



Aladdin[®]
SECURING THE GLOBAL VILLAGE

COMPANY PROFILE

SECURING
THE GLOBAL
VILLAGE



ABOUT THE COMPANY

+ ABOUT THE COMPANY

Aladdin is dedicated to being the leading provider of security services and solutions used to protect digital assets, enable secure business, and maximize the benefits from creating, selling, distributing and using digital content.

Since its founding in 1985, Aladdin has grown to a leadership position in the Software Digital Rights Management (DRM) and Enterprise Security fields. With proven technology, a history of steady growth, successful mergers and acquisitions, Aladdin has proven to be an invaluable partner to software developers and Internet security professionals.

Aladdin Knowledge Systems is celebrating twenty years of providing the most innovative and secure solutions. Its reputation is built upon a comprehensive line of products satisfying the security needs of organizations operating in a world where fast and secure information accessibility is a necessity. These products include eToken™, the next generation authentication key; HASP®, the leading Software DRM products; and eSafe®, integrated content security solutions.

Aladdin has twelve offices throughout the world and an ever-expanding global network of resellers and distributors that support customers in numerous countries. Aladdin provides solutions to thousands of organizations, from Fortune 100 corporations and governments, to major financial and educational institutions.

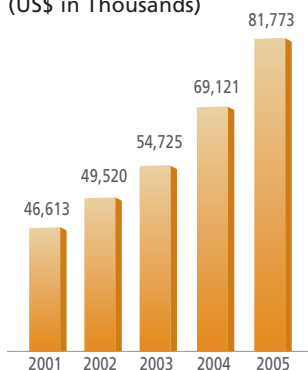


FINANCIAL HIGHLIGHTS

+ FINANCIAL HIGHLIGHTS

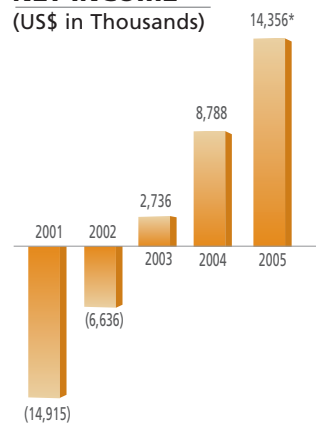
REVENUES

(US\$ in Thousands)



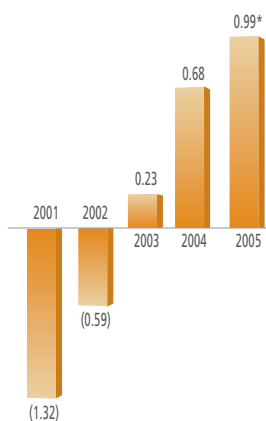
NET INCOME

(US\$ in Thousands)



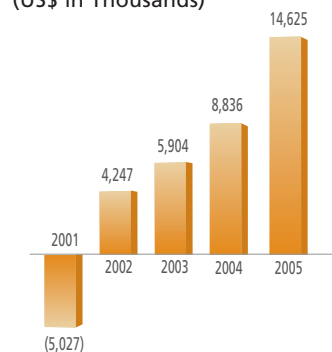
DILUTED EARNINGS PER SHARE

(US\$)



CASH FLOW FROM OPERATIONS

(US\$ in Thousands)



SELECTED STATEMENT OF OPERATIONS DATA (US \$ in Thousands)

	2001	2002	2003	2004	2005
Revenues	46,613	49,520	54,725	69,121	81,773
Net Income (loss)	(14,915)	(6,636)	2,736	8,788	14,356*
Diluted Earnings (loss) per Share	(1.32)	(0.59)	0.23	0.68	0.99*
Weighted Average Number of Shares Outstanding	11,275	11,253	11,950	13,000	14,580

SELECTED BALANCE SHEET DATA (US \$ in Thousands)

	2001	2002	2003	2004	2005
Working Capital	24,649	22,664	26,625	34,111	84,974
Total Assets	53,395	48,539	55,468	70,894	125,878
Total Liabilities	10,766	12,212	14,512	17,457	21,141
Shareholders' Equity	42,629	36,327	40,956	53,437	104,737

* Excluding one time expenses



+ LETTER FROM THE CEO

Dear Customers, Partners, and Investors,

As we begin our third decade of operations, the time is right to reflect on the past and look toward the future. We just completed another remarkable year for Aladdin as we celebrated our 20th anniversary and achieved accomplishments on all fronts including revenue and profitability.

In our fifth consecutive year of growth, we reached \$81.8 million in revenues, representing an 18 percent increase over the prior year's total of \$69.1 million. We strengthened our financial position during the year as operations and a successful secondary offering contributed to our cash, cash equivalents, and marketable securities total, reaching \$77.2 million as of December 31, 2005, up \$51.3 million from \$25.9 million on December 31, 2004, with no outstanding debt. Over the past year, we also expanded geographically establishing offices in Europe and China.

Our Software Digital Rights Management and Enterprise Security business units both experienced double-digit growth in revenue. Our industry leading HASP anti-piracy solution sold its 30-millionth key and has protected over \$500 billion worth of software since its inception. In a recent report, IDC confirmed that Aladdin is extending its #1 position in the global software licensing authentication token market, with a market share that has grown to 37.2 percent.

Our content security solutions and identity management products continued to secure key customer wins and awards from leading publications such as SC Magazine. Our eToken product family finished the year strongly, with several record breaking deals. We also released a new version of our eSafe proactive content security solution that won prominent industry awards and further established itself as the best solution for enterprises and ISPs looking to protect themselves and their customers from spyware and other types of attacks.

We have maintained a strong focus on our customers and have invested further in support systems to improve our ability to communicate and provide service. More recently, we have expanded our commitment to both our technology and channel partners throughout the world through a larger investment in infrastructure and with updated and innovative programs to further meet our partners' growing needs.

We have a strong management team with a high level of commitment. Collectively, we remain focused on providing the most innovative products backed by the industry's highest level of service. This is our formula for success.

Thank you for your continuing confidence in Aladdin. May the coming year hold good fortunes for us all.

**Sincerely,
Yanki Margalit
Chairman and Chief Executive Officer**

THE CUSTOMER IN MIND

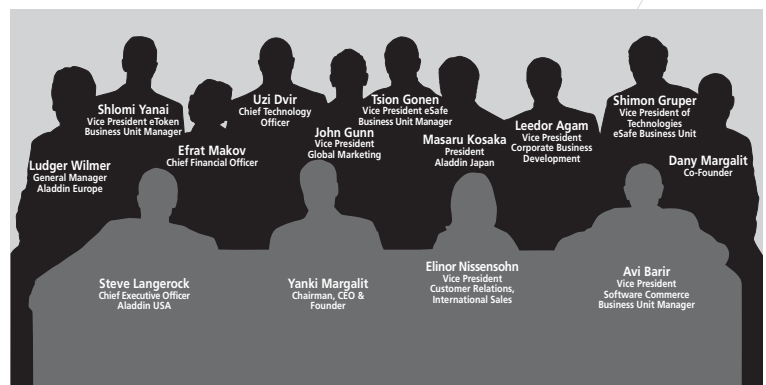




MANAGEMENT

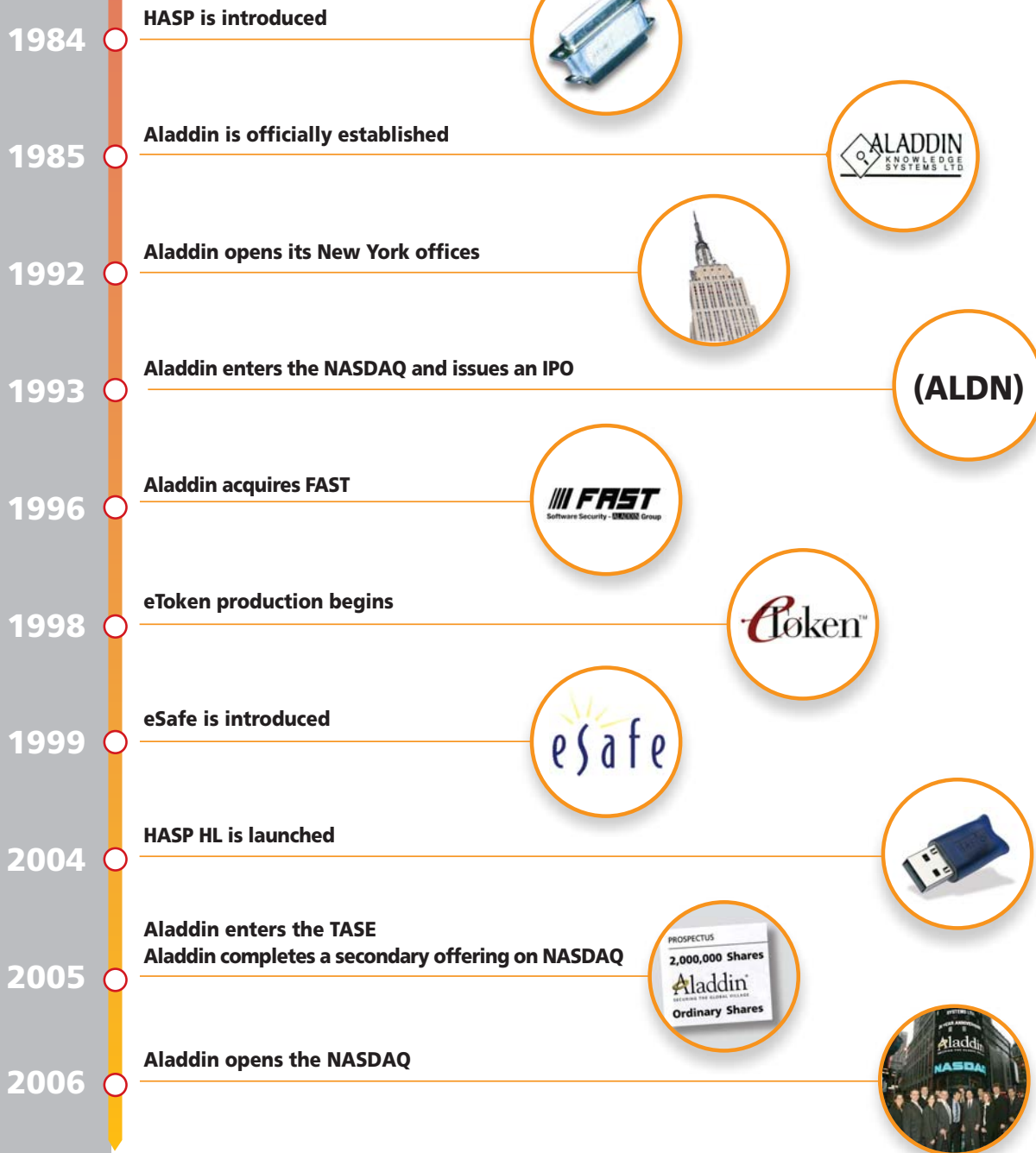
+ MANAGEMENT

Aladdin's management team brings together many decades of diverse industry experience and a legacy of success. Led by this dedicated and proven group, Aladdin will continue to create innovative solutions to meet today's most critical digital security needs.



+ ALADDIN MILESTONES

From the development of the first HASP anti-piracy dongle in 1985 to Aladdin's evolution as a multi-product market-leader represented on international fronts, Aladdin has continued to innovate and create new rules for the world of digital security. Here are some of the highlights of the past two decades.



INNOVATION

+ DEDICATED TO INNOVATION



Since its inception, Aladdin has been dedicated to developing innovative solutions through advanced research and development.

Aladdin engineers introduced one of the first hardware-based anti-piracy solutions and the first time-based hardware security dongle. These improved protection and opened new licensing and revenue opportunities for software developers. Aladdin has registered patents for software distribution, licensing of electronically purchased software, and others. Aladdin's newest innovation, HASP SRM, will open a multitude of options for protecting, licensing, and distributing software applications. This single solution will allow software developers to select from various software locking devices, a variety of sales and licensing models, and multiple delivery methods.

Aladdin patents continue to serve as significant tools for strengthening the market-leading position of the company's eToken products within the USB authentication market. Aladdin holds significant patents that apply to USB portable devices featuring an on-board smartcard chip and storage

for unique personal information for authenticating to a network or application. Aladdin has licensed its technology to leading industry partners including RSA Security. New products in development for the eToken family include eToken NG-FLASH, a device that will combine the powerful capabilities of strong authentication with the convenience of a mass storage drive, and a next generation NG-OTP device.

The company's recent announcement of the granting of a patent for its eSafe anti-spyware solution further supports the uniquely proactive capabilities of the award-winning Aladdin eSafe solution. The new patent covers the detection of viruses, spyware, and other kinds of malicious code by emulation - one of the most powerful and effective methods for identifying malicious activity.

Aladdin continues to deliver innovative products and solutions to meet the changing needs of the IT security market. By fortifying its portfolio of patents and by acting to protect its intellectual property, the company continues to maximize opportunities for growth.



HASP[®]

SOFTWARE DRM

+ THE REALITY OF SOFTWARE PIRACY

With the increase of software piracy, software publishers are seeking Digital Rights Management solutions to protect their intellectual property. A 2005 study by the Business Software Alliance and IDC found that software developers lost \$31 billion of potential revenue in 2004 due to software piracy. The study further found that in 2004, thirty-five percent of the software installed on personal computers was pirated.

Software piracy impacts software publishers by preventing them from realizing all of the licensing revenue from the use of their software products. HASP is a revenue-enabling comprehensive solution suite meeting all of a software publishers' protection and licensing needs. It provides strong copy protection, Intellectual Property protection and secure licensing.

The HASP family provides software publishers with both hardware-based and software-based protection options. Hardware-based options are available in a variety of form factors including USB, parallel port and PC-card.

When using HASP HL hardware-based security, the HASP hardware key simply connects to a computer, protecting software applications by requiring the key's presence for



product access. Software developers can securely implement a variety of flexible sales models while protecting their intellectual property using the range of capabilities.

With the HASP HL Net key, software developers are protected against theft and misuse of their products in the enterprise environment. A single HASP Net key limits and manages the number of users accessing an application concurrently.

Aladdin's Software Rights Management solution, HASP SRM, is scheduled for release in Q3 2006. Through the HASP SRM software protection and licensing system, software vendors will be able to protect their revenue and grow sales by way of protection against software piracy; via IP protection; and by way of secure licensing and software distribution. The SRM system will allow software publishers to secure and license their products using hardware-based protection, software-based protection, or any combination of the two.

The last two years have brought with them an exceptional increase in HASP usage, boosting HASP sales into double-digit growth: 16% in 2004 and 12% in 2005. This increase further emphasizes the fact that HASP represents the best software DRM solution on the market.



SOFTWARE PROTECTION



eToken™

YOUR KEY TO eSECURITY

+ STRONG AUTHENTICATION IN AN INSTANT ACCESS WORLD

The exchange of electronic information has become an issue of major importance to enterprises worldwide. Extending information access both inside and outside an organization plays a critical role in the effective operation of an organization. Increased access to critical information, however, leads to an increased risk of the exposure of this information to unauthorized users. Hackers, cyber-terrorists, identity thieves, disgruntled employees and even competitors can intercept and make use of this data.

eToken™ is a next generation authentication device that provides secure, reliable, two-factor authentication and password management. The eToken can be used to securely generate and store keys, passwords, and digital certificates, in addition to enabling strong user authentication and digital signing and encryption of sensitive information.

Easy manageability is a significant asset of the eToken product family. The Aladdin Token Management System (TMS) enables full enterprise wide token life cycle management, and allows organizations to easily deploy smart cards, tokens and other authentication devices by seamlessly integrating the process into existing Microsoft Active Directory structure. eToken Web Sign-On (WSO) and Simple

Sign-On (SSO) greatly simplify access to multiple web and Windows accounts by securely storing and managing all the user's login credentials, IDs and passwords on the eToken itself.

The eToken family also includes eToken NG-OTP with One-Time Password (OTP) functionality, the first-ever USB smart card token integrated OTP capability, and eTokenNG-FLASH, offering USB smart card authentication functionality with the addition of Flash memory for mobile data storage.

Leading eToken technology partners include Cisco, VeriSign, IBM and Check Point.



TO eSECURITY



eSafe[®]
PROACTIVE CONTENT SECURITY

+ CONTENT SECURITY IN THE ENTERPRISE ENVIRONMENT

Enterprises worldwide are constantly exposed to viruses and spam, spawned by access to unauthorized Internet content and content contained in electronic messages. In addition, they are susceptible to security attacks, which compromise and threaten the utility of Internet usage and electronic messaging. Unmanaged use of company computing and network resources, including Internet access, can result in increased risk and costs to the employer – from lost employee productivity and increased network bandwidth consumption, to increased network security breaches and potential legal liability.

Consequently, today's content security solutions face more challenges than ever. Organizations demand solutions which can operate within heterogeneous environments, are able to scale to meet increasing content volume demands, lower management costs and enable safe electronic communication.

eSafe enables policy-based management of Internet traffic, providing an integrated content security solution for web browsing security, email security and to service providers. Larger organizations benefit from a practical web surfing solution, enabling best-of-breed Internet surfing security, strong anti-spyware and without the sacrifice of network performance.

eSafe's proven SecureSurfing™ solution also gives ISPs the ability to protect their customers from spyware and phishing threats by ensuring a "clean pipe" of tiered security services. This "clean pipe" means ISPs can quickly and easily provide customers with a truly safe Internet connection.

Designed specifically for cellular providers, eSafe's Mobile Content Security Gateway (MCSG) offers mobile operators the ability to provide their subscribers with centralized protection against the growing number of mobile viruses and spam. Situated between the Internet and the cellular provider network, eSafe MCSG inspects the content of MMS and WAP traffic, as well as HTTP and SMTP content.



IDC reports that the content security market is to reach \$7.5 billion by 2008. As a technology leader, eSafe is in prime position to take advantage of this – even more so with the backing of major eSafe solution partners such as Crossbeam Systems, Cisco Systems, Check Point Software Technologies, IBM and HP.

PROACTIVE
**CONTENT
SECURITY**

SOCIAL RESPONSIBILITY

+ SOCIAL RESPONSIBILITY

Aladdin believes in giving back. Embracing the spirit of volunteerism has long been part of our ongoing effort to make our communities a better place to work and live. On a local and global level, Aladdin employees have given of themselves - through organizations and charities, which in turn, give back to the community.

Idealist

Aladdin supports Idealist.org, a web project of the New York-based Action Without Borders. Launched in 1996, Idealist, as the website is known, has become one of the leading communities of nonprofit and volunteering resources on the web. It includes information provided by 40,000 organizations around the world, and over 30,000 visitors every day.

Latet

Latet is an organization for humanitarian aid, helping those in need both locally and globally. Latet has provided assistance in cases of natural disasters such as drought in Uganda, the tsunami in Asia, earthquakes in Turkey, and in cases of war in countries such as Zaire and in the Balkans.

College for All

Aladdin supports College for All, a non-profit organization which seeks to motivate, enable and stimulate talented children from disadvantaged backgrounds to maximize their potential, pursue higher education, become leaders of their community, and contribute to the society.

MEET (Middle East Education through Technology)

Founded in 2004, MEET is an annual program which joins Palestinian and Israeli youth in a five week computer science summer course under the tutelage of instructors from the Massachusetts Institute of Technology (MIT).



The MIT Enterprise Forum of Israel

The forum, associated with the MIT Alumni Association, encompasses 24 chapters throughout North America. A not-for-profit organization directed by a volunteer board, it provides advice, support and educational services to technology companies of all sizes.

Code Guru

In 2000, Aladdin, in cooperation with IBM Israel, the Technion Institute of Management, and several other organizations, founded CodeGuru. An annual contest encouraging excellence in the study of computer sciences, CodeGuru is open to students in grades 9-12.



For more contact information, visit: www.Aladdin.com/contact

North America	T: 1-800-562-2543, 1-847-818-3800	Italy	T: +39(333)9356711
UK	T: +44-1753-622-266	Israel	T: +972-3-636-2222
Germany	T: +49-89-89-4221-0	China	T: +86(138)18184444
France	T: +33-1-41-37-70-30	Brazil	T: +55(11)5539-5688
Benelux	T: +31-30-688-0800	Japan	T: +81-426-607-191
Spain	T: +34-91-375-99-00	All other inquiries	T: +972-3-636-2222



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