In re ENTRUST SECURITIES LITIGATION

This Document Relates To:

ALL ACTIONS.

CONSOLIDATED AMENDED CLASS ACTION COMPLAINT
FOR VIOLATION OF THE FEDERAL SECURITIES LAWS
SUMMARY

1. This is an action on behalf of all purchasers of Entrust stock between October 19, 1999 and July 5, 2000 (the "Class Period") for violations of §§10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and SEC Rule 10b-5. The defendants are Entrust Technologies Inc. ("Entrust" or the "Company"), its top officers and Nortel Networks Corporation ("Nortel"), the company that "spun off" Entrust in December 1996 but continued thereafter to control Entrust. Defendants falsely represented that "[n]ow [that] the year 2K issues are finally being put to rest ... the next wave of opportunity is e business into the year 2000 and beyond" and Entrust is "ideally positioned to take advantage of e 2000 with its solutions for all areas of the market." In addition, Entrust stated that "business remains strong" and Entrust was "poised to accelerate in 2000 as demand for end-to-end Internet security solutions for B2B e-commerce takes off." Defendants stated the public key infrastructure ("PKI") market was growing "60%-70%" and Entrust was exceeding "the growth in the market itself." Defendants' misrepresentations artificially inflated Entrust's stock to over $92 in February 2000 and to a Class Period and all-time high of $138-7/16 on March 8, 2000.

2. To take advantage of this artificial inflation and circumvent SEC Rule 144 stock sales volume restrictions, on February 24, 2000, Entrust conducted a $730 million secondary offering in which Entrust sold 2.07 million shares for net proceeds of over $162 million, Nortel sold 6.7 million shares for net proceeds of over $527 million and John A. Ryan, Entrust's CEO, unloaded 125,000 shares for net proceeds of over $9.8 million. Then defendants utilized Entrust's inflated stock to merge with enCommerce, Inc. in a stock-for-stock transaction, which was consummated on June 26, 2000. Only five business days later, on July 5, 2000, Entrust pre-announced its
second quarter results and disclosed that Entrust would report EPS of only $0.02, 75% less than Entrust's forecasted results of $0.08. These results represented flat sequential growth instead of the 400% EPS growth defendants forecasted. Entrust stock immediately collapsed, falling 53% from $77-1/8 to $36-5/8 on extremely heavy volume of 19 million shares.

**OVERVIEW**

3. Entrust was created as a division of Nortel, called Nortel Secure Networks group, in 1993 to develop and market data security software for corporate enterprises. In December 1996, Nortel sold $26 million of Entrust common stock in a private placement to institutional investors and reorganized Entrust as a majority-owned subsidiary under the leadership of CEO John
Ryan. In an August 18, 1998 IPO, Entrust sold 5.4 million shares at $16.00 per share, for net proceeds of over $80 million and Nortel sold 1.7 million shares for net proceeds of almost $25 million.

4. However, the defendants faced serious obstacles to selling additional shares after the IPO. First, in connection with this IPO, Entrust's insiders agreed, as is typical in an IPO, to a "lock-up," i.e., that they would not sell any additional shares of their Entrust stock onto the open market for 180 days from the date of the IPO, i.e., until February 16, 1999, without the permission of the underwriters. Second, SEC Rule 144 restrictions sharply limit the number of "unregistered" shares Entrust's insiders could sell into the open market. Third, if Nortel and Entrust's top insiders started to sell off even the permitted number of shares onto the market at or about the same time, this would disrupt the market and cause Entrust stock to decline.

5. However, Nortel, pursuant to a "Registration Rights Agreement" had the right to demand that Entrust file a Registration Statement and conduct a Secondary Offering beginning one year after the IPO, i.e., August 18, 1999. In a registered Secondary Offering, Nortel and Entrust's insiders could sell shares \textit{without} the Rule 144 volume restrictions and in transactions where underwriters would help them sell the stock \textit{and} stabilize the market trading price of Entrust stock \textit{while these large stock sales were taking place}. By selling shares in this way, Nortel and Entrust's top executives could maximize their stock sale proceeds in a number of ways. First, they could condition the market for the stock offering by issuing very positive reports and forecasts and push the stock up to higher levels, including making Roadshow presentations just before the Secondary Offering to disseminate very favorable information to potential stock purchasers to create demand for the stock. Second, they could use the underwriters to help merchandise the stock and rely upon the underwriting firms' "firm commitment" purchase obligations to buy \textit{all} their
shares and then resell them. Third, the underwriters could use special techniques, which were only allowed to be used in registered stock offerings, to "stabilize" the stock price – *supporting* the market price of the stock via techniques that would not be legal in normal open-market stock trading.

6. Thus, in order to raise substantial capital for Entrust on favorable terms and sell off much larger amounts of their Entrust stock than they could legally sell via open market sales of unrestricted shares under SEC Rule 144, the defendants planned to undertake a large **SEC-registered secondary offering of millions of shares of Entrust stock** after they had pushed the stock up much higher via "Roadshow" presentations. This plan would enable Nortel and Entrust's insiders to sell larger amounts of stock, many more shares than they could have sold in open-market sales without disrupting the market, because the stock sold would be registered with the SEC and thus exempt from the volume restrictions of Rule 144.

7. This placed enormous pressure on Entrust's top executives to push Entrust's stock price up after August 1999 when Nortel could, for the first time, exercise its Registration demand rights and sell additional shares in a Secondary Offering without SEC Rule 144 limitations.

8. Due to the merchandising activities of the underwriters and very positive statements and forecasts by Entrust and its insiders in the IPO Roadshow, the IPO was a success and, subsequent to the IPO, Entrust's stock was a very strong performer – quickly advancing to $39-1/4 by January 11, 1999.

9. Entrust's insiders wanted to take advantage of this sharp run-up in Entrust's stock price. However, because of the "lock-up," they could not sell their stock on the open market until February 16, 1999 – the expiration of the 180-day "lock-up" period. Therefore, Entrust's insiders procured Goldman Sachs' agreement to release the lock-up before the 180-day period ended.
However, when this "early release" of the "lock-up" was revealed on February 1, 1999, the stock went into a steep decline, falling to $24-3/8 on February 4, 1999. With this drop in the stock price, the value of the shares owned by Entrust's controlling shareholders, including Nortel, was reduced by 38%. They were determined to get the price back up by August 1999.

10. Prior to Entrust's steep decline on February 4, 1999, Entrust's stock performance was in line with H&Q's index of internet stocks. However, between February 4, 1999 and October 19, 1999, the start of the Class Period, Entrust stock was a very poor performer and, as the graph below shows, consistently under-performed compared to an index of similar stocks:

![Graph showing Entrust Technologies, Inc. vs. H&Q Internet Index August 17, 1998 - October 18, 1999]

11. This terrible stock performance placed enormous pressure on Entrust's top executives and controlling shareholders. In the IPO, Entrust's top executive officers sold no stock and Nortel still owned over 26 million
"restricted" shares that were subject to SEC Rule 144, which sharply limited the number of "unregistered" shares Entrust's insiders could sell into the open market. Further, as demonstrated by the decline in Entrust's shares when the IPO lock-up was released, they knew that if Nortel and Entrust's top insiders started to sell off even the permitted number of shares onto the market at or about the same time, this would disrupt the market and cause Entrust's stock to decline – thus undercutting their goal of maximizing the price at which they could sell off their Entrust stock.

12. In the weeks and months prior to August 18, 1999, the date that Nortel could for the first time demand registration of additional shares, Entrust stock was still performing poorly. For example, shortly before the release of its 1999 first quarter results on April 19, 1999, Entrust traded as high as $34-3/4 on March 22, 1999. However, following the release of its first quarter earnings, Entrust stock declined to $19-3/16 by June 2, 1999. This was of great concern to Nortel and Entrust's other insiders who wanted to push Entrust's stock price up so they could sell additional shares in a Secondary Offering after August 18, 1999. However, Michele Axelson, Entrust's CFO, would not go along with defendants' plan to implement an "aggressive investor relations program" to artificially inflate the price of Entrust stock. She therefore resigned, although she was aggressively recruited just over a year earlier from Scopus Technologies Inc. After Entrust announced its second quarter results and Axelson's resignation on July 19, 1999, Entrust stock gradually declined from $34 to $18-9/16 on October 8, 1999. Nortel and the individual defendants were now desperate to push the price of Entrust stock to much higher levels because the stock was now trading near the same level as the day of its IPO over a year earlier and Nortel could now exercise its right to demand registration of additional shares in a Secondary Offering.
13. Thus, beginning on October 19, 1999, defendants, at the behest of Nortel, Entrust's controlling shareholder, began a concerted effort to push Entrust stock much higher in price for several reasons. First, they wanted to artificially inflate Entrust's stock price so that the Secondary Offering would raise larger amounts of money for Nortel, Entrust and the Entrust insiders who sold shares in the offering and so that the stock offering by Entrust would be non-dilutive, thus minimizing the adverse impact of the offering on Entrust's EPS going forward. Second, in order to better compete with Entrust's arch-rival VeriSign, defendants were pursuing a strategy of expanding its product offerings by acquiring other companies in stock-for-stock transactions. A higher per-share price would make a stock acquisition less dilutive to Entrust's EPS going forward. Third, defendants wished to raise substantial capital for Entrust on favorable terms for use in cash acquisitions and to buffer Entrust from the decline in its business they knew was now beginning. In order to accomplish these ends, defendants employed a three-pronged strategy to mislead investors and artificially inflate the stock.

14. First, Nortel and John Ryan had to install a CFO that would go along with the scheme and had merger and acquisition and "investor relations" experience. This part of the strategy was accomplished by appointing David L. Thompson, who was Vice President of Finance for Nortel Networks Enterprise Solutions business segment. Second, with Thompson on board, defendants mounted an aggressive investor relations campaign to get more Wall Street analysts to start covering Entrust and/or raise their ratings on Entrust stock. Third, defendants began to pepper the market with extremely positive but false statements.

15. In order to inflate the price of Entrust stock, while concealing the adverse conditions which defendants knew were already impacting Entrust's business, defendants falsely represented that Entrust was "excited by the
**momentum** generated by signing up new customers for initial or "pilot" systems each quarter and the opportunities provided by the sale of pilot systems "to expand into full-scale business-to-business and business-to-consumer offerings." Defendants also represented that Entrust "put a tremendous amount [of] effort into our PKI 5.0 software this quarter," which was "now set for general availability in the fourth quarter." PKI 5.0 was a "next generation product" setting "a whole new standard for scalability" which was "critical ... to e-business projects that are designed to serve millions of people." PKI 5.0 "also raises the bar for trusted e-business capabilities and further distances us from the competition because Entrust is a proven, comprehensive, trusted and scalable product that can serve millions of users." Defendants told investors that "[n]ow [that] the year 2K issues are finally being put to rest ... the next wave of opportunity is e business into the year 2000 and beyond" and Entrust is "ideally positioned to take advantage of e 2000 with its solutions for all areas of the market." In addition, Entrust stated that "business remains strong" and Entrust was "poised to accelerate in 2000 as demand for end-to-end Internet security solutions for B2B e-commerce takes off." Defendants stated the PKI market was growing "60%-70%" and Entrust was exceeding "the growth in the market itself." Finally, defendants told the market that Entrust's "business [was] firing on all cylinders in North America and also around the globe" and "we now are positioned to move into the second quarter where we have unparalleled activity with a deep wide base and some significant new partnerships that we believe will continue the acceleration and consistently prove Entrust will continue as a number one vendor in trusted key business infrastructures."
16. Defendants' representations issued during the Class Period were false or misleading because:

(a) Entrust prematurely released its new flagship product, PKI 5.0, before it was completed. PKI 5.0 was released without key features, including Entrust/AutoRA which would enable users to automatically authenticate certificates;

(b) Volume shipments of Entrust PKI 5.0 were delayed from the fourth quarter of 1999 until the second quarter of 2000 because the "hierarchical trust architecture" needed further refinement;

(c) Entrust PKI 5.0 suffered from an "interoperability" problem and as a result, it took an inordinate amount of time to load the PKI system into some operating systems. This slow start-up time was problematic because it presented the potential for a security breach;

(d) Entrust experienced problems when it attempted to integrate PKI 5.0 with enCommerce's GetAccess product due to "compatibility" issues beginning in May 2000;

(e) Customers were delaying initial orders or Stage II or Stage III orders because Microsoft did not include public key features in its operating systems, but Microsoft would be including some public key features in Windows 2000. As a result, customers were delaying full deployments of Entrust PKI until after they upgraded to Windows 2000 and evaluated the encryption and certificate technology embedded in Windows 2000;

(f) PKI was an immature technology that was difficult to deploy and maintain. A typical deployment took between 3 and 18 months. PKI also slowed down the "speed" of web sites. As a result, most e-commerce web sites were utilizing "secure socket layer" security systems which were 10 to 100 times faster than PKI;
(g) Contrary to defendants' representations that 45% of Entrust's customers who purchase pilot systems were executing follow-on contracts for Stage II and Stage III deployments, as of May 2000, only 34 of Entrust's 900 customers executed contracts valued at more than $500,000;

(h) Entrust's customers were having trouble moving from a pilot implementation to full enterprise deployment because the development of an internal PKI infrastructure is a time-consuming and difficult process;

(i) The PKI market was much smaller than represented by Entrust because only a small minority of major corporations and organizations were capable of full deployment of PKI. Most major corporations were much better suited to outsourcing PKI from a third party such as VeriSign than internally implementing PKI from Entrust;

(j) Demand for PKI Solutions was not accelerating after Y2K issues abated. Corporate information technology ("IT") budgets were depleted after massive spending to address Y2K-related issues and IT purchasing managers were taking a "wait and see" attitude toward additional spending on PKI security solutions. For example, Credit Suisse was a key, existing Entrust customer that informed Entrust in the fourth quarter of 1999 that it would not discuss any additional purchases until the third quarter of 2000. Many customers were allocating capital funding to ensuring that their existing systems and infrastructures were fully Y2K compliant and many customers implemented a "technology freeze" until late in the second quarter of 2000; and

(k) Due to the foregoing undisclosed negative conditions which existed inside Entrust's business during the Class Period, the defendants knew that the forecasts of EPS of $0.08 for Entrust's second quarter, $0.11 for the third quarter, and $0.13 for the fourth quarter of 2000 were false when made
as, in light of these problems and adverse conditions, those results could not and would not be achieved.

17. In response to defendants' false statements, Entrust stock soared from $22-1/8 on October 18, 1999 to its all-time high of $138-7/16 on March 8, 2000. Unlike its under-performance between February 4, 1999 and October 18, 1999, compared to the H&Q Internet index, Entrust's stock vastly out-performed the H&Q Internet index during the Class Period, i.e., October 19, 1999-July 5, 2000:

![Graph showing Entrust Technologies, Inc. vs. H&Q Internet Index, October 19, 1999 - October 31, 2000]

18. By January 2000, as defendants were working to complete the Secondary Offering, and as defendants were negotiating a stock-for-stock merger with enCommerce, conditions inside Entrust's business had worsened. Nonetheless, Ryan and Thompson went on a nationwide Roadshow and told potential investors that:
Entrust had a very large and growing installed base of customers. Corporate information technology departments were shifting their focus from Y2K issues and toward Internet security issues. As a result, Entrust would experience accelerating demand for its PKI products and customers who purchased initial or "pilot" systems from Entrust for $50,000-100,000 would fully deploy Entrust PKI throughout their organizations. Full deployment contracts were generally in excess of $1 million.

The PKI market was growing 60% a year. Entrust's market share was 35% and Entrust was gaining market share from its competitors.

Demand for Internet security solutions was accelerating.

Entrust was selling pilot systems to 90 new customers a quarter, and as Entrust's 400 customers who had already purchased pilot systems executed "follow on" contracts for "Stage II" or "Stage III" deployments, revenue and EPS growth would accelerate in 2000 and 2001.

40%-45% of Entrust's pilot customers were moving to Stage II and Stage III deployments.

As a result of these positive developments in Entrust's business, Entrust would earn $.35 in 2000 and $.55 in 2001.

The negative conditions impacting Entrust's business posed a significant danger to Entrust, Nortel and to the individual defendants who owned significant amounts of Entrust stock. Nortel and Entrust's insiders knew that if these negative conditions continued or worsened, they would have a very adverse impact on Entrust's growth and profitability and when these adverse trends became publicly known would cause Entrust's stock to decline. Thus, defendants realized they had only a short time to capitalize on Entrust's apparent strong profitable growth to raise capital for Entrust to buffer it from the decline in its business they knew was now beginning and to sell off large amounts of their own Entrust stock at high prices. Thus, Entrust's controlling shareholders and insiders hurried to complete the Secondary Offering, as they realized that the adverse facts concerning Entrust's business could not be long concealed and, if those facts became known, it would prevent a successful
Secondary Offering and prevent them from selling their own Entrust stock at inflated prices.

20. On February 24, 2000, the defendants completed Entrust's huge Secondary Offering of over 8.9 million shares at $82. The Company sold 2.07 million shares, while Nortel sold 6.7 million shares.

21. This large Secondary Offering was an enormous benefit to Entrust and its insiders. It provided over $162 million in new capital for Entrust, which Entrust needed to help see its business through a coming difficult period of falling revenues, declining profits and likely losses, which was already overtaking the Company, and would also help to sell the Company if that were necessary, by providing it with a large store of cash. This massive infusion of cash at an $82 per-share price also boosted the book value of Entrust stock from $2.28 to $4.76 per share, which was an enormous windfall for Nortel, Entrust's controlling shareholder, which, despite its sale of 6.7 million shares in the Secondary Offering, continued to hold more than 17 million shares, and benefitted the other Entrust insiders as well.

22. In March 2000, as defendants were negotiating the acquisition of enCommerce, a provider of authorization services, which (when combined with Entrust's products) would significantly expand Entrust's product offerings and better position it to compete with VeriSign, Entrust's stock began to drop from $110 per share in mid-March to below $85 per share by March 30, 2000. This alarmed defendants as they were planning to use Entrust's shares to fund the acquisition and did not have the ability to fund the acquisition with Entrust's own cash. Thus, it was imperative that Entrust stock not fall any further, as such a decline would require Entrust to issue so many Entrust shares as to render the acquisition impossible. By mid-April, Entrust's shares had fallen to nearly half of their mid-March trading levels and defendants were scrambling
to assure investors, and enCommerce's stockholders, that Entrust's business and projected 400% growth for the second quarter EPS remained intact.

23. On April 18, 2000, the Company entered into an Agreement and Plan of Merger with enCommerce pursuant to which enCommerce would merge into Entrust (the "Merger Agreement"). The merger was structured as a tax-free exchange of stock and accounted for under the purchase method of accounting. Because Entrust stock traded at approximately $60 per share shortly before the merger was announced, the deal called for approximately 8.2 million shares of Entrust common stock to be issued. The consummation of the merger was subject to a number of conditions, including enCommerce's shareholder approval and regulatory approvals. Defendants knew that if they revealed the truth about Entrust's operations, the price of Entrust's shares would drop prior to the shareholder vote by enCommerce shareholders and enCommerce's shareholders would not endorse the merger and/or would rely on §5.3 of the Merger Agreement or other provisions in the Merger Agreement to walk away from the merger. Since Entrust's shares were then trading at around $60 per share, defendants knew that unless they maintained Entrust's artificially inflated share price until after the enCommerce transaction was consummated they would lose the enCommerce deal and their house of cards would collapse.

24. To ensure the deal was completed, defendants maintained an appearance of Company growth and strength by concealing Entrust's declining revenues and lack of Stage II and Stage III orders and by misrepresenting the Company's business prospects for the second quarter of 2000 and fiscal year 2000. Defendants proclaimed, among other things, that Entrust was on track to report 2000 revenue of $138 million, 2000 EPS of $.35, and second quarter EPS growth of 400%. They also boasted about the Company's strong long-term business model. Before making these glowing statements about the
Company, defendants knew that Entrust's financial prospects were bleak. From conversations with Entrust customers, defendants knew that four contracts, which were to account for 75% of the Company's second quarter 2000 EPS, would not close in second quarter 2000. Defendants also knew Entrust could not meet its second quarter projections for revenue and EPS.

25. Defendants' scheme succeeded. Entrust stock maintained its trading price through defendants' manipulation, and enCommerce's shareholders approved the acquisition. Just five business days after receiving approval for the acquisition, on July 5, 2000, Entrust disclosed the disastrous news it had been concealing and admitted that EPS for the second quarter 2000 had not increased 400%, but instead were flat. Defendants' announcement shocked financial analysts, who immediately cut their EPS forecasts for 2000. The market's reaction was equally strong, as Entrust stock plunged to as low as $34-3/8 per share, some 75% below the Class Period high of $138-7/16 per share, on a huge volume of 19 million shares traded.

JURISDICTION AND VENUE

26. The claims asserted herein arise under §§10(b) and 20(a) of the Securities Exchange Act of 1934 ("1934 Act"), 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5. Jurisdiction is conferred by §27 of the 1934 Act, 15 U.S.C. §78aa. Venue is proper here pursuant to §27 of the 1934 Act. Acts and transactions giving rise to the violations of law complained of occurred here.

THE PARTIES

27. On October 10, 2000, this Court appointed Itzhak Kadosh, Charles Howe, Biagio Di Martino, Barrie Mitchell, and Michael L. Leathers as Lead Plaintiff. Itzhak Kadosh, Charles Howe, Biagio Di Martino, Barrie Mitchell, and Michael L. Leathers purchased, collectively, 27,150 shares of Entrust stock during the Class Period and suffered losses of more than $634,938.55.
28. Defendant Entrust maintains its headquarters at Plano, Texas. During the Class Period, Entrust's common stock traded in an efficient market on the NASDAQ National Market System. Entrust develops, markets, and sells products and services that allow enterprises to manage trusted, secure electronic communications and transactions over networks. Networks include the Internet, extranets, and intranets. The Company's solution automates the management of digital certificates through public key infrastructure ("PKI") technology. During the Class Period, as part of the fraudulent scheme, Entrust sold 2.07 million shares of Entrust stock in the Secondary Offering for $162 million in net proceeds. These sales during the Class Period were unusual in timing and amount.

29. (a) Nortel Networks Corporation's ("Nortel") international offices are located at 8200 Dixie Road, Suite 100, Brampton, Ontario, Canada, L6T 5P6. Nortel can be served with process by serving its registered agent, CT Corporation Systems, at 350 North St. Paul Street, Dallas, TX 75201. Nortel is a leading global supplier of networking solutions and services that support voice, data, and video transmission over wireless and wireline technologies. Nortel focuses on building the infrastructure for the Internet. Nortel's business consists of the design, development, assembly, manufacture, marketing, sale, financing, installation, servicing and support of networking solutions and services. At the start of the Class Period, Nortel owned 23.6 million shares – 47% of Entrust's share. As part of the fraudulent scheme, Nortel sold 6.7 million shares of Entrust stock for net proceeds of $527 million. These sales during the Class Period were unusual in timing and amount.

(b) Nortel enjoyed a special relationship with Entrust because: (1) Entrust was originally a division of Nortel; (2) Nortel installed Ryan as the CEO of Entrust; (3) the majority of Entrust's executive officers were former Nortel employees, including defendants Ryan and Thompson; (4) Nortel was
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Entrust's largest shareholder; (5) Nortel controlled Entrust's board of directors; and (6) the Chairman of Entrust's Board of Directors, F. William Conner, is a top Executive Officer of Nortel.

30. Defendant John A. Ryan ("Ryan") was, during the Class Period, President and Chief Executive Officer of Entrust. During the Class Period and as part of the fraudulent scheme, Ryan sold 125,000 shares of Entrust stock based on inside information, pocketing over $9.8 million. These sales during the Class Period were unusual in timing and amount. Ryan has served as President and Chief Executive Officer and as a director of the Company since its founding in December 1996. From October 1995 until December 1996 he served as the Vice President and General Manager for the Multimedia and Internet Solutions business unit of Nortel. Prior to that time, from August 1992 until October 1995, he served as Assistant Vice President, Marketing for the Enterprise Network group of Nortel. Since joining Nortel in 1981, he has also served in various senior positions in marketing, customer service and finance.

31. David L. Thompson ("Thompson") was Senior Vice President, Finance and Chief Financial Officer of Entrust since October 1999. From September 1996 to September 1999, he served as Vice President of Finance of Nortel Networks Enterprise Solutions global business. 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 products outside North America. From January 1992 to December 1994, he served as Vice President of Finance for Nortel Networks' Asia/Pacific business.

32. The individuals named as defendants in ¶¶30-31 are referred to herein as the "Individual Defendants." The Individual Defendants are liable for the false statements pleaded herein at ¶¶50, 60, 65-67, 74, 76-78, 93, as
those statements were each "group-published" information, the result of the collective action of the Individual Defendants.

33. Defendants Ryan, Thompson and Nortel, by reason of their stock ownership or positions with Entrust, were controlling persons of the Company. Entrust and Nortel controlled each of the Individual Defendants. These controlling persons are liable under §20(a) of the 1934.

34. Because of the Individual Defendants' positions with the Company, they each had access to the adverse non-public information about its business, finances, products, markets and present and future business prospects via access to internal corporate documents (including the Company's operating plans, budgets and forecasts and reports of actual operations compared thereto), conversations and connections with other corporate officers and employees, attendance at management and Board of Directors' meetings and committees thereof and via reports and other information provided to them in connection therewith.

35. The Individual Defendants, because of their positions with the Company, controlled and/or possessed the power and authority to control the contents of its quarterly and annual reports, press releases and presentations to securities analysts, which information was conveyed through the analysts to the investing public. Each defendant was provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them but not to the public, each of these defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations which were being made were then materially false and misleading.
SCIENTER AND SCHEME ALLEGATIONS

36. Each defendant is liable for making false statements or for failing to disclose adverse facts while selling Entrust stock and for participating in a fraudulent scheme which permitted defendants to sell or dispose of 8.9 million shares of Entrust stock at artificially inflated prices for $699 million.

37. Ryan and Thompson were the top executives of Entrust. They ran Entrust as "hands-on" managers, dealing with important issues facing Entrust's business, i.e., its acquisition of enCommerce, sales of its PKI products, the development of its new PKI product, Entrust PKI 5.0, and the growth of the "business-to-business" or "B2B" and e-commerce markets upon which Entrust's business depended.

38. Nortel was the largest shareholder of Entrust. Nortel was also concerned over its investment in Entrust. Nortel was in frequent contact with Ryan, Thompson, F. William Conner and Michael P. Ressner to get information concerning Entrust's business and received copies of Entrust's internal operating and budget reports circulated to top executives. Conner has been Chairman of Entrust's Board since October 1998 and has been an executive officer of Nortel since 1992. Ressner has been a member of Entrust's Board since May 1999 and has been an executive officer of Nortel since 1994.

39. Because sharply increased sales of PKI products, the successful development of and substantial sales of Entrust's PKI 5.0 product, the continued strong growth in the PKI market, the number of pilot systems sold during a quarter the number of Stage II and Stage III deployments that were sold during a quarter, and the rate at which Entrust's customers expanded from deployment of initial systems to Stage II and Stage III deployments were indispensable elements to Entrust meeting its internally budgeted and publicly disseminated 2000 and 2001 revenue and EPS forecasts, defendants constantly monitored each of these key factors affecting Entrust's business.
40. A key factor in Entrust's competitive position was its ability to offer a full range of PKI solutions. Thus, defendants desperately sought to acquire enCommerce as the acquisition of enCommerce provided Entrust with the ability to sell a web portal infrastructure that would provide secure and personalized access to aggregated applications deployed across a variety of platforms. Thus, Entrust, through the acquisition of enCommerce, could compete head-to-head with VeriSign, the dominant company in the webserver certificate market. enCommerce's product, GetAccess 4.0, provides single sign-on authorization solutions (via enCommerce) that enable organizations to grant authenticated user privileges to specified applications and data bases. The combination of Entrust and enCommerce would create a secure end-to-end e-business portal infrastructure. As a result, the acquisition of enCommerce was critical to Entrust because of the competitive advantages it provided.

41. Each of the defendants was personally familiar with Entrust's quarterly revenues as they monitored Entrust's so-called "follow-on" Stage II or Stage III sales. The Individual Defendants closely monitored the performance of Entrust's business via reports which Entrust's Finance Department (under Thompson) generated on a weekly and monthly basis. As a result of the Individual Defendants' monitoring, each defendant was aware that Entrust would be unable to meet its projected EPS or revenue. However, because the "appearance" of growth was so critical to defendants' plan to inflate the price of Entrust shares and complete the Secondary Offering and the acquisition of enCommerce, defendants continued to maintain throughout the Class Period that Entrust would earn $0.35 in 2000 and would achieve second quarter EPS growth of 400% when in reality defendants knew that Entrust was suffering declining revenues and could not post any EPS growth at all. Defendants knew that if Entrust's stagnant growth and the fact that all of Entrust's projected growth was contingent upon sales to four of its current
customers which defendants knew would not be consummated before the second quarter 2000 was revealed, it could not possibly consummate the enCommerce acquisition.

42. Because of their top executive positions with Entrust and involvement in the day-to-day management of its business, each Individual Defendant actually knew from internal corporate documents and conversations with other corporate officers and employees and their attendance at management and Board meetings, and in the case of Nortel, the information it got from Ryan, Thompson, Conner and Ressner, the adverse non-public information about the poor sales of Stage II and Stage III deployments, the slowing growth of the PKI market into which Entrust products were sold, the serious delays in the development of Entrust's PKI 5.0 product and Entrust's deteriorating revenue and EPS prospects. For example, Entrust held quarterly Company-wide meetings in Ottawa which were led by Ryan and Thompson. At these Company-wide meetings, among other things, Ryan and Thompson made power point presentations concerning operational results and new products. Thus, each defendant actually knew or recklessly disregarded the public statements about Entrust pleaded at ¶¶50-63, 65-95 were false or misleading when made.

**MOTIVE AND OPPORTUNITY**

43. In addition to having actual knowledge of the falsity of their false statements, each of the defendants had the motive and the opportunity to perpetrate the fraudulent scheme and course of business described herein. During 1999-2000, Entrust was attempting to grow by acquiring other companies that offered related and/or compatible products. During 1999 Entrust was actively engaged in reviewing potential acquisitions to grow its business. However, Entrust faced special difficulties in making significant acquisitions.
44. Because Entrust needed to conserve its cash to fund ongoing operations, it had to use stock for acquisitions, especially sizable acquisitions. However, the problem with using Entrust stock to pay for acquisitions was its poor performance, i.e., low price. This put tremendous pressure on Entrust's executives to present Entrust's business in a very favorable light to the investment community to inflate Entrust's stock to higher levels, thereby greatly increasing its value for use as consideration in acquisitions. A rising per-share price would notably induce stockholders of other companies (like enCommerce) to approve an acquisition by Entrust, but also, the higher Entrust's stock price rose, the fewer shares Entrust would have to issue to complete any such acquisition, making the acquisition much less dilutive to Entrust and its EPS.

INSIDER SELLING

45. While Entrust's top insiders were issuing favorable statements about Entrust, the defendants sold 8.9 million shares of Entrust stock for more than $699 million to personally profit from the artificial inflation in Entrust's stock price which their fraudulent scheme had created. Notwithstanding their access to confidential information as a result of their status as directors, officers and/or insiders of the Company, and their corresponding duty to disclose adverse material facts before trading in Entrust stock, the defendants sold significant amounts of Entrust shares at artificially inflated prices in order to profit from the fraud, and did so while in possession of material non-public information. Defendants' insider selling during the Class Period is detailed below:
<table>
<thead>
<tr>
<th>Name</th>
<th>Date</th>
<th>Shares Sold</th>
<th>Price</th>
<th>Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrust</td>
<td>02/29/00</td>
<td>1,875,000</td>
<td>$78.410</td>
<td>$147,018,750</td>
</tr>
<tr>
<td></td>
<td>03/02/00</td>
<td>199,260</td>
<td>$78.410</td>
<td>$15,623,976</td>
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<tr>
<td>Entrust Totals</td>
<td></td>
<td>2,074,260</td>
<td></td>
<td>$162,642,726</td>
</tr>
<tr>
<td>Ryan</td>
<td>02/29/00</td>
<td>125,000</td>
<td>$78.410</td>
<td>$9,801,250</td>
</tr>
<tr>
<td>Nortel</td>
<td>02/29/00</td>
<td>5,157,289</td>
<td>$78.410</td>
<td>$404,383,030</td>
</tr>
<tr>
<td></td>
<td>02/29/00</td>
<td>967,711</td>
<td>$78.410</td>
<td>$75,878,220</td>
</tr>
<tr>
<td></td>
<td>03/02/00</td>
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<tr>
<td>Nortel's Totals</td>
<td></td>
<td>6,722,780</td>
<td></td>
<td>$527,133,180</td>
</tr>
<tr>
<td>All Defendants' Totals</td>
<td></td>
<td>8,922,040</td>
<td></td>
<td>$699,577,156</td>
</tr>
</tbody>
</table>

46. The defendants' stock sales occurred at suspicious times. Defendants' positive statements pushed Entrust stock to a Class Period high of $138 per share and maintained the stock price at inflated levels throughout the Class Period, enabling Entrust, Nortel and Ryan to unload an aggregate of 8.9 million shares of Entrust stock between February 29, 2000 and March 2, 2000, for over $699 million in illegal insider trading proceeds, while helping to assure that enCommerce's shareholders voted to approve the acquisition of their company by Entrust in June 2000. The artificial inflation of Entrust's stock price allowed Entrust to complete the enCommerce acquisition for just 10.25 million shares – **less half the number of shares Entrust would have had to issue had Entrust's stock not been artificially inflated during the Class Period.**

47. This insider selling by the Individual Defendants was highly unusual, both in its timing and in its amount. These sales came just after the purported successful introduction of a major new product by Entrust that was supposed to push its earnings higher for several quarters, presumably resulting in substantial appreciation in Entrust's stock price over that time period – yet the defendants bailed out at the very beginning. Also, defendants' sales took place after Entrust's stock price skyrocketed from $22-1/8 on October 18, 1999 (the day before the start of the Class Period) to $92-1/4 on February 17, 2000,
increase of over 300%, and only one month before Entrust's stock began to plummet from $90 on March 29, 2000 to $35-1/16 on April 24, 2000. Finally, these stock sales took place just four months before Entrust revealed that its results would be much worse than previously forecasted.

BACKGROUND TO THE CLASS PERIOD

48. On September 13, 1999, Bear Stearns issued a report on Entrust entitled, "Buy Update from Company Visit; Reiterating Buy Rating and $45 Price Target," written by Bob Lam after discussions with Ryan, which and was based on and repeated information provided by him. Ryan reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. It stated:

We visited with management at Entrust's headquarters in Dallas last week and came away believing that Q3 remains on track and visibility into Q4 appears good. We believe Y2K should have no impact on ENTU's ability to achieve our Q3 and Q4 estimates and given the continued growth of B2B (business to business) e-commerce, which requires strong network security (in addition to quality of service) on the Internet, market opportunity for ENTU should expand further in 2000.

After meeting with management, we feel comfortable with our Q3 EPS estimate of $0.03 on revenues of $21.4 MM. More than two-thirds into the quarter, we think that business is on track to meet or slightly exceed our expectations. We expect to see Entrust add over 50-60 new pilots during Q3 (in line with 60 new pilots in Q2)....

Entrust PKO 5.0, an upgrade to ENTU's flagship product line, is currently in beta and should begin shipping in volume in Q4. We believe a new product cycle should help accelerate demand for the company's products.

Although Y2K does have an impact on enterprise IT spending, our Q3 and Q4 estimates have already reflected the Y2K factor and we believe ENTU will have no problem meeting or slightly beating our estimates over the next 2 quarters. As we look beyond December 31, 1999, we believe business is likely to accelerate in 2000. E-commerce is clearly moving from B2C to B2B, which requires strong network security solutions. We believe ENTU is a primary beneficiary of this trend.

49. On October 7, 1999, First Analysis issued a report "Initiating Coverage of Enterprise – PKI Market Leader" on Entrust written by Howard
Smith. Because this was Smith's first report on Entrust, it was issued only after Smith had extensive discussions with Ryan and was based on and repeated information provided by him. Ryan reviewed this report before it was issued and assured Smith it was accurate. Entrust copied and distributed this report, thus adopting it as its own. It stated:

We initiate coverage of Entrust Technologies Inc. with a 1 (strong buy) rating and a 12-month price target of $38.

* * *

A base with significant potential: Entrust has a growing list of more than 200 blue chip customers who have purchased its pilot system (priced at about $50,000 each). We expect many of these pilot customers will roll out Entrust software enterprise-wide, which would yield revenue potential of $3 million to $5 million from each firm (excluding maintenance). We expect many of these trials to convert into full rollouts as soon as Y2K issues subside, pointing to potentially explosive growth in 2000 and 2001.

FALSE OR MISLEADING STATEMENTS

50. On October 19, 1999, Entrust issued a press release entitled, "Entrust Reports Record Third-Quarter 1999 Results: Company Demonstrates Momentum in All Areas of Business," which stated:

"Our third quarter saw us achieve strong results across all areas of our business, including significant market share gains in our Internet e-business initiative, Entrust.net(tm)," said John Ryan, president and chief executive officer, Entrust Technologies Inc. "I'm pleased to report that the trend to e-business transactions is growing in our customer base and that we are seeing exciting new business-to-business and business-to-customer applications. Overall, we continue to be the market leader in business-to-business and internal enterprise transaction market and we're gaining share in the business-to-customer market."

51. On October 19, 1999, subsequent to the release of its third quarter 1999 results, Entrust held a conference call for analysts, money and portfolio managers, institutional investor and large Entrust shareholders to discuss Entrust's third quarter results, its business and its prospects. During the call Ryan stated:
Well, we started an impressive quarter with Entrust.net. **We experienced an equally impressive quarter** in our traditional e-business transactions and communication market in which customers purchased our solutions for internal applications, business-to-business applications and business-to-consumer applications. **And in this area, again, we once again experienced dramatic growth in our customer base** – adding over 140 new customers to bring our total number of customers to over 1,100. Our product program, which many of you are familiar with, also exceeded our expectations for growth. This quarter we sold 77 new pilot systems globally – a 133% increase over Q3 1998 and a 28% increase over last quarter. In fact, the increased number of products quarter-over-quarter of 17 is a record growth result. For the first three quarters of 1999, we have now sold 192 pilots compared with 63 for the same three quarters of last year – an impressive 205% increase. **We continue to be excited by the momentum this pilot program generates each quarter, and opportunities it provides for us to expand into full-scale business-to-business and business-to-consumer offerings.**

**We also put a tremendous amount of effort into our PKI 5.0 software this quarter and that software is now set for general availability in the fourth quarter. This next generation product sets a whole new standard for scalability which is critical as we see more and more global business to e-business projects that are designed to serve millions of people.**

* * *

**This new release also raises the bar** for trusted e-business capabilities and further **distances us from the competition because Entrust is a proven, comprehensive, trusted and scalable product that can serve millions of users.**

* * *

I am very pleased to welcome here today David Thompson. David comes to us from Nortel Networks where he served as vice president of finance for the Enterprise solutions business, and held worldwide finance and accounting responsibility for a $5 billion line of business..... Now with Dave on board, I am happy to announce that **we will be launching a very aggressive investor relations program.** We have recently retained Fleischman, Hilliard, a worldwide communications company, as our new investor relations firm. We also have a point to the new vice president of investor relations who will be announcing in six weeks who is now in place and ready to start in approximately six weeks, and **you will be seeing a lot of Dave and I this quarter as we will be out to meet as many of you as possible to describe Entrust momentum and allow you to get to know us both better as well.** We realize that you need to be able to reach us quickly and get immediate response to your inquiries and we look forward to improving our services to you. So I am sure you will join me in welcoming Dave to our team.
The trend to trusted transactions and communications is growing in all areas of our business, including business-to-business and business-to-consumer transaction. We continue to be the overall market leader as validated by independent research firms such as Data Quest and Gartner Group, who recently issued a report in August that showed Entrust with 35% global market share – almost twice as large as our nearest competitor. Overall, we continue to win in the market we traditionally dominate, and we are gaining new share in our target markets. I would also like to leave you with this final thought on this quarter. Now the year 2K issues are finally being put to rest. We believe the next wave of opportunity is e-business into the year 2000 and beyond. Entrust Technologies is ideally positioned to take advantage of e-2000 with its solutions for all areas of the market.

52. On October 20, 1999, Bear Stearns & Co. Inc. issued a report entitled, "A Strong Q3 By All Measures; Reiterating Buy and $45 Price Target," written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted 1999 EPS of $0.10 and 2000 EPS of $.035. It stated:

We are reiterating our BUY rating on ENTU and our $45 price target after the company reported another quarter of very strong growth and an earlier-than expected appointment of a highly-qualified CFO. For two quarters in a row, the company achieved close to 20% sequential growth in license revenues (20% in Q2 19% in Q3), which could signal that we might be at the inflection point where customers begin to understand the benefits of PKI Internet security and are ready for significant deployment in 2000. We believe visibility is very good into Q4 and the company is not likely to experience any material Y2K-related slowdown thanks to its significant backlog and business opportunities going into Q4....

Entrust reported stronger than expected Q3 revenues of $22.6 MM (we forecasted $21.4 MM), driven primarily by higher than expected sequential growth of license revenues.

* * *

Q3 revenues increased largely because of growth in e-business application security deployment. More than 50% of sales were propelled by e-commerce transactions, which we believe is almost double from a year ago. Entrust added 77 new pilot
customers in Q3, up 28% Q/Q (60 pilots in Q2), bringing the total to 387 pilots. *We believe that the strong growth in pilot customers is significant to the long-term revenue growth of the company. In our view, revenues should accelerate as customers move from piloting PKI (public key infrastructure) to full deployment over the next year or so.*

* * *

In Q3, Entrust added 140 new customers, up from 90 new customers in Q2, and now has over to 1,100 customers, reflecting strong customer momentum.

* * *

Entrust’s new product release – Entrust/PKI 5.0, which was in beta in Q3, should be shipping in volume by the end of Q4. We believe 5.0 would improve the ease of use, flexibility, security, and lower the cost of ownership and deployment of its PKI offerings. We also think the new release will further extend the company’s product leadership in the PKI space.

Further, given the continued growth of B2B (business to business) e-commerce, which requires strong network security (in addition to quality of service) on the Internet, market opportunity for ENTU should expand further in 2000.

In addition, we expect Entrust to become significantly more vocal in articulating their story to the investment community with the upcoming appointment of a seasoned investor relations professional.

53. On October 20, 1999, Robertson Stephens issued a report on Entrust written by John Powers after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Powers it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted 1999 EPS of $0.09 and 2000 EPS of $.037. The report also forecast quarterly results for 2000 as follows: $0.06 for the first quarter, $0.08 for the second quarter, $0.10 for the third, and $0.12 for the fourth quarter. It stated:

- *We are slightly raising our estimates.* We are raising our FY99 revenue estimate to $84.4 million from $82.2 million, and our FY00 estimate to $133.7 million from $128.3 million. We are maintaining our EPS estimate for FY99, but raising our FY00 EPS estimate to $0.37 from $0.35.
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* * *

- **Pilot Program new customers increased by 28% over last quarter to 77 from 60 new pilot customers in Q2:99 (and 55 in Q1:99). We believe these trial customers are very likely to move forward with wide-scale public key infrastructure (PKI) deployments.** The company added over 140 new customers, bringing total number of customers to 1100.

* * *

**INVESTMENT THESIS:** In our opinion, the need for trusted communication over the Internet is becoming more apparent since the Internet is growing as a medium for business transactions. We believe the Entrust, with its robust product suite, is one of two companies that positioned to take on this rapidly growing market.

54. On October 20, 1999, SunTrust Equitable Securities issued a report with a "Strong Buy" recommendation on Entrust written by P. Sean Jackson after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Jackson it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted EPS of $0.05 for the fourth quarter of 1999, $0.05 for the first quarter of 2000, $0.08 for the second quarter, $0.10 for the third quarter and $0.12 for the fourth quarter of 2000. It stated:

The company also announced that a Nortel veteran, David L. Thompson, will be the company's new CFO, a position that has been vacant since the end of 2Q99. Entrust will also be forming an Investor Relations (IR) department with the director of IR coming on board in approximately six weeks.

We are raising our 4Q99 actual taxed EPS estimate from $0.04 to $0.05 as well as our 2000 EPS estimate from $0.34 to $0.36. Our revenue estimate for 4Q99 is being adjusted from $23.9 million to $24.6 million, and our 2000 revenue estimate is being raised from $131.9 million to $133.2 million.

* * *

**Entrust showed surprising growth in the number of pilots sold in 3Q99, signing up 77.** This was a substantial increase over previous quarters, which included 60 in 2Q99, 55 in 1Q99, and 49 in 1Q99. Recall that the average pilot sale for Entrust contributes approximately $50,000 to
$100,000 in revenue, while a fully deployed solution can be multi-million dollar sale. Therefore, this establishes a strong base for the company to accelerate revenues going forward.

* * *

In summary, we believe the strength of Entrust's quarter, the company's competitive wins, and its bullish outlook for the fourth quarter should squelch concerns that the company is losing momentum. In fact, we believe that the company is best positioned of any in the PKI space to capitalize on the impending growth in this segment. In 3Q99, the company had some very high profile pilot wins, including several from customers that had competitor's solutions already in place.

To reflect better business momentum and visibility, we are raising our 4Q99 actual taxed EPS estimate from $0.04 to $0.05 as well as our 2000 EPS estimate from $0.34 to $0.36. Our revenue estimate for 4Q99 is being adjusted from $23.9 million to $24.6 million, and our 2000 revenue estimate is being raised from $131.9 million to $133.2 million. We also believe that there exist substantial upside possibilities from these numbers.

55. On October 21, 1999, First Analysis issued a report on Entrust entitled "Strong Quarter Reinforces Positive Outlook," written by Howard Smith after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Smith it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecast 1999 EPS of $0.10 and 2000 EPS of $0.36. It stated:

Investment thesis:

We reiterate our 1 (strong buy) rating for Entrust Technologies Inc. following its report of strong September (third) quarter results. Quarter performance confirms our thesis (expressed in our initiating coverage and industry report of (Oct. 8) that Entrust offers attractive strengths, including:

- A leadership position in a rapidly growing PKI market.

- A growing base of enterprise customers purchasing pilot systems that offer significant potential.

- A comprehensive, growing product line that provides follow-on opportunities.

* * *

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Estimates:

We have raised our 1999 EPS estimate to $0.10 from $0.08 to reflect the penny by which Entrust exceeded our third-quarter estimate and rounding. Our 2000 EPS estimate is raised a penny to $0.36 to reflect slightly higher revenue and a strong business tone.

* * *

Software license revenue was particularly strong, beating our expectation by 10%. Entrust sold 77 new pilot systems, up 28% sequentially and 133% year-over-year. Pilot systems (generally priced in the $50,000 range) tend to indicate a serious customer-commitment level, and offer potential for follow-on enterprise-wide deployments.

* * *

Entrust reported a 90% maintenance-renewal rate for pilots. This is an important indicator until the company is able to quantify a pilot-to-full-deployment conversion rate. We interpret the strong maintenance renewal rate positively as it indicates most customers are still evaluating the product for larger deployments and have not sought another solution or abandoned PKI.

* * *

The company stated Entrust 5.0 is on target for general availability in the fourth quarter: It includes greater scalability and has administration features customers have been demanding. We view this as an important product release and will be monitoring its progress closely.

56. On November 11, 1999, Bear Stearns issued a report on Entrust entitled "Reiterating Buy Rating and $45 Price Target," written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. It stated:

After hosting upbeat investor meetings with ENTU management (CEO John Ryan and the new CFO, David Thompson) in Boston, we continue to believe business remains strong and is poised to accelerate in 2000 as demand for end-to-end Internet security solutions for B2B e-commerce takes off....

Highlights From Investor Meetings
After achieving two consecutive quarters of strong revenue growth (17% sequential growth in Q2 and 15% in Q3), business remains strong in Q4. We are comfortable with our Q4 revenue estimate of $24.5 MM and EPS estimate of $0.04. We remain convinced that Y2K will not be issue for the company to meet or exceed our Q4 estimates.

We had the opportunity to spend a whole day with newly-appointed CFO David Thompson. Investors and ourselves are impressed with Mr. Thompson's seemingly conservative approach and impressive qualifications. As we mentioned, the company will step up its focus on Wall Street and the appointment of Mr. Thompson will certainly reinvigorate the company's investor relations program.

We believe that revenue is likely to accelerate further in year 2000. Many of the company's 400 pilot customers could migrate to a company-wide PKI (Public Key Infrastructure) digital certificate deployment as concerns over the Y2K bug abate. While a typical pilot customer generates $40,000-50,000 in revenue, a full-blown customer could generate revenues of $100,000 to over $1 Million. Consequently, this could provide material upside to our 2000 estimates. In fact, some notable customers have recently moved from pilots to deployments generating close to $1 MM in revenues including NY Life, Chase, and Compaq.

* * *

Entrust's new product release – Entrust/PKI 5.0, will be shipping in volume by the end of Q4. We believe 5.0 will improve the ease of use, flexibility, security, and lower the cost of ownership and deployment of its PKI offerings. We also think the new release will further extend the company's product leadership in the PKI space and could accelerate demand. Also, the significant activities in VPN (Virtual Private Network) should also generate strong demand for the company's products.

57. On November 17, 1999, Bear Stearns issued a report on Entrust entitled "Entrust is First to Market with Wireless Internet Security Solution; Raising Price Target to $55," written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted 1999 EPS of $0.10 and 2000 EPS of $0.35. It stated:

After very positive meetings with Entrust management [sic] last week and today's very significant product
development announcement, we are raising our price target on Entrust to $55 (from $45). We continue to believe that business remains strong and is poised to accelerate in 2000 as demand for end-to-end Internet security solutions for B2B e-commerce takes off....

58. On November 18, 1999, SunTrust Equitable Securities issued a report on Entrust entitled "Entrust's Business Momentum Strong; Establishing New Price Target," written by P. Sean Jackson after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Jackson it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted EPS of $0.36 for 2000 and the following quarterly 2000 EPS: first quarter $0.05, second quarter $0.08, third quarter $0.10 and fourth quarter $0.12. It stated:

As evidenced by the strength in Entrust's stock price over the several weeks, we believe the market is finally beginning to take notice of the company's strong competitive positioning, its attractive valuation as compared to VeriSign (VRSN – Attractive Long-Term), and the bullish outlook for PKI market overall.

Entrust had made a point to focus this quarter on better communicating to investors its current positioning in a very dynamic and, we believe, easily misunderstood PKI market....

* * *

Lastly, we are beginning to see signs that more firms are accelerating their deployments of PKI solutions throughout their entire enterprise. Recall that the average pilot sale for Entrust is the $50,000-$100,000 range, while a fully deployed PKI can be a multi-million sale. To date, approximately, 70-80% of PKIs deployed are still in the pilot phase. We believe in the next several quarters there will be unprecedented attention on making PKI easier to implement and will result in more customers deploying PKI on a larger scale....

59. On November 30, 1999, Ryan was interviewed regarding Entrust. He stated:

RYAN: Data Quest and other organizations are estimating this market to grow in the vicinity of 100% per year for the next two or three years.

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Basically, around a $200 million market in 1999, growing to some $400 million in the year 2000, and an estimate to be in excess $1.2 billion by the year 2002.

* * *

RYAN: Our next nearest competitor, who actually has around 19% market share is VeriSign out of California, followed by Baltimore Technology at around 12%, and those results seem to be rather consistent with what we've seen here as well. So basically, Entrust is about twice as large as our nearest competitor in the digital certificate market.

* * *

RYAN: Well, of course, the future is always a little more exciting to predict, but certainly this year, and historically, Entrust has always been the number one company in the digital certificate and public infrastructure markets; we were first to market in 1994, and continue to be the market leader today. So our goal is to continue to be the world's market leader in this phase and this year we believe we've held our consistent market shares despite a number of new competitors trying to enter this market and our expectation is to continue to be the number one player in this market.

* * *

HEIZMANN: And you're currently expanding your product line? Can you tell us about any new products?

RYAN: Sure. Actually, we, without question, have been in this market as the technology leader. The Gartner Group who has analyzed this market for some three years, publishes annually their view of the market and Entrust has always been ranked the number one vendor in both innovation and ability to execute. And this year will be no different than any other year for us. We just released and announced really today that Release 5, which is a very powerful update to our current release, and it's the fifth version of Entrust now was released this week. In fact, late last week we released it to the market, and it contains a huge number of powerful features that now allows top company sales assistance to the millions of users, which
allows them to automatically register users over the web with very little cost, as well as ensure that the users can access the technology from any terminal, which is called our roaming service. So that will really raise the bar for our competition across the world.

* * *

RYAN:

No, actually, what we have found is that earlier in the year there is no question that this market could have been much bigger had people not been preoccupied with the Y2K and the Y2K reasons that were required to repair their software. But very good for us now, is that we have seen a number of those customers who were very much focused on results of Y2K, now realized that they're most pressing project that they will have on their plate immediately is not to be amazoned or taken advantage of by companies who moved to the web. So you see a huge paranoia, I think, around most of the customers we deal with now accelerating into e-commerce and they have recognized you cannot get the e-commerce without a security infrastructure, one that scales and one that they can use for both their partners and suppliers, as well as customers and internally for that matter. And that is what puts us in such a unique position to service them. We have (1) technology that runs right through their organization for both internal and external use and its good to see that companies now are getting very focused on getting their e-commerce strategies implemented. In fact, I think the Gartner Group did a recent survey and next to Y2K the number one priority in companies around the world would be e-commerce. So we see us being Entrust a very, very critical requirement for helping and accelerating the e-commerce goals.

* * *

RYAN:

Certainly, a consensus estimate on the streets and in Wall Street for us is to sell around $82 to $83 million and basically we are on track with those consensus estimates and having been comfortable with them all year long. I think next year as we look ... through their estimates
anywhere from 60% to 70% growth is a minimum and certainly we feel very good that the market has that kind of opportunity as well.


It stated:

Entrust/PKI 5.0 Software Sets New Standards for Delivering Trusted e-Business Transactions to Customers.

Entrust(r) Technologies Inc. (Nasdaq:ENTU), global leader in solutions that bring trust to e-business, announced today the commercial availability of its flagship Entrust/PKI(tm) 5.0 software and Desktop Solutions 5.0. Entrust/Roaming(tm), a solution for enabling mobile Entrust public-key infrastructure (PKI) users and the updated Entrust/Toolkit(tm), a family of toolkits for developers, are also available now, direct from Entrust Technologies and its channel partners.

"These 5.0 releases provide customers with enhanced functionality and further differentiates our offerings from the competition. We focused on lowering the cost of user registration and administration, improving user mobility, and implementing new policy management and security capabilities that will help us deliver affordable, easy-to-use solutions to customers," said Bob Heard, senior vice-president, marketing and business development, Entrust Technologies Inc. "Customers and partners alike will benefit from increased control, flexibility and trust in all of their e-business transactions."


Ryan stated:

But what is really driving our business is the emergence of business-to-business. Over 50% of our revenue is now derived from securing business-to-business transactions. And really putting their trust in those transactions is the stimulant for our business today. As we look forward to the future, Foerster Group has estimated that over a trillion dollars of business-to-business transactions will occur by the year 2003 – around a 89% compound growth rate. We feel really fortunate in that we have a complete portfolio that can replicate all of the trust models in the physical world for all the product transactions available today, which is putting us in a very unique position as we service our large
customers, which we have over 1,100 worldwide customers.

* * *

Ryan:

A recent report by Data Quest basically showed our market share at 35% global share, versus 19% for Verisign, and less than 12% for Baltimore Technologies. We view this share—we are actually maintaining or increasing that share position, and the reason for that is that we have mature proven technology, we have a very well defined trust model that we subject to external validation and we have some of the world's biggest banks and insurance companies and governments running on our technology. It gives us great reference customers, backed by the largest team in the industry. In fact, the Gartner Group that looks at this industry, has evaluated it each year for the last three years and continues to rank Entrust Technologies as the number one company in ability to execute in innovation. And that's because we have the largest design team in technology, and the team to carry out the execution.

* * *

Moderator:

What kind of business do you think you will provide here in terms percentage growth rate and how will that compare to your total company's growth rate?

Ryan:

The consensus estimates are for this market and most of the players in the markets to grow around 60%-70%. We will expect Europe to actually contribute substantially more growth than that. And, I would be really looking forward to more than 100% growth here in Europe at a minimum.

* * *

Ryan:

Certainly, that is the Wall Street consensus estimates and our practice is really to make sure that we are the number one player and exceed the growth in the market itself. So our expectation is that this market really does demonstrate the kind of growth people are projecting that will grow with the market rate or better than the market rate. As the number one player today, it puts a little more pressure on you to be able to exceed that market rate, but that would be our expectations.
On December 13, 1999, Bear Stearns issued a report on Entrust entitled "Raising Price Target to $100; Reiterating Buy Rating," written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. It stated:

We are raising our price target on Entrust Technologies to $100 (from $55) and reiterating our Buy rating. Strong business momentum coupled with a number of new deployments give rise to our new price target. We think that over the next 12-to-18 months a number of catalysts could facilitate accelerated revenue and earnings growth and should drive the stock upward. Our reasons are as follows:

We believe Entrust is better positioned than any other PKI (Public Key Infrastructure) vendors in securing B2B e-commerce. In a B2B world, mission-critical applications and confidential corporate data are moving over the Internet. Consequently, companies conducting B2B e-commerce will opt to use the most robust and complete Internet security solution, which in our view, is Entrust's newly-released Entrust 5.0 product suite.

Revenue is likely to accelerate further in year 2000. Many of the company's 400 pilot customers could migrate to a company-wide PKI digital certificate deployment as concerns over the Y2K bug abate.

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Management has indicated to us their intention to aggressively articulate the Entrust story to investors.... We believe that as investors continue to gain knowledge of the Entrust story, we could see a multiple expansion of the Entrust valuation.

* * *

We continue to believe that business remains strong and is poised to accelerate in 2000 as B2B e-commerce continues to take off. We are comfortable with our Q4 revenue estimate of $24.5 MM and EPS estimate of $0.04. Our outlook for 2000 remains very positive.

Long-term we believe that Entrust is extremely well positioned to leverage the growth of the Internet. We expect that demand for PKI Internet security solutions to closely follow the anticipated explosive growth for Internet traffic and e-commerce. Like most industry pundits, we also believe that a majority of the growth of the Internet will stem from B2B e-commerce. In our
view, the company that is positioned to secure B2B e-commerce is likely to emerge a winner.

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**In our view, the PKI Internet security space is poised to take off beginning in year 2000. Driven by the growth of VPNs and B2B e-commerce, many customers currently piloting PKI solutions will migrate to the deployment stage.** While both ENTU and VRSN shares have appreciated considerably recently, we believe we are only in the second inning – and believe both stocks will continue to outperform the market in 2000.

63. On December 14, 1999, Merrill Lynch issued a report "Initial Opinion" on Entrust by Mark Fernandes. Because this was Fernandes' first report on Entrust, it was issued only after Fernandes had extensive discussions with Ryan and Thompson and was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Fernandes it was accurate. Entrust copied and distributed this report, thus adopting it as its own. The report forecasted 2000 EPS of $0.36 and stated:

- Entrust has the industry's broadest product offering. Entrust/PKI 5.0 (11/99) offers significant functionality.

  * * *

- Q4 is tracking well with over 50% of revenue done. Entrust's revenue is expected to grow 72% for FY99 and 60% for FY00 with EPS growing from $0.09 in FY99 to $0.36 in FY00.

  * * *

**The PKI market in only in the second year of an extremely strong, multi-year growth cycle.** We expect this market to grow from approximately $170 million in 1998 to over $3 billion in 2004. This represents a CAGR of 60% over this 6-year period. 100% revenue growth from 1998 to 1999 is evidence of this tremendous opportunity. As eCommerce blossoms, **the demand for secure and authenticated communications and transactions will grow dramatically.** Leading PKI vendors like Entrust and VeriSign will satisfy this need.

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- In Q3:99, Entrust added 77 new pilot systems, which was a 133% increase over last year. While these pilots account for a small portion of revenue (approx. 15%), they
are the seeds for future revenue streams after Y2K fears subside.

- **Release 5.0 of Entrust/PKI offers easier deployment**, support for multiple CAs, single sign-on for Microsoft and Entrust applications, reduced registration costs, and **increased scalability** (one million/server vs. 200K/server in 4.0) among other features being demanded by customers.

64. From December 17, 1999 to December 22, 1999, Entrust's stock dropped from $59 to $50 - an 18% decline - in response to VeriSign's announcement of its acquisition of Thwate Consulting and Signio, Inc. This put added pressure on Entrust to step up its acquisition program. Shortly thereafter, Entrust began to discuss the acquisition of enCommerce with Alberto Yepez, CEO of enCommerce.

65. Entrust's 10-K for the fiscal year ended December 31, 1999 stated:

Entrust Technologies is the leading global provider of public-key infrastructure, or PKI, products and services to e-businesses and other organizations. Unlike products and services that focus primarily upon the issuance of digital certificates, which are similar to electronic passports, our award-winning solution is a comprehensive, end-to-end PKI framework designed to assure the security of electronic transactions and communications over advanced networks, including the Internet. Our open, scalable software solution operates across multiple platforms, network devices and applications.

Our PKI solution is particularly relevant to organizations in the growing business-to-business, or B2B, electronic commerce market. We offer B2B organizations a comprehensive security solution that includes the robust functionality required to support their increasingly advanced and high-value electronic transactions and communications. **We believe that we are well-positioned to capitalize on our PKI market leadership to address B2B and other important markets**, such as the business-to-customer, or B2C, market. We are also actively developing additional functionality to address emerging opportunities, such as the growing need to secure e-business transactions conducted over wireless networks.

* * *

The Entrust Solution

We are the leading global provider of comprehensive, end-to-end public-key infrastructure solutions, encompassing both products and services, that enable e-businesses and other organizations to effectively manage secure transactions and communications across a wide range of applications. Our PKI
solution addresses the six critical network security needs and allows for consistent security policy management across and between organizations, and enables any organization to establish its own flexible, highly reliable PKI. We also offer users encryption functionality and full digital signature and certification management in an easy-to-use, integrated and automated solution. Among the benefits offered by our PKI solution are:

Comprehensive, End-to-End Functionality. We believe that we are the only provider of a comprehensive end-to-end PKI solution offering the functionality necessary for the full life-cycle management of keys and digital certificates.

**Ease of Use.** Our products automatically and transparently enable complex certification and key management functions without requiring any action by the user. Users can access most functions via a single user login and simple point and click graphical interfaces. **We believe that our PKI solution enables users to execute complex information security functions without needing significant training, and in many cases no training at all is required. Furthermore, we believe that the ease of use of our PKI solution is a significant benefit to customers and differentiates our solution from those of other PKI vendors.**

Reduced Cost of Ownership. Our PKI solution enables organizations to significantly reduce overall costs for addressing information security for the following types of reasons:

- comprehensive and automated functionality reduces duplication of personnel;

- *its ease of use simplifies or eliminates the need for training*; and

- its ability to interact with a wide variety of platforms and applications avoids the need to purchase multiple security systems.

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**Strategy**

Our objective is to maintain and enhance our position as the leading global provider of comprehensive, end-to-end PKI products and services that enable organizations to effectively manage secure transactions and communications across a wide range of applications. Key elements of our strategy include the following:

Capitalize on B2B Market Opportunities. We are focused on developing, marketing and selling products and services that enable secure B2B transactions and communications. We believe that our market leadership is founded on our strength and capabilities in providing an end-to-end, comprehensive solution.
required in the B2B market. **Although we currently have numerous, large customers in this market, we believe that the market is still in the early stages of development and provides substantial growth opportunities in the future.** We are targeting our sales and marketing activities at Global 2000 organizations and large government organizations having significant requirements for comprehensive PKI solutions and the resources to deploy them broadly. In particular, we are focusing our efforts in the finance, government, health care, telecommunications and large manufacturing sectors. Organizations in these markets frequently have thousands of customers, partners, subscribers and service recipients who will, directly or indirectly, benefit from secure transactions and communications enabled by our PKI solution.

66. In a press release dated January 18, 2000, Entrust announced its intention to commence a follow-on offering. The press release stated:

   Entrust Technologies will shortly be filing a registration statement with the SEC for an offering of its common stock. This follow-on offering to Entrust's August 1998 Initial Public Offering is expected to occur in the first quarter of 2000. The offering will be made only by means of a prospectus. It is currently anticipated that Entrust will sell approximately two million shares and Nortel Networks Corporation, Entrust's largest shareholder, will sell approximately six million shares. Entrust Technologies believe this controlled, disciplined, and well managed placement of a significant number of shares will enhance liquidity, allowing greater value to its shareholders.

67. Also, on January 18, 2000, Entrust issued a press release entitled "Entrust Technologies Inc. Reports Record Fourth-Quarter 1999 Results." The release stated:

   "Entrust Technologies is obviously very pleased to deliver such excellent financial and business performance in what many acknowledge was a challenging 1999. Increasing our revenues by 74%, in a total PKI market that grew by 61% according to independent sources, is a strong testament to the breadth and depth of our solution set for both business-to-business and business-to-consumer transactions," remarked John Ryan, President and CEO, Entrust Technologies, Inc. "We have made significant strides in 1999 by enhancing our suite of industry leading products, strengthening our service capabilities, and bolstering capabilities in our sales organization while expanding our complementary partnerships. We believe this positions Entrust Technologies to continue to deliver innovative solutions and demonstrate market leadership in 2000."

During the fourth quarter 1999, Entrust Technologies:
Demonstrated on-going momentum by adding 87 new Q4/99 pilot systems in both B2B and B2C applications, a 78% increase over Q4/98 and an 13% increase over the 77 in Q3/99. The 279 pilot systems for the year 1999 represents an increase of 149% compared to 1998.

Added 204 new customers in Q4/99 driving the total to over 1300; a 69% increase over 1998;

* * *

Launched the fifth generation of its flagship Entrust/PKI(TM) 5.0 suite of software and applications, providing the market with customer driven enhanced functionality. Release 5.0, introduced to market as committed, is already receiving accolades from customers and the media.

68. On January 18, 2000, Bear Stearns issued a report entitled "Entrust Reports Strong Q4 Results," written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted 2000 EPS of $0.35 and stated:

Strong momentum continued for Entrust on all fronts. Revenues grew 15% sequentially to $26 million, beating our forecast by $1.5 million. EPS moved up by $0.01 to $0.05.

* * *

Demand for Entrust's PKI product suite is poised for growth as B2B e-commerce takes off and Internet security becomes mission critical. Entrust added 87 new pilot customers bringing the total to 279 new pilots added in 1999, which represents a solid base to penetrate for full deployment.

* * *

We reiterate our Buy rating and $100 price target on Entrust Technologies after the company reported strong Q4 results and more importantly, demonstrated that business momentum is accelerating faster than expected... Entrust showed stronger than expected Q4 revenues of $26 MM, up 15% from $22.6 MM in Q3 (we forecast $24.5 MM), driven primarily by higher than expected sequential growth of license revenues.... Earnings moved up to $0.05, growing 29% sequentially, from $0.04 in Q3 and $(0.01) a year ago. We had forecast flat earnings growth of $0.04.

* * *
Deployment of full e-commerce security applications as well as an increase in the number of PKI pilots fueled Q4 revenue growth. We believe that over 50% of sales were propelled by e-commerce transactions, which we believe is almost double from a year ago. During the quarter Entrust added 87 new pilot customers, up 13% Q/Q (77 pilots in Q3), bringing the total to 279 pilots for the year, up significantly (149%) from 1998. In 2000, as demand for Internet security solutions accelerates, customers should begin moving from piloting PKI (public key infrastructure) to full deployment over the next year or so, thus we should see an acceleration in revenue growth....

* * *

During the quarter, Entrust began shipping its latest PKI product release, Entrust/PKI 5.0, which was in beta in Q3. We believe this release improves the ease of use, flexibility, security, and lower the cost of ownership and deployment of its PKI offerings and should foster strong demand as B2B e-commerce Internet security becomes mission critical in 2000 and beyond. Further, we think that Entrust's market leading position, as recently confirmed by IDC, should bolster the company's product leadership in the PKI space.

69. On January 18, 2000, SunTrust Equitable issued a report entitled "4Q99 Results: Entrust Ends Year with a Bang; Poised for Revenue Acceleration in 2000," written by P. Sean Jackson after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Jackson it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted the following 2000 quarterly EPS for Entrust: first quarter $0.05, second quarter $0.07, third quarter, $0.10, and fourth quarter $0.13. It stated:

Total revenue growth was fueled by a 74.5% increase in license revenues which came in at $19.4 million, well ahead of our $17.5 million estimate. Management cited that the continued strength in license revenues resulted from the significant increase in the number of new pilots as well as larger full-scale deployments with business customers. Service and maintenance revenues increased by 69.8% to $6.6 million, which were driven by the renewal of service agreements. In fact, we are impressed that 93% of customers (up from 92% in 3Q99) maintain active service agreements, which in our view, improves the visibility of revenues going forward. Additionally, international revenues have grown to 19% of total...
revenues, compared to 15% in 1Q99, which may also contribute to an acceleration of revenues in 2000.

* * *

**Entrust continued to show solid growth in the number of pilots sold.** The company signed 87 new pilots in 4Q99 compared to 77 in 3Q99, 60 in 2Q99, and 55 in 1Q99.... Since the average pilot sale for Entrust contributes approximately $40,000 to $50,000 in revenue, while a fully deployed solution can be a multi-million dollar sale, we **believe this strong growth in new pilots provides a solid base for the company to accelerate revenues going forward.**

* * *

Given the company's stellar growth in revenues and pilots during 1999, we are raising our revenue estimate for 2000 to $137.0 million from $133.2 million. However, since we are increasing the number of shares outstanding due to the follow-on offering in 1Q00, we are leaving our 2000 EPS estimate unchanged at $0.36.

70. On January 19, 2000, First Analysis issued a report on Entrust entitled "Solid Quarter; Outlook Remains Favorable," written by Howard Smith after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Smith it was accurate. Entrust copied and distributed it, adopting it as its own. It stated:

Investment Thesis:

We maintain our 1 (strong buy) rating for Entrust ... following its report of solid December (fourth) quarter results. **The tone of business is solidly positive and performance continues to verify Entrust offers attractive strengths.** Highlights include:

* * *

**Expanding base of enterprise customers purchasing pilot systems that offer significant potential (nearly 500 of Fortune 2000 customers are now in pilot);**

**Y2K is behind it, opening the way for full-scale deployment opportunities;**

* * *

We have raised our 2000 EPS estimate to $0.38 from $0.36 due to a strong tone of business, particularly for license
revenue. Our 2000 revenue estimate is $133.3 million, up from $130.5 million.

* * *

**Pilot systems (generally priced in the $40,000 to $50,000 range) tend to indicate a serious customer commitment level, and offer follow-on potential for enterprise-wide deployments.** Revenue from existing customers amounted to 82% of overall revenue.

71. On February 24, 2000, Entrust announced the commencement of its follow-on public offering of 8,150,000 shares of its common stock at a public offering price of $82.00 per share. Of these shares, 1,875,000 were being sold by the Company and 6 million were being sold by Nortel.

72. On February 28, 2000, Bear Stearns issued a report on Entrust written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted EPS of $0.05 for the first quarter, $0.07 for the second quarter, $0.10 for the third quarter and $.014 for the fourth quarter of 2000. It stated:

We are resuming coverage of ENTU with a Buy rating and raising our price target to $150 from $100. The company recently completed a successful $670 MM follow-on offering, which has, in our view, significantly raised the visibility of the company as the leader in securing B2B e-commerce. **We believe that demand for PKI Internet security solutions is accelerating as companies shift focus from Y2K readiness to implementing secure e-commerce solutions and Entrust will emerge as the leading provider of Internet security solutions for B2B e-commerce.** We are maintaining our 2000 revenue estimate of $135 MM and EPS of $0.35 and are initiating 2001 revenue forecast of $205 MM and EPS of $0.55. We are resuming our BUY rating on ENTU with a 12-month price target of $150.

We believe business in Q1 remains strong and we are comfortable with our Q1 revenue estimate of $27.7 MM and EPS of $0.05. **We believe in 2000, the company will focus on converting its 500+ pilot customers to fully-deployed customers, which should be the key growth drivers for the company. In addition, we believe the company will have a healthy pipeline of new pilot customers as PKI Internet security solutions gain acceptance in the marketplace.**
73. On March 8, 2000, Bear Stearns issued a report entitled "Entrust Forms Strategic Partnership with Ariba; Reiterating BUY Rating," written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted EPS of $0.05 for the first quarter, $0.07 for the second quarter, $0.10 for the third quarter and $.014 for the fourth quarter of 2000. It stated:

Q1 remains strong and we are maintaining our 2000 and 2001 estimates, although we believe that Ariba could offer upside in the long-term.

* * *

We believe that as the market [sic] leading provider of PKI Internet security solutions, Entrust is extremely well positioned to benefit from the explosive growth of e-commerce. In our view, the Entrust PKI solution will emerge as the de facto standard used in securing B2B e-commerce transactions and that the Ariba partnership should help facilitate this advancement.

* * *

In addition to the Ariba alliance, Entrust has announced a number of key alliances that should facilitate long-term accelerated revenue growth. Coupled with its existing technology partnerships and strategic alliances, we believe that the Entrust solution a highly effective B2B e-commerce Internet security solution. For example, the Entrust solution is interoperable with most technology vendors/applications such as Oracle, SAP, Sybase, Novell and PeopleSoft. We believe this interoperability represents a significant competitive advantage for Entrust because it dramatically reduces deployment time.

* * *

Given the strong momentum we believe Entrust is experiencing, we fell comfortable with our Q1 revenue and EPS estimates of $27.7 million and $0.05. We are maintaining our 2000 revenue estimate of $135 MM and EPS of $0.35 and our 2001 revenue forecast of $205 MM and EPS of $0.55.

Computing Security Provider Strengthens Entrust's Expertise in the World's Largest IT Market." The press release stated:

[T]he global leader in solutions that bring trust to e-business, today announced the acquisition of CygnaCom Solutions for $16 million in cash. This acquisition of CygnaCom provides Entrust Technologies with a significant base of 50 highly skilled computer security and PKI consultants, focused on one of the world's largest IT markets; the U.S. Federal Government. CygnaCom Solutions specializes in Public-Key Infrastructure (PKI) information security consulting for the U.S. Federal government and provides cost effective security evaluation and testing laboratories.

In addition to increasing Entrust's Federal Government resources, CygnaCom Solutions provides a solid platform to address expanded local and state government initiatives as well as commercial initiatives.

75. On March 16, 2000, First Analysis issued a report on Entrust entitled "Focus Shifting Toward Increasing Orders from Existing Customers," written by Howard Smith after discussions with Thompson, which was based on and repeated information provided by him. Thompson reviewed this report before it was issued and assured Smith it was accurate. Entrust copied and distributed it, adopting it as its own. It stated:

We spoke with Entrust's CFO, and based on this conversation feel comfortable with our March (first) quarter estimate of $0.06 EPS on $27.8 million revenue.

We also received more details on the company's conversion of initial (pilot) customers to second-stage ($100,000 to $500,000) and third-stage ($500,000 or more) customers. Through the 1999 fourth quarter, Entrust had received 479 initial orders. Of these, 28% had moved to second stage by the end of 1999. Considering that 34% of these initial orders came in the third and fourth quarters and thus weren't in the market to proceed to second stage, we view the 28% number as very impressive. Excluding the third- and fourth-quarter initial orders, 43% of customers have placed order of second-stage magnitude or higher, also a figure we view as impressive.

We view these conversion numbers as a confirmation of the investment thesis we outlined last fall when we initiated coverage. We reiterate our enthusiasm and strong buy rating.
76. A press release on April 18, 2000, announced that Entrust agreed to buy software company enCommerce in a stock swap valued at about $470 million. The press release stated:

    Plano, Texas-based Entrust (ENTU) said it will issue 8.2 million shares of common stock in exchange for enCommerce's outstanding capital stock.

    Entrust said it will also assume all enCommerce's outstanding employee stock options and warrants, bringing the total share exchange to 10.25 million shares.

    The transaction, to be accounted for as a purchase, is expected to close by the third quarter.


    John Ryan, president and CEO of Entrust Technologies Inc., will serve as president and CEO of the new, combined organization. Alberto Yepez, CEO and chairman of enCommerce, Inc., will remain in his current capacity and will also join the Entrust board.

    * * *

    A recent Gartner Group research report says that by 2004 B2B transactions will reach approximately $7.3 trillion. Through the industry's most comprehensive portfolio of trusted eBusiness infrastructure solutions, Entrust and enCommerce will uniquely address the four critical requirements for companies to successfully migrate their business to the Web. These include the ability to know who they are doing business with, authorize individual interactions and transactions, communicate privately and confidentially, and confirm transactions that have been completed. In doing so, the combined company will enable customers to:

    * Bring trust to eBusiness relationships through end-to-end security for all transactions and communications – both internally and throughout an organization's eBusiness network.

    * Expand eBusiness relationships by enabling private, personalized interaction at the portal for customers, partners and employees.

    "The evolution of the Internet as a platform for worldwide commerce and information exchange is fueling demand for comprehensive solutions that enable eBusiness relationships," said John Ryan, president and CEO, Entrust. "By coming together, enCommerce and Entrust are uniquely positioned to lead the
industry in addressing this demand. enCommerce complements our leadership in securing online business transactions and communications with superior functionality for giving users secure and personalized access through the portal. The result is the most comprehensive, end-to-end solution for allowing companies to create an inviting, convenient and secure place for eBusiness."

Ryan added, "At the same time, Entrust's proven business performance as a public company - combined with the entrepreneurial Silicon Valley culture at enCommerce - creates a company that can capitalize quickly on the global eBusiness market."

"The Internet economy has repeatedly demonstrated the incredible opportunities for market participants that can both deliver superior technology and expand business and market penetration in 'Internet time'," said Alberto Yepez, CEO and chairman of enCommerce. "Our merger with Entrust will enable enCommerce to aggressively accelerate our strategy for expanding beyond our leadership in the trusted portal infrastructure market. Entrust's global sales infrastructure, extensive customer base, and world-class R&D talent provide a strong complement to our own strategic industry partnerships, blue-chip customers, and seasoned professional services. Together, we create a company with the resources to excel in today's trusted eBusiness infrastructure market and stake our leadership in new, emerging segments."

Bear, Stearns & Co. acted as financial advisor to Entrust Technologies Inc. Credit Suisse First Boston acted as financial advisor to enCommerce, Inc.

78. On April 18, 2000, Entrust reported financial results for the first quarter ended March 31, 2000. The press release stated:

"In Q1 2000, we experienced strong growth in all areas of our business. We are once again proud to deliver record revenues and earnings. It is exhilarating to lead this great company as it consistently executes on its mission to provide solutions that make it safe to do business over the Internet," said John Ryan, president and CEO of Entrust Technologies.

* * *

During the first quarter 2000, Entrust Technologies:

Demonstrated excellent momentum by adding 95 new initial PKI systems for both B2B and B2C applications, a 73% increase over Q1/1999. Entrust Technologies showed consistent, strong revenue growth in North America, Europe, and Asia.


* * *
Initiated and completed a follow-on stock offering that raised over $700 million (US) for Entrust Technologies and selling stockholders.

79. On April 18, 2000, subsequent to the release of its first quarter 2000 results, Entrust held a conference call for analysts, money and portfolio managers, institutional investor and large Entrust shareholders to discuss Entrust's first quarter results, its business and its prospects. During the call Thompson and Ryan stated:

Thompson: We believe we are well positioned for continued expansion and further business development activities.

Ryan: [C]losing 1999 with over 40% share of the total PKI market, up from 35% in 1998. We're excited about our position as the global market share leader.

Ryan: I'll also take a few minutes to talk to you about the major highlights of the quarter, with particular attention on our strength globally, so that you can get an insight into how our business is firing on all cylinders in North America and also around the globe. As usual I will also spend a few moments summarizing important events and announcements that occurred during the first quarter.

On the offering roadshow, we explained that Entrust has a very large and growing installed base of customers actively using our solution. We believe that our large customer base is a significant advantage in differentiator for Entrust. Many of our customers have large scale PKI implementations and I can attest that these customers are – what these customers are doing with our solution is satisfying for both our employees and our customers. Furthermore, our existing customer base continues to represent a significant portion of our quarterly revenue as we target our direct sales machine to up-sell customers as they continue to deploy and add new applications to their Entrust system. Our customers are actively demonstrating how valuable our solutions are as they move their business to the Internet.

*   *   *
In the healthcare pharmaceuticals market, we are seeing substantial acceleration, exactly as we predicted to investors on the roadshow to the follow-on offering....

Fun Serve is also an excellent example of the type of acceleration we're seeing with many an account moving from an initial sale to broad deployment. Fun Serve purchased their initial system in late Q3 of 1999, and now has significantly extended their commitment to Entrust in the first quarter of 2000.

* * *

We continue to believe that the direct sales model represents an important strategic advantage for Entrust. In Q1 we had a record number of 95 initial systems; these are the systems that we previously called Pilots. Initial Systems represent full PKI sales that have substantial opportunity for growth into the future.... As we explained on the roadshow for the follow-on offering, 95 new customers is well within the target range that we expect to moderate towards 90 to 100 per quarter. With that, we're of course, focusing our team on expanding the base and also leveraging and migrating the existing base of customers....

In 1999, our sales force focused at our significantly growing installed base of customers. And we're very successful because the customer base grew 140% year-over-year.

In 2000, the sales force is focusing on capturing incremental revenue from installed customers, a significant source of revenue in the path, and we will continue to grow our customer base substantially as well in the year 2000, in tandem with up-sell of the existing base.

We had a landmark quarter in terms of B2B partner announcements, and we strongly believe that it is essential for our investors to understand the value that these partners bring to our customers....

There is no question that we are successfully expanding our total capabilities to address the growing needs of our customers, particularly in the B2B area. On
that note, *I would like to take some time now to discuss a merger with enCommerce which we announced today at 4:30 p.m. Eastern Time* to see how enCommerce fits with our global strategy to be the number one provider of e-business solutions.... Entrust is the only company that sells all these five requirements: authentication, authorization, confidentiality, signature conformation, and accountability today in an integrated, scalable and easy-to-use manner. These capabilities uniquely position Entrust Technologies to go after all price of B2B e-market and internet exchanges. As you know, as of September 1999, we launched an OEM authorization solution called Entrust Secure Control.... First, authorization is a mandatory requirement for transacting business on the Web.... *As the result of these lessons, we have been actively pursuing a strategy to merge with enCommerce, the market leader in authorization solutions.... We chose enCommerce because they are the market leader.... Their technology is proven and scalable.... Moreover, enCommerce has extensive experience providing large-scale web portal solutions, a business which is highly complementary to what many Entrust customers are doing today as they transition their business to the Internet. We feel strongly that it is necessary for Entrust Technologies to own an authorization solution to advance the technology with the speed and intensity necessary to meet the needs of our customers and partners. *Our merger with enCommerce is proof that we are executing the vision we outlined for investors during the follow-on offering.* Bringing together the two global leaders in PKI and authorization puts Entrust Technologies at an even stronger position now with over 800 employees to address the opportunities that the B2B and B2C markets present.

*Alberto:*

EnCommerce's flagship product is called GetAccess. GetAccess is a portal infrastructure for managing e-business relationships with secure and personalized access to our applications and services. *Combined with Entrust leading PKI products, we will now be able to deliver an integrated best in class solution for all of our customers as they continue to move their business to the Internet.* These combinations will allow our
customers to get to market even more quickly.... The similarities between our two companies are tremendous. As John mentioned, we already have numerous joint customers.... **There is no question in my mind that Entrust and enCommerce are uniquely positioned to take advantage of this explosive growth of e-business. We are particularly well-positioned to address the needs of a new breed of large-scale work portals and Internet-based e-markets and exchanges....** It is truly a unique opportunity for two market leaders to join forces to create a whole that is much greater than the sum of the parts.

Ryan:

*Finally, I would like to reiterate that we are very pleased with our record performance in Q1. In fact, as I look across all the metrics of our business, we are firing on all cylinders, and we now are positioned to move into the second quarter where we have unparalleled activity with a deep wide base and some significant new partnerships that we believe will continue the acceleration and consistently prove Entrust will continue as a number one vendor in trusted key business infrastructures. This now concludes our prepared remarks.*

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Thompson: For when I speak specifically to operating earnings excluding goodwill amortization, we believe that Entrust will continue to be profitable through Q3, which is the quarter in which we envision the transaction will close, and to the remainder of 2000, not only profitable, but continued to generate positive cash flow from operations. Looking forward, we believe that as the organizations merge, and as we begin to capitalize upon the wonderful cross-selling opportunities into the customer base which now numbers greater than 650 post-merger, that some revenue accretion basis we will see positive revenue accretion and revenue synergies throughout 2001.... [W]e look forward in our preliminary planning stages, we believe that the transaction will be earning accretive commencing Q4 of 2001.

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Fernandes: ... John can you talk about the synergies as to the existing customers with enCommerce. Some
of the common customers, can you talk about examples of how both products have been used?

Ryan: Sure, this is an excellent question. I'll let Alberto address that, but I will tell you that it's not something we've just thought up that we should be doing. We have been, over a course of several months, in dialogue with Alberto and his team.

* * *

Jackson: Okay. Great. Now, as far as what portion of revenue do you expect this authorization part of your business to become say in two to three years?

Ryan: We anticipate it would be approximately 20%-25% down the road.

* * *

Mazuma: And second question is as you look at your customer base today in PKI, what percentage is still in pilot and what percentage is rolling out and can you tell us maybe some roll-out stories that the companies are really aggressively rolling out the PKI?

Ryan: Okay. As we are on the roadshow we show our historical average, which I don't have a precise update, but I will use those numbers for reference because we've seen acceleration of it into the first quarter, as we closed last year, we had over 28% of our base had already migrated to what we call phase II or level II deployment. Typically the first deployment is the pilot for 40,000-50,000, and typically they move in the vicinity of $100,000 expansion and above. So, over 28% had already gone into phase II or phase III, and that also takes into account that we had just sold about 87 systems in the quarter. If I pulled those out, because they had just recently been sold, we were more into the 40%-45% , and of course what we are seeing now is the acceleration of that base and the continuation of that story. So as we close out quarter one, I would have to say that we were ... over 30%, if I just use the quarter-end number, have accelerated already. And what we are seeing across the board is a brand new energy of people recognizing they have to get going and start doing things with their
We would have the same traditional competitor, and all I can say is last year our market share looks to have increased 6 point plus, and we continue to have tremendous success around the globe, and we feel executing exceptionally well against the competition across the board, and there really has been no change from last quarter.

* * *

Thompson: We feel very comfortable with the estimates that are out there and ... really ... across the board everything's working. The depth and breadth of the base, has just given us, you know, you can really feel it in Q1. We can feel it as we exit the Q1. So it's just reflective in our honoring the customer concentration, acceleration of many, many companies now moving towards deployment and that's why I probably sound a little more exuberant than normal .... It's just the depth and breadth and flexibility we have as we look into the future.

But if you take away, this is a strong revenue and earnings quarter, one might be inclined to bump revenues and EPS for the year, would you endorse that?

Yes, we have certainly given some guidance in that respect, just think how will all relax at 6 million a quarter as we look out. So the answer is that we feel very comfortable with that.

* * *

So, it kind of leads to my next question is clearly the sweetness of this is in the cross-selling opportunity? Can you help me understand, what could have initially strike you as ... where you are going to concentrate first?

The interesting part that is really attractive here is we've already started. Only 10% of our base has made a purchase decision on authorization. So, we believe that we have almost 90% of our base available as market opportunity. We have been selling authorization now for at least four to six months, and we have a fairly large funnel of open opportunities in-hand already. So, we have already identified
customers, and we have a very large funnel of opportunity in our hands immediately on the Entrust side. And, obviously, as I synergize the list of customers, we have many mutual customers that, oddly enough, I believe 80% of the enCommerce customers, are target opportunities because they haven't made a choice yet on PKI.

* * *

Thompson: As I said, we would like very much to thank you for joining us this afternoon. **John, Alberto and I will be available by phone today and tomorrow, and of course for the remainder of the week in the quarter, if you have any follow-up questions.** Once again thanks and have a good day everyone on the call.

80. On April 19, 2000, Bear Stearns issued a report on Entrust entitled "Strong Q1 Results; Entrust Expands Leadership Position," written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted EPS of $0.06 for the second quarter, $0.10 for the third quarter and $.014 for the fourth quarter of 2000. It stated:

Key Points

Entrust announced the acquisition of enCommerce, the market leading provider of B2B authorization services.

We believe that this acquisition marks a very strategic play for Entrust that could double the firm's market opportunity from about $1.5 billion for PKI to over $3 billion.

We believe that essentially enCommerce provides a B2B portal with authentication, while Entrust offers the infrastructure. As such, we believe that the combined entity should lead the market in providing end-to-end B2B e-commerce security solutions while accelerating the deployment of PKI solutions.

Strong momentum continued for Entrust on all fronts. Revenues grew 12% sequentially to $29.1 million, beating our forecast by $1.4 million. EPS moved up by $0.01 to $0.06.

* * *
We reiterate our Buy rating on Entrust after the company reported strong revenue and earnings growth for the recent March quarter. Additionally, we positively view the Entrust purchase of enCommerce as a very strategic and complementary acquisition that should expand Entrust's market opportunity as well as accelerate the deployment of Entrust's PKI solution. enCommerce is the market leading provider of authorization services (authorizing what one can do) for B2B e-commerce transactions which targets a $1 billion market opportunity (by 2003). We believe that these services are extremely complementary to Entrust's PKI Internet security solution because it seamlessly provides Entrust with a tool to authorize B2B e-commerce transactions under its PKI Internet security infrastructure. The enCommerce solution is interoperable with multiple digital certificates and legacy infrastructures, thus should accelerate the growth of PKI solutions by improving the ease of use of digital certificates. In our view, the combined solution offers a comprehensive, secure, B2B enabling solution that is cost-effective, scalable and easy to use. Also, it is the only solution on the market that can seamlessly authenticate (Entrust) and authorize (enCommerce) for B2B e-commerce and further extends Entrust's lead in enabling secure B2B e-commerce.

enCommerce today is the market leading provider of authorization services that effectively expands Entrust's already significant B2B market opportunity. Simply put, we view enCommerce as the portal for Internet security and Entrust as the infrastructure, thus believe the merger is highly synergistic. We believe that enCommerce's product "Get Access" will immediately add value to Entrust, as the product integration should evolve quickly and the company should positively benefit from synergies. We believe that by acquiring enCommerce, Entrust will be able to accelerate the deployment of PKI solutions because of the interoperability of the enCommerce solutions. We believe that enCommerce could make up 20% of total revenues for Entrust in the long-term. As important, we believe that the combined solutions should enhance Entrust's leadership position in the B2B Internet security space.

* * *

Management indicated that in the near term the acquisition will contribute to incremental revenue growth, but will be somewhat dilutive to earnings. Long-term, management indicated that the transaction should be accretive to earnings by Q4 of 2001. Our estimates do not reflect the acquisition, and we will likely adjust our model when we achieve greater visibility. However, we believe this acquisition could be accretive to revenues by as much as 15-20% in 2001.

... During the quarter new customer wins and pilot conversions of PKI, as well strong growth of Entrust.net, contributed positively to the results. We believe that revenue growth should be strong over the next 12-18 months as Entrust established base of pilot customer deploy the full solution.
FYQ1 DEVELOPMENTS:

Deployment of full e-commerce security applications as well as an increase in the number of PKI pilots fueled Q1 revenue growth. During the quarter Entrust added 95 new pilot customers (initial PKI systems), up 10% Q/Q from 87 pilots in Q4. Pilot customers represent solid visibility into long-term revenue growth as many of these customers may move from a $100,000 plus revenue customer to a $1 million plus customer. In 2000, as demand for Internet security solutions accelerates, customers should begin moving from piloting PKI (public key infrastructure) to full deployment over the next year or so, thus we should see an acceleration in revenue growth.

81. On April 19, 2000, Merrill Lynch issued a report on Entrust written by Mark Fernandes after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Fernandes it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted EPS of $0.08 for the second quarter, $0.11 for the third quarter and $0.013 for the fourth quarter of 2000. It stated:

- Strong Q1 results highlighted by 73% annual increase in revenue and reduced customer concentration (down to 32% from 45% in Q4).
- Exciting merger with enCommerce (leading provider of B2B and B2C portal management technology/services) for $470M - combines Entrust's strong authentication capabilities with enCommerce's authorization technology.
  * * *
- Raising CY 2000 rev. est. to $141M from $134M (+5%) and EPS to $0.39 from $0.36.
  * * *
- We believe that the enCommerce acquisition should add $22-24M to CY00 revs and $45-50M to CY01 revs. However, it will be dilutive to CY01 EPS to the tune of $0.30-$0.40.
  * * *

Reduced customer concentration was a key accomplishment. Top 5 customers accounted for 32% of revenue
in Q1:00 vs. 45% in Q4:99 and 49% a year ago. *Management indicated a trend towards a diverse revenue stream.*

**Number of initial system deployments in the quarter increased to 95 from 87 in Q4:99.** These pilots have traditionally been an indicator of business from new customers. Management expects these new deployments to range from 90-100 per quarter.

* * *

**Entrust merged with enCommerce, the leading provider of B2B and B2C portal management technology and services.** The merger combines Entrust’s strong authentication capabilities with enCommerce’s authorization technology. In simpler terms, while Entrust can determine the identity of the user (consumer or business), enCommerce focuses on access rights and corresponding privileges of the user.

* * *

**We believe that the enCommerce acquisition should add $22-24M to CY00 revs and $45-50M to CY01 revs.** However, it will be dilutive to CY01 EPS to the tune of $0.30-$0.40. Management expects the transaction to be accretive to earnings in Q4:2001.

82. On April 20, 2000, Sands Brothers Investment Research issued a report on Entrust entitled "1Q00 Results in Line with Estimates: enCommerce Merger Announced Reiterating Strong Buy Recommendation," written by Kama Krishna after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Krishna it was accurate. The report forecasted EPS of $0.11 for the second quarter, $0.11 for the third quarter and $0.13 for the fourth quarter of 2000. Entrust copied and distributed it, adopting it as its own. It stated:

*We are reiterating our Strong Buy recommendation on Entrust after the Company reported its results on April 18th for 1Q00.* As the largest B2B PKI provider, Entrust continues to generate strong revenues and earnings in this rapidly growing area. IDC recently projected that the use of PKI, or digital certificates, will grow from $122 million in 1998 to $1.3 billion in 2003, or 60% per year. Highlights of the conference call include the following:

* Entrust earned $0.06 per share, in line with our expectations....
During 1Q00, Entrust entered into strategic partnerships with Schlumberger and Oracle. These partnership position ENTU as the gorilla in the wireless and B2B E-commerce industries.

Entrust reported the addition of 95 new pilots for both B2B and B2C applications during 1Q00, a gain of 73% Y/O/Y and up from 87% in 4Q99. These pilots, which sell for $40k-$50k, are the next-to-last step in the final deployment of PKI for the enterprise, usually resulting in $100k-$500k sales.

On April 27, 2000, Bear Stearns issued a report entitled "Entrust - enCommerce Merger Creates A B2B Security Powerhouse," written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted EPS of $0.07 for the second quarter, $0.10 for the third quarter and $.013 for the fourth quarter of 2000. It stated:

Expect positive announcements from Analyst Meeting next week.

Entrust stock has declined by 33% since the company announced its acquisition of enCommerce on April 18th. We think the under-performance (versus the 15% decline of the internet security group that we follow) is a result of market volatility and confusion over the financial impact of the transaction. We positively view the purchase of enCommerce as a very strategic and complementary acquisition that should double Entrust's market opportunity as well as accelerate the deployment of Entrust's PKI Internet security solutions. Entrust will be hosting its annual SecureSummit and Analyst Day next week and we believe management will give detailed guidance on the financial impact of the enCommerce transaction. Also during the conference, we believe that the company will make a series of positive announcements including new product announcements, customer wins, and strategic alliances.

Entrust should also see an acceleration in the adoption rate of PKI as a result of this acquisition. The enCommerce
solution is interoperable with multiple digital certificates and legacy infrastructures, thus should accelerate the growth of PKI solutions by improving the ease of use of digital certificates. In our view, the combined solution offers a comprehensive, secure, B2B enabling solution that is cost effective, scalable and easy to use. Also, it is the only solution on the market that can seamlessly authenticate (Entrust) and authorize (enCommerce) B2B e-commerce transactions and further extends Entrust's lead in enabling secure B2B e-commerce.

We believe enCommerce's getAccess product will immediately add value to Entrust, as product integration should evolve quickly and the combined company should positively benefit from synergies. get Access [sic] is a very scalable "authorized" corporate resources and database through their personalized portals.

In fact, according to management, only 10% of Entrust's installed base of customers uses an authorization solution offered by enCommerce. We also believe that the combined companies will benefit from an expanded and highly experienced management team.

84. On May 1, 2000, defendants Ryan and Thompson conferred with Entrust's customers, securities analysts and members of the press at the Dallas Hyatt-Regency Reunion in a series of conferences and one-on-one discussions concerning Entrust's operations, second quarter 2000 operations and the benefits to be derived from the assimilation of enCommerce's operations. Defendants represented they would achieve second quarter 2000 EPS growth of 400%, despite the fact that they knew such EPS growth was not realistic.

85. On May 2, 2000, DLJ Securities issued a report on Entrust written by Jamie Kiggen after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Kiggen it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted EPS of $0.08 for the second quarter of 2000. It stated:

Entrust announced an important customer win and a major new product at its annual SecureSummit meeting. The company also presented its outlook for the financial impact of the pending acquisition of enCommerce and its business progress.
In connection with the pending acquisition of enCommerce, we are increasing our revenue projections to $152 million for 2000 and $250 million for 2001, up from our previous projections of $136 million and $205 million, respectively.

Pro forma operating EPS are reduced to $0.20 in 2000 from $0.35 and to $0.42 in 2001 from $0.58.

Entrust's core business model is performing well and we believe that the company is well poised to reap the benefits from increasingly visible deployment of secure e-commerce solutions. We reiterate our Buy rating.

* * *

The company also presented its outlook for the financial impact of the pending acquisition of enCommerce and its business progress. We are increasing our projections for total revenues to $152 million in 2000 and $250 million in 2001. Our previous projections were $136 million and $205 million, respectively. Our new projections assume revenue contributions of approximately $6 million in the third quarter and $8 million in the fourth quarter 2000 from enCommerce's operations. Total revenue contribution from enCommerce in 2001 is expected to be around $42 million, 20% increment to our previous projection for stand-alone Entrust.

We are reducing our 2000 pro forma operating EPS to $0.20 from $0.35 and our 2001 EPS to $0.42 from $0.58.

86. On May 2, 2000, Bear Stearns issued a report on Entrust written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted EPS of $0.07 for the second quarter, $0.10 for the third quarter and $0.13 for the fourth quarter of 2000, and 2000 EPS of $0.35. It stated:

Entrust also hosted its annual investor conference today at company headquarters in Plano, Texas. Management articulated an upbeat outlook on the long-term business model. Today, management provided financial guidance for the recently announced enCommerce acquisition. As expected, management indicated that the enCommerce transaction will be marginally diluted in the second half of this year; we are currently forecasting EPS in Q3 of $0.10 and in Q4 EPS of $0.13 ($0.35 for the year). While we are maintaining our current pre-enCommerce estimates until after the deal closes, we believe that Q3 and Q4 2000 EPS each will likely take a $0.09 hair cut to $0.01 and $0.04, respectively. For 2001
the transaction will likely become accretive by the fourth quarter and we will likely revised [sic] our 2001 EPS estimate to $0.42 from $0.59. More importantly, we believe that the enCommerce solution expands Entrust's market opportunity. Management indicated that 2000 revenues will increase to $152 million from our estimate of $138 million and for 2001 revenues will increase to $250 from $208 million. Management indicated that gross margins would remain constant at about 80%. We are maintaining our pre-enCommerce estimates until the deal closes in Q3.

87. On May 2, 2000, Merrill Lynch issued a report on Entrust entitled "Highlights from Upbeat Analyst Day," written by Mark Fernandes after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Fernandes it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted $0.08 EPS for the second quarter of 2000. It stated:

Investment Highlights:

• Analyst day highlights strong momentum in Entrust's business – new product, customers, partners, and enCommerce acquisition details.

• enCommerce merger expected to be accretive to revenue but dilutive to earnings in 2000/2001.

• Raising CY 2000 rev from $141M to $152M and CY 2001 rev from $210M to $250M.

* * *

Upbeat Analyst Day Highlights

Entrust's analyst day was highlighted by exciting new product, partner and customer announcements. We believe that these developments highlight the strength of Entrust's business and its strong position in both the business and consumer-oriented secure commerce markets. Company management also shed more light on the strategic significance and financial impact of the enCommerce merger....

* * *

More Color on enCommerce merger

Entrust management provided more details on the enCommerce merger and the opportunity to meet with its
executive team. In addition to the strategic importance of the merger, management discussed its financial impact.

- Strategic synergy – Authentication + Authorization

The merger combines Entrust's strong authentication capabilities with enCommerce's authorization technology. In simpler terms, while Entrust can determine the identity of the user (consumer or business), enCommerce focuses on access rights and corresponding privileges of the user. **We believe that a larger sales force presence (180 from Entrust and 50 from enCommerce) and the greatly expanded customer base will fuel rapid revenue growth.**

- Financial impact – more revenue, lower EPS.

**Based on the projections for enCommerce provided by management,** we are raising our CY 2000 revenue estimate from $141M to $152M and CY 2001 estimate from $210M to $250M. We are lowering CY 2000 EPS estimate from $0.39 to $0.20 and CY 2001 EPS from $0.57 to $0.42.

88. On May 2, 2000, SunTrust Equitable issued a report on Entrust written by P. Sean Jackson after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Jackson it was accurate. Entrust copied and distributed it, adopting it as its own. It stated:

**HIGHLIGHTS**

Yesterday, Entrust hosted their second annual investors' conference in conjunction with its four-day SecureSummit 2000. Attendance at the SecureSummit increased by 25% from last year to approximately 1,500 attendees.

**During the investors/analyst conference, Entrust gave new guidance regarding the enCommerce acquisition.** Given the acquisition closes in early 3Q00, the company expects operating EPS to be $0.20 in 2000 and $0.42 in 2001. We were expecting 2001 operating EPS of approximately $0.35-$0.40 (including the enCommerce acquisition). Additionally, revenues for the combined company are expected to be approximately $250 million in 2001, fairly consistent with our expectations.

Generally the acquisition will be dilutive to operating EPS by $0.15 in 2001, and add approximately $40 million in revenue in 2001. **Consistent with management guidelines on the 1Q00 conference call, the company expects the acquisition will be accretive to operating EPS beginning in 4Q01.**

* * *
Generally, we left the investors' conference with greater confidence in Entrust's competitive positioning and market opportunity. In our view, the market for PKI solutions is beginning to segment into two areas – the low level, mass market delivery of certificates which VeriSign dominates, and the high-end, high transaction-value space in which Entrust currently has the dominant position.

89. On May 9, 2000, Gerard Klauer Mattison & Co. issued a report on Entrust entitled, "Initiating Buy on Entrust - the Public Key Infra[structure] Giant," by Gibbs Moody. Because this was Moody's first report on Entrust, it was issued only after Moody had extensive discussions with Ryan and Thompson and was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Moody it was accurate. Entrust copied and distributed this report, thus adopting it as its own. The report forecast a 5-year growth rate estimate of 60%. It stated:

Initiating BUY on Entrust, The Leader In Trusted E-business Infrastructure. We are bullish on Entrust for four reasons. First, its core public key infrastructure (PKI) business appears to be on the verge of acceleration. Second, new products and services such as TruePass and Entrust@YourService further extended its ability to grow PKI. Third, its announced merger with enCommerce should create immense revenue synergies. Fourth, management guidance at the company's May 1st analyst meeting is, in our opinion, calculatedly low, paving the way for several years of upside surprise.

* * *

FINANCIAL ANALYSIS

Our Analysis Suggest Upside to Management's Guidance. On May 1st at its SecureSummit Users Group, Entrust hosted an analyst day, during which revenue and earnings guidance was reset following the April 18 announcement of its merger of enCommerce. The $585 million all stock (10.25 million Entrust shares for 100% of enCommerce) transaction is being treated as a "purchase" and is expected to close during Q300. Management's guidance suggested the following revenue and earnings impact based on an average of published revenue and earnings estimates for 2000 and 2001:
Management Guidance

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<th>Post-enCommerce</th>
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<td>2000 % chg</td>
<td>2001 % chg</td>
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<tr>
<td>Revenue ($Million)</td>
<td>$138 62%</td>
<td>$208 51%</td>
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<tr>
<td></td>
<td>$152</td>
<td>$250 65%</td>
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<tr>
<td>EPS</td>
<td>$0.37 237%</td>
<td>$0.57 54%</td>
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<tr>
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<td>$0.20 82%</td>
<td>$0.42 110%</td>
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Our analysis suggests that management's "new" numbers are likely low due to: (1) upsale opportunities from the installed PKI customer base; (2) a fast-growing number of seasoned, full quota salespeople; (3) strong new product and service offerings; (4) unrealized synergies from the enCommerce merger; and (5) a faster evolving demand for portal control software than had been previously factored.

The first three items supporting our "management's guidance is low" thesis causes us to question the consensus 2001 revenue estimates pre-enCommerce. Despite a very tough macro-economic environment in 1999, led by Y2K spending constraints, Entrust still managed to exceed revenue and earnings estimates. Given the sophisticated and lengthy installation cycle of the Entrust PKI, we can now admit to a degree of relief that FY-1999 is behind us. However, with Y2K spending constraints behind us and an intensified corporate concern regarding all measures of security, we believe Entrust is well-positioned to capitalize on accelerating corporate spending. Indeed, on the heels of posting 74% revenue growth in 1999, Entrust posted 73% revenue growth in 1Q00, which is historically its weakest quarter of the year.

90. On June 16, 2000, Bear Stearns issued a report on Entrust by Golden based on Golden's conversations with defendants regarding Entrust's second quarter 2000 and the impact of the enCommerce acquisition and regarding the Company's prospects. The report forecast second quarter 2000 EPS and revenues of $0.07 and $32 million, respectively, and stated:

Entrust Provides Insight on Long-Term Strategy:

*** Demand for end-to-end Internet security solutions is beginning to heat up as more Fortune 1000 firms establish e-commerce initiatives. Entrust CEO John Ryan articulated to investors Wednesday the company's long-term strategy aimed at penetrating the vast B2B e-commerce Internet security market. Entrust is set to close its acquisition of enCommerce, a provider of secure and personalized access to the web applications behind an eBusiness portal, by July. An enCommerce solution that offers security management services (such as single sign-on), coupled with Entrust's authorization...
technology is extremely complementary, in our view. Entrust continues to make strides on the wireless front, and should benefit particularly from enCommerce’s relationship with Ericsson. We believe both Entrust and enCommerce will have significant product announcements in wireless security within the next few months. Entrust is also making strides in the development of a payment services solution. In conjunction with First Data, the firms formed a joint venture – PaymentWave – to deliverer [sic] a full range of payment services for B2B e-businesses. Entrust is also making solid progress with it [sic] outsourced solutions, including Entrust®YourService and through its partner PricewaterhouseCoopers (PwC). Management indicated that the First Data solution is already up and running while the PwC service will be available in 3-4 months. Nearly fully through the quarter, we believe business is strong and there should be upside to our Q2 EPS estimate of $0.07 on revenue of $32 MM.

91. On May 18, 2000, Bear Stearns issued a report on Entrust entitled "Update from Management Meetings," written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Lam it was accurate. Entrust copied and distributed it, adopting it as its own. It stated:

We reiterate our BUY rating on Entrust after hosting a series of investor meetings with the Entrust management team (CEO John Ryan, CFO David Thompson, VP of IR Ian Curry, and enCommerce CEO Alberto Yepez) yesterday (5/17). We believe that current business fundamentals remain strong and the combined Entrust/enCommerce will become a powerhouse in B2B security. We would be buyers of the stock at this level.

* * *

Half way through the quarter, we believe business is strong and there should be upside to our Q2 EPS estimate of $0.07 on revenue of $32 MM. We continue to believe revenue will accelerate further in 2H 2000 and beyond as more Fortune 2000 companies move to enterprise-wide PKI and authorization deployment.

92. On June 22, 2000, First Union Securities issued a report "Initiating Research Coverage With a Buy Rating" on Entrust by Christopher S. Russ. Because this was Russ' first report on Entrust, it was issued only after Russ had extensive discussions with Ryan and Thompson and was based on and repeated
information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Russ it was accurate. Entrust copied and distributed this report, thus adopting it as its own. The report forecasted a 3- to 5-year EPS growth rate of 60% and EPS of $0.08 for the second quarter of 2000. It stated:

KEY POINTS

• We believe PKI and digital certificates are poised to become the ubiquitous standard for conducting secure transactions over the Internet.

• With more than 50% market share of the enterprise PKI market (B2B), Entrust should benefit tremendously from the exceptional growth of B2B e-commerce, which IDC estimates should grow to $2.2 trillion in 2004 from $100 billion in 1999.

• We forecast revenue growth of 80% in 2000 and 65% in 2001, with positive EPS $0.18 in 2000 and $0.42 in 2001. These estimates include the purchase of EnCommerce scheduled to close in the week of Q2 2000.

* * *

We believe Entrust is well positioned to defend its market share given the significant barriers to entry in the PKI market.

* * *

Largest Installed Base in The Enterprise Market

Entrust is the largest vendor of enterprise PKI solutions, with 574 full PKI customers and 1,500 total customers, representing roughly 4 million users. Entrust has garnered an estimated 40% of the total PKI market and more than 50% of the enterprise market. Furthermore, roughly 60% of Entrust's existing enterprise customers are still in the pilot stages, representing substantial upsell opportunities.

* * *

On April 17, Entrust agreed to acquire enCommerce, a privately held company, for 10.2 million shares or roughly $713 million.

Entrust estimates that the market for authorization solutions should grow more than 100% annually over the next 2-3 years. The acquisition creates significant cross-selling opportunities for Entrust, since only 10% of its installed
customer vase has purchased enCommerce's authorization solution as part of their PKI. We estimate enCommerce will contribute roughly $14 million of revenue in H2 2000, and $42 million in 2001.

* * *

Financial Projections

For 2000, we project that total revenue will increase 80% to $153.5 million. Gross margin should be 80.5%. We project EPS of $0.18 (tax rate of 30.0%). For 2001, we project a 65% increase in revenue to $254 million. Gross margin should improve 30 basis points to 80.8%. We project EPS to increase to $0.42 (fully taxed at 35%), representing an increase of 127% yr/yr. These estimates reflect the purchase of enCommerce, which is expected to close by the end of Q2 2000.


   Plano, Texas–Santa Clara, California -- Entrust Technologies, Inc., (NASDAQ: ENTU), the global leader in solutions that bring trust to e-business, today announced completion of its merger with enCommerce, Inc., a leading provider of software and services for managing eBusiness relationships. Under terms of the agreement, Entrust Technologies has issued approximately 8.2 million shares of common stock in exchange for 100% of the outstanding capital stock of enCommerce, and will assume all outstanding employee stock options and warrants, resulting in a total exchange of 10.25 million shares. The transaction will be accounted for as a purchase.

   "The fast and successful close of the merger between Entrust and enCommerce ushers in a new era of e-business where corporate users and consumers alike will have secure, convenient access to personalized Web information and resources," said John Ryan, president and CEO of Entrust Technologies, Inc. "Through the combined strengths of our complementary technologies, we are positioned to uniquely address both current and future market demands for end-to-end, secure e-business solutions.

94. On June 28, 2000, First Union Securities issued a report on Entrust written by Christopher S. Russ after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Russ it was accurate. Entrust copied and distributed it, adopting it as its own. The report
forecasted $0.08 EPS for the second quarter of 2000 and a 3- to 5-year growth rate of 60%. It stated:

KEY POINTS

Yesterday Entrust closed the acquisition of enCommerce, a privately held company, in a purchase transaction for 10.2 million shares or roughly $697 million.

* * *

We estimate enCommerce will contribute roughly $14 million of revenue in H2 2000 and $42 million in 2001.

However, we expect the acquisition will result in significant dilution to operating EPS of 46% in 2000 and 26% in 2001.

Our current EPS estimates in 2000 and 2001 already reflect this dilution.

While dilutive to near-term earnings, the transaction provides multiple benefits for Entrust, including substantial cross-selling opportunities and a significant foothold in the rapidly growing authorization market.

The transaction should have no impact on Q2 2000 earnings, scheduled to be released July 18.

We are comfortable with our current estimate of $32.8 million in revenue and EPS of $0.08. We reiterate our Buy (2) rating.

* * *

Entrust estimates that the market for authorization solutions should grow more than 100% annually over the next two to three years. The acquisition creates significant cross selling opportunities for Entrust, since only 10% of its installed customer base has purchased enCommerce's authorization solution as part of their PKI.

enCommerce's product, GetAccess 4.0, is a web portal infrastructure that provides secure and personalized access to aggregated applications deployed across a variety of platforms, web servers, and Internet domains. It provides single sign-on authorization solutions (via enCommerce) that enable organizations to grant authenticated (via Entrust) users access privileges to specific applications and databases. The combination of Entrust and enCommerce creates a secure end-to-end e-business portal infrastructure.

Should Provide Stock Momentum," written by David Zale after discussions with Ryan and Thompson, which was based on and repeated information provided by them. Ryan or Thompson reviewed this report before it was issued and assured Zale it was accurate. Entrust copied and distributed it, adopting it as its own. The report forecasted $0.08 EPS for the second quarter 2000. It stated:

**Investment Conclusion**

**We are reiterating our Strong Buy recommendation on Entrust and raising our price target to $100 from $75.** We believe there are three key drivers that could add significant momentum to the stock price at this time:

1) The passage of federal digital signature legislature by the House on June 19th.

2) The completion of the acquisition of EnCommerce, Inc., a provider of digital transaction software to customers such as Visa, UPS, and AT&T.

3) Recent market trends that should yield impressive results for technology stocks in the second half of the year.

96. Defendants' representations issued during the Class Period were false or misleading because:

(a) Entrust prematurely released its new flagship product, PKI 5.0, before it was completed. 5.0 was released without key features, including Entrust/AutoRA which would enable users to automatically authenticate certificates;

(b) Volume shipments of Entrust PKI 5.0 were delayed from the fourth quarter of 1999 until the second quarter of 2000 because the "hierarchical trust architecture" needed further refinement;

(c) Entrust PKI 5.0 suffered from an "interoperability" problem and as a result, it took an inordinate amount of time to load the PKI system into some operating systems. This slow start-up time was problematic because it presented the potential for a security breach;
(d) Entrust experienced problems when it attempted to integrate PKI 5.0 with enCommerce's GetAccess product due to "compatibility" issues beginning in May 2000;

(e) Customers were delaying initial orders or Stage II or Stage III orders because Microsoft did not include public key features in its operating systems, but Microsoft would be including some public key features in Windows 2000. As a result, customers were delaying full deployments of Entrust PKI until after the customer upgraded to Windows 2000 and evaluated the encryption and certificate technology embedded in Windows 2000;

(f) PKI was an immature technology that was difficult to deploy and maintain. A typical deployment took between 3 and 18 months. PKI also slowed down the "speed" of web sites. As a result, most e-commerce web sites were utilizing "secure socket layer" security systems which were 10 to 100 times faster than PKI;

(g) Contrary to defendants' representations that 45% of Entrust's customers who purchase pilot systems were executing follow-on contracts for Stage II and Stage III deployments, as of May 2000, only 34 of Entrust's 900 customers executed contracts valued at more than $500,000;

(h) Entrust's customers were having trouble moving from a pilot implementation to full enterprise deployment because the development of an internal PKI infrastructure is a time-consuming and difficult process;

(i) The PKI market was much smaller than represented by Entrust because only a small minority of major corporations and organizations were capable of full deployment of PKI. Most major corporations were much better suited to outsourcing PKI from a third party such as VeriSign than internally implementing PKI from Entrust;

(j) Demand for PKI Solutions was not accelerating after Y2K issues abated. Corporate IT budgets were depleted after massive spending to
address Y2K-related issues and IT purchasing managers were taking a "wait and see" attitude toward additional spending on PKI security solutions. For example, Credit Suisse was a key existing Entrust customer that informed Entrust in the fourth quarter of 1999 that Credit Suisse would not discuss any additional purchases until the third quarter of 2000. Many customers were allocating capital funding to ensuring that their existing systems and infrastructures were fully Y2K compliant and many customers implemented a "technology freeze" until late in the second quarter of 2000; and

(k) Due to the foregoing undisclosed negative conditions which existed inside Entrust's business during the Class Period, the defendants knew that the forecasts of EPS of $0.08 for Entrust's second quarter, $0.11 for the third quarter, and $0.13 for the fourth quarter of 2000 were false when made as, in light of these problems and adverse conditions, those results could not and would not be achieved.

97. On July 5, 2000, Entrust issued a press release entitled, "Entrust Technologies Previews Second Quarter Results." It stated:

Plano, Texas -- Entrust Technologies, Inc. (Nasdaq: ENTU), the global leader in solutions that bring trust to e-business, announced today it expects second-quarter earnings from operations to be \$0.02 a share. This would compare to the current First Call consensus estimate of \$0.08 a share. The company expects to report full financial results for the second quarter after the close of market on Tuesday, July 18th.

John Ryan, Entrust Technologies president and CEO, noted, "Our second-quarter results were affected by delays in closing PKI system extension sales. The issue here is simply revenue timing, not lost business."

"I remain optimistic about Entrust Technologies prospects for the remainder of 2000 and beyond," Ryan said. "Our successful June 26th merger closure with enCommerce positions us well to deliver world-class e-business solutions to both the B2B and B2C global marketplaces."

Entrust said that revenues for the quarter, which ended June 30, will be up substantially from \$19.8 million in revenues recorded in the second quarter of 1999 and slightly above first-quarter 2000 revenues of \$29.1 million.
98. On July 5, 2000, DLJ Securities issued a report on Entrust entitled "Downgrading From Buy to Market Perform," written by Jamie Kiggen, after discussions with Ryan and Thompson, which was based on and repeated information provided by them. The report reduced 2000 EPS estimate to $0.13 from $0.20 and stated:

**We are downgrading our rating on Entrust from a Buy to a Market Perform.** The company announced that it has failed to close two large deals in Q2 and would be missing our estimated Q2 revenue figure of $33 million by roughly $3.5 million. We are lowering our Q2 revenue from $33 million to $29.5 million, and our consensus-matching Q2 EPS number of $0.08 to $0.02.

Although the two large unclosed deals are expected to close in Q3, we are being cautious about the length of ENTU's sales cycle until we get better visibility on the pipeline. In our experience, two delayed deals in a quarter is at times a harbinger of larger issues. Although the company has not discussed its revised earnings outlook beyond Q2, we are lowering our 2000 revenue estimates from $152 million to $148 million, and reducing our 2001 by roughly 6%. We are decreasing our EPS estimates in 2000 from $0.20 to $0.13, and lowering our 2001 EPS numbers from $0.42 to $0.39.

With the continued growth in B2B exchanges and recent enactment of the esign legislation, we remain confident of the long-term growth outlook for the PKI industry. However, ENTU's earnings visibility has been negatively impacted and we do not see a substantial short-term catalyst.

99. On July 5, 2000, Bear Stearns issued a report on Entrust entitled "Revenues and EPS to Fall Short of Estimates – Fundamentals Remain Intact," written by Bob Lam after discussions with Ryan and Thompson, which and was based on and repeated information provided by them. It stated:

Entrust pre-announced today that revenues will fall roughly $3 million short of our estimate. One very large deal did not close during the quarter, which would have contributed to a positive revenue surprise. Also, there were 2-3 deals that if closed, would have resulted in revenue meeting or exceeding our estimates. We had forecast revenues of $32 million; management expects revenues of about $29.1 to $29.2 million. EPS will come in around $0.02, short of our estimated $0.07 EPS forecast.

100. On July 5, 2000, First Analysis issued a report on Entrust entitled "Rating Lowered to 2 on Pre-Announcement," written by Howard Smith after
discussions with Ryan and Thompson, which was based on and repeated information provided by them. It stated:

_We have lowered our rating for Entrust to 2 (accumulate) from 1 (strong buy) following its pre-announcement this morning its June (second) quarter results would be below expectations. Entrust expects EPS of $0.02 on revenue of about $29 million, below our estimates of $0.09 on revenue of $33 million._

* * *

While the company is comfortable with consensus estimates for the remainder of the year, _we expect to lower our revenue and EPS estimates significantly._

**POST-CLASS PERIOD STATEMENTS AND DEVELOPMENTS**


"The company is a leader in a good space, but _management has lost some credibility_," said Howard Smith, who follows the industry for First Analysis.

The contracts that were expected to close were from large companies that had already bought some products from Entrust, analysts said.

_Wednesday's warning "raises some questions in our minds about the ability to regularly and predictably close these large orders,"_ Mr. Smith said. Entrust will report second-quarter earnings July 18. The company said it remains comfortable with investors' expectations of $42 million in revenue for the third quarter. Mr. Smith lowered his rating on the company to "accumulate" from "strong buy."

_Sands Bros. Analyst David Zale said it could be significant that Entrust hasn't said it expects an increase in third-quarter results to reflect revenue and earnings from the contracts that weren't signed during the second quarter._

"There's just a lot of conflicting information that's coming out of the company," Mr. Zale said. He downgraded the stock from a strong buy to a neutral, "almost entirely to reflect the concerns over credibility issues."

_Mr. Zale cut his 2000 forecast for Entrust to $135 million in sales and 30 cents a share in earnings. Previously, he had predicted revenue to $138 million and earnings per share of 36 cents._
102. On July 6, 2000, First Union Securities issued a report on Entrust entitled "Pre-Announces Q2 2000, Lowering Estimates," written by Christopher S. Russ after discussions with Ryan and Thompson, which was based on and repeated information provided by them. The report lowered 2000 EPS estimates to $0.09 from $0.18. The report forecasted a loss of $0.01 for the third quarter and EPS of $0.01 for the fourth quarter of 2000. The report also lowered 2001 EPS from $0.42 to $0.31. It stated:

Given the fact that management did not hold an open conference call and provided few details, we believe the stock is likely to remain under pressure until there is more clarity on the specific issues behind the sales delay.

Entrust pre-announced that revenue would come in about 10% shy of our forecast at roughly $29 million. We were looking for $32.8 million. Since the shortfall is all in high margin software, profitability is disproportionately impacted, and so EPS is expected to be $0.02 versus our estimates of $0.08.

At $29 million, internal revenue growth is still roughly 50% y/y, so the quarter is not a disaster. Nonetheless, revenue will likely be flat on a sequential basis with Q1 2000 results.

This is the first earnings disappointment for the company and comes only four months after the company completed a $670 million secondary offer priced at $82/share and only a few days after closing the $600 million stock acquisition of enCommerce.

The stock is likely to remain under pressure given the fact that few details were disclosed by management and the company is not holding a conference call. It is especially troubling given the recent assurances from management regarding the strong tone of business.

103. On July 6, 2000, First Analysis issued a report on Entrust entitled "Rating Estimates Down; Pre-Announcement Issues Explored," written by Howard Smith after discussions with Ryan and Thompson, which and was based on and repeated information provided by them. It stated:
Estimate impact: While Entrust is comfortable with consensus estimates for the 2000 third and fourth quarters, we have lowered both our revenue and earnings estimates. In the third quarter, some sequential growth will come from the inclusion of enCommerce revenue. Even with this boost, the $42 (consensus) revenue estimate for the third quarter seems aggressive to us for a company that will report almost flat growth for the second quarter. Our experience is that sluggishness to close orders rarely reverses immediately – especially in historically weak quarters. The third quarter is historically weak for Entrust. Of course, we will revisit our estimates after full second-quarter results are announced in a few weeks.

We understand from management that Entrust saw four major PKI extension opportunities it had targeted to close in the second quarter slip. The company emphasized none of these represent lost business, but that for unrelated reasons, all four extension opportunities have been pushed out. Management stated that had either the largest or any two of the smaller of these four orders closed, Entrust wouldn't have faced an expectations shortfall. Thus, we are satisfied these orders account for the roughly $4 million by which Entrust expects to fall shy of our revenue estimate. While not giving any specifics, management stated that new pilot wins and general numbers of orders met expectations.

Entrust modified its sales strategy for 2000 by establishing a goal to more fully penetrate its existing base in favor of growing its new system (formerly called pilots) wins. The first quarter appeared to see some success with this: The company had 75 PKI extension sales in the period, up from 54 in the 1999 fourth quarter. In the long term, the number of extension customers will drive Entrust's business, and we think it's important to see these numbers continue to grow. However, as the second-quarter pre-announcement shows, this total extension number is not always as important as which extension closes in the short term. The second-quarter pre-announcement could indicate that expanding sales to existing customers, especially the largest ones, is more difficult than management originally thought. We will monitor this issue in future quarters.

* * *

Additional layers slowing the sales cycle:

One thing that has emerged, though we cannot confirm it was a factor in the quarter's miss, relates to a dynamic in at least one contract that didn't close: The sales process is starting to involve more players. Now that PKI is better understood in the market, Entrust management reports purchasing departments are more extensively scrutinizing contracts and asking additional questions. This appears to be slowing the speed of processing some contracts. We think that in addition to lengthening the sales process, the industry could face a greater pricing push-back as a
result of such changes. We don't consider either trend as being positively established; we will monitor these issues as well.

104. On July 11, 2000, Bear Stearns issued a report on Entrust entitled "Downgrading to Attractive Due to Near-Term Challenges," written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. The report lowered 2000 EPS estimates to $0.07 and forecast a loss of $0.01 for the third quarter 2000 and EPS of $0.01 for the fourth quarter of 2000. It stated:

In the last few days since management pre-announced lower-than-expected Q2 results, we have spoken with both management and customers. Based on our analysis, we believe that Entrust faces greater challenges over the next few months than we had originally forecast. 1) diminished near-term visibility (next 3-6 months); 2) higher perceived integration risk associated with the enCommerce transaction (although we believe that the integration will progress smoothly, there is the risk of sales force distraction); and 3) the shift of the sales model to mid-sized deals of $100,000 - $500,000, from the typical multi-million-dollar deals that have been common up to now, may require additional resources and could disrupt the sales cycle in the near-term.

105. On July 13, 2000, UBS Warburg issued a report on Entrust written by Jordan Klein after discussions with Ryan and Thompson, which was based on and repeated information provided by them. It stated:

[W]e feel that the company's recent Q2 earnings shortfall and low visibility create too much near-term uncertainty. We fear the reasons for the contract delays causing the Q2 shortfall may be more serious than management has indicated, including complexity of integrating the technology and the impact of the Windows 2000 rollout. Until we gather more color on the situation, we believe the near term risks outweigh the potential rewards.

Highlights

We believe ENTU was just as shocked as investors with its estimated Q2 revenue shortfall of $3.5 million. Management attributed the shortfall to four large transactions (each above $500,000) that the company was unable to close in the quarter for various reasons. We have yet to get a firm handle from the company on the exact cause for the delays and we will remain cautious in the coming weeks. While management believes the deals just "slipped" and were not lost, we are highly concerned that the basis of the delays could result in recurring financial challenges further down the road.
We believe ENTU is likely to close these slipped deals in the near term. Our concern is that the problem is more likely than not to resurface again, causing financial instability. With roughly 85% of its revenue base from existing customers, ENTU's near term growth remains highly dependent upon it closing follow-on deals, known as Phase Two and Three deals, with existing customers. These deals involve more software and services than smaller Phase One deals and can potentially have a longer sales cycle due to their higher value and associated complexity.

We forecast reduced visibility over the next several quarters and believe recent customer delays may stem from the rollout of Windows 2000. We believe customers could potentially delay signing larger follow-on contracts with ENTU to coincide with an anticipated corporate-wide upgrade to Windows 2000. By doing so, customers could mitigate potential disruptions associated with installing PKI technology onto the desktop, enabling them to evaluate the embedded encryption and certificate technology currently embedded into Windows 2000....

106. On July 18, 2000, Entrust reported financial results for the second quarter ended June 30, 2000. The Company reported net earnings from operations were $1.8 million or $0.03 per share.

107. On July 18, 2000, John Duvall of Radio Wall Street interviewed defendant Thompson. During the interview, Thompson stated:

Duvall: Are there street estimates out there, Dave, that you agree with in regard to earnings or sales this year or sales and earnings next year?

David: Well, because of the acquisition or merger that concluded on June 26, many of the coverage analysts are in the process of updating their coverage models. However, John, those have taken the opportunity to update within the last, say, ten days, once the deal was closed, have put a range for revenue in the third quarter of $39-$42 million; In the fourth quarter of $45-$48 million; and in 2001, the range is from $230 at the low end to $250 at the high end. We are comfortable with those ranges as targets for the business that maintain our global market share in both PKI and authorization.

*    *    *

Duvall: Okay, is there an earnings estimate out there for 2001?

David: There is an earnings estimate, the range is from $.28 operating earnings per common share to a
high of $.42 operating earnings per common share. Really, as the models continue to be updated, I believe that the range will settle in around $.33 - $.35 range.

Duvall: Okay, great. Would you have any projections, a ball park percentage of the growth for the next three to five years? The analysts love that and it's almost impossible, but is there any number or an objective that you want to see?

David: From what we see today, the PKI market grew last year at 60%. We grew at 73% so we gained 6 points a share and we are the market share leader at 41. On a go-forward basis, John, the PKI market is anticipated to continue growing by approximately 60% compound. Authorization, which is earlier in the maturity phase, right now is anticipated to continue at a 100% compound.

* * *

Duvall: Now, there was some commentary I read in the news about a failure to close some large add-on sales. It looks like some of the brokers gave you some hits for that. Was that business booked later or subsequently, do you want to comment on that?

David: Essentially in the second quarter, we preannounced a shortfall to expectations on the earnings side of $.06. The expectation was for an absolute of $.08. At the time we preannounced, we preannounced a probable $0.2 per share. Obviously, we beat that by a penny and came in at 3. The underlying cause for the earnings shortfall were four specific, (horn honking, cannot decipher) what would be termed to be three, would be a significantly sized software license deal that were being worked to closure in the second quarter that shifts out into the third and possibly the fourth in one instance. Essentially the deals are to existing customers that have already bought our PKI that were contemplating and tendering to extend their certificates. But the opportunities were not lost competitively. Essentially, they shifted out, they moved to top priority in our funnel, we've already closed one at a specific dollar value and we're in pursuit of the other three throughout the remainder of the year.

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David: They're existing customers and we feel confident that we will be able to close business with these customers in the second half.

Duvall: Are these upgrades or expansions of products?

David: Essentially a combination of both, but more expansion than upgrade. They bought a specific size system in terms of number of seats and number of applications and what the customers are doing now is either filing further applications. We have the capability to work with over 200 in the market or they are expanding the seats that they bought initially to a greater deployment in their enterprises.

* * *

David: I'm looking forward towards Q3 and Q4 and we believe, especially with the merger with enCommerce, that we are well-positioned to deliver and to continue to deliver authorization now and PKI. We have the industry leading customer base, we've had some big successes in the second quarter and we continue to believe that we're well positioned to execute and to continue to deliver the type of results we've delivered in the past.

108. On July 18, 2000, Business Wire ran an article entitled "Entrust Technologies Inc. Reports Second Quarter Results: -Revenues Up 48% to $29.3 Million -Net Earnings from Operations Up 99% to $1.8 Million - EPS from Operations Up 50% to $.03." It stated:

Entrust ... the global leader in solutions that bring trust to e-business, today reported financial results for the quarter ended June 30, 2000.

Revenues increased 48% to $29.3 million for the second quarter of 2000 from $19.8 million for the same period in 1999. Net earnings from operations applicable to common shares for the second quarter of 2000 were $1.8 million, or $.03 per share, compared to $0.9 million, or $.02 per share, for the second quarter of 1999, an overall increase in EPS from operations of 50 percent. Including Acquisition Related Costs, Entrust Technologies recorded a net (loss) applicable to common shares in the second quarter of 2000 of ($28.9) million or ($.54) per share.

* * *

"Our business remains robust and we are in an excellent position to continue delivering world-class e-business solutions to
both the B2B and B2C global marketplaces," said John Ryan, president and CEO of Entrust Technologies. "For the first half of 2000 our sales are up 60% over the comparable period in 1999, net earnings from operations of $5.6 million have more than quadrupled from 1999, and we closed the quarter with over $266 million in cash and marketable securities."

Quarterly Highlights

During the second quarter of 2000, Entrust Technologies strengthened its position as the leading player in the global marketplace for trusted e-business solutions with solid gains in several key areas of its business as follows:

- Demonstrated excellent momentum by adding 98 new initial public-key infrastructure (PKI) systems for both B2B and B2C applications, a 63% increase over the second quarter of 1999.

* * *

Entrust also continued to demonstrate leadership and momentum in providing end-to-end trusted e-business infrastructure solutions. Key events within the second quarter for Entrust Technologies included:

- Closing the merger with enCommerce, Inc., a global portal infrastructure company and one of the leading provider [sic] of software and services for managing e-business relationships. The merger creates one of the world's largest trusted e-business infrastructure companies, and the premier provider of leading-edge solutions for global enterprises, portals and e-markets.

109. On July 19, 2000, subsequent to the release of its second quarter 2000 results, Entrust held a conference call for analysts, money and portfolio managers, institutional investor and large Entrust shareholders to discuss Entrust's second quarter results, its business and its prospects. During the call Thompson and Ryan stated:

Ryan: First of all, I want to address the events of the past couple of weeks. As I am sure you are aware on July 5, we announced that the second quarter earnings would fall short of consensus estimates. The reason for the shortfall was the delay in closing some sales from existing customers. For Entrust, as for many other companies, the outcome of the quarter frequently relies on a few major sales. In fact, in the prior seven quarters, we have always managed to close those sales that would put our results over the top and we certainly expected that to happen again this quarter. Obviously, it
did not happen. As a result of not closing these key sales we did not meet the expectation. In fact closing any combination of two of the opportunities would have allowed us to meet the expectation. In a typical quarter, Entrust would normally close at least 75% or more of the deals that had reached this stage of procurement. In the final analysis, we have in fact, closed one of the possible deals except for we did so to only North America use, and therefore the deal ended up being significantly less than originally anticipated. While still being a stage three deal, it closed at less than $1 million. The good news is that the customers looking to deploy our solutions very broadly across the globe, so there is plenty of additional opportunities to go after in the future. We expect to close two of the other deals in the third quarter. And the fourth deal, we expect to close in the second half of the year. In addition to these opportunities, an additional $1.1 million deal has already been closed in July. So we are back on the right track and we can now focus on delivering our commitment this quarter. Large deals will always be a factor of our business and they represent very positive commitment to our solutions by our biggest customers. We continue to close these types of deals throughout the quarter. At the same time, we are committed to reducing our reliance on bigger deals over time. In the second quarter, the top five sales accounted for the 23% of revenue. Had we closed the required additional opportunities to meet expectations the top five sales would have accounted for approximately 30-33% of revenue depending on the combination - which is consistent with our first quarter performance of 32%.... In Q3, we are enhancing our focus in this area with aggressive marketing and sales promotion designed to further drive stage two sales.... I believe that this company has never been stronger and we intend to prove why we are the leader and will continue as the leader in the trusted e business infrastructure markets.... Our business remains robust with a marked level of increased interest and activity both recorded by our sales people and reflected in our sales management system.... I believe we have the most complete and deployable product portfolio in the industry and with the addition of getAccess, and Entrust TruePass, we have a great opportunity to accelerate the move to e business throughout our base of over 800 global customers. Now I would like to share with you some color on the second quarter structured in the following
manner.... Now, to the matrix. The matrix on key business success factors were very positive in Q2. We sold a record of 98 new initial systems and that puts in the upper end of the target range for this year which is 90 to 100 initial systems per quarter.... The activity we are seeing lands credence to the report published by the Aberdeen Group earlier this year in which they concluded that 90% of the global 2000 organization are either using PKI's today, or will be by the year 2003. We continue to see strong customer conversions to stage two systems. With conversions this quarter driving a 24% in the increase the dollar amount in the mid range deals over last quarter. These results show strong momentum in our customer base and business model and strong commitment to deploying our solution. These deployments are positive indicators that we are executing on our business plan, and furthermore, we continue to expand our leadership position in the global market for trusted e business infrastructures by making significant moves in key markets and in our products and services offerings.... Now on to the success of enCommerce in the last quarter. enCommerce revenues for the last quarter were excellent. Up sequentially over 40% from Q1 and 200% over Q2 of 1999. We expect our combined results to position us strongly as a global market leader in authorization. At this time, the enCommerce financial results have not been eternally reviewed and therefore these results are preliminary. However, we expect the review to be completed in time for our 10-Q filing this August. The Entrust enCommerce sales organization are being integrated and enCommerce sales people have closed their first sale of Entrust PKI solution already.... As we enter Q3 in the second half of 2000, I would like to restate my view on our market position and potential. Market activity is at an all time high for the business. I believe we have the most complete scalable and deplorable product portfolio in the market. We have a large global base of over 800 customers and I believe we have the teams to deliver the results.

David: ... As most of you are aware, the merger between Entrust Technologies and enCommerce closed on June 26. Therefore, prior to addressing the financial performance for the second quarter I would like to describe the financial impacts of the enCommerce merger as reflected in our second quarter statements.
Firstly, the only impact in the second quarter income statement is a one time charge for the amortization of acquired process research and development resulting from the acquisition of enCommerce. Gross margins of 76% for the second quarter simply reflect the failure to execute and generate revenue from specific stage three extension opportunities. Had the opportunities been successfully closed the gross margins would have been at the customary 80% level and would have been in line with the articulated business model for the company. While the expense to revenue ratios in the second quarter are higher than the normalized trend, this results once again from the second quarter short fall and software licences. Had the stage three extension opportunities been successfully closed in Q2, the expense ratios for sales and marketing, research and development and general administration would have tracked in line with our business model showing continued progress in scale to previous quarters levels. For comparability and clarity, earnings will continue to be reported on an operating basis, excluding acquisition charges, and on a got basis. The driving factors are the secondary offering completed in February of 2000, approximately $29 million of cash resulting from the merger with enCommerce, and of course our strong and continued positive cash flow generated from operations. The DSO of 87 days represents the 10 day increase from the first quarter of 2000. The inability to successfully execute on the stage three opportunities early in the second quarter resulted in approximately 10 days of DSO. Nonetheless, we continue to believe that our target range of 65 to 80 days for DSO remains valid. The third revenues is increased by $700,000 in the quarter, closing at $12.1 million for Entrust Technologies only. The further increase to $14.5 million as of June 30 consolidates the deferred revenues which enCommerce had generated to the end of the second quarter of 2000. Looking forward it is important to reiterate that the June 26 merger between Entrust Technologies and enCommerce will result in fully consolidated financial results for the third quarter of 2000 and beyond. It is necessary however to highlight that the impact of the enCommerce merger has not yet been fully reflected in all analysts estimates. The estimates that do incorporate enCommerce currently project quarter three revenues in the range of $39-42 million and net earnings from
operations applicable to common shares in the range of a $.01 loss to $.01 profit. The enCommerce incorporated estimates for quarter four had a revenue range of $45-48 million with net earnings from operations applicable to common shares of $.01 earnings to $.04 earnings. For the total fiscal year 2001, the revenue ranges from $230 million to $250 million. Net earnings from operations applicable to common shares range from $.28 to $.42. We are comfortable with the ranges emerging which now reflect the merger between Entrust Technologies and enCommerce.

110. On July 19, 2000, Bear Stearns issued a report on Entrust written by Bob Lam after discussions with Ryan and Thompson, which was based on and repeated information provided by them. The report forecasted $0.07 EPS for 2000, $0.00 EPS for the third quarter and $0.03 for the fourth quarter of 2000. It stated:

The slow down of sales was largely the result of four seven-figure deals that slipped through the quarter. However, management indicated during the conference call that it believes it will close two of the four deals in Q3 and will close the other two by the end of the year. On the positive side, pilot conversions of PKI from initial deployment ($40-50 K ASP) to stage 2 deployment ($100-$500 K ASP) was strong with stage two deals up 24% sequentially. In addition, the company gained 98 new initial PKI deployments (pilots) in Q2, up from 95 new pilots in Q1.

* * *

We believe that Entrust may have over aggressively pushed large deal sizes to its customer base and as a result pushed business into the third quarter. Going forward, management indicated that the sales force will focus on small deals, driven in part by a focus on the enCommerce getAccess product and Entrust's new TruePass product (both which commend smaller a ASP).

111. On July 19, 2000, SunTrust Equitable issued a report on Entrust entitled, "Entrust records 2Q00 EPS of $0.03; we remain cautious," written by P. Sean Jackson after discussions with Ryan and Thompson, which was based on and repeated information provided by them. It stated:

* * *

We are lowering our 2000 EPS estimate from $0.14 to $0.12, and our 2001 EPS estimate from $0.42 to $0.34. The impetus behind this move is: (1) the company's recent
inability to close stage 3 deals in a timely manner. This was not only reflected in the four deals that slipped through, but also in the lack of stage 3 deals early in the quarter which resulted in higher than normal DSOs (87 days, 10 more than 1Q00) and, (2) we feel some disruptions could result as the company tries to transition its sales staff incentives in order to be more successful in closing the mid-range deals instead of just focusing on the largest deals.

112. On September 19, 2000, UBS Warburg issued a report on Entrust entitled, "Maintain Hold Following Discussions with Management," written by Jordan Klein after discussions with Ryan and Thompson, which was based on and repeated information provided by them. It stated:

ENTU: MAINTAIN HOLD FOLLOWING DISCUSSIONS WITH MANAGEMENT

SUMMARY:

We recently had a discussion with ENTU's CFO Dave Thompson to get an update on the four slipped deals in Q2 that led to a revenue shortfall of $3.5 million as well as an update on future visibility. While the news we received was not particularly positive or negative, we would like to see more concrete evidence that supports successful execution and improving visibility. While we continue to believe industry demand for PKI should remain strong, we have yet to gain tangible evidence of accelerating adoption rates. We are also anticipating lumpiness in the recognition of large in-house deals, constraining ENTU's near-term visibility. As a result, we are maintaining our Hold rating.

HIGHLIGHTS

In Q2, ENTU had a revenue shortfall of $3.5 mm due to four large transactions (each above $500,000) the company had been unable to close the quarter for various reasons. Per our recent discussion with management, ENTU provided some more color on the status of these deals.

One of these deals had closed early in Q3 for less than $1mm, lower than expected since the company in question decided to deploy the software only in the United States and not globally as originally intended. The customer still has not yet committed to an international rollout, though ENTU remains hopeful that it can win international business from this customer as well.

Following the Q2 call, management stated a high degree of optimism in closing two more of these deals in Q3. ENTU informed us that one deal closed as expected and that it is still optimistic about closing the other deal in Q3. The fourth and final deal is not projected to close until Q4, although the company notes
the timing and execution of this is uncertain. At this point, we are being cautious as to ENTU's ability to successfully close this deal.

We believe the status of these deals is relevant from an execution and visibility standpoint. While we do not believe the update we received was particularly positive or negative, we had been hoping for more concrete evidence of commitments from these large customers who had been wavering.

Even if another of these deals gets done this quarter, our main concern is that similar problems with major customers are more likely than not to resurface again, causing financial instability. We continue to believe customers could potentially be delaying signing larger follow-on contracts with ENTU to coincide with an anticipated corporate-wide upgrade to Windows 2000.

As expected, the bulk of ENTU's Q3 revenues will come down to execution in the remaining two weeks of September. We believe management learned [sic] valuable lessons from the Q2 shortfall and will push aggressively to deliver upside this quarter. While we are encouraged by recent $3 mm deal with Norwegian-based Telenor, we remain skeptical with regard to the volume of large deals, especially in the U.S. market.

We also note that future visibility remains a key concern. ENTU stated that 70-80% of the company's quarterly revenues typically comes in the third month. This is significantly worse than the company's 50% target and makes us uncomfortable recommending the stock to investors in the near-term.

113. On October 17, 2000, Entrust reported financial results for the third quarter ended September 30, 2000. The Company reported net earnings from operations were $1.2 million or $0.02 per share.

114. On October 17, 2000, subsequent to the release of its third quarter 2000 results, Entrust held a conference call for analysts, money and portfolio managers, institutional investor and large Entrust shareholders to discuss Entrust's third quarter results, its business and its prospects. During the call, Thompson and Ryan stated:

Ryan: ... I think at this time it's appropriate that I also comment on the status of the deals that were outstanding from Q2. I'm pleased to report that we closed large transactions with two of the customers for a total value of approximately $2 million. The third remaining deal remains as a well-qualified opportunity for the fourth quarter.
We also told you that we had closed two transactions for a lesser amount than originally expected. I am also pleased to report that that customer is already a prospect for follow-on business as early as Q4 2000 or in the first half of 2001.... As we look forward we enter Q4 with a very strong pipeline and we see the market for our core products and services at PKI growing in the 50%-60% annually range....

Thompson: 

... The third quarter's net earnings from operations applicable to common shares excluding acquisitions costs, equaled $.02 a share. While completing the third quarter enCommerce merger, we continued to generate operating earnings. I might add for the seventh consecutive quarter. Relative to the $.04 per share operating earnings comparison in Q3 1999, the difference, of course, relates to the full impact of the enCommerce merger.... As we articulated on July 18th, we intend to continue to provide guidance relative to targeted expectations. However, as I open the call, I would again caution you that with regard to such forward projections, these are just that, management's targeted forecasts, actual results can vary from such projections and as such, you should continue to reference the business risk in the most recently filed 10-Q and 10-K. For the fourth quarter of 2000, we are targeting revenues in the $46 to $47 million range. And within this targeted revenue range, to generate operating earnings of $.02 to $.03 per share, excluding acquisition costs. For the upcoming fiscal year 2001, we are targeting revenues in the $230 million to $240 million range. And within this targeted revenue range, we expect to generate operating earnings of $0.30 to $0.35 per share, excluding acquisition costs. The underlying economics and business assumptions to these targets are as follows: sustaining market growth rates of approximately 50%-60% in PKI and 80%-100% in authorizations, as John had referenced earlier. Maintaining revenue mix levels approximating the third quarter of 2000. That is, software in the 60%-70% range and services in the 30%-40% range. Generating margins of approximately 75% reflective of current revenue mix levels with margin changes driven by revenue mix changes, integration efficiencies and global scale. Operating expense ratios trending positively towards the longer term business models originally set and articulated at the IPO.
Fernandes: One last question for Dave. Dave, what about existing customers? Now, can you give us the flavor of, maybe not quantitative, but give us a flavor for how much revenue came from existing customers and what the trend has been like.

Thompson: Well, its fair to say Mark that if you look at ... new initials in the quarter we are probably well over 85% selling to the existing customer base and you may remember from the roadshow on the follow-on, last year Entrust was about 83% into this powerful customer base, and now as we continue to target 90 to 100 new initials per quarter as we drive additional revenue in the extensions to existing customers and to the service machine, we should be able to drive higher than the 83 we achieved last year.

115. On October 18, 2000, First Analysis issued a report on Entrust entitled, "Questions remain despite good quarter," written by Howard Smith after discussions with Ryan and Thompson, which was based on and repeated information provided by them. It stated:

We maintain our 2 (accumulate) rating for Entrust Technologies Inc. following its report of September (third) quarter results. Top- and bottom-line performance nicely beat our estimates, and Entrust had some success in deriving a greater portion of revenue from midrange deals. However, we find ourselves uneasy about the complexion of Entrust's business: Services-related business was quite strong and appears to be the newer business driver, while evidence of strength on the traditional license side is inconclusive. One quarter after a performance shortfall we remain unsure whether core, large-scale PKI adoption is unfolding as earlier expected.

To be sure, we credit Entrust for finding other revenue sources in its relatively recent offerings as well as for its work to obtain more midrange PKI business. But as we discuss below, 1) sequential comparisons for midrange deals become cloudy due to inclusion of enCommerce and 2) company mix guidance necessitates us lowering our 2001 estimate for PKI license revenue. We come away thinking that quarter results and guidance don't provide convincing evidence that the adoption rate of Entrust's corporate PKI products by customers is as strong as we expected or as competitors are seeing.
PKI license revenue of $25.5 million was in line with our estimate. Entrust saw a greater diversity in revenue, with midrange (stage two) deals growing 90% sequentially. It also saw an increase in transactions to its installed base (about 85% of revenue).... As Entrust forecast on its last conference call, two of the four phase-three deals that slipped in the second quarter closed in the third quarter for a total of about $2 million.

... Again, this improvement was in part due to adding enCommerce rather than solely a shift in existing business trends.

116. On October 18, 2000, UBS Warburg issued a report on Entrust written by Jordan Klein after discussions with Ryan and Thompson, which was based on and repeated information provided by them. It stated:

SUMMARY:

Entrust (ENTU) rebounded from an unexpectedly poor Q2 with better than expected Q3 results. Revenue of $42 mm was roughly in-line with our estimate, but aggressive operating cost control enabled ENTU to deliver EPS of $0.02, above our and the consensus estimate of $0.00.... Despite the recovery, we believe the core PKI market may remain lumpy and do not believe financial visibility has significantly improved. We reiterate our Hold.

*   *   *

Overall, we were encouraged by the Q3 results and outlook for Q4 and beyond. ENTU seems to have instituted meaningful changes to their business model that should improve financial predictability and visibility....

That said, we caution investors not to get overly excited by the upside delivered in Q3 when looking forward. We continue to believe ENTU's core PKI business carries low overall predictability from quarter to quarter and question its true growth rate. On an absolute basis, sequential growth in Q3 was an impressive 44%. However, if one compares Q2 to Q3 revenue on an "apples to apples" basis (excluding enCommerce and normalizing the $3.5 mm in slipped deals), we calculate sequential growth that is about flat, causing some concern to the true health and traction in the PKI business.

As a result, we reiterate our Hold and would look for strong upside performance an greater predictability in ENTU's core PKI business as a catalyst for reviewing our rating.
117. On October 18, 2000, SunTrust Equitable issued a report on Entrust written by P. Sean Jackson after discussions with Ryan and Thompson, which was based on and repeated information provided by them. It stated:

Management gave more details on the status of the four deals that rolled over from the 2Q00. In one deal, Entrust has closed a partial deployment for less than expected revenue; for two other deals, management has closed on deployments in 3Q00 generating $2 million in revenue. Entrust expects to close the fourth deal in 4Q00.

* * *

Breaking down the revenue during the quarter, Entrust recorded approximately $12.9 million more revenue in 3Q00 than in 2Q00. We attribute approximately $8.5 million to the inclusion of enCommerce business and $2 million to the deals that slipped through from 2Q00. This leaves approximately $2.4 million in absolute growth q/q for Entrust’s core PKI solutions.

CLASS ACTION ALLEGATIONS

118. This is a class action on behalf of purchasers of Entrust stock between October 19, 1999 and July 5, 2000, excluding defendants (the "Class"). Excluded from the Class are officers and directors of the Company, as well as their families and families of the defendants. Class members are so numerous that joinder of them is impracticable.

119. Common questions of law and fact predominate and include whether defendants: (i) violated the 1934 Act; (ii) omitted and/or misrepresented material facts; (iii) knew or recklessly disregarded that their statements were false; and (iv) artificially inflated Entrust’s stock price and the extent of and appropriate measure of damages.

120. Plaintiff’s claims are typical of those of the Class. Prosecution of individual actions would create a risk of inconsistent adjudications. Plaintiff will adequately protect the interests of the Class. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.
STATUTORY SAFE HARBOR

121. The statutory safe harbor provided for forward-looking statements ("FLS") does not apply to the false FLS pleaded. None of the particular oral FLS in Entrust’s conference calls and meetings with analysts were so identified as required. The defendants are liable for the false FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false and the FLS was authorized and/or approved by an executive officer of Entrust who knew that the FLS was false. None of the historic or present-tense statements made by defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made nor were any of the projections or forecasts made by defendants expressly related to or stated to be dependent on those historic or present-tense statements when made.

CLAIM FOR RELIEF

122. Defendants violated §10(b) and Rule 10b-5 by:

(a) Employing devices, schemes and artifices to defraud;

(b) Making untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and

(c) Engaging in acts, practices and a course of business that operated as a fraud or deceit upon the Class in connection with their purchases of Entrust stock.

123. Class members were damaged. In reliance on the integrity of the market, they paid artificially inflated prices for Entrust stock.
PRAYER FOR RELIEF

WHEREFORE, plaintiffs pray for judgment as follows: declaring this action to be a proper class action; awarding damages, including interest; and such other equitable/injunctive relief as the Court may deem proper.

JURY DEMAND

Plaintiffs demand a trial by jury.

DATED: January 19, 2001

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DECLARATION OF SERVICE BY MAIL

I, the undersigned, declare:

1. That declarant is and was, at all times herein mentioned, a citizen of the United States and a resident of the County of San Diego, over the age of 18 years, and not a party to or interest in the within action; that declarant's business address is 600 West Broadway, Suite 1800, San Diego, California 92101.

2. That on January 20, 2001, declarant served the insert by depositing a true copy thereof in a United States mailbox at San Diego, California in a sealed envelope with postage thereon fully prepaid and addressed to the parties listed on the attached Service List.

3. That there is a regular communication by mail between the place of mailing and the places so addressed.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 20th day of January, 2001, at San Diego, California.

[Signature]

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