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Southern District of New York

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FORMER CHIEF FINANCIAL OFFICER OF SAFENET, INC. CHARGED IN CONNECTION WITH BACKDATING OF STOCK OPTIONS

MICHAEL J. GARCIA, the United States Attorney for the Southern District of New York, and RON WALKER, the Inspector-in-Charge of the New York Division of the United States Postal Inspection Service ("USPIS"), announced the filing of a criminal Indictment against CAROLE ARGO, the former Chief Financial Officer of Maryland-based software information security products and services provider SafeNet, Inc. ("SafeNet"). ARGO is charged with securities fraud and conspiracy in connection with the backdating of millions of dollars' worth of employee stock options grants at SafeNet. According to the Indictment filed in Manhattan federal court:

Between 2000 and 2006, ARGO and others engaged in an illegal scheme to deceive SafeNet's Board of Directors, shareholders, and auditors, as well as securities analysts, the SEC, members of the investing public and others, concerning SafeNet's systematic backdating of options grants and SafeNet's failure to record and report compensation expense in connection with those backdated stock options grants.

A stock option typically gives its holder the right to buy a share of stock at a future date at a set price, known as the "exercise" or "strike" price. Companies frequently grant stock options to employees as a retention measure and performance incentive. The exercise price of an option is typically the price at which the underlying stock trades in the market (*i.e.*, the fair market value) on the date of the option grant. Options with an exercise price equal to the current trading price of the underlying stock are commonly referred to as being "at-the-money"; options with an exercise price below the current trading price of the stock are "in-the-money." During the relevant time period, applicable accounting principles required SafeNet to record a compensation expense, and reduce its earnings accordingly, where employee stock options were issued in-the-money. The compensation expense require to be recognized was the difference between the strike price and the value of the stock on the grant.

ARGO and her co-conspirators routinely backdated options grants by papering them as if they had been issued on select historical "grant dates" when SafeNet's stock price had closed at or near a periodic low point. With the benefit of hindsight, ARGO created an opportunity for herself and others at SafeNet to reap substantial benefits by awarding herself and others backdated options grants with particularly advantageous exercise prices. As a result, a substantial number of SafeNet's options grants during this time period were in-the-money on the day they were granted and therefore had an immediate compensatory and expense component and value to the recipient.

Because the options fraudulently appeared to have been issued at the fair market price on a purported grant date, they appeared not to require a charge to SafeNet's earnings. Instead of disclosing this information and properly expensing the in-the-money portion of those options grants, ARGO and her co-conspirators -- by backdating options and failing to record and report an expense for those options -- used options as "free" compensation that did not result in a reduction in the company's earnings.

ARGO and her co-conspirators concealed from SafeNet's shareholders and auditors, as well as securities analysts, the SEC, members of the investing public, by failing to properly record and report, as required, the issuance of in-the-money options grants. By failing to do so, ARGO and her accomplices caused SafeNet to report materially false and misleading financial results in public filings with the Securities and Exchange Commission ("SEC") for the period from 2000 through mid-2006. Indeed, in public filings, SafeNet stated, "No gain to the options is possible without stock price appreciation, which will benefit all shareholders. If the stock price does not increase above the exercise price, compensation to the named executive will be zero."

During the period charged in the Indictment, ARGO and others backdated numerous grants to newly hired employees and new employees from SafeNet's acquisition of other companies. Instead of granting these options as of the date of hire as required by SafeNet's governing policy, ARGO and others waited until the end of a reporting period to issue these grants, allowing pending grants to accumulate so that ARGO or others acting at her direction could select "grant dates" with low exercise prices.

Similarly, with regard to grants to existing SafeNet employees, including ARGO and other senior executives, ARGO, together with others, backdated stock options grants to days when SafeNet's stock was trading at or near periodic low points. On certain occasions, after SafeNet's Compensation Committee or Board of Directors had met and agreed to a grant and communicated to senior management the number of options to be granted to specific individuals, ARGO and others acting in concert with her "pocketed" the grant and then looked back to select a date with a particularly low share price. By acting in this manner, ARGO and her co-conspirators manipulated the "grant date" on the options to give herself and others a particularly fortuitous exercise price.

The Indictment describes eight specific occasions on which ARGO and her co-conspirators backdated options grants to give herself and/or others substantial benefits. SafeNet did not properly record or report a compensation expense for the first six of these grants, and only accounted for the latter two grants after SafeNet's outside auditors and internal accountants discovered the backdating.

ARGO, 46, of Baltimore, Maryland, is expected to be arraigned before United States District Judge JED S. RAKOFF in Manhattan federal court tomorrow at 3:30 p.m. If convicted, ARGO faces a total maximum sentence of 25 years' imprisonment, and a maximum fine on each count of the greater of $250,000, or twice the gross gain or loss resulting from the crime.

Mr. GARCIA, a member of the President's Corporate Fraud Task Force, praised the investigative efforts of the USPIS and investigators of the United States Attorney's Office, and thanked the SEC for its assistance in this matter.

"Corporate executives who deliberately backdate options grants and skew their books to hide compensation expenses are misleading shareholders and investors about the earnings of the company and painting a false picture of executive pay," said MICHAEL J. GARCIA, the United States Attorney of the Southern District of New York.

"The defendant was placed in a position of trust and was obligated to perform her duties in the interests of SafeNet, its employees, and, of course, investors. Instead, these charges indicate she and her co-conspirators thought only for themselves. Their carefully planned scheme netted them millions, illustrating the magnitude of their greed," said RON WALKER, the Inspector-in-Charge of the New York Division of the United States Postal Inspection Service. As a result of today's indictment, the defendant, just as others before her, now knows that Postal Inspectors, the U.S. Attorney's Office, the SEC, and other members of the President's Corporate Fraud Task Force are dedicated investigators who are responsible for protecting the investing public from those who commit crimes such as those outlined in today's Indictment."

For information regarding further proceedings in this case, interested parties and victims may, starting later today, consult the following website: www.usdoj.gov/usao/nys/victimwitness.html.

Assistant United States Attorneys JOSHUA GOLDBERG and DEIRDRE McEVOY are in charge of the prosecution.

The charges contained in the Indictment are merely accusations, and the defendant is presumed innocent unless and until proven guilty.

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