

Investment Research

3582985

# Wave Systems Corp.

Financial Information  
Services

18 February 1900

MERGENT FIS -  
COMPANY REPORT

**Thomson Financial**

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## Stock Price Data

Wave Systems Corp.

Wave Systems Corp. Symbol WAVX (OTC)

Fiscal Year Ends December, 1998

Updated 02/18/00

Priced as of 01/31/00

### ISSUE DATA

Price	\$	12.75	Dividend Rate	\$	0.00
52W Range		\$29.00-7.50	Dividend Yield		0.00%
Shares Outstanding		31.54 Mil	Book Value	\$	N.M.
Debt/Equity		N.M.	Price/Book		N.M.
Cash	\$	0.03	Beta		0.15
Revenue	\$	0.00	Money Volume		181.22 Mil
TTM EPS	\$	-0.44	Pretax Int Cov		N.M.
Float		N.M.			

SIC Industry Group: Industrial Machinery and Equipment

SIC CODE(S): 3577 8731

CORPORATE OFFICE:

CONTACT: Investor Relations

480 PLEASANT St.  
Lee, MA 01238  
PHONE: 413-243-1600

## BUSINESS DESCRIPTION

### BUSINESS DESCRIPTION:

Co. is creating a new electronic commerce model for digital information and services based on client-side security, transactions and trust. Co. has devoted substantially all of its efforts and resources to research, feasibility studies, design, development, and market testing of a distributed trust system that enables client based transactions, including the metered usage of electronic content and services (the "Wave System"). Electronic content and services refers to any data, graphic software, video or audio sequence that can be digitally transmitted and/or stored.

The Wave System consists of an EMBEDded Application Security SYstem ("EMBASSY") in consumer devices that provide the basis for a multi-party trusted system using both hardware and software. The EMBASSY is a programmable, low cost "system within a system" that can perform independent transactions such as meter content usage, store sensitive information such as identities and account balances and run secure applications for access to services. The EMBASSY is an open system based on secure smart card hardware technology that can be integrated into PCs, peripherals, set top boxes or used as an independent component. The WaveMeter application running in the EMBASSY allows transactions to occur without the expense of a real-time network connection for every transaction. The EMBASSY securely stores electronic funds and transaction information about the usage of electronic content to be



transmitted securely to a central transaction processing center ("WaveNet") periodically. WaveNet manages encryption and decryption keys, processes credit and usage charges, automatically obtains credit authorization, calculates royalty distributions, and can provide user and usage data to electronic content owners. The Wave System is designed to be compatible with every existing content delivery system such as CD-ROM, the Internet, and digital broadcast. PC OEMs, content providers and services providers such as telecommunications companies have expressed interest in the Wave System and Co. believes that once there is a broad installed base of the EMBASSY, electronic content and service providers from other market segments are likely to be attracted to the Wave System.

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## Quarterly Summary 1996-99

### HISTORICAL QUARTERLY RESULTS

		EARNINGS PER SHARE (U.S. Dollars per share)			
		1999	1998	1997	1996
1st Qtr	MARCH	-.11	-.08		-.13
2nd Qtr	JUNE	-.12	-.09	-.17	-.17
3rd Qtr	SEPT	-.21	-.09	-.20	-.14
4th Qtr	DEC		-.18		-.20

  

		REVENUE (Thousands of U.S. Dollars)			
		1999	1998	1997	1996
1st Qtr	MARCH	2	9		1
2nd Qtr	JUNE	2	4	2	
3rd Qtr	SEPT	51	3	4	
4th Qtr	DEC		-5		

  

		EBIT (Thousands of U.S. Dollars)			
		1999	1998	1997	1996
1st Qtr	MARCH	-2,843	-1,946		-1,829
2nd Qtr	JUNE	-4,162	-1,822	-2,575	-2,407
3rd Qtr	SEPT	-8,309	-2,717	-4,378	-1,864
4th Qtr	DEC		-5,127		-2,573

## Equity And Debt Breakdown

[Part 1 of 2]

### EQUITY AND DEBT BREAKDOWN:

1) non-voting series A cumulative redeemable preferred par US\$ 0.01

AUTH - 2000000.0 SHR

OUTSTG - Dec. 31, 1998, 360.0

2) class A common par US\$ 0.01

AUTH - 75000000.0 SHR

OUTSTG - Dec. 31, 1998, 28402149.0

### Options-

A summary of option activity through December 31, 1998 follows:

	Shares
Outstanding at Dec 31, 1997	1,944,790
Granted	5,665,278
Canceled	(701,267)
Exercised	(77,558)
Outstanding at Dec. 31, 1998	6,831,243
Exercisable at Dec. 31, 1998	1,760,568

In September 1991, the Board of Directors authorized the establishment of a stock option plan (the "1991 Plan"). The total number of shares of Class B common stock subject to the Plan is 2,700,000.

In January 1994, the Board of Directors authorized the establishment of the 1994 Employee Stock Option Plan (the "1994 Plan"). The initial number of shares of Class A common stock subject to the 1994 Plan was 1,000,000. In May 1996, July 1997, and November 1998 the Board of Directors approved an amendment to Co.'s 1994 Plan to increase the number of shares of Class A common stock reserved for issuance thereunder by 1,000,000, 1,000,000 and 5,000,000, respectively.

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Therefore, the 1994 Plan number of shares of Class A common stock reserved for issuance is 8,000,000 shares.

In January 1994, the Board of Directors authorized the establishment of the Non-Employee Directors Stock Option Plan (the "Directors' Plan"). The total number of shares of Class A common stock subject to the Directors' Plan was 200,000. In February 1995, the Board of Directors authorized certain changes to the Directors' Plan. The annual option grant for directors was increased from a total of 2,000 shares of Class A common stock to 10,000 shares of Class A common stock. In July 1995, the stockholders of Co. authorized an increase to the total number of shares subject to the Directors' Plan from 200,000 shares to 500,000 shares. In November 1998, the stockholders of Co. authorized an increase to the total number of shares subject to the Directors' Plan from 500,000 shares to 1,000,000 shares.

In September 1996, the Board of Directors authorized the establishment of the 1996 Performance Stock Option Plan ( the "1996 Plan"). The initial number of shares of Class A common stock subject to the 1996 Plan was 800,000.

At December 31, 1998, there were approximately 3,360,000 additional shares available for grant under the 1994 Plan.

Offered-  
(3,600,000 shs.) at \$5.00 per share (proceeds to Co., \$4.65 per share) on Aug. 31, 1994 thru Dickinson & Co. and associates. Offering contains an option to purchase 540,000 shs. to cover over-allotments. Proceeds

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### Equity And Debt Breakdown

[Part 2 of 2]

to be used for ongoing research and development, expansion of Co.'s marketing operations, to develop an administrative system for WaveNet and for working capital and general corporate purposes, including rent for expanded facilities.

3) class B common par US\$ 0.01

AUTH - 13000000.0 SHR

OUTSTG - Dec. 31, 1998, 3140665.0

### Historical Price Performance

#### HISTORICAL PRICE PERFORMANCE

	4 Week % Change	13 Week % Change	26 Week % Change	52 Week % Change	YTD Week % Change	3 Year % Change
Price	6.80	34.21	13.33	52.24	6.80	397.46
Rel. Price	1.01	0.97	0.96	0.94	1.01	0.86
Current PE		N.M.	Monthly Return			6.80
5 Year High PE		N.M.	1 Year Monthly Return			142.25
5 Year Low PE		N.M.	3 Year Monthly Return			418.45

### Institutional Ownership & Insider Trading Data

#### INSTITUTIONAL OWNERSHIP

Percent Shares Outstanding Owned	8.12
Number of Institutions	40.00
Total Shares held	3096394.00
3 Month Purchases/Sales	2171613.00
3 Month Shares Purchased	2313099.00
3 Month Shares Sold	141486.00

#### INSIDER TRADING

(Previous month)

Purchasers (Net)	-1.00
Number of Buyers	0.00
Number of Sellers	1.00
Shares Bought/Sold	-20000.00
Number of Shares Bought	0.00
Number of Shares Sold	20000.00

### Peer Group Comparison - Company, S&P500, Industry Ratios

#### PEER GROUP RATIOS

	COMPANY AS OF 02/18/00	S&P 500 AS OF 02/18/00	INDUSTRY AS OF 02/18/00
P/E	N.M.	14.32	4.42
DIV YIELD	0.00	2.09	1.05
PRICE/BOOK	N.M.	3.96	6.24

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PRICE/CASH FLOW	N.M.	N.M.	19.81
PRICE/TANG. BOOK	N.M.	10.21	7.53
3 YR REV GROWTH	N.M.	12.41	21.74
3 YR EPS GROWTH	N.M.	73.94	46.12
3 YR DIV GROWTH	N.M.	10.06	8.33
NET INC GROWTH	N.M.	154.39	59.69
REINVESTMENT RATE	N.M.	9.65	9.74
NET PROFIT MARGIN	-116706.99	7.39	6.39
OPER PROFIT MARGIN	-131197.30	13.18	10.19
ROE	N.M.	17.97	19.89
ROA	-578.09	5.59	6.80
FIXED CHARGE COVERAGE	-10.16	16.31	26.15
CURRENT RATIO	0.22	1.78	2.10
LG-TM DEBT TO EQUITY	N.M.	84.01	59.59
TOTAL DEBT TO EQUITY	N.M.	90.40	61.10

Quarterly Income Statement 09/30/98 and 09/30/99

[Part 1 of 2]

TABLE: QUARTERLY INCOME STATEMENT 09/30/98 and 09/30/99

Wave Systems Corp.

Ticker: WAVX

DETAILED QUARTERLY INCOME STATEMENT  
(Thousands of U.S. Dollars)

	3 MONTHS ENDING 09/30/99	3 MONTHS ENDING 09/30/98R	9 MONTHS ENDING 09/30/99	9 MONTHS ENDING 09/30/98R
Net Income	-8,310	-3,953	-18,908	-9,999
Total Revenues	51	11	70	48
Cost of Revenues	24	8	35	32
Outstanding Shares	40,073		40,073	
Income before Taxes	-8,310	-3,953	-18,908	-9,999
EPS fr Net Inc-Prim	-.21	-.12	-.50	-.35
Research & Development	2,967	1,967	7,281	4,589

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### Quarterly Income Statement 09/30/98 and 09/30/99

[Part 2 of 2]	3 MONTHS ENDING 09/30/99	3 MONTHS ENDING 09/30/98R	9 MONTHS ENDING 09/30/99	9 MONTHS ENDING 09/30/98R
Interest Income (Exp), Net	189	64	-331	82
Average Shares Outstanding	39,930	32,571	37,490	30,919
EPS fr Cont Oper-Prim General & Administrative	-.21 4,065	-.12 2,677	-.50 11,087	-.35 7,633
Total Oth Inc & Exp, Net		625	1,250	2,125
Gross Profit	27	3	35	16
Net Income Appl to Common Shs	-8,313	-4,003	-18,921	-10,862
Income after Tax	-8,310	-3,953	-18,908	-9,999
Preferred Stock & Oth Adj	2	50	13	864
Operating Income	-8,500	-4,642	-19,826	-12,206
Other Operating Expenses	1,494		1,494	

### Quarterly Balance Sheet 09/30/98 - 09/30/99

TABLE: QUARTERLY BALANCE SHEET 09/30/98 - 09/30/99

Wave Systems Corp.

Ticker: WAVX

#### DETAILED QUARTERLY BALANCE SHEET (Thousands of U.S. Dollars)

	As of 09/30/99	As of 06/30/99	As of 03/31/99	As of 12/31/98
Liabilities:				
Total Assets	16,910	22,414	22,720	2,058
Fixed Assets	1,978	1,357	1,106	888
Common Stock	401	364	346	315
Preferred Stock				348
Accounts Payable	4,290	3,458	2,634	3,591
Retained Earnings	-84,123	-65,057	-60,894	-57,220
Total Current Assets	14,738	20,918	21,506	1,062
Cash & Short Term Inv	13,123	19,989	21,355	1,057
Total Current Liabilities	4,290	3,458	3,259	4,841
Other Assets	195	139	107	107
Other Current Assets	1,615	929	151	5
Total Stockholders' Equity	12,620	18,452	18,962	-3,276
Total Liabilities	4,290	3,962	3,758	5,334
Other Current Liabilities			625	1,250
Other Stockholders' Equity	96,342	83,145	79,510	53,281



**Quarterly Balance Sheet 09/30/98 - 09/30/99**

As of  
09/30/98R

Liabilities:

Total Assets	4,602
Fixed Assets	865
Common Stock	306
Preferred Stock	1,642
Accounts Payable	2,571
Retained Earnings	-51,847
Total Current Assets	3,634
Cash & Short Term	
Inv	3,634
Total Current	
Liabilities	4,493
Other Assets	103
Total Stockholders'	
Equity	-379
Total Liabilities	4,981
Other Current	
Liabilities	1,922
Other Stockholders'	
Equity	49,520

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### Quarterly Cash Flows 09/30/98 and 09/30/99

TABLE: QUARTERLY STATEMENT OF CASH FLOWS 09/30/98 and 09/30/99

Wave Systems Corp. Ticker: WAVX

#### DETAILED QUARTERLY STATEMENT OF CASH FLOWS INDIRECT METHOD (Thousands of U.S. Dollars)

	9 MONTHS ENDING 09/30/99	9 MONTHS ENDING 09/30/98R
Operating Cash Flows:		
Net Income	-18,908	-9,999
Liabilities	-437	2,541
Dividends Paid	-506	
Accounts Receivable	-4	
Capital Expenditures	-1,116	-389
Cash Flows fr Fin		
Activ	28,417	12,949
Cash Flows from Oper		
Activ	-18,629	-6,600
Cash Flows fr Invest		
Activ	-1,116	-389
Net Inc in Cash &		
Cash Equiv	8,672	5,960
Other Adjustments to		
Net Inc	1,819	526
Sale/Purchase of		
Stock	27,498	12,949
Oth Cash Flows fr		
Fin Activ	2,000	
Depreciation	480	365
Net Borrowings	-575	
Oth Inc/Dec in Cash		
fr Oper	-1,579	-33

### Operating Results 1995-98

TABLE: OPERATING RESULTS 1995-98

Wave Systems Corp. Ticker: WAVX

#### DETAILED ANNUAL INCOME STATEMENT (Thousands of U.S. Dollars)

	12 MONTHS ENDING 12/31/98	12 MONTHS ENDING 12/31/97	12 MONTHS ENDING 12/31/96R	12 MONTHS ENDING 12/31/95R
Net Income	-11,896	-13,898	-8,684	-6,833
Total Revenues	10	11	1	
Outstanding Shares	31,543	27,297	17,790	14,199
Income before Taxes	-11,896	-13,898	-8,684	-6,833
EPS fr Net Inc-Prim	-.44	-.78	-.64	-.50
Research &				
Development	3,509	6,035	3,309	3,325
Interest Income				
(Exp), Net	-173	-120	184	559
Average Shares				

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Outstanding	29,300	20,944	14,957	13,794
EPS fr Net Inc-Fully Dilut	-.44	-.78	-.64	-.50
Average Shares-Fully Diluted	29,300	20,944	14,957	13,794
EPS fr Cont Oper-Prim	-.44	-.78	-.64	-.50
General & Administrative	9,874	7,983	5,561	4,080
Total Oth Inc & Exp, Net	1,650	1,000		13
EPS fr Cont Oper-Fully Dil	-.44	-.78	-.64	-.50
Gross Profit	10	11	1	
Net Income Appl to Common Shs	-12,755	-16,381	-9,554	-6,873
Income after Tax	-11,896	-13,898	-8,684	-6,833
Preferred Stock & Oth Adj	859	2,483	871	41
Operating Income	-13,373	-14,777	-8,868	-7,405
Other Operating Expenses		770		

**Annual Balance Sheet 1995-98**

[Part 1 of 2]

TABLE: ANNUAL BALANCE SHEET 1995-98

Wave Systems Corp.

Ticker: WAVX

DETAILED ANNUAL BALANCE SHEET  
(Thousands of U.S. Dollars)

	As of 12/31/98	As of 12/31/97	As of 12/31/96R	As of 12/31/95R
Liabilities:				
Total Assets	2,058	1,678	6,237	7,754
Fixed Assets	888	849	935	955
Common Stock	315	273	178	142
Preferred Stock	348			
Accounts Payable	3,591	1,950	1,403	1,211

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## Annual Balance Sheet 1995-98

[Part 2 of 2]

	As of 12/31/98	As of 12/31/97	As of 12/31/96R	As of 12/31/95R
Retained Earnings	-57,220	-45,324	-31,427	-22,743
Total Current Assets	1,062	759	4,135	6,593
Cash & Short Term				
Inv	1,057	759	4,064	6,458
Total Current				
Liabilities	4,841	1,950	1,403	1,211
Other Assets	107	70	1,168	207
Other Current Assets	5		70	135
Total Stockholders'				
Equity	-3,276	-743	1,559	6,153
Total Liabilities	5,334	2,421	4,678	1,601
Other Current				
Liabilities	1,250			
Other Stockholders'				
Equity	53,281	44,308	32,808	28,754

## Annual Statement Of Cash Flows 1995-98

TABLE: ANNUAL STATEMENT OF CASH FLOWS 1995-98

Wave Systems Corp.

Ticker: WAVX

DETAILED ANNUAL STATEMENT OF CASH FLOWS  
INDIRECT METHOD (Thousands of U.S. Dollars)

	12 MONTHS ENDING 12/31/98	12 MONTHS ENDING 12/31/97	12 MONTHS ENDING 12/31/96R	12 MONTHS ENDING 12/31/95R
Operating Cash Flows:				
Net Income	-11,896	-13,898	-8,684	-6,833
Liabilities	1,601	491	-191	344
Accounts Receivable	-12	-17	-17	-17
Capital Expenditures	-372	-256	-252	-814
Cash Flows fr Fin				
Activ	6,967	5,443	6,373	436
Cash Flows from Oper				
Activ	-6,297	-8,493	-7,460	-5,811
Cash Flows fr Invest				
Activ	-372	-256	2,640	2,727
Investments			3,898	4,209
Net Inc in Cash &				
Cash Equiv	298	-3,306	1,552	-2,648
Other Adjustments to				
Net Inc	2,470	4,190	1,104	677
Sale/Purchase of				
Stock	6,892	5,393	6,373	436
Oth Cash Flows fr				
Fin Activ	75	50		
Depreciation	333	487	317	177
Oth Inc/Dec in Cash				
fr Oper	1,208	255	11	-159
Oth Cash Flows fr				
Invest Activ			-1,005	-668

**OFFICERS**

**OFFICERS:**

Peter J. Sprague, Chmn., C.E.O.,  
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Thomas R. Dilk, V.P.,  
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Sanders Smith, V.P.,  
John J. Valentine, V.P.,  
David B.G. Kopans, Contr.

**DIRECTORS:**

Peter J. Sprague, Chmn.,  
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Phillippe Bertin,  
Nolan Bushnell,  
George Gilder,  
John E. McConaughy Jr.,  
Steven Sprague

<b>Auditor</b>
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