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FORMER CHIEF FINANCIAL OFFICER OF SAFENET, INC. PLEADS GUILTY TO SECURITIES FRAUD IN CONNECTION WITH BACKDATING OF STOCK OPTIONS

MICHAEL J. GARCIA, the United States Attorney for the Southern District of New York, announced that CAROLE ARGO, the former Chief Financial Officer of Maryland-based software information security products and services provider SafeNet, Inc. ("SafeNet"), pleaded guilty today to securities fraud in connection with the backdating of millions of dollars' worth of employee stock option grants at SafeNet. ARGO, 46, of Baltimore, Maryland, pleaded guilty in Manhattan federal court before United States District Judge JED S. RAKOFF. According to the Indictment to which ARGO pleaded:

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 Securities and Exchange Commission ("SEC"), members of the investing public and others, concerning SafeNet's systematic backdating of stock options grants and SafeNet's failure to record and report compensation expense in connection with those 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. Options with an exercise price equal to the current trading price of the underlying stock on the date of the option grant 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 required 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 historical "grant dates" -- selected by ARGO and her co-conspirators -- 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 actually in-the-money on the day they were granted and, therefore, had both an immediate compensatory value to the recipient and generated an obligation on Safenet's part to report a corresponding expense.

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 their co-conspirators concealed their options backdating practices from Safenet's shareholders and outside auditors, as well as securities analysts, the SEC, and members of the investing public. In addition, ARGO and her accomplices failed to properly account for Safenet's backdated, in-the-money options grants as a compensation expense in Safenet's public filings with the SEC. As a result, ARGO and her co-conspirators caused SafeNet to report materially false and misleading financial results in public filings with the 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 until a later time 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 pleaded guilty to one count of securities fraud. ARGO admitted to backdating options grants at Safenet, specifically the option grants to herself and the CEO dated October 1, 2001 and certain subsequent grants, and failing to record compensation expenses for those backdated option grants. Also, in admitting to signing and certifying public SEC filings which included inaccurate compensation expenses for those backdated option grants, ARGO said she "acted willfully and with the intent to defraud." The charge carries a maximum penalty of 20 years' imprisonment and a $5 million fine. ARGO will be sentenced by Judge RAKOFF on January 21, 2007, at 4 p.m.

Mr. GARCIA, a member of the President's Corporate Fraud Task Force, praised the investigative work of the United States Postal Inspection Service and thanked the SEC for its assistance in this matter.

For information regarding further proceedings in this case, interested parties and victims may 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.

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