CORPORATE PROFILE
Cylink Corporation develops, markets and supports a comprehensive family of secure electronic commerce and communications solutions used by organizations worldwide to protect and manage the access, privacy and integrity of information transmitted globally. The Company's products are incorporated into local area networks (LANs), wide area networks (WANs), and packet switched networks, such as the Internet. Founded in 1983, the Company was one of the first to market a security solution protecting an entire network communications session by using public key cryptography.

FINANCIAL HIGHLIGHTS
(IN THOUSANDS EXCEPT PER SHARE DATA)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$42,760</td>
<td>$47,690</td>
</tr>
<tr>
<td>(Loss) From Operations</td>
<td>(28,858)</td>
<td>(67,969)</td>
</tr>
<tr>
<td>Other Income, Net</td>
<td>2,347</td>
<td>3,014</td>
</tr>
<tr>
<td>(Loss) From Continuing Operations</td>
<td>(17,356)</td>
<td>(64,955)</td>
</tr>
<tr>
<td>Net Income (Loss)</td>
<td>5,161</td>
<td>(61,745)</td>
</tr>
<tr>
<td>Earnings (Loss) Per Share – Basic and Diluted</td>
<td>(0.60)</td>
<td>(2.43)</td>
</tr>
<tr>
<td>Continuing Operations</td>
<td>0.78</td>
<td>0.12</td>
</tr>
<tr>
<td>Discontinued Operations</td>
<td>0.18</td>
<td>(2.31)</td>
</tr>
<tr>
<td>Shares Used in Per-Share Calculation – Basic and Diluted</td>
<td>29,009</td>
<td>26,703</td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$46,575</td>
<td>$22,977</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$94,318</td>
<td>$76,555</td>
</tr>
<tr>
<td>Shareholders Equity</td>
<td>$75,221</td>
<td>$66,134</td>
</tr>
</tbody>
</table>

REVENUE BY MARKET

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Financial</th>
<th>Other</th>
<th>Communications</th>
<th>Government</th>
<th>Large Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>30%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

REVENUE BY REGION

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>61%</td>
</tr>
<tr>
<td>Asia</td>
<td>6%</td>
</tr>
<tr>
<td>Latin America</td>
<td>4%</td>
</tr>
<tr>
<td>Europe</td>
<td>29%</td>
</tr>
</tbody>
</table>

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Note: The following statements regarding anticipated future operating results are forward-looking information. The factors that could cause actual results to differ are discussed in the attached Form 10-K Part I, Item 1.

"Risk factors that may affect future results."
## CYLINK AT A GLANCE

<table>
<thead>
<tr>
<th>BUSINESS IMPERATIVE</th>
<th>OUR SOLUTIONS</th>
<th>CUSTOMER BENEFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A financial institution rents leased lines for its communications network. The lines have many points of vulnerability through which inexpensive and readily available monitoring equipment may be used for eavesdropping, interception, or malicious attack.</td>
<td>Secure the corporate links with <strong>Cylink Link Encryptors</strong></td>
<td>Secures sensitive data transmissions over high-speed, point-to-point communication links. The system is transparent to the network transmission and offers the highest level of security available.</td>
</tr>
<tr>
<td>A manufacturing company wants to give its business partners access to sensitive information needed for selling – pricing, availability, and features, etc. – or give employees secure access to email or other applications without risking its competitive advantage.</td>
<td>Build an Extranet or remote access solution using <strong>PrivateWire</strong></td>
<td>Because information between the company’s partners and customers is encrypted and uses strong authentication, the company has control over which partners and customers can and cannot have access to specific information on the network.</td>
</tr>
<tr>
<td>A corporate headquarters wants to save money on communications with its U.S. divisions by using the Internet.</td>
<td>Secure the Internet with the <strong>SecureDomain Unit</strong></td>
<td>Provides safe, lower-cost communication via the Internet.</td>
</tr>
<tr>
<td>A pharmaceutical company wants point to multi-point high-speed connectivity with all of its research centers.</td>
<td>Secure virtual circuits with the ATM or <strong>Frame Relay Encryptor</strong></td>
<td>Secures sensitive voice, video or data transmissions over high-speed networks such as ATM or frame relay. This solution is completely transparent to the network transmission and offers the highest level of security available.</td>
</tr>
<tr>
<td>A large government agency wants to enable citizens to access personal account information over the Internet while protecting their privacy.</td>
<td>Deploy a <strong>Public Key Infrastructure</strong></td>
<td>Offers high trust, massive scalability, interoperability and affordability as a foundation for secure authentication and electronic commerce.</td>
</tr>
<tr>
<td>A multinational company has a mix of network protocols in its enterprise – frame relay, Internet, and ATM. The CIO is concerned over the cost and complexity of managing the security components in the network.</td>
<td>Manage centrally using <strong>PrivaCy Manager</strong></td>
<td>Lowers the cost of ownership associated with managing multiple security devices on enterprise-level or heterogeneous networks.</td>
</tr>
<tr>
<td>A financial services company wants to give its partners and customers around-the-clock access to their account information, and offer a broader range of services such as lending, insurance, and brokerage.</td>
<td>Use Smart Cards and Readers with <strong>PrivateSafe and PrivateCard</strong></td>
<td>Offers the highest level of security and privacy to customers, and allows financial services companies to add other financial products and applications as they become available.</td>
</tr>
<tr>
<td>A software developer needs to incorporate security technology into its software, using the latest standards so its applications will interoperate with both current and future products.</td>
<td>Build in security using the <strong>CryptoKit</strong></td>
<td>Provides high-level security that is available to the developer for incorporating security functions that do not require the aid of a cryptographer.</td>
</tr>
</tbody>
</table>

### MARKETS SERVED:

- **FINANCIAL INSTITUTIONS**
  - Banker’s Trust
  - Citibank
  - Deutsche Bank
  - S.W.I.F.T.
  - UBS

- **GOVERNMENT AGENCIES**
  - Department of Justice
  - Federal Bureau of Investigation
  - Federal Reserve Bank
  - Internal Revenue Service
  - U.S. Postal Service

- **COMMUNICATIONS**
  - AT&T
  - Cisco
  - Lucent
  - MCI
  - Sprint

- **LARGE ENTERPRISES**
  - Boeing
  - EMC2
  - Lockheed
  - Motorola
  - Raytheon
LETTER TO SHAREHOLDERS

To Our Shareholders,

Last year was a tumultuous one for Cylink in that we had some tremendous successes but also faced some significant setbacks. We began 1998 with the successful sale of the Company's wireless communications group, which generated approximately $55 million in cash and enabled us to focus all our resources and energies on the rapidly expanding enterprise network security area. We finished the year with a portfolio of excellent – and proven – hardware and software technology that will serve as the springboard for 1999.

Our major accomplishments included:

- Customers of the U.S. Postal Service were able to purchase stamps and other services via the Internet using a Cylink public key infrastructure;
- Expanded customer relationships, such as Raytheon's decision to assure the security of its new worldwide information network with Cylink ATM, Frame Relay and Link Encryptor products;
- Introduction of PrivaCy Manager, Cylink's next generation, Java-based network platform, which will manage all of Cylink's security devices;
- Approximately 2.5 million Brazilians filing their taxes electronically;
- SwissBank's Year 2000 upgrades that utilized a combination of our CLE encryptors and PrivaCy Manager;
- Continued deployment of specially designed encryption solutions for protecting the network operations system of a major international telecommunications carrier;
- Approval by the U.S. government of Cylink's high-speed network encryptors, the first to achieve Federal Information Processing Standard FIPS 140-1 Level 3 Security; and
- A quality organization that reached new heights by achieving ISO 9001 certification.

Cylink continues to be respected for its ability to develop high performance products and solutions that enable financial institutions, telecommunications companies, government agencies and other enterprise organizations to conduct their businesses or operations without concern for the security or integrity of their information networks. For over a decade-and-a-half, we have earned the trust of some of the world's largest organizations and have written standards now used industry-wide.

The most disappointing event during the year was a lapse in adherence to revenue recognition policies, which required a restatement of revenues for the first two quarters of 1998 and the fourth quarter of 1997. A second setback was an incomplete strategy for marketing the Company's products. These shortcomings, along with the departure of several senior officers and the resultant restructuring of the executive management team, have been well reported. The Company is again looking to the future.
Our commitment in 1999 is to execute a clear strategy, which we call "Vision 2000", that will satisfy the security needs of our customers for the new millennium. The Vision 2000 business strategy is based on four initiatives. First, it targets revenue increases from major new Internet security products. Second, it provides for significant enhancements to existing products. Third, it calls for expanded and more effective sales and marketing efforts. Finally, it calls for the addition to Cylink of new customer services capabilities.

Specifically, Vision 2000 includes:

1. Supporting our customers with a clear product path so they may build their business operations via the Internet using improved and expanded PrivateWire solutions and new standards-based VPN hardware and leveraging our expertise in Public Key Infrastructure technology for use in electronic business;

2. Continuing the development of our mainstay products in frame relay, ATM and leased line encryption and leveraging the high performance, transparency, manageability and low cost these products bring to our customers;

3. Launching an aggressive marketing plan that creates a heightened presence in the marketplace and an expanded customer base. Some of these initiatives include increased distribution and reseller channels, more participation in tradeshows on a worldwide basis, and sponsorship of conferences and seminars;

4. Building a professional services capability that advises customers on security policies, network assessments, and security architecture.

To execute our Vision 2000 business model, we are increasing investments in research, development, sales and marketing. Although we are targeting an increase in revenues and cost reductions in other areas, our business plan calls for Cylink to incur a loss for 1999.

We believe that our Shareholders’ continued patience will be well rewarded. The Company’s Board of Directors, senior management team and employees are confident that Cylink’s solutions will be delivered to the marketplace effectively and profitably.

Sincerely,

William P. Crowell
President and Chief Executive Officer

March 18, 1999
CORPORATE INFORMATION

DIRECTORS

DR. LEO A. GUTHART
Chairman of the Board
Vice Chairman, Pittway Corporation

DR. ELWYN BERLEKAMP
Director
Professor of Mathematics
University of California, Berkeley

WILLIAM P. CROWELL
Director
President & Chief Executive Officer
Cylink Corporation

DR. WILLIAM W. HARRIS
Director
Treasurer, KidsPac

REGIS MCKENNA
Director
Chairman, The McKenna Group

DR. HOWARD L. MORGAN
Director
President, Arca Group

DR. WILLIAM J. PERRY
Director
Center for International Security and Arms Control
Stanford University

DR. JAMES H. SIMONS
Director
Chairman, Renaissance Technologies

OFFICERS

WILLIAM P. CROWELL
President & Chief Executive Officer

YOSSI COHEN
President & Chief Executive Officer
Algorithmic Research Ltd.

ROGER A. BARNES
Vice President
& Chief Financial Officer

SARAH L. ENGEL
Vice President, Professional Services

ROBERT F. FOUGNER
General Counsel & Secretary

PETER J. SLOCUM
Vice President, Engineering

MICHAEL M. STEWART
Vice President, Sales

PAUL MASSIE
Vice President, Management Information Systems

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP

INVESTOR RELATIONS

Beverlea Smith
Cylink Corporation
(408) 774-4999

Howard Kalt
Kalt Rosen Chase & Co. LLC
(415) 397-2686

Corporate news releases and documents are available through Cylink’s Website:
http://www.cylink.com

CORPORATE HEADQUARTERS

910 Hermosa Court
Sunnyvale, California 94086
Tel: (408) 735-5800
Fax: (408) 735-6642
http://www.cylink.com

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Fairfax, Virginia

INTERNATIONAL SALES OFFICES

Belgium
England
Germany
Netherlands
Singapore

SUBSIDIARY

Algorithmic Research, Ltd.
10 Nevatim Street
Kiryat Malton
Pecht Tikva
Israel 49561
Tel: 011-972-3-927-9500
Fax: 011-972-3-923-0864

STOCK LISTING

Cylink is listed on The NASDAQ National Market System under the symbol CYLK.

TRANSFER AGENT

EquiServe
Boston EquiServe
Canton, MA

ANNUAL MEETING

The Annual Meeting of Shareholders will be conducted on May 14, 1999 at 2:00 pm at Sheraton Four Points Hotel, Sunnyvale, California.