The Frost & Sullivan Award for Product Innovation is presented each year to the company that has demonstrated excellence in new products and technologies within their industry. The recipient company has shown innovation by launching a broad line of emerging products and technologies.

**RESEARCH METHODOLOGY**

To choose a recipient of this Award, the analyst team tracks all new product launches, R&D spending, products in development, and new product features and modifications. This is accomplished through interviews with the market participants and extensive secondary and technology research. All new product launches and new products in development in each company are compared and evaluated based on degree of innovation and customer satisfaction. Companies are then ranked by number of new product launches and new products in development.

**MEASUREMENT CRITERIA**

In addition to the methodology describe above, there are specific criteria used to determine final competitor rankings in this industry. The recipient of this Award has excelled based on one or more of the following criteria:

- Significance of new product(s) in their industry
- Competitive advantage of new product(s) in their industry
- Product innovation in terms of unique or revolutionary technology
- Product acceptance in the marketplace
- New product value-added services provided to customers
- Number of competitors with similar product(s)

**AWARD RECIPIENT: ALADDIN KNOWLEDGE SYSTEMS**

Frost & Sullivan is pleased to bestow Aladdin Knowledge Systems with the Frost & Sullivan Award for Product Innovation in the hardware authentication devices market for introducing the innovative eToken NG, a Hybrid USB token, which integrates a smartcard with a one time password-generating feature. The market has spoken in regards to the validity of this product segment and Aladdin’s innovation, with several other vendors immediately following Aladdin’s lead and introducing similar products.

Frost & Sullivan’s analyst team tracks the USB authentication tokens segment as part of the world hardware authentication devices market. In the course of research for the service # F302 World Authentication Devices Market, Frost & Sullivan’s analyst team interviewed over 20 market participants and tracked over 30 different market participants active in the market. The analyst team recognizes that Aladdin’s introduction of the eToken NG is a major and important innovation in the market.

The hybrid token combines the full functionality of a smartcard based USB token with one time password technology. The smartcard feature allows for the USB token to be used for applications like PKI, digital signing and storage of secure credentials in the connected mode. The smartcard can generate and store users’ personal credentials, such as private keys, passwords and digital certificates in a protected environment. The USB interface makes it possible to connect to the network or user devices without the need for an extensive smart card reader infrastructure by taking advantage of the ubiquitous USB ports. The OTP functionality can be used for strong authentication to network resources when a USB port is not available such as for remote access from a kiosk or using a PDA. The hybrid token is particularly suitable in diverse environments where there is a need to support both connected and unconnected applications.

Aladdin announced the eToken NG in February 2004 but began shipping the product to customers in the third quarter of 2004. Aladdin had an early success soon after the launch of the product when Verisign, Inc entered into an OEM relationship with Aladdin to distribute the eToken NG. Verisign re-branded the eToken NG as the Verisign Hybrid token and launched it as a key component of its Unified Authentication offering. The eToken NG supports the OATH OTP algorithm published by The Initiative for Open Authentication (OATH).

Aladdin has been investing approximately 17% to 24% of its revenues on Research & Development in the years 2001-2004. The company believes that its leadership in the USB Authentication tokens market depends on its technology leadership. Aladdin was awarded a key US patent for USB tokens with embedded smartcards. This and other key intellectual property assets in its portfolio have been critical assets for the company. In January 2005, Aladdin announced that RSA Security, the world leader in two-factor authentication, would also license USB authentication technology. The relationship allows Aladdin to extend its reach into the market by enabling the company’s USB-based token technology to be integrated into solutions from RSA Security. Soon after that, RSA Security introduced a hybrid token of its own into the market. The only other competitor in the market with a hybrid token is Authenex, Inc, with its A-Key hybrid token.

The USB tokens are expected to gain an increasing share of the total Hardware Authentication Devices market and hybrid tokens are likely to dominate the USB tokens segment of the market in the years to come. Aladdin with its technology leadership in this segment is expected to be a major beneficiary of this shift in the market towards USB tokens.