

COMPENSATION COMMITTEE CHARTER

Introduction

This charter governs the operations of the Compensation Committee (the “Committee”) of the board of Directors (the “Board”) of Wave Systems Corp. (the “Company”). The Committee shall review the adequacy of this charter at least annually and recommend any proposed changes to the Board for its approval, although the Board shall have sole authority to amend this charter. The Company shall make this charter available on its website at www.wave.com.

Membership of Committee

The Committee shall be composed of such number of directors appointed by the Board, each of whom shall satisfy the applicable requirements of The Nasdaq National Market, Inc. and the rules and regulations of the Securities and Exchange Commission, subject to the phase-in rules that may be applicable.

The Committee shall be appointed by the Board, upon recommendation of the Nominating and Corporate Governance Committee of the Board, if one exists. The chairman of the Committee shall be appointed by the Board. Committee members shall serve until their successors are duly appointed and qualified or until their earlier removal by the Board at any time.

The Committee may form and delegate any of its responsibility to subcommittees as it deems necessary or appropriate in its sole discretion.

Meetings and Consultants

The Committee shall meet as often as it shall determine, but not less frequently than annually. The Committee shall have the authority to select, retain and terminate any compensation consultants, outside legal and other counsel, and other advisors (“Consultants”) as it deems necessary or appropriate in its sole discretion. The Committee may invite Consultants, as well as any officer, director or employee of the Company, to attend meetings of the Committee or to meet with any members of the Committee. The Committee shall have the sole authority to approve the fees and retention terms relating to such Consultants, which fees shall be borne by the Company.

Purposes of the Committee

The Committee shall discharge the overall responsibility of the Board relating to executive and director compensation, produce an annual compensation report for inclusion in the Company’s proxy statement and perform any other tasks as the Board, from time to time, may prescribe. All powers of the Committee are subject to the Company’s By-Laws and applicable law.

Authority and Responsibilities

The Committee shall have the following authority and responsibilities:

- To assist the Board in developing and evaluating potential candidates for executive positions, including the chief executive officer;

- The Committee shall evaluate at least once a year the chief executive officer's performance and shall set the chief executive officer's annual compensation, including salary, bonus, incentive and equity compensation;
- The Committee shall provide oversight of management's decisions concerning the performance and compensation of other Company officers;
- To review the Company's incentive compensation and other stock-based plans and recommend changes in such plans to the Board as needed. The Committee shall have and shall exercise all the authority of the Board with respect to the administration of such plans;
- To review executive officer compensation for compliance with Section 16 of the Exchange Act and Section 162(m) of the Internal Revenue Code, as in effect from time to time, and other applicable laws, rules and regulations;
- To prepare and publish an annual executive compensation report in the Company's proxy statement;
- To report regularly to the Board on the Committee's activities; and
- To perform any other activities consistent with this charter, the Company's certificate of incorporation and by-laws and applicable law, as the Committee or the Board deems appropriate.