position. Entrust spent $16.6 million, $27.6 million and $30.9 million on research and development in 1999, 2000 and 2001, respectively. As of December 31, 2001, Entrust had research and development facilities in Santa Clara, California and Ottawa, Canada and a staff of 213 employees.

Entrust is committed to aggressive research and development to support market readiness and competitive advantage. Entrust's research and development staff has contributed to a number of standards in Internet and data security areas and is active in several prominent standards-setting bodies, including:

- the IETF (Internet Engineering Task Force);
- ANSI (American National Standards Institute);
- OASIS (Organization for the Advancement of Structured Information Standards);
- the Internet PKIX (public-key infrastructure x.509) group; and
- the PKI Forum and ISO (the International Organization for Standardization).

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Entrust believes it is well placed to respond to changes in relevant industry standards, and continues to participate in the development of these standards as the requirements of businesses, governments and users become increasingly complex.

Some of Entrust's current and planned product development efforts include continued development of its Entrust Entelligence, Entrust GetAccess, Entrust TruePass and Entrust Authority product portfolios. Entrust products serve emerging markets that are evolving rapidly and require continued product enhancement through the incorporation of additional features and the adoption of new standards. In addition, continued work on the performance, manageability and reliability of Entrust products is required to meet the demands of each customer operating environment. Entrust also continues to deliver new product capability within each of its product sets to take advantage of new market opportunities in the Internet security market.

Support

Entrust continued to make significant investment in support services in 2001. Entrust believes that a high level of customer and technical support is crucial to its success and Entrust service and support program is a key component of its commitment to offer the industry's broadest set of enhanced Internet security services. Entrust's three-tiered, global support program gives customers the flexibility to choose between proven service and support levels that align with business needs. In addition, customers can leverage an extranet for online support, 24-hours-a-day, seven days a week.

Support offerings include:

- Software maintenance--including software upgrades and maintenance releases;
- Support Extranet--24/7 online access to information including frequently asked questions, documentation, technical bulletins, newsletters, and service request submissions and updates; and
- Quarterly service reviews--regular performance-to-objectives and

satisfaction reviews.

Sales, Marketing and Business Development

Entrust completed a major restructuring of its business in 2001, including an overhaul of how it sells and markets its solutions. Entrust offers its products, solutions and services through a multi-tiered approach, reflecting the characteristics and buying behavior of markets covered. As of December 31, 2001, Entrust had 202 employees in sales, marketing and business development.

Sales

Entrust plans to continue to focus marketing and sales efforts to take advantage of the need for enhanced Internet security within the government and financial services markets. Entrust plans to utilize a strategic combination of direct and indirect sales channels around the globe, believing that its direct sales force, working in conjunction with indirect channels offering complementary products and services, gives a competitive advantage in responding to customer needs as they evolve.

Direct Sales

Entrust has streamlined the way it delivers enhanced Internet security products, services and solutions by focusing direct-sales resources on the needs of customers in key vertical markets: government, financial services and global 1000 enterprises. Entrust's direct sales and service contacts with customers enable Entrust to respond rapidly to changing customer needs and enhanced product requirements. Entrust's direct sales force comprises 33 individuals in North America, 18 in Europe, Middle East and Africa and five on other continents.

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Indirect Sales

To supplement its direct sales force, Entrust has an indirect sales team focused on developing alternative channels to market Entrust products, solutions, applications and services. Significant resources have been dedicated to enable system integrators, system consultants and strategic OEMs to expand Entrust's market coverage. New channels have been identified to sell Entrust's enhanced Internet security solutions and develop relationships to fulfill sales objectives. Indirect sales is a growing area and represents a significant opportunity to leverage other organizations' sales forces and customer bases.

Indirect channels include:

- Value-added resellers and original equipment manufacturers who focus on creating bundled solutions to permit customers to purchase total desktop applications incorporating Entrust solutions. These partners, including Compaq, EDS, Hewlett-Packard, Schlumberger and Siemens, sell their hardware and networking solutions with Entrust products included.

- Distributors and agents who promote and sell Entrust solutions in defined geographic markets.

- Consultant and systems integration partners who recommend and implement Entrust-Ready security solutions as part of their overall service offerings to customers. These partners include PricewaterhouseCoopers, Accenture, Ernst &Young, Unysis and KPMG.

- Trusted Third Party and Applications Service Providers that set up and manage outsourced certification-authority services to provide certificate-based enhanced Internet security solutions to their customers. These partners include EDS and beTRUSTed.

Marketing

To support its sales force, Entrust has a marketing team whose goals are to create a consistent, focused communication strategy that increases awareness of Entrust-enhanced Internet security solutions and services, and leverages that awareness in the identification of new sales opportunities. The marketing team conducts programs that include advertising, direct mail, trade shows, seminars, Web marketing, public relations and ongoing customer communication.

Entrust plans to continue to invest in targeted marketing programs to global government and financial verticals, and also appointed its first chief marketing officer, or CMO, in June 2001. The CMO's role is to strengthen Entrust's customer focus and relationship management programs by leveraging his customer-oriented vision and interactive marketing expertise.

Business Development

Identifying new markets and opportunities in advance of current competitive thinking has been a consistent theme at Entrust. The breadth of Entrust's enhanced Internet security products, solutions, applications and services, key relationships and number of customers are testimony to Entrust's success.

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

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Competition

As a result of the acknowledged strength of Entrust's enhanced Internet security solutions and ability to solve a variety of security challenges, Entrust currently competes, or may compete in the future, with several organizations, including:

- Certification-authority service providers that are not using an Entrust infrastructure. These include VeriSign, Baltimore Technologies, RSA Security and any affiliates or partners these companies may engage to represent and/or resell their certificate-authority services.

- Public-key infrastructure providers including RSA Security, Baltimore Technologies, VeriSign (outsourced model) and others.

- Access management and authorization software vendors including IBM, Netegrity, Oblix and several recent entrants to this market such as RSA Security and others.

- Large organizations that are developing complementary technology to existing products and services. These include organizations such as Computer Associates, IBM, Microsoft and Network Associates that offer authentication and/or authorization functionality as stand-alone or embedded functionality within their respective products or services.

Entrust believes that the principal competitive factors affecting the market for Internet security solutions include an enhanced level of security and features such as ease of use, quality/reliability of security, scalability, customer service and support, and price. Although Entrust believes that its products compete favorably in respect to all these factors, there can be no assurance that Entrust can maintain its competitive position against current or potential competitors.

Regulatory Matters

Entrust's products are subject to special export requirements administered by the governments of the United States, Canada and other countries. Entrust's products may also be subject to import restrictions and/or use restrictions imposed by some countries. Consequently, Entrust's ability to export its products to destinations outside the U.S. and Canada is subject to a variety of administrative requirements, government approvals or licensing requirements. Re-exports 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 regulations, depending on the country of destination, industry sector and/or end user, some of our products may not be sold to certain parties, and some products made available abroad may contain significantly weaker encryption capabilities than those available to customers in the U.S. and Canada. There can be no assurance that Entrust will continue to be able to export its products to any destination outside the U.S. and Canada. Such restrictions could potentially have an adverse effect on Entrust's business, financial condition or results of operations.

The U.S. encryption export regulations were significantly relaxed in 2000. On January 14, 2000, the U.S. Department of Commerce amended its export regulations to make it substantially easier to sell U.S. encryption products abroad. In general, the new rules eliminated constraints based on the strength of the encryption that may be exported after a one-time government review of the product, and greatly broaden the end users who may receive the products without a license. On October 19, 2000, the U.S. Department of Commerce further amended the encryption export regulations to, among other things, relax some of the reporting requirements and allow quicker export of new products to many countries.

These changes allow Entrust's products that are under the export license authority of the U.S. to be more competitive with products of foreign producers. However, Entrust believes that some of its

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products are exempt from U.S. export authorization and they have been marketed accordingly. U.S. producers of products that compete with Entrust's non-U.S. products may be able to market more aggressively in foreign countries, offering stronger encryption and offering products to broader industry groups.

In summary, the rules are as follows: U.S. products cannot be exported to certain prohibited persons and entities or to certain embargoed countries. No governmental review is required for some exports, such as products containing relatively weak encryption, products that are limited to financial applications, and exports for internal use by foreign subsidiaries of U.S. companies. For other encryption products, exports to non-governmental end-users are allowed after a one-time 30-day review. Exports to government and non-government end-users in 23 designated countries may proceed when the product is submitted for review, without waiting for the review to be completed. Exports to non-government end-users in other countries may proceed after the 30-day review. Export licenses are required only for government end-users in these other countries, unless the product is specifically designated as a "retail" encryption item. The Department of Commerce has confirmed that a number of Entrust's products are exportable to non-governmental end users worldwide without further review under the revised regulations, except to prohibited persons and entities and the embargoed countries. In addition, Entrust's products which have been approved by the Department of Commerce in the past may be exported to non-government end users without a new technical review unless exports were previously limited to subsidiaries of U.S. companies.

Export licenses are still required for exports of non-retail encryption products to Internet and telecommunications service providers if the products are used to provide services specifically to a foreign government or provide non-subscriber-based bulk backbone encryption.

Any mass-market encryption product previously authorized for export under License Exception "TSU" may be upgraded to 64-bit encryption without a new technical review.

The U.S. government has imposed post-export semi-annual reporting requirements for most export products, but this should not affect Entrust's export sales. However, these reporting requirements create some administrative obligations.

Entrust has 19 products that are classified under the Export Administration Regulation as 5D002 "retail" and nine that are 5D992 "no license required".

Entrust believes, and has informed the U.S. Government, that certain of its products are exempt from U.S. encryption export restrictions under these criteria. However, Entrust has not obtained any formal U.S. Government ruling that any of its 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 Entrust's 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 Entrust's products outside the U.S. and Canada, having a potentially significant adverse effect on Entrust's business, financial condition and results of operations.

Intellectual Property

Entrust relies on a combination of patent, copyright, trademark and trade secret laws, nondisclosure agreements and other contractual provisions to establish, maintain and protect the company's proprietary rights. Entrust and its subsidiaries owned 35 issued patents and had 60 pending patent applications as of February 28, 2002. Pursuant to patent cross license agreements, some of these patents are and will continue to be subject to certain license grants to others, including Nortel Networks and certain of its licensees. Entrust has copyright and trade secret rights for its products,

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consisting mainly of source code and products documentation. Entrust uses a combination of written licenses and shrink-wrap licenses for users of its products to protect certain of its copyrights and trade secrets.

Employees

As of December 31, 2001, Entrust had 792 full-time employees, 464 of whom were employed by Entrust Technologies Limited, Entrust's Canadian subsidiary. Of Entrust's employees, 213 were involved in research and development, 202 in sales, marketing and business development, 260 in professional and customer support services, and 117 in administration. No employees are covered by any collective bargaining agreements, and Entrust believes that its relationship with its employees is good.

Corporate Information

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ITEM 2. PROPERTIES

Entrust's U.S. headquarters, including executive offices and administrative facilities, is located in Addison, Texas, where Entrust leases approximately 25,251 square feet of office space. Entrust also leases approximately 146,100 square feet of office space at its Canadian headquarters in Ottawa, Ontario, Canada. Entrust leases approximately 12,500 square feet of office space in Santa Clara, California, which houses primarily research and development, marketing and business development personnel. Entrust's Europe, Middle East and Africa (EMEA) region is headquartered out of Reading, England. Entrust also leases approximately 17,700 square feet of office space in McLean, Virginia where its sales and services businesses that focus on the United States Federal Government are based.

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Entrust has sales and services offices in the U.S. in Rosemount, Illinois; New York, New York; Lexington, Kentucky; Clayton, Missouri; Morristown, New Jersey; Pittsburgh, Pennsylvania; Cambridge, Massachusetts; Washington, D.C.; McLean, Virginia; and Cary, North Carolina. Offices in Canada are located in Toronto, Ontario; Montreal, Quebec; Edmonton, Alberta; Unionville, Ontario; Markham, Ontario; and Vancouver, British Columbia. Entrust also leases sales and service offices in Munich, Germany; Paris, France; and Milan, Italy.

ITEM 3. LEGAL PROCEEDINGS

On July 7, 2000, an action entitled Frankel v. Entrust Technologies, Inc., et al., No. 2-00-CV-119, was filed in the U.S. District Court for the Eastern District of Texas. Subsequently, several similar actions were filed in the same court. All of these actions have been consolidated. On January 22, 2001, a consolidated amended complaint was filed. The consolidated amended complaint purports to be a class action lawsuit brought on behalf of persons who purchased or otherwise acquired Entrust's Common stock during the period from October 19, 1999 through July 3, 2000. The complaint alleges that the defendants misrepresented and failed to disclose certain information about its business and prospects. The complaint asserts claims under the Securities Exchange Act of 1934. The complaint does not specify the amount of damages sought.

Entrust moved to dismiss the consolidated complaint. On July 31, 2001, the Court granted the motion to dismiss. The Court granted plaintiffs 30 days leave to file an amended complaint. On August 30, 2001, plaintiffs filed an amended complaint. On September 21, 2001, Entrust moved to dismiss the amended complaint. The Court has not yet ruled on Entrust's motion to dismiss. There has been no discovery to date, and no trial date has been established.

Entrust believes this class action is without merit and intends to deny all material allegations and to defend itself vigorously. An adverse judgment or settlement in this lawsuit could have a significant adverse impact on Entrust's future financial condition or results of operations.

Entrust is subject to various other 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 currently believe that the outcome of any of these legal matters will have a significant adverse effect on its consolidated results of operations or consolidated financial position.

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

No matter was submitted to a vote of Entrust shareholders during the fourth quarter of 2001.

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EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT

Entrust's executive officers and directors and their respective ages and positions as of March 20, 2002, are as follows:

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Name	Age	Position
F. William Conner......	43	President, Chief Executive Officer and Chairman of the Board
David L. Thompson......	48	Senior Vice President and Chief Financial Officer
William G. McGee.......	38	Senior Vice President, New Product Portfolio
Edward J. Pillman......	59	Senior Vice President, Global Portfolio and Services
General Wesley K. Clark	57	Director
Butler C. Derrick, Jr..	65	Director
Jawaid Ekram...........	51	Director
Terrell B. Jones.......	52	Director
Michael P. Ressner.....	53	Director
Douglas Schloss........	43	Director
Christopher M. Stone...	44	Director
Liener Temerlin........	73	Director
J. Alberto Yepez.......	42	Director

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F. William Conner, age 43, has served as our President and Chief Executive Officer since April 2001 and as Chairman of the Board since January 2002. He has been on our board of directors since July 1997 and was Chairman of the Board from October 1998 to May 2000. From November 1999 to April 2001, Mr. Conner served as President, Enterprise Networks and eBusiness Solutions of Nortel Networks, a global Internet and communications company, where he led the turnaround of the Enterprise business while redefining and delivering ebusiness applications. From September 1998 to October 1999, he served as the first Chief Marketing Officer of Nortel Networks, leading the effort to reposition the company as a global leader in building the high-performance Internet. From 1992 to September 1998, Mr. Conner held a number of key executive leadership positions at Nortel Networks, including President of its first data business, Executive Vice President of Nortel Networks' Enterprise Networks Business and a variety of other key leadership positions in sales and marketing. Mr. Conner currently serves on the Board of Directors of Travelocity.com.

David L. Thompson, age 48, has been our Senior Vice President since May 2001 and our Chief Financial Officer since October 1999. From February 2001 to April 2001, he also served as our interim Co-President and Co-Chief Executive Officer. He was our Executive Vice President, Finance and Administration from January 2001 to May 2001 and our Senior Vice President, Finance from October 1999 to January 2001. From September 1996 to September 1999, he served as Vice President of Finance of Nortel Networks' Enterprise Solutions global business, which comprises customer premise data and voice equipment research, manufacturing, sales and service. From January 1994 to August 1996, he served as Vice President of Finance of Nortel Networks World Trade, the marketing, sales and service organization for Nortel Networks' suite of products outside North America. From January 1992 to December 1994, he served as Vice President of Finance for Nortel Networks' Asia/Pacific business.

William G. McGee, age 38, has served as our Senior Vice President, New Product Portfolio since November 2001, directing our Next Generation research and development. Mr. McGee was our Vice President, Engineering from October 1998 to November 2001, and our Director, Engineering from April 1996 to October 1998, responsible for managing our research and development in each of these capacities.

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Edward J. Pillman, age 59, has been our Senior Vice President, Global Portfolio and Services since July 2001. Prior to joining Entrust, he served as President of Nortel Networks' Enterprise Product Portfolio from September 1999 to May 2001, where he directed the growth and development of Nortel Networks' voice, data and e-business portfolios for the enterprise market. From June 1996 to September 1999, he was Vice President and General Manager of the Multimedia Enterprises Systems division of Nortel Networks, and from March 1989 to May 1996, he was Vice President and General Manager of the Meridian I Communication Systems division of Nortel Networks. From November 1983 to March 1989, he was Chief Information Officer of Nortel Networks. Prior to these assignments, Mr. Pillman held a variety of sales and executive positions at IBM Canada.

General Wesley K. Clark, age 57, has served on our board of directors since January 2002. He has served as Managing Director, Merchant Banking of Stephens Group, Inc., a high technology venture capital firm, since March 2001. From July 2000 to March 2001, General Clark was a consultant to Stephens Group, providing advice on investments. Prior to joining Stephens Group, he served as a consultant to Goldman, Sachs & Co., an investment bank, serving on the Shareholders Board of Messer-Griesheim, Co., Germany. From July 1997 to June 2000, he served as the Supreme Allied Commander, Europe and Commander in Chief of the United States European Command. From June 1996 to July 1997, General Clark was Commander in Chief of the United States Southern Command, Panama. General Clark currently serves on the Board of Directors of Acxiom Corp., a provider of customer data integration software and database management services.

Butler C. Derrick, Jr., age 65, has served on our board of directors since May 1999. Since August 1998, Mr. Derrick has been a Partner at the law firm of Powell, Goldstein, Frazer & Murphy LLP, Washington, D.C. From January 1995 to July 1998, Mr. Derrick was a Partner at the law firm of Williams & Jensen, Washington, D.C. Mr. Derrick served in Congress as a United States Representative from South Carolina from January 1975 to January 1995. While in Congress, Mr. Derrick held numerous posts, including Deputy Majority Whip and Vice Chairman of the House Rules Committee.

Jawaid Ekram, age 51, has served on our board of directors since May 1999. Since October 2000, he has been Vice President of Operations, PlaceWare, Inc., a provider of Web conferencing services. From February 2000 to August 2000, Mr. Ekram served as Vice President of Systems Development for Broadband Office, an Internet start-up company. From December 1994 through January 2000, Mr. Ekram was a Senior Vice President of Visa International Incorporated, a credit card company, in various capacities and was responsible for International Network & Global Access Technology Services.

Terrell B. Jones, age 52, has served on our board of directors since November 1998. He has served as President and Chief Executive Officer of Travelocity.com, a provider of online travel reservation capabilities, since it became a public company in March 2000. He previously served as President of its predecessor company, SABRE Interactive, and as Executive Vice President and Chief Information Officer of SABRE Holdings Corporation, an information technology company, since July 1996. He was President of SABRE Computer Services (a unit of SABRE Holdings) from 1993 to 1996.

Michael P. Ressner, age 53, has served on our board of directors since May 1999. He has served as Vice President, Nortel Networks since January 2001. Prior to that time, Mr. Ressner served as Vice President of Finance of Nortel Networks Enterprise Solutions group from February 1999 to January 2001. From May 1994 to January 1999, Mr. Ressner served as Vice President of Finance for the Carrier Solutions business unit of Nortel Networks. Prior to these assignments, Mr. Ressner held a number of senior finance management posts within various business units of Nortel Networks.

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Douglas Schloss, age 43, has served on our board of directors since July 2001. Since January 1994, he has been the President and Chief Executive Officer of Rexford Management, Inc., a firm that manages an investment partnership specializing in transaction arbitrage. He has also served as Chief Executive Officer and Chairman of Marcus Schloss & Co., Inc., a registered broker-dealer and formerly a New York Stock Exchange specialist firm, since March 1993. Prior to these positions, Mr. Schloss managed the equity trading desk and arbitrage investment portfolio of Marcus Schloss & Co.

Christopher M. Stone, age 44, has served on our board of directors since May 1999. He has been Vice Chairman, Office of the Chief Executive Officer, for Novell, Inc., a network software provider, since February 2002. From December 1999 to February 2002, Mr. Stone served as Chief Executive Officer of Tilion, Inc., a company founded by Mr. Stone which builds an XML-based platform for supply chain visibility. From 1989 to October 1999, he served as Senior Vice President, Strategy and Corporate Development for Novell. Prior to joining Novell in 1989, Mr. Stone founded Object Management Group, Inc., creator of the CORBA software standard, and served as its Chairman, President and Chief Executive Officer until 1997. Mr. Stone currently serves on the Boards of Directors of Radview Software and Courion Corporation.

Liener Temerlin, age 73, has served on our board of directors since January 2002. Since October 2001, he has served as Chairman Emeritus of, and a consultant to, Temerlin McLain, an advertising agency and wholly owned subsidiary of the Interpublic Group, an international advertising, marketing and communications company. From May 1992 to October 2001, Mr. Temerlin was Chairman of the Board of Temerlin McLain.

J. Alberto Yepez, age 42, has served on our board since June 2000 when we acquired enCommerce, Inc., a provider of management solutions for e-business portals, which Mr. Yepez co-founded in January 1995. Since June 2001, Mr. Yepez has served as a consultant at Strategic Matters, a sole proprietorship owned by Mr. Yepez that provides consulting services to high technology companies and venture capital firms on strategic matters, including investments. From

February 2001 to April 2001, he served as our interim Co-President and Co-Chief Executive Officer, and from June 2000 to June 2001 as President, Entrust Ventures Group. Mr. Yepez served as President, Chief Executive Officer and Chairman of the Board of enCommerce from January 1995 to June 2000.

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PART II

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

Our common stock has been quoted on the Nasdaq National Market under the symbol "ENTU" since August 18, 1998. The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the Nasdaq National Market.

<TABLE>
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<S>	High <C>	Low <C>
2000		
First Quarter.	$150.00	$44.25
Second Quarter	83.50	31.31
Third Quarter.	81.69	22.63
Fourth Quarter	33.44	10.13
2001		
First Quarter.	$ 21.38	$ 7.06
Second Quarter	8.13	3.88
Third Quarter.	6.40	2.66
Fourth Quarter	11.04	2.55

</TABLE>

As of March 18, 2002, we had approximately 472 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.

We have never declared or paid any cash dividends on our shares of common stock. We intend to retain future earnings, if any, to finance our growth strategy. We do not anticipate paying cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, our operating results, our current and anticipated cash needs, restrictions in any future financing agreements and our plans for expansion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources".

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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 Results of Operations" and our consolidated financial statements and notes thereto included elsewhere in this Annual Report.

<TABLE>
<CAPTION>

	Year Ended December 31,				
	1997	1998	1999	2000	2001
	(in thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:					
Revenues:					
License	$16,486	$ 36,773	$ 61,482	$ 93,112	$ 48,027
Services and maintenance	8,520	12,215	23,732	55,265	69,938
Total revenues	25,006	48,988	85,214	148,377	117,965
Cost of revenues:					
License	502	1,985	2,286	4,418	4,515
Services and maintenance	4,414	7,546	13,016	32,418	43,640
Total cost of revenues	4,916	9,531	15,302	36,836	48,155
Gross profit	20,090	39,457	69,912	111,541	69,810
Operating expenses:					
Sales and marketing	11,193	26,802	40,900	73,248	87,439
Research and development	5,692	12,840	16,605	27,625	30,892
General and administrative	3,695	5,046	7,752	12,083	20,509
Acquired in-process research and development	--	20,208	--	29,614	--
Amortization of purchased product rights	--	--	--	2,751	3,322
Amortization of goodwill and other purchased intangibles	--	356	712	59,952	62,142
Impairment of goodwill, purchased product rights and other purchased intangibles	--	--	--	--	326,953
Restructuring charges	--	--	--	--	65,511
Write-down of leaseholds and other long-lived assets	--	--	--	--	13,519
Total operating expenses	20,580	65,252	65,969	205,273	610,287
Income (loss) from operations	(490)	(25,795)	3,943	(93,732)	(540,477)
Other income (expense):					
Interest income	723	1,807	3,776	13,809	8,330
Realized gain on investments	--	--	--	--	1,103
Write-down of long-term strategic investments	--	--	--	--	(10,800)
Total other income (expense)	723	1,807	3,776	13,809	(1,367)
Income (loss) before income taxes	233	(23,988)	7,719	(79,923)	(541,844)
(Provision) benefit for income taxes	281	160	(1,800)	(2,337)	(1,828)
Net income (loss)	$ 514	$(23,828)	$ 5,919	$(82,260)	$(543,672)
Net income (loss) per basic share	$ 0.02	$ (0.68)	$ 0.13	$ (1.44)	$ (8.57)
Net income (loss) per diluted share	$ 0.01	$ (0.68)	$ 0.11	$ (1.44)	$ (8.57)
Shares used in basic per share computation	30,700	35,255	43,847	57,003	63,411
Shares used in diluted per share computation	41,743	35,255	54,803	57,003	63,411

	December 31,				
	1997	1998	1999	2000	2001
	(in thousands)				
Balance Sheet Data:					
Cash, cash equivalents and short-term					

marketable investments..........................	$12,638	$ 81,067	$ 89,271	$227,687	$ 153,555
Working capital..................................	13,707	77,438	87,918	224,026	89,012
Long-term marketable investments..................	--	--	2,405	60	9,038
Total assets......................................	24,757	107,829	130,520	734,106	229,438
Shareholders' equity..............................	14,662	87,059	103,155	674,064	135,845

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Selected Financial Data" and our consolidated financial statements and notes thereto appearing elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Certain Factors That May Affect Our Business" and elsewhere in this Annual Report.

Background

We are a leading global provider of Internet security solutions and services that make it safe to do business, communicate and complete transactions over the Internet. We have a broad set of identification, entitlements, verification, privacy and security management capabilities. Major corporations, service providers, financial institutions and government agencies in more than 40 countries rely on the privacy, security and trust provided through our portfolio of award-winning technologies.

We were incorporated in December 1996 with nominal share capital, all of which was contributed by Nortel Networks Corporation and its subsidiary Nortel Networks Inc. At the close of business on December 31, 1996, Nortel Networks transferred to us certain of their assets and liabilities, intellectual property, rights, licenses and contracts. In exchange, Nortel Networks received Series A common stock, Special Voting stock, and cash consideration. At the close of business on December 31, 1996, we issued Series B common stock in a private placement. After the completion of the private placement, Nortel Networks owned approximately 73% of the outstanding shares of our voting stock assuming conversion of the Series B common stock and Series B Non-Voting common stock.

On August 21, 1998, we closed our initial public offering, issuing 5,400,000 shares of our Common stock at an initial public offering price of $16 per share. The net proceeds from the offering, after deducting underwriting discounts and commissions and offering expenses incurred, were approximately $79.1 million.

On February 29, 2000 and March 2, 2000, we closed our follow-on offering, which included an over-allotment option closing, issuing an aggregate of 2,074,260 shares of our Common stock at an offering price $82 per share. The net proceeds from the offering, after deducting underwriting discounts and commissions and offering expenses incurred, were approximately $161.5 million.

On June 4, 2001, we changed our name to Entrust, Inc.

At December 31, 2001, Nortel Networks owned approximately 21% of our Common stock.

Business Overview

Fiscal 2001 was a challenging year for Entrust. The economic slowdown that began in early 2001 affected us, as it affected many companies in the technology sector. Revenues for 2001 were down 20% to $118.0 million from $148.4 million in 2000. We underwent a restructuring in the second quarter of 2001 to better position ourselves in "Securing the Internet", which we believe will be the next major phase of the Internet's evolution.

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Our 2001 restructuring was implemented to re-focus Entrust back to its core geographic and vertical markets and its core technical competencies in Internet security. Implementing the broad corporate-wide plan resulted in a restructuring charge of $65.5 million and special non-recurring charges of $369.5 million, including $327.0 million impairment to goodwill. The major elements of the 2001 restructuring plan included:

- Eliminating approximately 400 positions, or 33% of the existing workforce, through layoffs and attrition;

- Reorganizing Entrust along global functional lines, versus multiple individual business programs;

- Closing eight offices to vacate underutilized office space that resulted from the employee reduction and global functional re-alignment to a more geographically efficient organization; and

- Conducting a revaluation assessment of the goodwill and other intangibles related to past acquisitions, specifically around potential impairment. The majority of the goodwill impairment was related to the enCommerce acquisition.

Despite the challenges of 2001, we achieved several major accomplishments in the year:

- We were awarded the largest contract in our history, a $17.6 million contract with Bell Nexxia for the Government of Canada project known as "Secure Channel". This contract is being accounted for on a subscription basis over four fiscal quarters with software revenue recognition beginning in the second quarter of 2001 and ending during the first quarter of 2002;

- We reduced our quarterly losses in the second half of 2001 to $0.13 and $0.09 losses per share in the third and fourth quarters, respectively. This compares to quarterly losses per share of $0.81 and $7.58 in the first and second quarters of 2001, respectively; and

- We ended the year with $162.6 million in cash and marketable securities and no debt.

Going forward into 2002, we remain focused on our core markets, both vertical and geographic, and our core technology strengths in enhanced Internet security. Our success continues to be dependant on our ability to design, develop, market and sell our Internet security solutions to our global customers.

Critical Accounting Policies

The nature of our business is not highly complex, as we operate in one primary business. We develop, market and sell Internet security software solutions. We also perform professional services to install, support and integrate our Internet security software solutions with other applications. We operate globally in a functional organization. We do not have any off-balance sheet financing, other than operating leases entered into in the normal course of business, and we do not actively engage in hedging transactions.

In 2001, our most complex accounting judgments were made in the areas of software revenue recognition, goodwill impairment, restructuring and other special non-recurring charges, impairment of long-term strategic investments and allowance for doubtful accounts. The goodwill impairment, and restructuring and other special non-recurring charges are not anticipated to be recurring in nature. Software revenue recognition, impairment of long-term strategic investments, and allowance for doubtful accounts are expected to continue to be an on-going element of our accounting processes and judgments.

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Software Revenue Recognition

With respect to software revenue recognition, we recognize revenues in accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 97-2, "Software Revenue Recognition" and SOP No. 98-9, "Modifications of SOP No. 97-2, Software Revenue Recognition, with Respect to Certain Transactions".

Revenues from perpetual software license agreements are recognized 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, collection of the receivable is probable and payment is due within twelve months. Revenues from license agreements requiring the delivery of significant unspecified software products in the future are accounted for as subscriptions and, accordingly, are recognized ratably over the term of the agreement from the first instance of product delivery.

Due to the complexity of some software license agreements, we routinely apply judgment to the application of software revenue recognition accounting principles to specific agreements and transactions. Different judgments and/or different contract structures could have led to different accounting conclusions, which could have had a material effect on our reported quarterly earnings.

Goodwill Impairment

We assess the impairment of identifiable intangibles, long-lived assets and related goodwill and enterprise-level goodwill on a periodic basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In 2001, we performed our valuation of these assets based on Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", APB Opinion No. 17, "Intangible Assets", and the relevant provisions of the SEC's SAB No. 100, "Restructuring and Impairment Charges".

During the second quarter of 2001, we recorded an impairment of goodwill of $327.0 million. $325.4 million of this amount was the result of the enCommerce acquisition in 2000 and $1.6 million from the r/3/ acquisition in 1998. In performing this impairment assessment, management made judgments regarding the anticipated future cash flows from these acquisitions. Different assumptions in this assessment could have led to a different impairment amount, which could have had a material effect on our reported earnings.

As of December 31, 2001, goodwill and purchased intangible assets, net of accumulated amortization, amounted to $14.0 million.

SFAS No. 142, "Goodwill and Other Intangible Assets" became effective for us on January 1, 2002 and, as a result, we estimate on a preliminary basis that we will cease to amortize approximately $11.2 million of goodwill and other purchased intangibles. We will continue to amortize $2.8 million of purchased product rights. We had recorded approximately $62.1 million of amortization on these amounts during 2001 and would have recorded approximately $8.7 million of amortization during 2002. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter. We expect to complete our initial review during the first quarter of 2002.

We currently do not expect to record an impairment charge upon completion of the initial impairment review. However, there can be no assurance that, at the time the review is completed, a material impairment charge will not be required.

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Restructuring and Other Special Non-recurring Charges

On June 4, 2001, we announced that our board of directors had approved a restructuring program to refocus on the most significant market opportunities and to reduce operating costs due to the macroeconomic factors that were negatively affecting technology investment in the market. The restructuring program included a workforce reduction, consolidation of excess facilities, and discontinuance of non-core products and programs.

As a result of the restructuring and other related special non-recurring charges and the impact of the macroeconomic conditions on us and our global base of customers, we recorded restructuring and special non-recurring charges, excluding goodwill impairment, of $106.6 million in the second fiscal quarter of 2001, with subsequent adjustments in the third and fourth quarters totaling $1.4 million.

We conducted our assessment of the accounting effects of the restructuring program in accordance with EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity", SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", APB Opinion No. 9, "Reporting the Results of Operations" and the relevant provisions of the SEC's SAB No. 100, "Restructuring and Impairment Charges".

Our assessment required assumptions in estimating the original accrued restructuring charges of $65.5 million on June 30, 2001, including estimating future recoveries of sublet income from excess facilities, liabilities from employee severances, and costs to exit business activities. Changes in these assessments with respect to the accrued restructuring charges of $47.0 million at December 31, 2001, could have a material effect on our reported results. In addition, actual results could vary from these assumptions, resulting in an adjustment that could have a material effect on our future financial results.

Impairment of Long-term Strategic Investments

We assess the recoverability of the carrying value of strategic investments on a regular basis. Factors that we consider important and that we believe could trigger impairment include, but are not limited to, the likelihood that the company in which we invested would have insufficient cash flows to operate for the next twelve months, significant changes in the company's operating performance or business model and changes in overall market conditions. These investments are in private companies of which we typically own less than 10% of the outstanding stock. Because there is not a liquid market for these securities, we often must make estimates of the value of our investments. We recorded charges related to other than temporary declines in the value of certain strategic investments of $10.8 million in 2001. We also recorded a gain on the disposition of a long-term strategic investment of $1.6 million in 2001.

As of December 31, 2001, long-term strategic investments, net of valuation allowances, amounted to $5.1 million.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. At the time of a transaction, we assess whether the fee associated with the revenue transaction is fixed and determinable and whether collection is reasonably assured.

We assess whether the fee is fixed and determinable based on the payment terms associated with the transaction and the creditworthiness of the customer. If any portion of a fee is due after 365 days from the invoice date, we account for the fee as not being fixed and determinable. In these cases, we recognize revenue as the fees become due.

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We assess collection based on a number of factors, including previous transactions with the customer and the creditworthiness of the customer. We do not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash.

We base our ongoing estimate of allowance for doubtful accounts primarily on the aging of the balances in the accounts receivable, our historical collection patterns and changes in the credit-worthiness of our customers. While credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Our accounts receivable include material balances from a limited number of customers, with five customers accounting for 43% of accounts receivable at December 31, 2001, as discussed in "Certain Factors That May Affect Our Business". Therefore, changes in the assumptions underlying this assessment or changes in the financial condition of our customers could result in a different required allowance, which could have a material impact on our reported quarterly earnings.

As of December 31, 2001, accounts receivable totaled $23.7 million, net of an allowance for doubtful accounts of $3.9 million.

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Results Of Operations

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

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Revenues:			
License	72.2%	62.8%	40.7%
Services and maintenance	27.8	37.2	59.3
Total revenues	100.0	100.0	100.0

Cost of revenues:			
License	2.7	3.0	3.8
Services and maintenance	15.3	21.8	37.0
Total cost of revenues	18.0	24.8	40.8
Gross profit	82.0	75.2	59.2
Operating expenses:			
Sales and marketing	48.0	49.4	74.1
Research and development	19.5	18.6	26.2
General and administrative	9.1	8.1	17.4
Acquired in-process research and development	--	19.9	--
Amortization of purchased product rights	--	1.9	2.8
Amortization of goodwill and other purchased intangibles	0.8	40.4	52.7
Impairment of goodwill, purchased product rights and other purchased intangibles	--	--	277.2
Restructuring charges	--	--	55.5
Write-down of leaseholds and other long-lived assets	--	--	11.5
Total operating expenses	77.4	138.3	517.4
Income (loss) from operations	4.6	(63.1)	(458.2)
Other income (expense):			
Interest income	4.4	9.3	7.1
Realized gain on investments	--	--	0.9
Write-down of long-term strategic investments	--	--	(9.1)
Total other income (expense)	4.4	9.3	(1.1)
Income (loss) before income taxes	9.0	(53.8)	(459.3)
Provision for income taxes	(2.1)	(1.6)	(1.6)
Net income (loss)	6.9%	(55.4)%	(460.9)%

</TABLE>

Years Ended December 31, 1999, 2000 and 2001

Revenues

We generate revenues from licensing the rights to our software products to end-users and, to a lesser extent, from sublicense fees from resellers. We also generate revenues from consulting, training and post-contract support, or maintenance, performed for customers who license our products. We recognize revenues in accordance with the provisions of the SOP No. 97-2, "Software Revenue Recognition" and SOP No. 98-9, "Modifications of SOP No. 97-2, Software Revenue Recognition, with Respect to Certain Transactions".

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Revenues from perpetual software license agreements are recognized 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, collection of the receivable is probable and payment is due within twelve months. Revenues from license agreements requiring the delivery of significant unspecified software products in the future are accounted for as subscriptions and, accordingly, are recognized ratably over the term of the agreement from the first instance of product delivery.

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 other customers. Revenues from the sale of Web server certificates are also recognized ratably over the term of the certificate, which is typically one to two years.

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.

We use the percentage-of-completion method to account for fixed-price 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. The project cost estimates are reviewed on a regular basis.

Total Revenues. Total revenues increased 74% from $85.2 million in 1999 to $148.4 million in 2000 and decreased 20% to $118.0 million in 2001. Total revenues derived from North America increased 44% from $71.8 million in 1999 to $103.5 million in 2000 and decreased 24% to $79.1 million in 2001, while total revenues derived from outside of North America increased 235% from $13.4 million in 1999 to $44.9 million in 2000 and decreased 13% to $38.9 million in 2001. The majority of the overall decline in total revenues, in absolute dollars, in 2001 was experienced in North America, which is reflective of the prolonged economic downturn experienced in this region. Also, until the end of the second quarter of 2001, we had focused on growing our revenue base internationally, including heavy investment in our direct sales force, particularly in Europe, Asia and South America, which resulted in growing revenues in 1999 and 2000 and resulted in a smaller decline in non-North American revenues in 2001. However, the continued softening of the economic climate internationally and our restructuring program from the second quarter of 2001 resulted in fewer sales resources being applied to all regions, but specifically in Asia Pacific and Latin America. The level of non-North American revenues has fluctuated from period to period, and this trend is expected to continue in the foreseeable future. In 1999, a single customer accounted for 24% of revenues, and no other customers accounted for 10% or more of revenues. In 2000, no individual customer accounted for 10% or more of revenues. In 2001, a single customer accounted for 11% of revenues, and no other customers accounted for 10% or more of revenues.

License Revenues. License revenues increased 51% from $61.5 million in 1999 to $93.1 million in 2000 and decreased 48% to $48.0 million in 2001, representing 72%, 63% and 41% of total revenues in the respective years. The decrease in license revenues in absolute dollars in 2001 was primarily due to the slowing of the global economy, particularly the continued economic downturn experienced in North America. The types of license transactions most significantly impacted by the less favorable economic conditions were those license transactions greater than $500,000 in value, which normally represent a substantial deployment to a broad base of users or the addition of new applications to customers' previously installed infrastructure. The rapid global downturn has had a

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significant impact on information technology projects and, as a result, customers could not make the commitments we were expecting in 2001, compared to previous years. License revenues as a percentage of total revenues decreased from 1999 to 2000 and from 2000 to 2001. This was primarily as a result of a continued strong demand for services and maintenance from our customers and increased professional services revenues from the addition of CygnaCom in March 2000, and enCommerce in June 2000, and partly due to decreased license revenues in 2001.

Services and Maintenance Revenues. Services and maintenance revenues increased 133% from $23.7 million in 1999 to $55.3 million in 2000 and increased 26% to $69.9 million in 2001, representing 28%, 37% and 59% of total revenues in the respective years. The increase in services and maintenance revenues in absolute dollars in 2000 and 2001 was primarily the result of an increase in demand for consulting services and customer support, the acquisitions of CygnaCom and enCommerce, and increases in maintenance revenues from a larger installed product base and strong customer renewals of annual maintenance agreements. The growth in our customer base has resulted in acceleration in the demand from customers to assist them in deploying our solutions. We have invested heavily in additional professional services resources in response to this increased demand from customers, particularly throughout 1999, 2000 and the first half of 2001. The slowed growth of our services and maintenance business from 2000 to 2001 reflected the completion of a large professional services contract in Europe in the second quarter of 2001, resulting in some lower utilization rates in this region in the second half of the year, and also reflected the slowed growth of the installed base of customers in 2001. The increase in services and maintenance revenues as a percentage of total revenues reflected a continuing shift in the mix of revenues from license to services and maintenance revenues in 2001, compared to 2000 and 1999. This shift was largely due to the continued growth of our services and maintenance business in response to customer demand, the impact of the professional services revenues of CygnaCom and enCommerce since their respective acquisitions, and the decrease in license revenues during 2001. We continue to focus on developing new service offerings for our customers that are core to our business and also on building our relationships with third-party service providers so that we have adequate resources available to meet the demands of our 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. Amortization of purchased product rights acquired as part of the acquisition of enCommerce of $2.8 million in 2000 and $3.3 million in 2001 has been excluded from cost of license revenues and instead has been included in operating expenses. Cost of license revenues was $2.3 million in 1999, $4.4 million in 2000 and $4.5 million in 2001, representing 3%, 3% and 4% of total revenues for the respective years. While the cost of license revenues in absolute dollars was relatively flat from 2000 to 2001, the increase in cost of license revenues in 2000, compared to 1999, was primarily a result of higher royalty fees paid to third-party software vendors, in response to the increase in license revenues in general and specifically for those Entrust products that require third-party royalty payments. The cost of license revenues as a percentage of total revenues was flat from 1999 to 2000, despite the absolute dollar increase, due to the acquisition of enCommerce, which eliminated our requirement to pay royalties to third-party vendors related to the sale of authentication/privilege management software when bundled with our PKI product sales. The increase in the cost of license revenues as a percentage of total revenues from 2000 to 2001, despite the lower software license revenue levels, was primarily a result of higher royalty rates paid to third-party software vendors and an increase in the number of third-party technologies embedded in our products sold. The mix of third-party products may vary from period to period and, consequently, our gross margins and results of operations could be adversely affected.

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 amounts paid to third-party consulting firms for those services. Cost of services and maintenance revenues was $13.0 million in 1999, $32.4 million in 2000 and $43.6 million in 2001, representing 15%, 22% and 37% of total revenues for the respective years. The increase in absolute dollars in 2000 and 2001 reflected the increased costs associated with the increased levels of services and maintenance revenues experienced in those periods and the increased costs associated with the CygnaCom and enCommerce resources. The increase in the cost of services and maintenance revenues as a percentage of total revenues in 2000 was primarily the result of slightly lower productivity and utilization for available services resources compared to 1999, due to the training required to integrate the professional services teams acquired from CygnaCom and enCommerce as well as the new employees hired in 2000. The increase in the cost of services and maintenance revenues as a percentage of total revenues in 2001 reflected the rapid growth of services and maintenance revenues in comparison to license revenues, and reflected the significant shift in the mix of revenues from license to services and maintenance revenues during this period. As the services and maintenance revenues represented the larger proportion of total revenues and grew faster than total revenues, the cost of generating those services and maintenance revenues represented a much larger percentage when compared against total revenues, because significant investment was necessary in order to prepare for current and future growth in this business. Also, we made significant investments in additional customer support personnel to support the growing base of customers with previously installed products in 2000 and 2001.

Services and maintenance gross profit as a percentage of services and maintenance revenues was 45% in 1999, 41% in 2000 and 38% in 2001. The decrease in the services and maintenance gross profit as a percentage of services and maintenance revenues from 1999 to 2000, and from 2000 to 2001 reflected the investment we made in the professional services team through the acquisition of CygnaCom late in the first quarter of 2000 and enCommerce at the end of the second quarter of 2000, which represented a slight shift in the mix of components within services revenues toward the lower-margin professional services revenues. Also, the decrease in the services and maintenance gross profit as a percentage of services and maintenance revenues reflected the investment made in additional customer support personnel in 2000 and 2001, and the continued development and rollout of new services offerings, especially prior to our restructuring in the second quarter of 2001.

Operating Expenses

Sales and Marketing

<TABLE>
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	Year Ended December 31,		
	1999	2000	2001
	(in thousands)		
<S>	<C>	<C>	<C>
Per statement of operations.................	$40,900	$73,248	$87,439
Less: Special non-recurring charges included	--	--	12,637
Pro forma..................................	$40,900	$73,248	$74,802
Percentage of total revenues...............	48%	49%	63%

</TABLE>

Sales and marketing expenses increased from $40.9 million in 1999 to $73.2

million in 2000 and $74.8 million in 2001, on a pro forma basis, representing 48%, 49% and 63% of total revenues in the respective years. The increases in sales and marketing expenses in absolute dollars from 1999 to 2001 were primarily the result of costs associated with the expansion of our sales and marketing organization, both domestically and internationally, up until the end of the first half of 2001. In addition, until the implementation of our restructuring plan in June 2001, we continued to make significant

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investments in marketing to support the launch of new products, services and marketing programs. We had continued our strategy of investing in (a) hiring and training the members of our direct sales organization in anticipation of future market growth, and (b) marketing efforts in support of new product launches. The sales and marketing expenses as a percentage of total revenues in 2000, compared to 1999, has remained fairly consistent. However, the increase in sales and marketing expenses as a percentage of total revenues in 2001, compared to 2000, was mainly due to the combination of lower than expected license revenues in the first half of 2001, and sales and marketing expenses that were largely fixed prior to the beginning of each of the first two quarters of 2001 based on expected license revenues for those periods. The increase in sales and marketing expenses as a percentage of total revenues in 2001 also reflected the increased expenses related to the impact of the enCommerce sales and marketing organization. We will continue to focus on improving the productivity of our sales and marketing organizations, in light of the current economic conditions. Failure of these investments in sales and marketing, as adjusted through our restructuring plan, to generate future revenues will have a significant adverse effect on our operations.

Research and Development

<TABLE>
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	Year Ended December 31,		
	1999	2000	2001
	(in thousands)		
<S>	<C>	<C>	<C>
Per statement of operations................	$16,605	$27,625	$30,892
Less: Special non-recurring charges included	--	--	--
Pro forma..................................	$16,605	$27,625	$30,892
Percentage of total revenues...............	20%	19%	26%

</TABLE>

Research and development expenses increased from $16.6 million in 1999 to $27.6 million in 2000 and $30.9 million in 2001, representing 20%, 19% and 26% of total revenues in the respective periods. The increased investment in research and development expenses in absolute dollars from 1999 to 2001 reflected higher expenses related to increased staffing of software developers. We had hired these employees primarily in connection with the continuing expansion, enhancement and globalization of our product offerings, our commitment to quality assurance and testing, and the addition of development employees in connection with the acquisition of enCommerce. The investment in research and development as a percentage of total revenues increased in 2001, compared to 2000 and 1999, due primarily to the lower than expected license revenues in the first half of 2001, as these costs were largely fixed prior to the start of the first two quarters of 2001, and due to the acquisition of enCommerce and the corresponding addition of the GetAccess(TM) development team. The cost reduction impact of our restructuring on research and development expenses did not come into effect until June 2001. However, we believe that we must continue to invest in research and development in order to maintain our technological leadership position and, thus, we expect research and development to increase in absolute dollars in the future as additional experienced security experts and software engineers are required.

General and Administrative

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1999	2000	2001
	(in thousands)		
<S>	<C>	<C>	<C>
Per statement of operations................	$7,752	$12,083	$20,509
Less: Special non-recurring charges included	--	--	5,596
Pro forma................................	$7,752	$12,083	$14,913
Percentage of total revenues...............	9%	8%	13%

</TABLE>

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General and administrative expenses increased from $7.8 million in 1999 to $12.1 million in 2000 and $14.9 million in 2001, on a pro forma basis, representing 9%, 8% and 13% of total revenues in the respective years. The increase in general and administrative expenses in absolute dollars reflected our continued investment in increased staffing and related expenses for the enhancement of the infrastructure necessary to support our changing business, including investor relation programs, improved management information systems and the increased utilization of outside professional service firms. In addition, the increase in general and administrative expenses in 2001 compared to 2000 was partly due to expenses we incurred in connection with the resignation of a senior executive. General and administrative expenses as a percentage of total revenues increased in 2001, compared to 2000 and 1999, due primarily to the lower than expected license revenues in the first half of 2001, as these costs were largely fixed prior to the start of each quarter. The cost reduction impact of our restructuring on general and administrative expenses did not come into effect until June 2001. We continue to look for ways to gain additional efficiencies in our administrative processes.

Acquired In-process Research and Development and Amortization of Goodwill, Purchased Product Rights and Other Purchased Intangibles

On March 14, 2000, we completed the acquisition of CygnaCom, a company based in McLean, Virginia that delivers information technology products and services, with expertise in public key infrastructure, cryptographic technologies, security engineering and systems integration and development. Pursuant to the stock purchase agreement dated March 14, 2000, entered into between us, CygnaCom and the shareholders of CygnaCom, we agreed to acquire all of the outstanding shares of CygnaCom for an aggregate purchase price of $16.6 million, which included cash consideration of $16.0 million. The acquisition was recorded under the purchase method of accounting and, therefore, the results of operations of CygnaCom are included in our financial statements from the acquisition date. Upon consummation of the acquisition, CygnaCom became a wholly owned subsidiary. In connection with this acquisition, we recorded goodwill of $16.6 million and, accordingly, we have expensed $4.6 million and $5.5 million of goodwill amortization in 2000 and 2001, respectively.

On June 26, 2000, we completed the acquisition of enCommerce, a company based in Santa Clara, California that provides software and services for managing global e-business relationships. The acquisition of enCommerce's outstanding capital stock, options and warrants for a total consideration of $505.5 million was accounted for under the purchase method of accounting, which resulted in an allocation of $449.6 million to purchased product rights, goodwill and other purchased intangibles. Also, in connection with this acquisition, an appraisal was done of the intangible assets, resulting in $29.6 million of the purchase price being allocated to in-process research and development that had not yet reached technological feasibility and had no alternative future use. This in-process research and development was expensed in June 2000. Amortization of purchased product rights of $2.8 million and $3.3 million were expensed in 2000 and 2001, respectively. Amortization of goodwill and other purchased intangibles of $54.4 million and $56.2 million were expensed in 2000 and 2001, respectively.

In addition, we recorded amortization of $712,000, $907,000 and $470,000 in 1999, 2000 and 2001, respectively, with respect to goodwill recorded as a result of the acquisition of r/3/ in 1998.

Amortization expense in connection with acquisition-related intangibles decreased in 2001, as compared to 2000, due to the impairment of goodwill, purchased product rights and other purchased intangibles recorded in June 2001.

Restructuring and Other Special Non-recurring Charges

On June 4, 2001, we announced a Board-approved restructuring program to refocus on the most significant market opportunities and to reduce operating costs due to the macroeconomic factors that were negatively affecting technology investment in the market. The restructuring program includes a workforce reduction, consolidation of excess facilities, and discontinuance of non-core products and programs.

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As a result of the restructuring and other related special non-recurring charges and the impact of the macroeconomic conditions on us and our global base of customers, we recognized restructuring and special non-recurring charges of $433.6 million in the second fiscal quarter of 2001, with subsequent adjustments in the third and fourth quarter of $1.4 million, as outlined below (in millions):

<TABLE>
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<S>	Accrued Restructuring Charges <C>	Other Special Non-recurring Charges <C>	Total Special Charges through June 30, 2001 <C>	Adjustments Recorded July 1, 2001 to December 31, 2001 <C>	Total Special Charges through December 31, 2001 <C>
Workforce reduction and other personnel costs....................	$13.5	$ 4.1	$ 17.6	$ 0.3	$ 17.9
Consolidation of excess facilities...	38.2	13.5	51.7	0.5	52.2
Discontinuance of non-core products and programs......................	13.8	6.4	20.2	(0.8)	19.4
Impairment of goodwill, purchased product rights and other intangible purchased assets..................	--	327.0	327.0	--	327.0
Write-down of long-term strategic investments.......................	--	6.1	6.1	4.7	10.8

Bad debt write-offs and additional provisions to the allowance for doubtful accounts.................	--	11.0	11.0	(3.3)	7.7
Total...............................	$65.5	$368.1	$433.6	$ 1.4	$435.0

</TABLE>

The following paragraphs provide information relating to the restructuring programs that resulted in the total special charges listed above, which were recognized in 2001.

Workforce reduction and other personnel costs

The restructuring program resulted in the reduction of approximately 400 of our regular full-time employees, or 33% of the total workforce. The reduction was across all major geographic locations, all business programs and all functions within the organization. The reductions were more heavily weighted in sales and marketing, non-core business programs such as Entrust.Net(TM) and Entrust@YourService(TM) and secondary geographies such as Asia Pacific and Latin America. The majority of the affected employees were notified of their termination in the second quarter, and the workforce portion of the restructuring was largely completed by the end of the fourth quarter of 2001. We recorded a workforce reduction charge of $13.4 million primarily related to severance costs, fringe benefits due to severed employees and outplacement services.

Other special non-recurring charges included employee relocation expenses, hiring fees and signing bonuses totaling $4.5 million, which were recorded primarily in general and administrative expenses.

Consolidation of excess facilities

We recorded restructuring costs of $39.2 million relating to the consolidation of excess facilities. The consolidation of excess facilities includes a total of eight offices in seven cities throughout the world. The majority (approximately 85%) of the costs are related to the 75,000 square foot facility in Santa Clara, CA. The costs for consolidation of excess facilities are related primarily to non-cancelable lease costs offset by estimated sublet recoveries. These costs are payable contractually over up to 10 years, which is the lease term of the Santa Clara facility. However, we will be evaluating ongoing possibilities to settle this obligation in the most economic manner.

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In addition to the $39.2 million of restructuring costs related to excess facilities, an additional $13.0 million of facilities-related costs were recorded as a special non-recurring charge as a result of impairment of leasehold improvements and other property and equipment that was disposed of or removed from operations as a result of the consolidation of excess facilities, and were included in the write-down of leaseholds and other long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". These assets were identified as assets to be disposed of that would have no future benefit to us. Therefore, these assets were reported at the lower of carrying amount and fair value, less costs of disposition. The majority of these costs are non-cash charges.

Discontinuance of non-core products and programs

In support of the restructuring objective to reduce costs and focus on our core technologies, we discontinued several non-core products and programs. The discontinued products and programs, totaling $12.9 million, are primarily related to our services business initiatives and to certain desktop applications for which we have not achieved the growth and profitability targets in line with our core products and financial objectives. The restructuring charge also includes costs related to the exit of certain marketing events and programs that had been committed to prior to the restructuring, but which are being cancelled due to the change in corporate focus. The cash outflow related to the majority of these items is expected to be substantially incurred by the end of the first quarter of fiscal 2002. Accrued estimated minimum royalty obligations related to certain discontinued products of $4.2 million are payable contractually over the next three years.

The discontinuance of products and programs, and expenses related to rebranding of our identity and our products, resulted in $6.5 million of special non-recurring charges, which was primarily recorded in sales and marketing expenses.

Summary of accrued restructuring charges

The following table is a summary of the accrued restructuring charges as at December 31, 2001 (in millions):

<TABLE>
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	Total Charges Accrued at June 30, 2001	Cash Payments	Adjustments	Accrued Restructuring Charges at December 31, 2001
<S>	<C>	<C>	<C>	<C>
Workforce reduction and other personnel costs	$13.5	$11.1	$(0.1)	$ 2.3
Consolidation of excess facilities...........	38.2	4.6	1.0	34.6
Discontinuance of non-core products and programs..................................	13.8	2.8	(0.9)	10.1
Total.......................................	$65.5	$18.5	$ --	$47.0

</TABLE>

Impairment of goodwill, purchased product rights and other intangible purchased assets

Due to the decline in our market capitalization, the decline in current overall business conditions within our target market segments and the restructuring program, we completed an assessment of the recoverability of goodwill on our balance sheet, in accordance with APB Opinion No. 17 and the relevant guidance in SFAS No. 121. This impairment analysis indicated that the carrying amount of the goodwill, purchased product rights and other purchased intangible assets of the enCommerce and r/3/ acquisitions will not be recovered through the estimated undiscounted future cash flows. We then completed an analysis of the discounted future cash flows from the enCommerce acquisition and the r/3/ acquisition. The result of this analysis is a charge of $327.0 million related to the impairment of goodwill, purchased product rights and other purchased intangible assets. Goodwill, purchased product rights and other purchased intangibles from the enCommerce acquisition account for $325.4 million of the impairment. This acquisition has failed to meet the financial planning forecasts made at the time of the acquisition due largely to the change in the economic conditions since the time of the acquisition

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and in part due to additional product development and maintenance costs related to the GetAccess(TM) product that are now estimated to be required in the future and were not known at the time of the acquisition. The remaining $1.6

million of goodwill impairment is the result of the r/3/ acquisition, which was impacted primarily by the workforce restructuring.

Revenues from the enCommerce products and services are estimated to have contributed approximately 20% to 25% of total revenues in 2001, but are estimated to have generated operating losses since acquisition. The results of operations related to the r/3/ acquisition were not significant.

Write-down of long-term strategic investments

We assess the recoverability of the carrying value of our strategic investments on a regular basis. Factors that we consider important that could trigger impairment include, but are not limited to, the likelihood that the company in which we invested would have insufficient cash flows to operate for the next twelve months, significant changes in the company's operating performance or business model, and changes in overall market conditions. We recorded charges related to other than temporary declines in the value of certain strategic investments of $10.8 million in 2001. We also recorded a gain on the disposition of a long-term strategic investment of $1.6 million in 2001.

Bad debt write-offs and additional provisions to the allowance for doubtful accounts

Due to the changes in the economic environment and the impact of the restructuring program, particularly the curtailment of certain products and presence in certain geographies, we recorded bad debt write-offs and additional provisions to the allowance for doubtful accounts totaling $7.7 million in the year ended December 31, 2001, which was recorded primarily in sales and marketing expenses.

Interest Income

Interest income increased from $3.8 million in 1999 to $13.8 million in 2000 and decreased to $8.3 million in 2001, representing 4%, 9% and 7% of total revenues in the respective years. The decrease in investment income for 2001 from 2000 reflected the reduced balance of funds invested, as these amounts have been drawn down to fund cash flow from operations and to acquire long-lived assets and long-term strategic investments. In addition, the decrease was due to the lower interest rates that were available in 2001 compared to 2000. The increase in investment income from 1999 to 2000 reflected the interest earned on cash provided by operations in 1999 and 2000, and on the net proceeds of our follow-on offering in February and March 2000.

Provision for Income Taxes

We recorded an income tax provision of $1.8 million in 1999, $2.3 million in 2000 and $1.8 million 2001. We account for income taxes in accordance with SFAS No. 109. The effective income tax rates differed from statutory rates primarily due to the non-deductibility of in-process research and development, amortization and impairment of goodwill, purchased product rights, and other purchased intangible assets, as well as adjustment of the valuation allowance that has offset substantially the tax benefits from the significant net operation loss and tax credit carry-forwards available.

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 these regards, 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 our 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.

Under our restructuring program, as discussed earlier, the levels of operating expenses decreased and the net loss decreased in the third and fourth quarters of 2001.

The following tables set forth certain unaudited consolidated quarterly statement of operations data for the eight quarters in the period ended December 31, 2001, as well as such data expressed as a percentage of our total revenues for the periods indicated. These data have 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 Annual Report.

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The operating results for any quarter are not necessarily indicative of results for any future period.

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	Quarter Ended							
	Mar. 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000	Mar. 31, 2001	June 30, 2001	Sept. 30, 2001	Dec. 31, 2001
	(in thousands, except per share data)							
Statement of Operations Data:								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:								
License...........................	$20,889	$ 18,780	$ 25,451	$ 27,992	$ 10,559	$ 12,554	$12,288	$12,626

Services and maintenance..........	8,173	10,536	16,736	19,820	20,946	17,462	15,732	15,798
Total revenues...................	29,062	29,316	42,187	47,812	31,505	30,016	28,020	28,424
Cost of revenues:								
License...........................	937	953	787	1,741	901	1,207	1,247	1,160
Services and maintenance..........	4,568	6,064	9,982	11,804	13,346	11,312	9,710	9,272
Total cost of revenues...........	5,505	7,017	10,769	13,545	14,247	12,519	10,957	10,432
Gross profit.......................	23,557	22,299	31,418	34,267	17,258	17,497	17,063	17,992
Operating expenses:								
Sales and marketing...............	12,857	14,905	21,337	24,149	26,580	38,219	13,971	8,669
Research and development..........	4,993	5,825	8,454	8,353	9,487	8,345	6,527	6,533
General and administrative........	2,192	2,722	3,745	3,424	4,687	9,363	3,313	3,146
Acquired in-process research and development......................	--	29,614	--	--	--	--	--	--
Amortization of purchased product rights..........................	--	--	1,377	1,374	1,377	1,377	284	284
Amortization of goodwill and other purchased intangibles............	661	1,615	28,836	28,840	28,900	28,900	2,171	2,171
Impairment of goodwill, purchased product rights and other purchased intangibles............	--	--	--	--	--	326,953	--	--
Restructuring charges.............	--	--	--	--	--	65,511	--	--
Write-down of leaseholds and other long-lived assets................	--	--	--	--	--	13,519	--	--
Total operating expenses..........	20,703	54,681	63,749	66,140	71,031	492,187	26,266	20,803
Income (loss) from operations........	2,854	(32,382)	(32,331)	(31,873)	(53,773)	(474,690)	(9,203)	(2,811)
Other income (expense):								
Interest income...................	1,886	3,727	3,767	4,429	3,244	2,399	1,511	1,176
Realized gain on investments.......	--	--	--	--	--	--	1,103	--
Write-down of long-term strategic investments......................	--	--	--	--	--	(6,100)		

							(1,406)	(3,294)
Total other income (expense)......	1,886	3,727	3,767	4,429	3,244	(3,701)	1,208	(2,118)
Income (loss) before income taxes....	4,740	(28,655)	(28,564)	(27,444)	(50,529)	(478,391)	(7,995)	(4,929)
Provision for income taxes...........	(1,422)	(287)	(212)	(416)	(350)	(396)	(303)	(779)
Net income (loss)...................	$ 3,318	$(28,942)	$(28,776)	$(27,860)	$(50,879)	$(478,787)	$(8,298)	$(5,708)
Net income (loss) per share								
Basic............................	$ 0.07	$ (0.54)	$ (0.46)	$ (0.44)	$ (0.81)	$ (7.58)	$ (0.13)	$ (0.09)
Diluted..........................	$ 0.06	$ (0.54)	$ (0.46)	$ (0.44)	$ (0.81)	$ (7.58)	$ (0.13)	$ (0.09)
Shares used in per share computation								
Basic............................	49,250	53,581	62,507	62,677	62,911	63,205	63,491	64,036
Diluted..........................	57,760	53,581	62,507	62,677	62,911	63,205	63,491	64,036

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	Quarter Ended							
	Mar. 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000	Mar. 31, 2001	June 30, 2001	Sept. 30, 2001	Dec. 31, 2001
Statement of Operations Data:								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:								
License..........................	71.9%	64.1%	60.3%	58.5%	33.5%	41.8%	43.9%	44.4%
Services and maintenance..........	28.1	35.9	39.7	41.5	66.5	58.2	56.1	55.6
Total revenues..................	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Cost of revenues:								
License	3.2	3.3	1.8	3.6	2.8	4.0	4.4	4.1
Services and maintenance	15.7	20.7	23.7	24.7	42.4	37.7	34.7	32.6
Total cost of revenues	18.9	24.0	25.5	28.3	45.2	41.7	39.1	36.7
Gross profit	81.1	76.0	74.5	71.7	54.8	58.3	60.9	63.3
Operating expenses:								
Sales and marketing	44.3	50.8	50.6	50.5	84.4	127.3	49.9	30.5
Research and development	17.2	19.9	20.0	17.5	30.1	27.8	23.3	23.0
General and administrative	7.5	9.3	8.9	7.2	14.9	31.2	11.8	11.1
Acquired in-process research and development	--	101.0	--	--	--	--	--	--
Amortization of purchased product rights	--	--	3.3	2.9	4.4	4.6	1.0	1.0
Amortization of goodwill and other purchased intangibles	2.3	5.5	68.3	60.3	91.7	96.3	7.7	7.6
Impairment of goodwill, purchased product rights and other purchased intangibles	--	--	--	--	--	1,089.3	--	--
Restructuring charges	--	--	--	--	--	218.3	--	--
Write-down of leaseholds and other long-lived assets	--	--	--	--	--	45.0	--	--
Total operating expenses	71.3	186.5	151.1	138.4	225.5	1,639.8	93.7	73.2
Income (loss) from operations	9.8	(110.5)	(76.6)	(66.7)	(170.7)	(1,581.5)	(32.8)	(9.9)
Other income (expense):								
Interest income	6.5	12.7	8.9	9.3	10.3	8.0	5.4	4.1
Realized gain on investments	--	--	--	--	--	--	3.9	--
Write-down of long-term strategic investments	--	--	--	--	--	(20.3)	(5.0)	(11.6)
Total other income (expense)	6.5	12.7	8.9	9.3	10.3	(12.3)	4.3	(7.5)

Income (loss) before income taxes...	16.3	(97.8)	(67.7)	(57.4)	(160.4)	(1,593.8)	(28.5)	(17.4)
Provision for income taxes..........	(4.9)	(0.9)	(0.5)	(0.9)	(1.1)	(1.3)	(1.1)	(2.7)
Net income (loss)..................	11.4%	(98.7)%	(68.2)%	(58.3)%	(161.5)%	(1,595.1)%	(29.6)%	(20.1)%

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Liquidity and Capital Resources

We used cash of $58.5 million in operating activities during 2001. This cash outflow was primarily a result of a net loss before non-cash charges of $109.1 million, a decrease in accounts payable, accrued liabilities and deferred revenue of $12.4 million, partially offset by cash inflows resulting from a decrease in accounts receivable of $13.6 million and an increase in accrued restructuring charges of $47.0 million during the year. Our average days sales outstanding at December 31, 2001 was 75 days, which represents a decrease from the 87 days that we reported at December 31, 2000. The overall decrease in days sales outstanding from December 31, 2000 reflected an increase in the allowance for doubtful accounts, better collection cycles despite longer payment terms for international customers, and improved linearity of revenues during the last two quarters of 2001. 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 quarter end will be affected by the concentration of revenues in the final weeks of each quarter and may be negatively affected by expanded international revenues in relation to total revenues as licenses to international customers often have longer payment terms.

During 2001, we generated $73.4 million of cash in investing activities, primarily due to cash provided by reductions in our marketable investments in the amount of $86.1 million, net of $202.6 million of marketable investment purchases, and proceeds of $4.6 million from the disposition of a long-term strategic investment.

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This was partially offset by $13.6 million invested in property and equipment, $2.3 million invested in long-term strategic investments and $1.7 million invested in other long-term assets. The property and equipment investments were primarily computer hardware, furniture and leasehold improvements to support our growing organization, largely costs related to the fit-up of our new facility in Addison, Texas and completion of the fit-up of our facilities in Santa Clara, California and Ottawa, Canada. The long-term investments funded were strategic in nature, represented investments in less than 10% of the capital stock of privately held electronic security and technology companies or advances to existing investees, and were accounted for on a cost basis. The investment in other long-term assets relates primarily to product localization work performed by third party contractors and a security deposit for our Addison facility.

Cash provided by financing activities for 2001 was $5.9 million, primarily from the exercise of employee stock options and the sale of shares under our employee stock purchase plan.

For disclosure regarding our contractual obligations and commercial commitments, please see notes 9 and 14 to our consolidated financial statements, which are included elsewhere in this Annual Report.

As of December 31, 2001, our cash, cash equivalents and marketable investments in the amount of $162.6 million provided our principal sources of liquidity. Overall, we used $65.1 million from our cash, cash equivalents and marketable investments in 2001. Although we expect improved profitability in 2002 as we progress towards breakeven operating earnings, we estimate that we will continue to use cash in 2002 to fund operating losses and to satisfy the obligations accrued for under our restructuring program. While there can be no assurance as to the extent of usage of liquid resources in the next fiscal year, we believe that our cash flows from operations and existing cash, cash equivalents and short-term marketable investments will be sufficient to meet our needs for at least the next twelve months.

Certain Factors That May Affect Our Business

Our quarterly revenues and operating results are subject to significant fluctuations and such fluctuations may lead to a reduced market price for our stock.

Our quarterly revenues and operating results have varied in the past and may continue to fluctuate in the future. We believe that period-to-period comparisons of our operating results are not necessarily meaningful, but securities analysts and investors often rely upon these comparisons as indicators of future performance. If our operating results in any future period fall below the expectations of securities analysts and investors, the market price of our securities would likely decline. Factors that have caused our results to fluctuate in the past and which are likely to affect us in the future include the following:

- length of sales cycles associated with our product offerings;
- the timing, size and nature of our licensing transactions;
- market acceptance of new products or product enhancements by us or our competitors;
- the relative proportions of revenues derived from licenses and services and maintenance;
- the timing of new personnel hires and the rate at which new personnel become productive;
- changes in pricing policies by our competitors;
- changes in our operating expenses; and
- fluctuations in foreign currency exchange rates.

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In addition, in June 2001 we signed a $17.6 million contract with Bell Nexxia for the Government of Canada project known as "Secure Channel". This contract is being accounted for on a subscription basis over four fiscal quarters, with software revenue recognition beginning in the second quarter of 2001 and ending during the first quarter of 2002. As a result of the completion of the subscription period, we will have to increase new software license revenues by a larger amount than achieved in the past four quarters in order to maintain operating results at current levels. While we are focused on marketing programs and revenue generating opportunities to increase software revenues, there can be no assurances that these initiatives will be successful.

Estimating future revenues is difficult, and our failure to do so accurately may lead to a reduced market price for our stock and reduced profitability.

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 depend heavily upon orders received and shipped within the same quarter. Moreover, we historically have recorded 50% 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 attributable in part to the tendency of some 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, upon our expectations as to future revenues and are largely fixed in the short term. We may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenues. Any significant shortfall in revenues in relation to our expectations could have an immediate and significant effect on our profitability for that quarter and may lead to a reduced market price for our stock.

Our restructuring of operations may not achieve the results we intend and may harm our business.

In June 2001, we announced a restructuring of our business, which included a reduction in work force and the closure of three international locations, as well as other steps we took to reduce expenses. The planning and implementation of our restructuring has placed, and may continue to place, a significant strain on our managerial, operational, financial and other resources. Additionally, the restructuring may negatively affect our employee turnover, recruiting and retention of important employees. If we are unable to implement our restructuring effectively or if we experience difficulties in effecting the restructuring, our expenses could increase more quickly than we are expecting. If we find that our restructuring announced in June did not sufficiently decrease the growth of our expenses, we may find it necessary to implement further streamlining of our expenses, to perform another reduction in our headcount or to undertake a restructuring of our business.

Because of the lengthy and unpredictable sales cycle associated with our large software transactions, we may not succeed in closing transactions on a timely basis or at all, which would adversely affect our revenues and operating results.

Transactions for our solutions often involve large expenditures, and the sales cycles for these transactions are often lengthy and unpredictable. Factors affecting the sales cycle include:

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

We may not succeed in closing such large transactions on a timely basis or at all, which could cause significant variability in our revenues and results of operations for any particular period. If our results of operations and cash flows fall below the expectations of securities analysts, our stock price may decline.

A limited number of customers has accounted for a significant percentage of our revenues, which may decline if we cannot keep or replace these customer relationships.

Historically, a limited number of customers has accounted for a significant percentage of our revenues. In 1999, our three largest customers accounted for 31% of revenues, with the largest customer accounting for 24% of revenues. In 2000, our three largest customers accounted for 12% of revenues. In 2001, our three largest customers accounted for 18% of revenues. 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. In addition, we anticipate that such customers will continue to vary over time, so that the achievement of our long-term goals will require us to obtain additional significant customers on an ongoing basis. Our failure to enter into a sufficient number of large licensing agreements during a particular period could have a significant adverse effect on our revenues.

If the Internet security market does not continue to grow, demand for our products and services will be adversely affected.

The market for Internet security solutions is at an early stage of development. Continued growth of the Internet security market will depend, in large part, on the following:

- the continued expansion of Internet usage and the number of organizations adopting or expanding intranets and extranets;
- the ability of network 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 the Internet, intranets and extranets.

A decline in the growth of this market could reduce demand for our products, adversely affecting our revenues and results of operations.

A breach of security at one of our customers, whether or not due to our products, could harm our reputation and reduce the demand for our products.

The processes used by computer hackers to access or sabotage networks and intranets are rapidly evolving. 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, third-party technology used within 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 reputation and the demand for our products.

As our products contain errors or bugs, sales of our products would likely decline if some of these bugs or the number of bugs were significant.

Like virtually all software systems, our products contain errors, failures or bugs that our existing testing procedures have not detected. The errors may become evident at any time during the life of our

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products. The discovery of any errors, failures or bugs in any products, including third-party technology incorporated into our products, may result in:

- adverse publicity;
- product returns;

- the loss or delay of market acceptance of our products; and

- third-party claims against us.

Accordingly, the discovery of any errors, failures or bugs would have a significant adverse effect on the sales of our products.

Our revenues may decline if we cannot compete successfully in an intensely competitive market.

We target our products at the rapidly evolving market for Internet security solutions. 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 we do. 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. 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.

Increased competition, as well as consolidation of competitors, could result in lower prices, 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.

Our business will not be successful if we do not keep up with the rapid changes in our industry.

The emerging market for Internet security products and related services is characterized by rapid technological developments, frequent new product introductions and evolving industry standards. To be competitive, we have to continually improve the performance, features and reliability of our products and services, particularly in response to competitive offerings, and 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.

We may have difficulty managing our expanding operations, which could adversely affect our ability to successfully grow our business.

The growth in the size and complexity of our business over the past few years has placed a significant strain on our managerial, operational and financial resources. Our ability to manage future growth, if any, will depend upon our ability to:

- continue to implement and improve operational, financial and management information systems on a timely basis; and

- 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 Addison, Texas, from our research and development facilities in Ottawa, Canada, and Santa Clara, California

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and from our European headquarters in Reading, United Kingdom, may make it more difficult to manage our growth.

If we fail to continue to attract and retain qualified personnel, our business may be harmed.

Our future success depends upon our ability to continue to attract and retain highly qualified scientific, technical, sales and managerial personnel. Competition for such personnel is intense, particularly in the field of cryptography, and there can be no assurance that we can retain our key scientific, technical, sales and managerial employees or that we can attract, motivate or retain other highly qualified personnel in the future. If we cannot retain or are unable to hire such key personnel, our business, financial condition and results of operations could be significantly adversely affected.

Future acquisitions or investments could disrupt our ongoing business, distract our management and employees, increase our expenses and adversely affect our results of operations.

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 personnel and operations from the acquired businesses and the problems of retaining and motivating key personnel from such businesses. In addition, these acquisitions may disrupt our ongoing operations, divert management from day-to-day business, increase our expenses and adversely impact our results of operations. Any future acquisitions would involve certain other risks, including the assumption of additional liabilities, potentially dilutive issuances of equity securities and incurrence of debt. In addition, these types of transactions often result in charges to earnings for such items as amortization of goodwill or in-process research and development expenses.

We face risks associated with our international operations, which, if not managed properly, could have a significant adverse effect on our business, financial condition or results of operations.

In the future, we may establish additional foreign operations, hire additional personnel and establish relationships with additional partners internationally. This expansion would require significant management attention and financial resources and could have an adverse effect on our business, financial condition and results of operations. Although our international sales currently are primarily denominated in U.S. dollars, we may increasingly denominate sales in foreign currencies in the future. In addition, our international business may be subject to the following risks:

- 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; and
- increased complexity in global corporate tax structure.

Any one of these could significantly and adversely affect our business, financial condition or results of operations.

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If the laws regarding exports of our products further limit or otherwise restrict our business, we could be prohibited from shipping our products to restricted countries, which would result in a loss of revenues.

Some of our products are subject to export controls under laws of the U.S., Canada and other countries. The list of products and countries for which exports are restricted, and the relevant regulatory policies, are likely to be revised from time to time. If we cannot obtain required government approvals under these regulations, we may not be able to sell products abroad or make products available for sale internationally via 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. See "Business--Regulatory Matters" for a discussion of our regulatory environment.

We may not be able to protect our intellectual property rights, which could make us less competitive and cause us to lose market share.

Our future success will depend, in part, upon our intellectual property rights and our ability to protect these rights. We rely on a combination of patent, copyright, trademark and trade secret laws, nondisclosure agreements, shrink-wrap licenses and other contractual provisions to establish, maintain and protect our proprietary rights. Despite our efforts to protect our proprietary rights, unauthorized third parties may:

- copy aspects of our products;
- obtain and use information that we regard as proprietary; or
- infringe upon our patents.

Policing piracy and other unauthorized use of our products is difficult, particularly in international markets and as a result of the growing use of the Internet. In addition, third parties might successfully design around our patents or obtain patents that we would need to license or design around. Finally, the protections we have obtained may not be sufficient because:

- some courts have held that shrink-wrap licenses, because they are not signed by the licensee, are not enforceable;
- our trade secrets, confidentiality agreements and patents may not provide meaningful protection of our proprietary information; and
- we may not seek additional patents on our technology or products and such patents, even if obtained, may not be broad enough to protect our technology or products.

Our inability or failure to protect our proprietary rights could have a significant adverse effect on our business, financial condition or results of operations.

We have been subject to, and may in the future become subject to, intellectual property infringement claims that could be costly and could result in a diversion of management's attention.

As the number of security products in the industry and the functionality of these products further overlaps, software developers and publishers may increasingly become subject to claims of infringement of misappropriation of the intellectual property or proprietary rights of others. We received notice from one of our customers stating that we may be responsible for indemnifying that customer under a product license agreement for infringement of patents assigned to a third party. To date, the customer has not made a formal claim for indemnification from us. In addition, third parties may assert infringement or misappropriation claims against us in the future. Defending or enforcing our intellectual property could be costly and could result in a diversion of management's attention, which could have a

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significant adverse effect on our business, financial condition or results of operations. A successful claim against us could also have a significant adverse effect on our results of operations for the period in which damages are paid.

We may lose access to technology that we license from outside vendors, which loss could adversely affect our ability to sell our products.

We rely on outside licensors for patent and/or software license rights in technology that is incorporated into and is necessary for the operation of our products. For example, our ability to provide Web server certificates in the future is dependent upon a licensing agreement we have with Baltimore Technologies, one of our primary competitors. 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 ability to sell some of our products.

Our stock price is volatile and may continue to be volatile in the 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 security industry;
- changes in financial estimates by securities analysts; and
- general market conditions and other factors.

Nortel Networks is able to exercise significant influence over all matters requiring stockholder and board approval and could make decisions about our business that conflict with the interests of other stockholders.

As of February 28, 2002, Nortel Networks Limited, through its subsidiary, Nortel Networks Inc., beneficially owned approximately 19.5% of our outstanding voting stock, and one of our ten directors was a representative of Nortel Networks. Accordingly, Nortel Networks has the ability to exert significant influence over our affairs, including the election of directors and decisions relating to our strategic and operating activities. This concentration of ownership may have the effect of delaying or preventing a change in control that other stockholders may find favorable.

Provisions of our charter and bylaws may delay or prevent transactions that are in your best interests.

Our charter and bylaws contain provisions, including a staggered board of directors that may make it more difficult for a third party to acquire us, or may discourage bids to do so. These provisions could limit the price that investors might be willing to pay for shares of our common stock and could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, a majority of our outstanding voting stock. Our board of directors also has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock could make it more difficult for a third party to acquire, or may discourage a third party from acquiring, a majority of our outstanding voting stock.

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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 marketable investments, in investments that are designed to preserve principal, maintain liquidity and maximize return. We actively manage our investments in accordance with these objectives. Some of these investments are subject to interest rate risk, whereby a change in market interest rates will cause the principal amount of the underlying investment to fluctuate. Therefore, 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, cash equivalents and marketable investments with high quality financial institutions and investment managers. We also restrict the investments to primarily securities with short-term maturities, such that, at December 31, 2001, the majority of our marketable investments had maturities of less than six months from that date. As a result, we believe that our exposure to market risk related to interest rates is minimal.

The following table presents the cash, cash equivalents and marketable investments that we held at December 31, 2000 and 2001, that would have been subject to interest rate risk, and the related ranges of maturities as of that date:

<TABLE>
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	December 31, 2000			December 31, 2001			
	Maturity			Maturity			
	Within 3 Months	3-6 Months	(greater than)6 Months	Within 3 Months	3-6 Months	6-12 Months	(greater than)12 Months
	(in thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Investments classified as cash and cash equivalents............	$13,124	$ --	$ --	$31,388	$ --	$ --	

							$ --
Investments classified as held to maturity marketable investments..	62,797	131,066	6,243	31,476	45,486	29,826	9,038
	-------	--------	------	-------	-------	-------	------
Total amortized cost..	$75,921	$131,066	$6,243	$62,864	$45,486	$29,826	$9,038
	=======	========	======	=======	=======	=======	======
Fair Value..............	$75,922	$131,231	$6,275	$63,243	$45,489	$29,917	$9,009
	=======	========	======	=======	=======	=======	======

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Risk Associated with Exchange Rates

We are subject to foreign exchange risk as a result of exposures to changes in currency exchange rates, specifically between the United States and Canada, the United Kingdom, Germany, France, Japan and Switzerland. However, this exposure is considered to be minimal due to the fact that the United Kingdom, German, French, Japanese 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.

Risk Associated with Equity Investments

We hold short-term equity securities of a publicly traded company. It is possible that the market value of these securities could decline significantly in the near future. For example, due to stock market volatility, we had recorded an unrealized loss of $1.5 million in this investment based on its market

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value at December 31, 2000. In connection with this investment, we had engaged in a hedging transaction that provided us with the right to receive an amount equal to the difference between the price we paid for these securities and the aggregate of the fair market values on the dates that the securities are made available for sale on the public market. We accounted for this option as a fair value hedge, in accordance with SFAS No. 133 and, as a result, recorded an unrealized gain of $1.5 million on the hedge instrument. Prior to December 31, 2001, we exercised the call option and, consequently, received additional shares of the investee. At December 31, 2001, we recorded an unrealized loss of $220,000 on the remaining portion of these shares owned, in order to adjust the cost basis to reflect market value. Upon completion of this call option, the hedge was successful in covering the majority of the original investment value. However, hedging activity may not always sufficiently cover the value of the corresponding investment.

In addition, we have invested in several privately held companies, most of which are technology companies in the start-up or development stage, or are companies with technologies and products that are targeted at geographically distant markets. If the demand for the technologies and products offered by these privately held companies materializes slowly, to a minimum extent, or not at all in the relevant markets, we could lose all or substantially all of our investments in these companies. To date, we have recorded losses of $10.8 million from impairments and a realized gain of $1.6 million from dispositions in connection with these investments.

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.

Our "Quarterly Results of Operations" set forth in Item 7 is incorporated herein by reference.

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

None.

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PART III

Certain information required by Part III is omitted from this Annual Report as we intend to file our definitive Proxy Statement for our Annual Meeting of Stockholders to be held on May 3, 2002, pursuant to Regulation 14A of the Securities Exchange Act of 1934, 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 herein 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 sections entitled "Employment, Non-Competition, Retention and Separation Agreements" and "Certain Transactions" in the Proxy

Statement is incorporated herein by reference.

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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, Inc. are filed as part of this Form 10-K on the pages indicated:

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, 2001.

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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 27th day of March, 2002.

ENTRUST, INC.
(Registrant)

By: /s/ F. WILLIAM CONNER

F. William Conner
President, Chief Executive Officer and
Chairman of the Board

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 27th day of March, 2002.

Signature	Title
/s/ F. WILLIAM CONNER F. William Conner	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)
/s/ DAVID L. THOMPSON David L. Thompson	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ BUTLER C. DERRICK, JR. Butler C. Derrick, Jr.	Director
/s/ JAWAID EKRAM Jawaid Ekram	Director
/s/ TERRELL B. JONES Terrell B. Jones	Director
/s/ MICHAEL P. RESSNER Michael P. Ressner	Director
/s/ DOUGLAS SCHLOSS Douglas Schloss	Director
/s/ LIENER TEMERLIN Liener Temerlin	Director
/s/ J. ALBERTO YEPEZ J. Alberto Yepez	Director

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INDEPENDENT AUDITORS' REPORT

To the Directors and Shareholders of Entrust, Inc.:

We have audited the consolidated balance sheets of Entrust, Inc. as of December 31, 2000 and 2001, 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, 2001. 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 auditing standards generally accepted in the United States of America. 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, Inc. at December 31, 2000 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Dallas, Texas

February 15, 2002

<PAGE>

ENTRUST, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

<TABLE>
<CAPTION>

	December 31,	
	2000	2001
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,241	$ 45,267
Short-term marketable investments	203,446	108,288
Accounts receivable (net of allowance for doubtful accounts of $2,932 in 2000 and $3,909 in 2001)	46,301	23,732
Other receivables	3,456	1,720
Prepaid expenses	6,147	3,482
Total current assets	283,591	182,489
Long-term marketable investments	60	9,038
Property and equipment, net	25,168	17,390
Purchased product rights, net	19,259	2,838
Goodwill, net	365,127	6,436
Other purchased intangibles, net	22,054	4,750
Long-term strategic investments	16,615	5,076
Other long-term assets, net	2,232	1,421
Total assets	$ 734,106	$ 229,438
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 16,989	$ 13,815
Accrued liabilities	22,311	15,121
Accrued restructuring charges	--	46,988
Deferred revenue	19,466	17,553
Due to related party	799	--
Total current liabilities	59,565	93,477

Long-term liabilities	477	116
Total liabilities	60,042	93,593
Shareholders' equity:		
Common stock, par value $0.01 per share; 62,753,738 and 64,432,052 issued and outstanding shares at December 31, 2000 and 2001, respectively	628	645
Additional paid-in capital	775,604	781,879
Unearned compensation	(316)	(100)
Accumulated deficit	(101,518)	(645,190)
Accumulated other comprehensive loss	(334)	(1,389)
Total shareholders' equity	674,064	135,845
Total liabilities and shareholders' equity	$ 734,106	$ 229,438

</TABLE>

See notes to consolidated financial statements

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ENTRUST, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Revenues:			
License	$ 61,482	$ 93,112	$ 48,027
Services and maintenance	23,732	55,265	69,938
Total revenues	85,214	148,377	117,965
Cost of revenues:			
License	2,286	4,418	4,515
Services and maintenance	13,016	32,418	43,640
Total cost of revenues	15,302	36,836	48,155
Gross profit	69,912	111,541	69,810
Operating expenses:			
Sales and marketing	40,900	73,248	87,439
Research and development	16,605	27,625	30,892
General and administrative	7,752	12,083	20,509
Acquired in-process research and development	--	29,614	--
Amortization of purchased product rights	--	2,751	3,322
Amortization of goodwill and other purchased intangibles	712	59,952	62,142
Impairment of goodwill, purchased product rights and other purchased intangibles	--	--	326,953
Restructuring charges	--	--	65,511
Write-down of leaseholds and other long-lived			

assets	--	--	13,519
Total operating expenses	65,969	205,273	610,287
Income (loss) from operations	3,943	(93,732)	(540,477)
Other income (expense):			
Interest income	3,776	13,809	8,330
Realized gain on investments	--	--	1,103
Write-down of long-term strategic investments	--	--	(10,800)
Total other income (expense)	3,776	13,809	(1,367)
Income (loss) before income taxes	7,719	(79,923)	(541,844)
Provision for income taxes	(1,800)	(2,337)	(1,828)
Net income (loss)	$ 5,919	$ (82,260)	$ (543,672)
Net income (loss) per share:			
Basic	$ 0.13	$ (1.44)	$ (8.57)
Diluted	$ 0.11	$ (1.44)	$ (8.57)
Weighted average common shares used in per share computations:			
Basic	43,846,922	57,003,479	63,410,786
Diluted	54,802,682	57,003,479	63,410,786

</TABLE>

See notes to consolidated financial statements

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ENTRUST, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
for the years ended December 31, 1999, 2000 and 2001
(in thousands, except share data)

<TABLE>
<CAPTION>

<S>	Common Stock Shares <C>	Common Stock Amount <C>	Special Voting Stock Shares <C>	Special Voting Stock Amount <C>	Additional Paid-In Capital <C>	Unearned Compensation <C>	Accumulated (Deficit) <C>	Accumulated Other Comprehensive Income (Loss) <C>
Balances at December 31, 1998	42,492,681	$425	5,157,289	$ 52	$112,483	$(635)	$ (25,177)	$ (89)
Unearned compensation amortized	--	--	--	--	--	196	--	--
Common shares issued:								
Stock option exercises	2,636,482	27	--	--	8,388	--	--	--
Employee Stock Purchase Plan	74,285	--	--	--	1,304	--	-	

							--	--
Tax equivalent related to non-qualified option exercises....	--	--	--	--	708	--	--	--
Comprehensive income (loss):								
Net income..................	--	--	--	--	--	--	5,919	--
Translation adjustment.......	--	--	--	--	--	--	--	(446)
	----------	----	----------	----	--------	-----	---------	-------
Total comprehensive income.....................								
Balances at December 31, 1999..........................	45,203,448	452	5,157,289	52	122,883	(439)	(19,258)	(535)
Unearned compensation related to non-employee stock options granted.........	--	--	--	--	101	(101)	--	--
Unearned compensation amortized....................	--	--	--	--	--	224	--	--
Special voting shares exchanged....................	5,157,289	52	(5,157,289)	(52)	--	--	--	--
Common shares issued:..........								
Cash..........................	2,074,260	21	--	--	162,622	--	--	--
Acquisitions, including options and warrants..........	8,548,177	85	--	--	482,187	--	--	--
Stock option exercises.........	1,701,659	17	--	--	6,320	--	--	--
Employee Stock Purchase Plan.........................	68,905	1	--	--	1,705	--	--	--
Common shares issuance costs........................	--	--	--	--	(1,130)	--	--	--
Tax equivalent related to non-qualified option exercises....	--	--	--	--	916	--	--	--
Comprehensive income (loss):								
Net loss....................	--	--	--	--	--	--	(82,260)	--
Unrealized loss on investments................	--	--	--	--	--	--	--	(1,457)
Unrealized gain on gross-up receivable related to investments................	--	--	--	--	--	--	--	1,457
Translation adjustment.......	--	--	--	--	--	--	--	201
	----------	----	----------	----	--------	-----	---------	-------
Total comprehensive loss.....								
Balances at December 31, 2000..........................	62,753,738	628	--	--	775,604	(316)	(101,518)	(334)
Unearned compensation								

related to non-employee stock options granted.........	--	--	--	--	6	(6)	--	--
Unearned compensation amortized....................	--	--	--	--	--	222	--	--
Warrants and options issued to non-employee for services rendered............	--	--	--	--	1,092	--	--	--
Common shares issued:								
Stock option exercises.......	1,422,735	14	--	--	3,070	--	--	--
Employee Stock Purchase Plan.......................	255,579	3	--	--	2,107	--	--	--
Comprehensive loss:								
Net loss....................	--	--	--	--	--	--	(543,672)	--
Unrealized loss on investments, net of reclassification adjustment.................	--	--	--	--	--	--	--	(220)
Translation adjustment.......	--	--	--	--	--	--	--	(835)
Total comprehensive loss.....								
Balances at December 31, 2001..........................	64,432,052	$645	--	$ --	$781,879	$(100)	$(645,190)	$(1,389)

</TABLE>
<TABLE>
<CAPTION>

	Comprehensive Income (Loss)	Total Shareholders' Equity
<S>	<C>	<C>
Balances at December 31, 1998..........................		$ 87,059
Unearned compensation amortized....................		196
Common shares issued:		
Stock option exercises.......		8,415
Employee Stock Purchase Plan.......................		1,304
Tax equivalent related to non-qualified option exercises....		708
Comprehensive income (loss):		
Net income..................	$ 5,919	5,919
Translation adjustment.......	(446)	(446)
Total comprehensive income.....................	$ 5,473	
Balances at December 31, 1999..........................		103,155
Unearned compensation		

related to non-employee stock options granted.........		--
Unearned compensation amortized....................		224
Special voting shares exchanged....................		--
Common shares issued:..........		
Cash..........................		162,643
Acquisitions, including options and warrants..........		482,272
Stock option exercises.........		6,337
Employee Stock Purchase Plan.........................		1,706
Common shares issuance costs........................		(1,130)
Tax equivalent related to non-qualified option exercises....		916
Comprehensive income (loss):		
Net loss....................	$ (82,260)	(82,260)
Unrealized loss on investments................	(1,457)	(1,457)
Unrealized gain on gross-up receivable related to investments................	1,457	1,457
Translation adjustment.......	201	201
	---------	---------
Total comprehensive loss.....	$ (82,059)	
	=========	
Balances at December 31, 2000..........................		674,064
Unearned compensation related to non-employee stock options granted.........		--
Unearned compensation amortized....................		222
Warrants and options issued to non-employee for services rendered............		1,092
Common shares issued:		
Stock option exercises.......		3,084
Employee Stock Purchase Plan.......................		2,110
Comprehensive loss:		
Net loss....................	$(543,672)	(543,672)
Unrealized loss on investments, net of reclassification adjustment.................	(220)	(220)
Translation adjustment.......	(835)	(835)
	---------	---------
Total comprehensive loss.....	$(544,727)	
	=========	
Balances at December 31, 2001..........................		$ 135,845
		=========

</TABLE>

See notes to consolidated financial statements

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ENTRUST, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1999	2000	2001
Operating activities:			
Net income (loss)	$ 5,919	$ (82,260)	$(543,672)
Non-cash items in income (loss):			
Depreciation and amortization	3,348	67,026	73,431
Deferred income taxes	867	--	--
Tax equivalent related to non-qualified option exercises	708	916	--
Unearned compensation amortized	196	224	222
Acquired in-process research and development	--	29,614	--
Revenue from non-monetary transaction	--	(2,988)	(734)
Loss on disposition of short-term marketable investments	--	--	261
Provision for doubtful accounts	157	1,688	8,508
Impairment of goodwill, purchase product rights and other purchased intangibles	--	--	326,953
Non-cash other special non-recurring charges	--	--	3,212
Gain on disposition of long-term strategic investments	--	--	(1,584)
Write-down of leaseholds and other long-lived assets	--	--	13,519
Write-down of long-term strategic investments	--	--	10,800
Changes in operating assets and liabilities, net of effects of acquisitions:			
Decrease (increase) in accounts receivable	(7,961)	(21,740)	13,642
Decrease (increase) in other receivables	108	(1,458)	1,736
Decrease (increase) in prepaid expenses and other assets	(1,029)	(3,788)	1,395
Increase (decrease) in accounts payable	(551)	5,879	(2,984)
Increase (decrease) in accrued liabilities	4,175	8,283	(7,601)
Increase in accrued restructuring charges	--	--	46,988
Increase (decrease) in deferred revenue	2,970	5,777	(1,790)
Increase (decrease) due to related party	31	--	(799)
Net cash provided by (used in) operating activities	8,938	7,173	(58,497)
Investing activities:			
Purchases of marketable investments	(102,230)	(346,369)	(202,638)
Dispositions of marketable investments	109,786	216,062	288,737
Purchases of property and equipment	(4,421)	(19,717)	(13,629)
Proceeds on disposition of property and equipment	--	--	264
Increase in long-term strategic investments	(1,300)	(14,922)	(2,308)
Proceeds on disposition of long-term strategic investments	--	--	4,632
Increase in other long-term assets	(1,849)	(1,218)	(1,692)
Net cash payments in purchase transactions	--	(7,739)	--
Net cash provided by (used in) investing activities	(14)	(173,903)	73,366
Financing activities:			
Repayment of long-term liabilities	(32)	(75)	(355)
Proceeds from exercise of stock options and employee stock purchase plan	9,719	8,043	6,287
Proceeds from issuance of common stock, net	--	161,513	--
Net cash provided by financing activities	9,687	169,481	5,932
Effect of exchange rate changes on cash	(446)	(387)	225
Net change in cash and cash equivalents	18,165	2,364	21,026
Cash and cash equivalents at beginning of year	3,712	21,877	24,241

Cash and cash equivalents at end of year......................	$ 21,877	$ 24,241	$ 45,267
	=========	=========	=========

</TABLE>

See notes to consolidated financial statements

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ENTRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data, unless indicated otherwise)

1. Company Background

Entrust, Inc. (the "Company") is a leading global provider of Internet security solutions and services that make it safe to do business and complete transactions over the Internet. The Company has a broad set of identification, entitlements, verification, privacy and security management capabilities. Major corporations, service providers, financial institutions and government agencies in more than 40 countries rely on the privacy, security and trust provided through the Company's portfolio of award-winning technologies.

The Company was incorporated in December 1996 with nominal share capital, all of which was contributed by Nortel Networks Corporation and its subsidiary Nortel Networks Inc. (collectively, "Nortel Networks"). At the close of business on December 31, 1996, Nortel Networks transferred to the Company certain of its assets and liabilities, intellectual property, rights, licenses and contracts. In exchange, Nortel Networks received Series A common stock, Special Voting stock, and cash consideration. At the close of business on December 31, 1996, the Company issued Series B common stock in a private placement. After the completion of the private placement, Nortel Networks owned approximately 73% of the outstanding shares of the Company's voting stock assuming conversion of the Series B common stock and Series B Non-Voting 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 $79,100.

On February 29, 2000 and March 2, 2000, the Company closed its follow-on offering (which included an over-allotment option closing), issuing an aggregate of 2,074,260 shares of its Common stock at an offering price $82 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 $161,500.

On June 4, 2001, the Company changed its name to Entrust, Inc.

At December 31, 2001, Nortel Networks owned approximately 21% of the Company's Common stock.

2. Significant Accounting Policies

Consolidation

The consolidated financial statements of the Company include the accounts of its majority-owned Canadian subsidiary, Entrust Technologies Limited, and its wholly-owned subsidiaries, Entrust (Europe) Limited and enCommerce Limited in the U.K., Entrust GmbH in Germany, r/3/ Security Engineering AG ("r/3/") and Entrust Technologies (Switzerland) GmbH in Switzerland, CygnaCom Solutions, Inc. ("CygnaCom") and enCommerce, Inc. ("enCommerce") in the U.S., Entrust s.a.r.l. in France, and enCommerce K.K. in Japan. 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 derivative financial products for hedging or speculative purposes related to foreign currency. Therefore, 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, France, Japan, Switzerland and the United Kingdom. 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. Also, management periodically reviews the potential financial impact of this risk and currently believes that the Company is not subject to significant potential losses.

Revenue recognition

The Company generates revenues from licensing the rights to its software products to end-users and, to a lesser extent, from sublicense fees from resellers. The Company also generates revenues from consulting, training and post-contract support, or maintenance, performed for customers who license its products. The Company recognizes revenue in accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition" and SOP No. 98-9, "Modifications of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions".

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, collection of the receivable is probable and payment is due within twelve months. Revenues from license agreements requiring the delivery of significant unspecified software products in the future are accounted for as subscriptions and, accordingly, are recognized ratably over the term of the agreement from the first instance of product delivery.

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 to customers. Revenues from the sale of Web server certificates are also recognized ratably over the term of the certificate, which is typically one to two years.

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.

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The Company uses the percentage-of-completion method to account for fixed-price custom development contracts. Under this method, the Company recognizes 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. The total project cost estimates are reviewed on a regular basis.

Cost of revenues

Cost of licenses includes the cost of product media, product packaging, documentation, other production costs and third-party royalties. Amortization of purchased products rights acquired as part of the acquisition of enCommerce has been excluded from cost of license revenues and instead is included in operating expenses.

Cost of services and maintenance consists primarily of salaries, benefits and allocated overhead costs related to consulting, training and customer support personnel, as well as amounts paid to third-party consulting firms for those services.

Research and development costs

Research and development costs are expensed as incurred. In applying 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 eligible for capitalization have been insignificant. To date, the Company has not capitalized any internal software development costs and has capitalized, in limited circumstances, costs of software development by third-party contractors.

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are maintained with a bank and a brokerage institution.

Marketable and other investments

The Company maintains marketable investments mainly in a strategic cash management account. This account is invested primarily in highly rated corporate securities, in securities guaranteed by the U.S. government or its agencies and highly rated municipal bonds, primarily with a remaining maturity of not more than 12 months. The Company has the intent and ability to hold all of these investments until maturity. Therefore, all such investments are classified as held to maturity investments, and are stated at amortized cost. At December 31, 2000 and 2001, the amortized cost of the Company's held to maturity investments approximated fair value. Based on contractual maturities, these marketable investments were classified in either current or long-term assets.

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In addition, the Company has invested in an equity instrument of a publicly traded technology company. This investment has been classified as available for sale, in current assets, and is carried at fair value based on quoted market prices. This instrument is considered to be short-term in nature as it is management's intention to dispose of this investment within the year. Realized gains and losses on disposition of available for sale marketable investments are included in other income in the results of operations. Unrealized gains and losses are included in other comprehensive income, except that the portion designated as being hedged in a fair value hedge is recognized in other income during the period of the hedge.

The Company has a policy that allows for the use of hedges on equity investments in publicly traded companies. In 2000, the Company entered into and designated such a hedge on the investment classified as available for sale, in the form of a call option hedge that enabled the Company to receive, from the investee, a combination of cash and additional in-kind equity securities equal to any deficiency between the original cost basis of the equity securities of $3,400 and the aggregate of the market values on the dates that the securities were made available for sale on the applicable public equity market. This option was accounted for as a fair value hedge in accordance with SFAS No. 133. In 2001, the Company exercised the call option and, as a result, received additional common stock of the investee valued then at $1,700.

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137 and SFAS No. 138, which establishes accounting and reporting standards for derivative financial instruments and hedging activities and requires the recognition of all derivatives as either assets or liabilities on the balance sheet and measurement at fair value. The adoption of SFAS No. 133 did not have a significant impact on the Company's financial position or results of operations because the Company is engaged in limited derivatives use. In implementing SFAS No. 133, the Company reclassified both the unrealized loss on an investment and the offsetting unrealized gain on a related hedge of $1,500 at January 1, 2001 from accumulated other comprehensive income to results of operations with zero net effect on earnings.

The Company holds equity securities stated at cost, which represent long-term investments in private companies made for business and strategic alliance purposes. The Company's ownership share in these companies ranges from 1% to 10% of voting share capital. Consistent with the Company's policies for other long-lived assets, the carrying value of these long-term strategic investments is periodically reviewed for impairment based upon such quantitative measures as expected undiscounted cash flows as well as qualitative factors. In addition, the Strategic Investment Committee of the Board of Directors monitors and assesses the ongoing operating performance of the underlying companies for evidence of impairment. In 2001, the Company recorded impairments totaling $10,800 and a realized gain on disposition of

(in thousands, except share and per share data, unless indicated otherwise)

$1,600 related to these investments. These investments have a remaining carrying value of $4,555 at December 31, 2001.

The Company recorded revenues representing less than 6%, 6% and 4% of total revenues in December 31, 1999, 2000 and 2001, respectively, with respect to arms-length transactions with companies in which it had made strategic equity investments recorded at cost.

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Accounts receivable and other current receivables

The Company's customer base consists primarily of large, well-established companies or government agencies. Five customers accounted for approximately 24% and 43% of accounts receivable as of December 31, 2000 and 2001, respectively. No individual customer accounted for more than 10% of accounts receivable at December 31, 2000. One customer accounted for 16% of accounts receivable at December 31, 2001. Accounts receivable at December 31, 2001 also include an accrued unbilled receivable of $3,700 that will not be billed until April 2002. The Company performs ongoing credit evaluations of its customers and, generally, does not require collateral from its customers to support accounts receivable. The Company maintains an allowance for potential losses due to credit risk, and believes that the allowance for losses is adequate. The following table summarizes the changes in the allowance for doubtful accounts:

<TABLE>
<CAPTION>

	December 31, 1999	December 31, 2000	December 31, 2001
<S>	<C>	<C>	<C>
Allowance for doubtful accounts, beginning of year	$ 753	$ 703	$ 2,932
Additional provision:			
Doubtful accounts............................	426	1,690	8,508
Arising from acquisitions.....................	--	1,278	--
Amounts written-off, net of recoveries...........	(476)	(739)	(7,531)
Allowance for doubtful accounts, end of year......	$ 703	$2,932	$ 3,909

</TABLE>

Other current receivables include federal income tax and other tax refunds of $1,421 and $758 as well as work-in-process relating to time-and-materials services contracts of $1,225 and $490 at December 31, 2000 and 2001, respectively.

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.

Recoverability of property, equipment and other long-lived assets is periodically reviewed for impairment on the basis of undiscounted cash flows.

If the expected cash flows are less than the asset's carrying value, the asset is written down to its fair value.

Goodwill, purchased product rights and other purchased intangibles

Acquisition-related intangible assets are amortized using the straight-line method over their estimated useful lives. The expected useful lives of goodwill, purchased product rights and other purchased intangibles is three to five years. These assets are reviewed for impairment whenever events indicate that their carrying amount may not be recoverable. In such reviews, the related undiscounted cash flows expected are compared with their carrying values to determine if a write-down to fair value is required.

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Other long-term assets

Other long-term assets consist primarily of licenses of technology, used by the Company to provide services, and capitalized localization costs. These costs of $2,752 and $1,642 are amortized on a straight-line basis over three to four years and are stated net of accumulated amortization of $520 and $499 at December 31, 2000 and 2001, respectively. Other long-term assets also include long-term rent deposits of $279 at December 31, 2001.

Advertising expense

Advertising costs are charged to expense as incurred and totaled $1,990, $3,282 and $7,101 in 1999, 2000 and 2001, respectively. Expense in 2001 includes $1,311 relating to restructuring and special non-recurring charges.

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.

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. 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 11 the required pro forma effect on net income (loss) and earnings per share.

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 the period. 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 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.

Financial instruments and concentration of credit risk

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments. Marketable investments

<PAGE>

consist of publicly traded debt and equity securities. The amortized cost basis of publicly traded debt securities classified as held to maturity approximates fair value due to the short-term nature of these instruments. Marketable investments classified as available for sale are recorded at market value based on specific identification.

Financial instruments that potentially subject the Company to interest rate and credit risk consist principally of cash equivalents, marketable 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 marketable 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.

Recent accounting pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") approved for issuance SFAS No. 141, "Business Combinations". This standard eliminates the pooling method of accounting for business combinations initiated after June 30, 2001. In addition, SFAS No. 141 addresses the accounting for intangible assets and goodwill acquired in a business combination. This portion of SFAS No. 141 is effective for business combinations completed after June 30, 2001. The Company does not expect SFAS No. 141 to have a material effect on the Company's financial position or results of operations.

Also in June 2001, the FASB approved for issuance SFAS No. 142, "Goodwill and Intangible Assets", which revises the accounting for purchased goodwill and intangible assets. Under SFAS No. 142, goodwill and intangible assets with indefinite lives will no longer be amortized, but will be tested for impairment annually and also in the event of an impairment indicator. Adoption of SFAS No. 142 is effective for the Company beginning January 1, 2002, and will reduce amortization expense thereafter. The Company is still in the process of evaluating the complete impact of the provisions of SFAS No. 142 with respect to the carrying values of goodwill and other purchased intangibles.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for the Company beginning

January 1, 2002 and supersedes SFAS No. 121, "Accounting for the Impairment of Long- Lived Assets and for Long-Lived Assets to be Disposed of". SFAS No. 144 provides a single method of accounting for long-lived assets to be disposed of and retains requirements found in SFAS No. 121 with regard to the impairment of long-lived assets. The Company is in the process of evaluating the impact of the provisions of SFAS No. 144.

Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, 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 significantly from those estimates.

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ENTRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(In thousands, except share and per share data, unless indicated otherwise)

Reclassifications

Certain reclassifications have been made to prior years' balances in order to conform to fiscal 2001 presentation.

3. Restructuring and Other Special Non-recurring Charges

On June 4, 2001, the Company announced a Board-approved restructuring program to refocus on the most significant market opportunities and to reduce operating costs due to the macroeconomic factors that were negatively affecting technology investment in the market. The restructuring program includes a workforce reduction, consolidation of excess facilities, and discontinuance of non-core products and programs.

As a result of the restructuring and other related special non-recurring charges and the impact of the macroeconomic conditions on the Company and its global base of customers, the Company recognized restructuring and special non-recurring charges of $433,600 in the second fiscal quarter of 2001, with subsequent adjustments in the third and fourth quarter of $1,400, as outlined below (table in millions):

<TABLE>
<CAPTION>

	Accrued Restructuring Charges	Other Special Non-recurring Charges	Total Special Charges through June 30, 2001	Adjustments Recorded July 1, 2001 to December 31, 2001	Total Special Charges through December 31, 2001
<S>	<C>	<C>	<C>	<C>	<C>
Workforce reduction and other personnel costs....................	$13.5	$ 4.1	$ 17.6	$ 0.3	$ 17.9
Consolidation of excess facilities........................	38.2	13.5	51.7	0.5	52.2

(In thousands, except share and per share data, unless indicated otherwise)

Discontinuance of non-core products and programs.............	13.8	6.4	20.2	(0.8)	19.4
Impairment of goodwill, purchased product rights and other intangible purchased assets..................	--	327.0	327.0	--	327.0
Write-down of long-term strategic investments........................	--	6.1	6.1	4.7	10.8
Bad debt write-offs and additional provisions to the allowance for doubtful accounts.................	--	11.0	11.0	(3.3)	7.7
Total..............................	$65.5	$368.1	$433.6	$ 1.4	$435.0

</TABLE>

The following paragraphs provide information relating to the restructuring programs that resulted in the total special charges listed above, which were recognized in 2001.

Workforce reduction and other personnel costs

The restructuring program resulted in the reduction of approximately 400 regular full-time employees across the Company, or 33% of the total workforce. The reduction was across all major geographic locations, all business programs, and all functions within the organization. The reductions were more heavily weighted in sales and marketing, non-core business programs such as

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Entrust.Net(TM) and Entrust@YourService(TM) and secondary geographies such as Asia Pacific and Latin America. The majority of the affected employees were notified of their termination in the second quarter, and the workforce portion of the restructuring was largely completed by the end of the fourth quarter of 2001. The Company recorded a workforce reduction charge of $13,400 primarily related to severance costs, fringe benefits due to severed employees and outplacement services.

Other special non-recurring charges included employee relocation expenses, hiring fees and signing bonuses totaling $4,500, which were recorded primarily in general and administrative expenses.

Consolidation of excess facilities

The Company recorded restructuring costs of $39,200 relating to the consolidation of excess facilities. The consolidation of excess facilities includes a total of eight offices in seven cities throughout the world. The majority (approximately 85%) of the costs are related to the 75,000 square foot facility in Santa Clara, CA. The costs for consolidation of excess facilities are related primarily to non-cancelable lease costs offset by estimated sublet recoveries. These costs are payable contractually over up to 10 years, which is the lease term of the Santa Clara facility. However, the Company will be evaluating ongoing possibilities to settle this obligation in the most economic manner. Therefore, it has been classified as current in nature.

In addition to the $39,200 of restructuring costs related to excess facilities, an additional $13,000 of facilities-related costs were recorded as a special non-recurring charge as a result of impairment of leasehold improvements and other property and equipment that was disposed of or removed from operations as a result of the consolidation of excess facilities, and were included in the write-down of leaseholds and other long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". These assets were identified as assets to be disposed of that would have no future benefit to the Company. Therefore, these assets were reported at the lower of carrying amount and fair value, less costs of disposition. The majority of these costs are non-cash charges.

Discontinuance of non-core products and programs

In support of the restructuring objective to reduce costs and focus the Company on core technologies, the Company discontinued several non-core products and programs. The discontinued products and programs, totaling $12,900, are primarily related to the Company's services business initiatives and to certain desktop applications for which the Company has not achieved the growth and profitability targets in line with its core products and financial objectives. The restructuring charge also includes costs related to the exit of certain marketing events and programs that had been committed to prior to the restructuring, but which are being cancelled due to the change in corporate focus. The cash outflow related to the majority of these items is expected to be substantially incurred by the end of the first quarter of fiscal 2002. Accrued estimated minimum royalty obligations related to certain discontinued products of $4,200 are payable contractually over the next three years.

The discontinuance of products and programs, and expenses related to rebranding of the Company and its products, resulted in $6,500 of special non-recurring charges, which was primarily recorded in sales and marketing expenses.

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Summary of accrued restructuring charges

The following table is a summary of the accrued restructuring charges as at December 31, 2001 (table in millions):

<TABLE>
<CAPTION>

<S>	Total Charges Accrued at June 30, 2001 <C>	Cash Payments <C>	Adjustments <C>	Accrued Restructuring Charges at December 31, 2001 <C>
Workforce reduction and other personnel costs	$13.5	$11.1	$(0.1)	$ 2.3
Consolidation of excess facilities..........	38.2	4.6	1.0	34.6
Discontinuance of non-core products and programs................................	13.8	2.8	(0.9)	10.1
Total.......................................	$65.5	$18.5	$ --	$47.0

</TABLE>

Impairment of goodwill, purchased product rights and other intangible purchased assets

Due to the decline in the Company's market capitalization, the decline in current overall business conditions within its target market segments and the restructuring program, the Company completed an assessment of the recoverability of goodwill on its balance sheet, in accordance with APB Opinion No. 17 and the relevant guidance in SFAS No. 121. This impairment analysis indicated that the carrying amount of the goodwill, purchased product rights and other purchased intangible assets of the enCommerce and r/3/ acquisitions will not be recovered through the estimated undiscounted future cash flows. The Company then completed an analysis of the discounted future cash flows from the enCommerce acquisition and the r/3/ acquisition. The result of this analysis is a charge of $327,000 related to the impairment of goodwill, purchased product rights and other purchased intangible assets. Goodwill, purchased product rights and other purchased intangibles from the enCommerce acquisition account for $325,400 of the impairment. This acquisition has failed to meet the financial planning forecasts made at the time of the acquisition due largely to the change in the economic conditions since the time of the acquisition and in part due to additional product development and maintenance costs related to the GetAccess(TM) product that are now estimated to be required in the future and were not known at the time of the acquisition. The remaining $1,600 of goodwill impairment is the result of the r/3/ acquisition, which was impacted primarily by the workforce restructuring.

Revenues from the enCommerce products and services are estimated to have contributed approximately 20% to 25% of total revenues of the Company in 2001, but are estimated to have generated operating losses since acquisition. The results of operations related to the r/3/ acquisition were not significant.

Write-down of long-term strategic investments

The Company assesses the recoverability of the carrying value of its strategic investments on a regular basis. Factors that the Company considers important that could trigger impairment include, but are not limited to, the likelihood that the company in which the Company invested would have insufficient cash flows to operate for the next twelve months, significant changes in such company's operating performance or business model, and changes in overall market conditions. The Company recorded charges related to other than temporary declines in the value of certain strategic investments of $10,800 in 2001. The Company also recorded a gain on the disposition of a long-term strategic investment of $1,600 in 2001.

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Bad debt write-offs and additional provisions to the allowance for doubtful accounts.

Due to the changes in the economic environment and the impact of the restructuring program, particularly the curtailment of certain products and presence in certain geographies, the Company recorded bad debt write-offs and additional provisions to the allowance for doubtful accounts totaling $7,700 in the year ended December 31, 2001, which was recorded primarily in sales and marketing expenses.

4. Acquisitions and Related Intangible Assets

On June 26, 2000, the Company completed the acquisition of all of the outstanding capital stock, options and warrants of enCommerce, a global portal infrastructure company and a provider of software and services designed to manage electronic business relationships, based in Santa Clara, California, with subsidiaries in England and Japan, in exchange for an aggregate of 8,548,177 shares of the Company's Common stock and options and warrants to purchase 1,701,823 shares of Common stock, with an aggregate fair value of $482,272. The Company also incurred approximately $23,246 in acquisition-related costs. The enCommerce acquisition was accounted for under the purchase method of accounting and, accordingly, the purchase price of approximately $505,518 was allocated to the fair value of the tangible and intangible assets and liabilities acquired, with the remaining $449,640 allocated to purchased product rights, goodwill and other purchased intangibles. Also, in connection with this acquisition, an independent appraisal was done of the intangible assets, resulting in $29,614 of the purchase price being allocated to in-process research and development that had not yet reached technological feasibility and had no alternative future use. This in-process research and development was expensed in June 2000. Amortization of $57,196 and $59,473 was recorded in 2000 and 2001, respectively, related to goodwill and other purchased intangible assets arising from this acquisition. In addition, the Company recorded an impairment of $325,379 related to the goodwill, purchased product rights and other purchased intangibles from this acquisition in 2001.

On March 14, 2000, the Company completed the acquisition of all of the outstanding stock of CygnaCom, a Virginia corporation, that delivers information technology products and services, with expertise in public key infrastructure, cryptographic technologies, security engineering and systems integration and development. All of the outstanding common shares of CygnaCom were exchanged, in the aggregate, for a purchase price of $16,000 in cash and $555 in assumed net liabilities and acquisition expenses. The acquisition was accounted for under the purchase method of accounting and, accordingly, the purchase price was allocated to the fair value of the assets and liabilities acquired, with the remainder allocated to goodwill. Goodwill of $16,555 was recorded as a result of this acquisition and, accordingly, $4,600 and $5,520 of goodwill amortization was recorded in 2000 and 2001, respectively.

The results of operations of the businesses acquired in 2000 have been included in the Company's financial statements commencing from the respective effective acquisition dates for accounting purposes. The following unaudited pro forma data summarize the combined results of operations of Entrust, CygnaCom and enCommerce for the years ended December 31, 1999 and 2000, respectively, as if the acquisitions had taken place as of the beginning of the respective periods, and, accordingly, exclude the $29,614 write-off of in-process research and development, a non-recurring charge directly attributable to the acquisition of enCommerce and include a full period's amortization of goodwill and other purchased intangibles in each period shown. Also, the per share

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data, in each period shown, includes the Common shares of the Company issued in connection with the acquisition of enCommerce, but excludes options and warrants issued as their effect is antidilutive.

<TABLE>
<CAPTION>

Pro forma
Year Ended December 31,

	1999	2000
Revenues	$ 102,320	$ 159,975
Net loss	$(124,916)	$(124,596)
Net loss per basic and diluted share	$ (2.38)	$ (2.03)

In addition, on June 8, 1998, the Company acquired r/3/, 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 of the outstanding shares of r/3/ 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) and approximately $994 in assumed net liabilities and acquisition costs. This acquisition was 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 and, accordingly, the $20,208 was included as an expense in the consolidated statement of operations in 1998. The Company recorded goodwill of $4,016 as a result of this acquisition and, accordingly, has recorded $712, $907 and $470 of amortization with respect to the goodwill in 1999, 2000 and 2001, respectively. In addition, the Company recorded an impairment of $1,574 to the goodwill related to this acquisition in 2001.

The primary components of acquisition-related intangible assets, including goodwill and purchased product rights, are as follows:

	December 31	
	2000	2001
Goodwill	$421,736	$ 365,127
Less: accumulated amortization	(56,609)	(56,144)
Less: impairment of carrying value	--	(302,547)
Goodwill, net	$365,127	$ 6,436
Other purchased intangibles:		
Customer list	$ 3,360	$ 2,800
Assembled work force	23,105	19,254
	26,465	22,054
Less: accumulated amortization	(4,411)	(5,994)
Less: impairment of carrying value	--	(11,310)
Other purchased intangibles, net	$ 22,054	$ 4,750
Purchased product rights	$ 22,010	$ 19,259
Less: accumulated amortization	(2,751)	(3,325)
Less: impairment of carrying value	--	(13,096)
Purchased product rights, net	$ 19,259	$ 2,838

(In thousands, except share and per share data, unless indicated otherwise)

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5. Investments

The Company's investments consist of the following:

<TABLE>
<CAPTION>

<S>	December 31, 2000 <C>	December 31, 2001 <C>
Short-term marketable investments:		
Held to maturity, at amortized cost:		
U.S. government agency debt securities	$ 29,707	$ 13,073
Corporate debt securities	170,339	93,715
	200,046	106,788
Available for sale equity securities, at cost	3,400	1,720
Unrealized loss	(1,457)	(220)
At market	1,943	1,500
Receivable from gross-up provision, at cost	--	--
Unrealized gain	1,457	--
At market	1,457	--
Total	$203,446	$108,288
Long-term investments:		
Marketable, held to maturity, at amortized cost:		
U.S. government agency debt securities	$ --	$ 2,776
Corporate debt securities	60	6,262
Total long-term marketable	$ 60	$ 9,038
Strategic:		
Other equity securities, at cost	$ 16,615	$ 4,555
Advances to strategic equity investee, at cost	--	521
Total long-term strategic	$ 16,615	$ 5,076

</TABLE>

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As of December 31, 2000, the Company had recorded an aggregate unrealized loss, included in other comprehensive income (loss), on the marketable equity securities recorded at market, and classified as available for sale, in the amount of $1,457. However, this unrealized loss was completely offset by an aggregate unrealized gain recorded as a result of a "gross-up" provision indexed to the same equity securities, which represented a call option hedge to December 2001 that enabled the Company to receive a combination of cash and additional in-kind equity securities equal to the deficiency between the original cost basis of the equity securities and the aggregate of the market values on the dates that the securities were made available for sale on the applicable public equity market. This investment arose as a result of a non-monetary revenue transaction in the normal course of business, in 2000, in which shares in the customer's common stock were received as an in-kind payment in lieu of cash. Upon settlement of the hedge and the sale of the related securities in 2001, the reversal of the unrealized gain on the hedge and loss on the investment again were offsetting as reclassification adjustments to other comprehensive income.

As of December 31, 2001, the Company recorded an aggregate unrealized loss, included in other comprehensive income, on the remaining balance of marketable equity securities, classified as available for sale, in the amount of $220, in order to adjust this investment to market value.

6. Property and Equipment

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

<TABLE>
<CAPTION>

	December 31, 2000	December 31, 2001
<S>	<C>	<C>
Computer and telecom equipment................	$11,634	$ 9,535
Furniture and fixtures........................	6,411	3,898
Leasehold improvements........................	8,411	8,760
Internal-use software.........................	4,031	4,394
Equipment under capital lease.................	107	92
	30,594	26,679
Less: accumulated depreciation and amortization	(7,726)	(9,819)
Subtotal......................................	22,868	16,860
Assets to be placed in service................	2,300	530
Total property and equipment, net.............	$25,168	$17,390

</TABLE>

7. Accrued Liabilities

Accrued liabilities consist of the following:

<TABLE>
<CAPTION>

	December 31, 2000	December 31, 2001
<S>	<C>	<C>
Payroll and related benefits.......................	$10,360	$ 9,383
Withholding taxes payable for stock options exercised	6,472	50
Other..	5,479	5,688
	$22,311	$15,121

(In thousands, except share and per share data, unless indicated otherwise)

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8. Income Taxes

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

	Year Ended December 31, 1999	2000	2001
Income (loss) before income taxes:			
United States	$ 4,271	$(85,876)	$(519,062)
Foreign	3,448	5,953	(22,782)
	$ 7,719	$(79,923)	$(541,844)
(Provision) benefit for income taxes:			
Current:			
Federal	$ 21	$ --	$ --
State and local	(70)	--	(147)
Foreign	(176)	(1,421)	(1,681)
	(225)	(1,421)	(1,828)
Deferred:			
Federal	(360)	--	--
State and local	(189)	--	--
Foreign	(318)	--	--
	(867)	--	--
Federal and State tax equivalent related to non-qualified option exercises (credited to additional paid-in capital)	(708)	(916)	--
Total provision for income taxes	$(1,800)	$ (2,337)	$ (1,828)

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

	Year Ended December 31, 1999	2000	2001
Income tax (provision) benefit at federal statutory rate	$ (2,624)	$ 27,174	$ 184,227

(In thousands, except share and per share data, unless indicated otherwise)

State and local taxes, net of federal benefits	(171)	(65)	5,599
Foreign earnings benefit (tax) at different rate	(226)	(38)	1,975
Acquired in-process research and development	--	(10,069)	--
Amortization and impairment of goodwill and other purchased intangibles	(242)	(19,755)	(131,546)
Foreign research and development tax credits	1,933	2,065	1,719
Tax write-offs of intercompany investment in, advances to and operations of foreign subsidiary	10,472	2,602	--
Other	3,556	(2,222)	1,246
Valuation allowances on future benefits of tax losses and credits available	(14,498)	(2,029)	(65,048)
Total provision for income taxes	$ (1,800)	$ (2,337)	$ (1,828)

</TABLE>

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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,	
	2000	2001
<S>	<C>	<C>
Current asset:		
Accrued restructuring charges not currently deductible	$ --	$ 17,855
Other allowances and accruals not currently deductible	1,540	1,300
Deferred income currently taxable	1,220	183
Total	2,760	19,338
Non-current asset (liability):		
Deferred depreciation and amortization for tax purposes	4,212	4,864
Write-downs of long-lived assets and strategic investments not currently deductible	--	9,242
United States and Foreign NOL and tax credit carry-forwards	36,160	76,182
Total	40,372	90,288
Total deferred tax asset	43,132	109,626
Valuation allowance	(43,132)	(109,626)
Net deferred tax asset	$ --	$ --

</TABLE>

United States and foreign NOL and tax credit carry-forwards include $12,402 and $13,808 at December 31, 2000 and December 31, 2001, respectively, related to NOL carry-forwards resulting from the exercise in 2000 and 2001 of non-qualified stock options with a corresponding amount included in the valuation allowance, the tax benefit of which, when recognized, will be credited to additional paid-in capital. In addition, United States and foreign NOL and tax credit carry-forwards include NOL carry-forwards of approximately $12,034 from enCommerce at the date of acquisition, with a corresponding amount included in the valuation allowance, the tax benefit of which, when recognized, will be first credited to the applicable goodwill and other intangibles arising from the acquisition and then to income tax expense. The annual utilization of acquired NOL carry-forwards may be limited by certain historical ownership changes at enCommerce.

(In thousands, except share and per share data, unless indicated otherwise)

As at December 31, 2001, the Company has available the following income tax carry-forwards to reduce future income tax liabilities:

<TABLE>
<CAPTION>

<S>	Amount <C>	Period Expiring <C>
Net operating losses (tax benefits):		
United States	$55,642	2012-2021
Foreign	14,139	2005-2008
	69,781	
Foreign research and development tax credits.	6,401	2007-2011
	$76,182	

</TABLE>

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9. Long-term Liabilities

Long-term liabilities includes notes payable of $477 and $266 at December 31, 2000 and 2001, respectively, and capital lease obligations of $98 and $65 at December 31, 2000 and 2001, respectively, assumed as a result of the acquisition of enCommerce in 2000. These notes were entered into by enCommerce to finance the purchase of fixed assets, and will be retired by January 2003. The total future minimum lease payments of $78 on capital lease obligations are payable through May 2004. As of December 31, 2001, the current portions of $223 and $33, on the notes and lease obligations, respectively, have been included in accrued liabilities. These long-term liabilities bear interest at rates ranging from 8% to 14% and are collateralized by the financed assets.

The remaining balance of long-term liabilities consists primary of long-term deposits and deferred rent assumed from enCommerce.

10. Capital Stock

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.

Concurrent with the closing of the follow-on offering on February 29, 2000 and March 2, 2000, the remaining 5,157,289 shares of Special Voting stock and Exchangeable shares were exchanged into an equivalent number of shares of Common stock.

On January 26, 2001, the Company's Board of Directors adopted, and recommended to the stockholders to approve, articles of amendment to the Company's charter to (i) increase the total number of authorized shares of Common stock, $0.01 par value per share, from 100,000,000 shares to 250,000,000 shares and (ii) eliminate the Special Voting stock from the Company's authorized capital and delete all references to Special Voting stock contained in the Company's charter. The stockholders adopted this proposal at their annual meeting on April 27, 2001.

As of December 31, 2001, there were no authorized, issued or outstanding shares of the Company's Series A, Redeemable Series A or Series B common stock.

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 250,000,000 shares of Common stock.

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

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restrictions, including voting rights, dividend rights, conversion rights and liquidation preferences, as shall be determined by the Board of Directors. As of December 31, 2001, the Company had not issued any shares of Preferred stock.

11. Stock Options and Warrants

Stock Option Plans

In 2000, the Company's Board of Directors increased the number of authorized shares under the 1999 Non-Officer Employee Stock Incentive Plan (the "1999 Plan") to 7,600,000 shares. Also in 2000, the Company's Board of Directors approved an increase to 14,600,000 as the total number of authorized shares available for issuance under the 1996 Stock Incentive Plan (the "1996 Plan") applicable to the Company's full-time employees, officers, directors and consultants, plus an annual increase to be added on each of January 1, 2001 and January 1, 2002, equal to the lower of (i) 5% of the total number of outstanding shares of Common stock on such date or (ii) a lesser amount determined by the Board; provided, however, that the maximum number of shares of Common stock available for issuance under the 1996 Plan is 26,000,000 shares. In addition, concurrent with the acquisition of enCommerce, the Company's Board of Directors approved the assumption of the enCommerce 1997 Stock Option Plan and the enCommerce 1997B Stock Option Plan (collectively, the "enCommerce 1997 Plans"), and all outstanding warrants of enCommerce, and authorized an aggregate of 1,701,823 shares for issuance thereunder. As of January 1, 2001, the Company reserved 3,137,101 shares of Common stock for issuance under the 1996 Plan, as a result of the annual increase provision described above. In April 2001, the Board of Directors increased the Common stock reserved for issuance under the 1999 Plan by an additional 2,000,000 shares. On April 22, 2001, the Company entered into a Special Nonstatutory Stock Option Agreement (the "Special Plan") whereby an option was granted to acquire 2,000,000 shares of Common stock. Accordingly, the Company has reserved 2,000,000 shares of Common stock for issuance under the Special Plan. The options under the 1996 Plan, 1999 Plan, Special Plan and enCommerce 1997 Plan are granted at the then-current fair market value of the Common stock 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 generally expire on the tenth anniversary of the grant date or upon termination of employment.

On June 19, 2001, the Company announced a voluntary stock option exchange program for its eligible employees. Under the program, Company employees were offered the opportunity to cancel certain outstanding stock options to purchase shares of Common stock previously granted to them. In exchange these employees will receive new options that will be granted under the 1999 Plan. The number of shares subject to the new options to be granted to each eligible employee will depend on the exercise price of the options tendered by the eligible employee and accepted for exchange. If the tendered options carry an exercise price of less than $50 per share, then the number of shares subject to new options will be equal to the number of shares subject to the options cancelled. If the tendered options carry an exercise price of $50 per share or more, then the number of shares subject to new options will be equal to one-half (1/2) the number of shares subject to the options cancelled. The new options are to be granted at a future date, at least six months and one day from the cancellation date of July 30, 2001. The exercise price of these new options will be equal to the fair market value of the Company's Common stock on the date of grant, which is not expected to be later than January 31, 2002. The Company has provided no promise to compensate the employees for any increases in the market price of the stock after the cancellation date. In addition, based on the July 30, 2001

<PAGE>

cancellation date, those employees that choose to participate in the offer will also be required to tender all options granted since January 30, 2001. New options to be issued will have terms and conditions that are substantially the same as those of the cancelled options. This voluntary exchange program complies with FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" and related FASB EITF guidance and, accordingly, is not expected to result in any variable accounting compensation charges. Members of the Company's Board of Directors and executive officers were not eligible to participate in this program.

Pursuant to the terms and conditions of the Offer to Exchange, a total of 592 eligible optionees participated in the option exchange program. The Company accepted for cancellation options to purchase 5,480,261 shares of its Common stock. Subject to the terms and conditions of the Offer to Exchange, the Company subsequently granted new options to purchase 5,033,822 shares of its Common stock on January 31, 2002, at an exercise price of $6.75 per share, in exchange for the options surrendered and accepted under the program.

In connection with acquisitions in 2000, the Company assumed options to purchase 1,542,131 shares of Common stock held by employees and a warrant to purchase 159,692 shares of Common stock held by a non-employee third party. The fair values of these options and warrants were included in the total purchase price of the acquired businesses.

(In thousands, except share and per share data, unless indicated otherwise)

A summary of the activity under the 1996 Plan, 1999 Plan, Special Plan and enCommerce 1997 Plans is set forth below:

<TABLE>
<CAPTION>

	Options and Warrants Outstanding		
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>
Balance at December 31, 1998	1,560,228	8,020,926	$ 4.13
Authorized	2,500,000	--	
Granted	(2,531,330)	2,531,330	32.85
Forfeited	496,951	(496,951)	11.35
Exercised	--	(2,636,482)	3.28
Balance at December 31, 1999	2,025,849	7,418,823	13.76
Authorized	11,801,823	--	
Granted	(6,158,836)	6,158,836	39.76
Assumed in acquisition	(1,701,823)	1,701,823	7.13
Forfeited	357,661	(357,661)	35.70
Exercised	--	(1,701,659)	3.77
Balance at December 31, 2000	6,324,674	13,220,162	25.68
Authorized	7,137,101	--	
Granted	(9,470,721)	9,470,721	9.55
Cancelled under voluntary stock option exchange program	5,480,261	(5,480,261)	33.82
Forfeited	3,327,658	(3,327,658)	27.28
Exercised	--	(1,422,735)	2.20
Balance at December 31, 2001	12,798,973	12,460,229	11.98

</TABLE>

The number of outstanding options and warrants exercisable into common stock was 3,441,860, 4,142,586 and 5,414,036 at December 31, 1999, 2000 and 2001, respectively. The weighted average exercise price of these exercisable outstanding options was $3.16, $8.73 and $11.57, respectively.

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The following table summarizes information concerning currently outstanding options and warrants as at December 31, 2001:

<TABLE>
<CAPTION>

Options and Warrants Outstanding	Options and Warrants Exercisable

Range of Exercise Prices	Number of Options and Warrants Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options and Warrants Exercisable	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$0.12 to $2.67.......	1,904,871	4.5 years	$ 2.04	1,842,864	$ 2.04
$3.25 to $4.99.......	324,942	9.6 years	3.99	7,101	4.05
$5.00 to $7.30.......	6,201,948	8.5 years	6.57	1,933,900	6.60
$7.46 to $10.74......	101,925	9.2 years	8.78	9,340	8.69
$11.00 to $16.38.....	846,346	7.8 years	13.66	256,853	14.00
$16.50 to $24.81.....	1,627,242	7.5 years	19.45	675,828	20.97
$25.13 to $36.65.....	698,133	8.5 years	27.31	318,984	27.18
$39.00 to $55.13.....	649,333	7.7 years	48.19	322,642	48.33
$58.19 to $82.75.....	47,862	8.2 years	63.46	20,604	63.11
$89.94 to $112.50....	57,627	8.2 years	102.10	25,920	102.34
	12,460,229		11.98	5,414,036	11.57

</TABLE>

Employee Stock Purchase Plan

The Company's 1998 Employee Stock Purchase Plan (the "Purchase Plan") authorizes 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, as amended, the price per share paid by each participant on the last day of an offering period is an amount equal to 85% of the lesser of the fair market value per share of the Common stock on the first business day of an offering period or the last business day of such period.

At the Annual Meeting of Stockholders held April 27, 2001, the stockholders of the Company approved an amendment to the Purchase Plan whereby the Common stock reserved for issuance under the 1998 Plan was increased to 1,000,000 shares.

Termination of the Purchase Plan is at the discretion of the Board of Directors. Upon termination of the Purchase Plan, all amounts in the accounts of participating employees will be promptly refunded.

Stock-based Compensation

On April 22, 2001, the Company issued a warrant to purchase 258,333 shares of the Company's Common stock, with an exercise price of $6.87 per share and expiration date of April 22, 2004, to a consultant of the Company. Also, in 2000 and 2001, the Company granted non-employee options to purchase 3,000 and 9,500 shares of Common stock at $44.00 and $8.20 per share over 10 years. The fair value of these options and warrants of $1,092 was recorded as an expense in 2001, when they vested.

<PAGE>

In addition, the Company recorded unearned compensation of $102 in 2000 and $6 in 2001 for these non-employee options, which is being amortized over the vesting period of four years from the date of grant. Accordingly, $28 and $25 was amortized into compensation expense for 2000 and 2001, respectively.

The Company applies APB Opinion No. 25 and related interpretations in accounting for its employee stock-based compensation plans. Accordingly, compensation expense was recognized for its stock-based compensation plans in 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 recorded unearned compensation of $784 for 1998. This amount is being amortized over the vesting period of four years from the date of grant, with $196 amortized into compensation expense for each of the years 1999, 2000 and 2001. For all other options granted to employees in the 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 1996 Plan, 1999 Plan, Special Plan and enCommerce 1997 Plans been determined based on the fair value of the options at the grant date for awards to employees under these plans, consistent with the methodology prescribed under SFAS No. 123, the Company's net loss and net loss per share would have been as follows, on a pro forma basis.

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Net income (loss), as reported....................	$ 5,919	$ (82,260)	$(543,672)
Estimated additional stock based compensation costs under SFAS No. 123..............................	(13,464)	(95,200)	(49,141)
Pro forma net loss................................	$ (7,545)	$(177,460)	$(592,813)
Pro forma basic and diluted net loss per share.....	$ (0.17)	$ (3.11)	$ (9.35)

</TABLE>

In the pro forma calculations, the weighted average fair value for stock options granted during 1999, 2000 and 2001 was estimated at $24.97, $34.43 and $8.09 per option, respectively. The fair values of options 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,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Expected option life, in years	5	5	5
Risk free interest rate.......	5.69%	6.11%	4.79%
Dividend yield................	--	--	--
Volatility....................	98%	127%	119%

</TABLE>

12. Net Income (Loss) per Share

For the years ended December 31, 2000 and 2001, the antidilutive effect excluded from the diluted net loss per share computation due to the exchangeable Special Voting stock outstanding was 644,661 and nil shares, respectively, and due to options to purchase Common stock was 4,783,877 and 1,984,917 shares, respectively.

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ENTRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(In thousands, except share and per share data, unless indicated otherwise)

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

	December 31, 1999	December 31, 2000	December 31, 2001
Net income (loss) available to common shareholders	$ 5,919	$ (82,260)	$ (543,672)
Weighted average common shares outstanding:			
Basic:			
Basic weighted average common shares outstanding	43,846,922	57,003,479	63,410,786
Basic net income (loss) per share	$ 0.13	$ (1.44)	$ (8.57)
Diluted:			
Basic weighted average common shares outstanding	43,846,922	57,003,479	63,410,786
Exchange rights on Special Voting stock	5,157,289	N/A	N/A
Net effect of dilutive options using the treasury stock method	5,798,470	N/A	N/A
Subtotal	10,955,759	N/A	N/A
Diluted weighted average common shares outstanding	54,802,682	57,003,479	63,410,786
Diluted net income (loss) per share	$ 0.11	$ (1.44)	$ (8.57)

13. Related Party Transactions

Significant related party transactions with the Company's largest shareholder, Nortel Networks, and affiliated companies, not otherwise disclosed in the financial statements, include the following:

Revenues include sales to Nortel Networks for 1999, 2000 and 2001 of $1,453, $751 and $119, respectively. Revenues for 1999 include sales to Nortel Networks affiliated companies totaling $269.

The Company reimburses Nortel Networks for expenses paid by Nortel Networks on behalf of the Company, net of revenues collected by Nortel Networks on behalf of the Company. The net expenses reimbursed amounted to $512, $295 and $210 for 1999, 2000 and 2001, respectively. These amounts have been recorded in these financial statements at the carrying amount of the transactions involved.

(In thousands, except share and per share data, unless indicated otherwise)

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. The accounts receivable at December 31, 2000 and 2001, related to Nortel Networks and its affiliates, was insignificant.

<PAGE>

14. Commitments and Contingencies

Lease commitments

The Company leases administrative and sales offices and certain property and equipment under noncancelable operating leases that will expire in 2011 with certain renewal options. Total rent expense under such leases for 1999, 2000 and 2001 were $4,754, $7,288 and $10,106, respectively. At December 31, 2001, the future minimum lease payments under operating leases were as follows:

<TABLE>

<S>	<C>
2002	$ 6,936
2003	4,943
2004	3,960
2005	3,627
2006	3,761
Thereafter	13,587
Total future minimum lease payments	$36,814

</TABLE>

In addition to the lease commitments included above, the Company has provided letters of credit totaling $10,700 as security deposits in connection with certain office leases. The Company has noncancelable subleases of certain facilities included above. Payments to be received under these subleases will total $116 and $66 in 2002 and 2003, respectively.

Legal proceedings

On July 7, 2000, an action entitled Frankel v. Entrust Technologies, Inc., et al., No. 2-00-CV-119, was filed in the U.S. District Court for the Eastern District of Texas. Subsequently, several similar actions were filed in the same court. All of these actions have been consolidated. On January 22, 2001, a consolidated amended complaint was filed. The consolidated amended complaint purports to be a class action lawsuit brought on behalf of persons who purchased or otherwise acquired the Company's Common stock during the period from October 19, 1999 through July 3, 2000. The complaint alleges that the defendants misrepresented and failed to disclose certain information about its business and prospects. The complaint asserts claims under the Securities Exchange Act of 1934. The complaint does not specify the amount of damages sought.

The Company moved to dismiss the consolidated complaint. On July 31, 2001, the Court granted the motion to dismiss. The Court granted plaintiffs 30 days leave to file an amended complaint. On August 30, 2001, plaintiffs filed an amended complaint. On September 21, 2001, the Company moved to dismiss the amended complaint. The Court has not yet ruled on the Company's motion to dismiss. There has been no discovery to date, and no trial date has been established.

(In thousands, except share and per share data, unless indicated otherwise)

The Company believes this class action is without merit and intends to deny all material allegations and to defend itself vigorously. An adverse judgment or settlement in this lawsuit could have a significant adverse impact on the Company's future financial condition or results of operations.

The Company is subject to various other 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 other legal matters will have a material adverse effect on the Company's consolidated results of operations or consolidated financial position.

<PAGE>

15. 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 $592, $1,732 and $2,627 for 1999, 2000 and 2001, respectively.

16. Supplemental Cash Flows Information

The following is provided as supplemental information to the consolidated statements of cash flows:

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1999	2000	2001
Non-cash investing and financing activities:			
Issuance of Common stock, stock options and warrants related to the acquisition of enCommerce, Inc.	$ --	$482,272	$ --
Income taxes paid (received), net	$(933)	$ 243	$1,594

</TABLE>

17. Segment, Geographic and Major Customer Information

Segment information

The Company conducts business in one operating segment: the design, production and sale of software products and related services for Internet security. 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

(In thousands, except share and per share data, unless indicated otherwise)

Operating Decision Maker ("CODM"), the President and Chief Executive Officer, on a geographic basis. Accordingly, under SFAS No. 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.

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 respective geographic areas.

<PAGE>

The Company operates in three main geographic areas as follows:

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Revenues:			
United States	$ 55,709	$ 81,245	$ 48,634
Canada	16,107	22,282	30,450
Europe, Asia and Other	13,398	44,850	38,881
Total revenues	$ 85,214	$148,377	$ 117,965
Segment operating income (loss):			
United States	$ 1,724	$ (6,171)	$ (57,898)
Canada	3,950	3,749	(10,140)
Europe, Asia and Other	1,617	5,330	6,975
Total segment operating income (loss)	7,291	2,908	(61,063)
Depreciation and amortization expense:			
United States	1,229	63,900	66,739
Canada	1,625	2,687	5,954
Europe, Asia and Other	494	439	738
Total depreciation and amortization	3,348	67,026	73,431
Other income (expense):			
United States	3,776	13,809	(1,367)
Acquired in-process research and development:			
United States	--	29,614	--
Impairment of intangibles, write-downs of other long-lived assets, and restructuring charges:			
United States	--	--	393,058

(In thousands, except share and per share data, unless indicated otherwise)

Canada	--	--	9,739
Europe, Asia and Other	--	--	3,186
Total	--	--	405,983
Income (loss) before income taxes:			
United States	4,271	(85,876)	(519,062)
Canada	2,325	1,062	(25,833)
Europe, Asia and Other	1,123	4,891	3,051
Total income (loss) before income taxes	$ 7,719	$(79,923)	$(541,844)

	December 31,		
	1999	2000	2001
Long-lived assets (generally depreciated over three to five years):			
United States	$ 8,493	$429,396	$ 32,342
Canada	5,921	19,690	13,753
Europe, Asia and Other	823	1,429	854
Total long-lived assets	$ 15,237	$450,515	$ 46,949
Total assets:			
United States	$107,517	$671,103	$ 191,886
Canada	15,216	45,628	32,916
Europe, Asia and Other	7,787	17,375	4,636
Total	$130,520	$734,106	$ 229,438

</TABLE>

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Major customer information

In 1999, a single customer in the United States accounted for 24% of revenues, and no other customers accounted for 10% or more of revenues. In 2000, no individual customer accounted for 10% or more of revenues. In 2001, a single customer in Canada accounted for 11% of revenues, and no other customers accounted for 10% or more of revenues.

<PAGE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit Number	Description	Form	Number
<C>	<S>	<C>	<C>
2.1(1)+	Stock Purchase Agreement dated March 14, 2000 by and among the Registrant, Cygnacom Solutions Inc. and the Stockholders of Cygnacom		

	Solutions Inc.	8-K	2
2.2(2)+	Agreement and Plan of Merger dated April 18, 2000 by and among the Registrant, Enable Acquisition Corp. and enCommerce, Inc.	8-K	2
3.1	Articles of Amendment and Restatement of Charter, as amended, of the Registrant	Enclosed herewith	
3.2(3)	Amended and Restated Bylaws of the Registrant	S-1	3.4
4.1(4)	Specimen certificate for shares of Common Stock, $.01 par value, of the Registrant	10-Q	4.1
10.1(3)	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(3)	Strategic Alliance Agreement, dated as of December 31, 1996, between the Registrant and Northern Telecom Limited	S-1	10.5
10.3(5)*	Employment Letter Agreement dated May 5, 2000 between the Registrant and Paul A. Doscher	10-Q	10.6
10.4(6)*	Separation Agreement and Release dated February 24, 2001 between the Registrant and John A. Ryan	10-K	10.4
10.5(3)*	Letter Agreement, dated as of June 4, 1997, between the Registrant and Richard D. Spurr	S-1	10.12
10.6(7)*	Amendment to Separation Agreement and Release, dated August 22, 2001, between the Registrant and John A. Ryan	10-Q	10.1
10.7(5)*	Amended and Restated 1996 Stock Incentive Plan, as amended	10-Q	10.10
10.8(3)	Lease Agreement dated as of January 28, 1998, between Colonnade Development Incorporated and Entrust Technologies Limited	S-1	10.16
10.9	Lease Agreement dated November 16, 2001 between Intervest-Parkway, Ltd. and the Registrant	Enclosed herewith	
10.10(8)*	Letter Agreement dated October 11, 1999 between the Registrant and David L. Thompson	S-3	10.3
10.11(8)	Development Agreement dated December 29, 1999 between Canderel Management Inc. and Entrust Technologies Limited	S-3	10.4
10.12(8)	Lease dated December 29, 1999 in Pursuance of the Short Forms of Lease Act between 786473 Ontario Limited, Entrust Technologies Limited and Registrant	S-3	10.5
10.13(8)	Lease dated December 29, 1999 by and between 3559807 Canada Inc., Entrust Technologies Limited and the Registrant	S-3	10.6
10.14(5)*	enCommerce, Inc. 1997 Stock Option Plan	10-Q	10.1
10.15(5)	enCommerce, Inc. 1997B Stock Option Plan	10-Q	10.2
10.16(5)*	Employment Letter Agreement dated May 5, 2000 between the Registrant and J. Alberto Yepez	10-Q	10.4
10.17(6)	Common Stock Warrant No. 1 of the Registrant dated June 26, 2000 issued to Andersen Consulting LLP	10-K	10.17
10.18(5)*	Non-competition and Non-solicitation Agreement effective as of June 26, 2000 between the Registrant and Alberto Yepez	10-Q	10.5
10.19(5)*	Non-competition and Non-solicitation Agreement effective as of June 26, 2000 between the Registrant and Paul Doscher	10-Q	10.7

</TABLE>

1

<PAGE>

<TABLE>
<CAPTION>

Exhibit Number	Description	Form	Number
<C>	<S>	<C>	<C>
10.20	Lease dated November 14, 2000 between Sobrato Interests II and the Registrant	Enclosed herewith	
10.21	First Amendment to Lease dated July 26, 2001 by and between Sobrato Interests II and the Registrant	Enclosed herewith	
10.22(4)*	Employment Agreement dated as of April 22, 2001 by and between F. William Conner and the Registrant	10-Q	10.1
10.23(4)*	Special Nonstatutory Stock Option Agreement dated April 22, 2001 between the Registrant and F. William Connor	10-Q	10.2
10.24(4)*	Nonstatutory Stock Option Agreement Granted Under the Amended and		

	Restated 1996 Stock Incentive Plan dated April 22, 2001 between the Registrant and F. William Conner	10-Q	10.3
10.25(4)	Common Stock Purchase Warrant of the Registrant dated April 22, 2001 to Heidrick & Struggles, Inc.	10-Q	10.4
10.26(4)*	Separation Agreement and Release dated June 28, 2001 between the Registrant and J. Alberto Yepez	10-Q	10.5
10.27(4)*	Separation Agreement and Release dated May 30, 2001 between the Registrant and Paul Doscher	10-Q	10.6
10.28(4)*	Form of Nonstatutory Stock Option Agreement Granted Under the Amended And Restated 1996 Stock Incentive Plan to Non-Employee Directors of the Registrant	10-Q	10.7
10.29*	Separation Agreement and Release dated October 4, 2001 between Richard D. Spurr and the Registrant	Enclosed herewith	
10.30*	Non-Competition and Non-Solicitation Agreement effective as of March 6, 2001 between the Registrant and Richard D. Spurr	Enclosed herewith	
10.31*	Officer Retention Program and Agreement effective as of March 6, 2001 between David L. Thompson and the Registrant, as amended	Enclosed herewith	
10.32*	Non-Competition and Non-Solicitation Agreement effective as of March 6, 2001 between the Registrant and David L. Thompson	Enclosed herewith	
10.33*	Letter Agreement dated May 17, 2001 between the Registrant and Edward J. Pillman	Enclosed herewith	
21	Subsidiaries of the Registrant	Enclosed herewith	
23.1	Consent of Deloitte & Touche LLP	Enclosed herewith	

</TABLE>

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

(1) Incorporated herein by reference to the Registrant's Current Report on Form 8-K dated March 14, 2000 filed with the Securities and Exchange Commission on March 24, 2000 (File No. 000-24733).

(2) Incorporated herein by reference to the Registrant's Current Report on Form 8-K dated April 18, 2000 filed with the Securities and Exchange Commission on May 1, 2000 (File No. 000-24733).

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

(4) Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 (File No. 000-24733).

(5) Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 (File No. 000-24733).

<PAGE>

(6) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (File No. 000-24733).

(7) Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 (File No. 000-24733).

(8) Incorporated herein by reference to the Registrant's Registration Statement on Form S-3 (File No. 333-95375).

\+ The Registrant agrees to furnish supplementary a copy of any omitted schedules to this agreement to the Securities and Exchange Commission upon its request.

</TEXT>
</DOCUMENT>