

*Aladdin Knowledge Systems*  
**PRESS RELEASE**

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**FOR IMMEDIATE RELEASE**

**Aladdin Knowledge Systems Reports Record Annual  
Revenues, Net Income and Cash Flow**

*Record Full Year Revenues of \$105.9 Million, Up 19% Year-Over-Year*

*Record Full Year GAAP Net Income of \$14.9 Million, or \$1.02 Per Diluted Share, Up 6%  
Year-Over-Year, Including a Non-Recurring Cost of \$2.0 Million*

*Record Full Year Cash Flow from Operations of \$22.1 Million, Up 17% Year-Over-Year*

**TEL AVIV, ISRAEL, January 24, 2008** - Aladdin Knowledge Systems Ltd. (NASDAQ: ALDN), an information security leader specializing in authentication, software DRM and content security, today announced financial results for the fourth quarter and full fiscal year 2007, ended December 31, 2007. All results are prepared in accordance with generally accepted accounting principles in the United States, except where noted.

Revenues for the fourth quarter of 2007 were a record \$29.1 million, an increase of 20 percent from the \$24.3 million reported for the same period in 2006. Software DRM revenues for the fourth quarter of 2007 were a record \$17.1 million, an increase of 8 percent from the \$15.9 million reported in the same period in 2006. Enterprise Security revenues for the fourth quarter were a record \$12.0 million, a 43 percent increase from the \$8.4 million recorded in the same period in 2006. Revenues for the full year 2007 were a record \$105.9 million, an increase of 19 percent from the \$89.0 million recorded in the full year 2006 period.

Net income in accordance with generally accepted accounting principles (GAAP) for the fourth quarter of 2007 was \$2.8 million or \$0.20 per basic and diluted share compared to GAAP net income for the fourth quarter 2006 of \$3.6 million or \$0.25 per basic share and \$0.24 per diluted share, including stock based compensation expense and the impact of a

\$2.0 million non-recurring up-front cost associated with production of Video Based Training required for the CIITE project. For the full year 2007, GAAP net income was a record \$14.9 million, or \$1.04 per basic share and \$1.02 per diluted share, compared with GAAP net income of \$14.0 million or \$0.96 per basic share and \$0.93 per diluted share for the full year 2006 period.

Excluding stock based compensation expense and the impact of the \$2.0 million non-recurring up-front cost associated with production of Video Based Training required for the CIITE project, the Company reported non-GAAP net income for the fourth quarter of 2007 of \$4.8 million, or \$0.35 per basic share and \$0.34 per diluted share, and full year 2007 non-GAAP net income of \$17.6 million, or \$1.23 per basic share and \$1.20 per diluted share. Refer to the "Use of Non-GAAP Measures" section and accompanying financial table for a reconciliation of GAAP financial information to non-GAAP.

Yanki Margalit, Chairman and CEO of Aladdin Knowledge Systems, stated, "2007 was an exceptional year for Aladdin as we crossed the \$100 million mark in annual revenues while driving record levels of operating cash flow and bottom line profitability. Our software security business grew 9 percent year-over-year supported by the launch of HASP SRM, the industry's first software protection and licensing system that offers customers both hardware- and software-based security in a unified solution, while our eToken and eSafe businesses combined to drive enterprise security revenues up a truly impressive 40 percent year-over-over. Overall, Aladdin delivered full year results at the high end of our stated 2007 revenue and net income guidance, excluding the impact of the non-recurring cost recognized in the fourth quarter of 2007.

"From an operational perspective Aladdin made excellent strides in 2007 in terms of leveraging its global presence and driving new customer growth across geographies as well as key business verticals. Overall, demand for content, Internet and enterprise security solutions remains robust, driven by the rising range of IT security threats in mature as well as emerging markets. Based on the combined strength of our portfolio of software and enterprise security solutions, Aladdin has never been better positioned to capitalize on these industry growth trends, building upon our significant financial and operational achievements in 2007," concluded Margalit.

Cash, cash equivalents and marketable securities totaled \$90.3 million at December 31, 2007, as compared with \$83.4 million as of September 30, 2007 and \$90.9 million as of year end 2006. The Company generated record cash flow from operations of \$7.2 million during

the fourth quarter of 2007 and a record \$22.1 million for the full year 2007. Aladdin used approximately \$20 million in cash to purchase shares through the Company's share repurchase program during 2007.

### **Quarterly Financial and Operating Highlights**

- Record full year and quarterly revenues of \$105.9 million and \$29.1 million, respectively.
- Record full year GAAP net income of \$14.9 million.
- Record full year and quarterly non-GAAP net income of \$17.6 million and \$4.8 million respectively, excluding stock based compensation expenses and a non-recurring cost of \$2.0 million.
- Software DRM revenues set a new full year record of \$66.1 million, up 9 percent.
- Enterprise Security revenues set a new full year record of \$39.8 million, up 40 percent.
- Cash flow from operating activities set a new full year and quarterly record of \$22.1 million and \$7.2 million respectively.
- The Board of Directors approved the Company's third share buy back authorization of 2007, raising the total combined total repurchase authorization for the year to \$30 million. To date, a total of 928,697 shares have been repurchased.

### **Quarterly Product Highlights**

- Aladdin announced an initial deployment of 14,000 Aladdin eToken strong authentication devices throughout Thailand's numerous government departments. The Aladdin eToken solution is set to secure each department's access to Thailand's Web-based Government Fiscal Management Information System (GFMS), allowing employees to access the application securely.
- South Korea's largest online banking community began offering secured banking transactions with Aladdin eToken. The National Agricultural Cooperative Federation (NACF), known locally as NongHyup / NH Bank, will provide more than 10,000 of its customers with the USB-based Aladdin eToken strong authentication device to secure online banking transactions. With more than 5,000 branches and cooperatives throughout the country, the NACF features the largest number of online banking customers in South Korea.

- Aladdin eToken was implemented to assist in securing Continental Airlines network. More than 1,000 Aladdin eToken devices have been distributed worldwide to Continental Airlines employees and business partners.
- The Eugene Water & Electric Board (EWEB), Oregon's largest public utility, selected the Aladdin eToken smart card solution to provide strong authentication for employees who access the organization's data network. Aladdin eToken is set to play an important role in ensuring compliance with security standards mandated by the North American Electric Reliability Corporation (NERC).
- Aladdin signed a partnership with Blue Ridge Networks combining networking services and eToken strong authentication to provide an unparalleled level of security for identity and access management to government and commercial entities. The partnership includes joint collaboration on marketing and field sales activity, as well as new joint solutions development, which combine Aladdin eSafe and BRN's EdgeGuard to address customers' growing need to deploy scalable and unified gateway and endpoint content security solutions.
- COMPUTERLINKS signed on as the latest nationwide distributor for the Aladdin's award-winning eSafe content security solution. The agreement greatly expands the channel presence for Aladdin eSafe and opens significant opportunities among COMPUTERLINKS' North America network of partners.
- Aladdin launched HASP HL for Mac software anti-piracy and licensing USB key solution to support Mac OS® X Leopard, Apple's latest operating system.
- Aladdin eToken strong authentication device was announced as the first hardware product to be certified under the recently established SAFE™ Product Certification Program (SPCP). The program is administered by SAFE-BioPharma Association, a fast-growing industry group that developed and manages the SAFE™ digital identity standard for the pharmaceutical and healthcare industries.
- Aladdin eToken two-factor authentication solution received Federal Information Processing Standards (FIPS) 140-2 Level 2 and 3 validation certificates - a government standard managed by the National Institute of Standards and Technology (NIST). This represents a significant mark for Aladdin eToken, as it sets the Company apart from its competition by meeting the highest possible requirements for its cryptographic module, as well as strict hardware requirements not met by all authentication token vendors. Aladdin eToken underwent a thorough testing process

by the accredited cryptographic module testing lab at Electronic Warfare Associates - Canada.

For further information on product highlights, please refer to the press room on the Company's Web site which can be found at <http://www.aladdin.com/news/2008/index.aspx>.

### **Future Business Outlook**

Based on current business conditions and expectations, Aladdin management has issued its financial guidance for fiscal year 2008.

Revenues for fiscal year 2008 are expected to be between \$123 million and \$130 million as compared to the \$105.9 million in revenues reported for fiscal year 2007.

Fiscal year 2008 GAAP diluted earnings per share are expected to be in the range of \$1.28 to \$1.40. The Company reported GAAP diluted earnings per share of \$1.02 in fiscal year 2007.

Fiscal year 2008 non-GAAP diluted earnings per share are expected to be in the range of \$1.39 to \$1.51. The Company reported non-GAAP earnings per diluted share of \$1.20 in fiscal year 2007, which excluded stock based compensation expense and the impact of the \$2.0 million non-recurring up-front cost associated with production of Video Based Training required for the CIITE project. Non-GAAP earnings per share guidance excludes the projected impact of stock based compensation expenses.

### **Use of Non-GAAP Measures**

This press release provides financial measures for net income, basic and diluted earnings per share that exclude stock based compensation expense and the impact of the \$2.0 million non-recurring cost associated with production of Video Based Training required for the CIITE project recorded in the fourth quarter of 2007 and are therefore not calculated in accordance with U.S. generally accepted accounting principles (GAAP). Management believes that these non-GAAP financial measures provide meaningful supplemental information regarding the Company's performance that enhances management's and investor's ability to evaluate the Company's net income and earnings per share as well as to compare it with historical net income and earnings per share.

### **Earnings Teleconference**

The Company will hold a teleconference today, January 24, 2008 at 9:00 a.m. Eastern Time / 4:00 p.m. Israel Time to discuss the fourth quarter and full year results. To participate in the call, dial +1 (888) 642 5032 in North America, or +972 (3) 918 0692 internationally, approximately five minutes prior to the scheduled call start time. The call is being simultaneously Web cast and can be accessed on the Aladdin Web site at [www.Aladdin.com/investor](http://www.Aladdin.com/investor). Please visit the Web site at least 15 minutes prior to the scheduled call time to register for the Web cast and download any necessary audio software.

A replay of the call can also be accessed via telephone from 12:00 p.m. Eastern Time on January 24, 2008 through 11:59 p.m. Eastern Time on February 23, 2008 by calling + 1 (888) 254 7270 in North America, or +972 (3) 925 5948 internationally, using access code 4368718. A Web cast replay of the call will also be made and can be accessed on the Aladdin Web site at [www.Aladdin.com/investor](http://www.Aladdin.com/investor).

### **About Aladdin Knowledge Systems**

Aladdin Knowledge Systems' Software Rights Management products are the #1 choice of software developers and publishers to protect intellectual property, increase revenues, and reduce losses from software piracy. Aladdin eToken is the world's #1 USB-based authentication solution. The Aladdin eSafe secure Web gateway provides the most advanced protection against the latest Web-based threats and attacks. Aladdin has offices in 12 countries, a worldwide network of channel partners, and has won numerous awards for innovation. For more information, visit the Aladdin Web site at <http://www.Aladdin.com>.

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### **Safe Harbor Statement**

Certain information presented herein constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include general economic and business conditions, the loss of market share, changes in the competitive landscape and other factors over which the company has little or no control. For more information, please refer to the Company's filings with the Securities and Exchange Commission, which are available on the Commission's website at [www.sec.gov](http://www.sec.gov).

(Tables Follow)

# Aladdin Knowledge Systems Ltd.

## Condensed Consolidated Statements of Operations

(U.S. dollars, in thousands – except for share and per-share amount)  
(Unaudited)

	Three month period ended December 31		Twelve month period ended December 31	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:				
Software Security (DRM)	17,111	15,885	66,097	60,556
Enterprise Security	12,007	8,385	39,785	28,482
Total Revenues	29,118	24,270	105,882	89,038
Cost of revenues	8,047	5,851	25,292	20,013
Non-recurring cost	2,038	-	2,038	-
Gross profit	19,033	18,419	78,552	69,025
Research & development	4,344	3,694	18,384	14,336
Selling & marketing	9,242	7,999	33,194	28,703
General & administrative	3,141	3,480	13,063	12,780
Total operating expenses	16,727	15,173	64,641	55,819
Operating income	2,306	3,246	13,911	13,206
Financial income, net	1,113	1,010	4,274	3,240
Other income	9	63	14	284
Income before taxes	3,428	4,319	18,199	16,730
Taxes on income	380	704	2,768	2,699
Income before equity in loss of an affiliate	3,048	3,615	15,431	14,031
Equity in loss of an affiliate	(240)	-	(543)	-
Net Income	2,808	3,615	14,888	14,031
Basic earnings per share	0.20	0.25	1.04	0.96
Diluted earnings per share	0.20	0.24	1.02	0.93
Weighted average number of shares outstanding for Basic EPS	13,839	14,645	14,257	14,596
Weighted average number of shares outstanding for Diluted EPS	14,297	15,047	14,663	15,078

# Aladdin Knowledge Systems Ltd.

## Condensed Consolidated Balance Sheets

(U.S. dollars, in thousands)

(Unaudited)

	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
<b>Assets</b>		
Current assets:		
Cash & cash equivalents	77,209	39,734
Marketable securities	13,127	51,147
Non marketable investment held for sale	4,423	-
Trade receivables, net of allowance for doubtful accounts	16,918	16,427
Other accounts receivable	7,093	5,779
Inventories	8,763	7,299
Total current assets	<u>127,533</u>	<u>120,386</u>
Severance pay fund	3,853	3,153
Fixed assets, net	6,501	5,695
Other long-term assets, net	12,565	19,290
<b>Total Assets</b>	<b><u>150,452</u></b>	<b><u>148,524</u></b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Trade payables	8,236	5,794
Deferred revenues	6,635	5,399
Other current liabilities	8,615	8,618
Total current liabilities	<u>23,486</u>	<u>19,811</u>
Accrued severance pay	4,802	3,921
Other long-term liabilities	2,934	2,143
Shareholders' Equity	119,230	122,649
<b>Total Liabilities and Shareholders' Equity</b>	<b><u>150,452</u></b>	<b><u>148,524</u></b>

# Aladdin Knowledge Systems Ltd.

## Condensed Consolidated Statement of Cash Flows

(U.S. dollars, in thousands)

(Unaudited)

	Three month period ended December 31,		Twelve month period ended December 31,	
	2007	2006	2007	2006
<b>Cash flow from operating activities:</b>				
Net income	2,808	3,615	14,888	14,031
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,758	640	5,284	2,416
Decrease (increase) in trade and other receivables, net	1,782	(966)	(1,230)	(2,224)
Decrease (increase) in inventory	(390)	331	(1,167)	(97)
Increase (decrease) in trade payables and accrued liabilities	(824)	2,464	2,072	2,161
Stock-based compensation expenses	197	542	876	2,268
Other adjustments	844	(292)	1,418	340
<b>Net cash provided by operating activities</b>	<b>7,175</b>	<b>6,334</b>	<b>22,141</b>	<b>18,895</b>
<b>Cash flow from investing activities:</b>				
Purchase of property and equipment	(611)	(888)	(3,271)	(4,576)
Proceeds from sale of property and equipment	-	95	11	95
Investment in available-for-sale marketable securities	-	(6,500)	(43,265)	(6,500)
Proceeds from sales of available-for-sale marketable securities	9,700	1,000	81,819	4,371
Investment in other companies	-	(250)	(495)	(1,100)
Proceeds from return on investment in other companies	-	12	-	1,736
Investment in other assets	-	-	-	(2,508)
<b>Net cash provided by (used in) investing activities</b>	<b>9,089</b>	<b>(6,531)</b>	<b>34,799</b>	<b>(8,482)</b>
<b>Cash flow from financing activities:</b>				
Proceeds from exercise of options	245	248	724	835
Purchase of treasury shares	-	-	(19,986)	-
<b>Net cash provided by (used in) financing activities</b>	<b>245</b>	<b>248</b>	<b>(19,262)</b>	<b>835</b>
<b>Effect of exchange rate on cash and cash equivalents</b>	<b>12</b>	<b>(76)</b>	<b>(203)</b>	<b>60</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>16,521</b>	<b>(25)</b>	<b>37,475</b>	<b>11,308</b>
Cash and cash equivalents at the beginning of the period	60,688	39,759	39,734	28,426
<b>Cash and cash equivalents at the end of the period</b>	<b>77,209</b>	<b>39,734</b>	<b>77,209</b>	<b>39,734</b>

# Aladdin Knowledge Systems Ltd.

Supplementary Financial Information  
 Reconciliation of GAAP Financial Information to Non-GAAP  
 (U.S. dollars, in thousands – except for per-share amount)  
 (Unaudited)

	Quarter ended December 31			Year ended December 31		
	GAAP 2007	SFAS 123R & Non-Recurring Cost		GAAP 2007	SFAS 123R & Non-Recurring Cost	
		Adjustments	Non-GAAP 2007		Adjustments	Non-GAAP 2007
	(Unaudited)		(Unaudited)			
Revenues:						
Software Security (DRM)	17,111		17,111	66,097		66,097
Enterprise Security	12,007		12,007	39,785		39,785
Total Revenues	29,118		29,118	105,882		105,882
Cost of revenues	8,047		8,047	25,292		25,292
Non-recurring Cost	2,038	2,038	-	2,038	2,038	-
Gross profit	19,033	(2,038)	21,071	78,552	(2,038)	80,590
Research & development	4,344	101	4,243	18,384	420	17,964
Selling & marketing	9,242	141	9,101	33,194	452	32,742
General & administrative	3,141	(45)	3,186	13,063	4	13,059
Total operating expenses	16,727	197	16,530	64,641	876	63,765
Operating income	2,306	(2,235)	4,541	13,911	(2,914)	16,825
Financial income, net	1,113		1,113	4,274		4,274
Other income	9		9	14		14
Income before taxes	3,428	(2,235)	5,663	18,199	(2,914)	21,113
Taxes on income	380	(230)	610	2,768	(230)	2,998
Income before equity in loss of an affiliate	3,048	(2,005)	5,053	15,431	(2,684)	18,115
Equity in loss of an affiliate	(240)		(240)	(543)		(543)
Net income	<b>2,808</b>	<b>(2,005)</b>	<b>4,813</b>	<b>14,888</b>	<b>(2,684)</b>	<b>17,572</b>
Basic earning per share	0.20		0.35	1.04		1.23
Diluted earnings per share	0.20		0.34	1.02		1.20
Weighted average number of shares outstanding for Basic EPS	13,839		13,839	14,257		14,257
Weighted average number of shares outstanding for Diluted EPS	14,297		14,297	14,663		14,663

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