

## **SafeNet sold, goes private**

### **Public scrutiny of options eliminated, along with threat of delisting**

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Calif. equity firm acquires Belcamp company in a \$634 million deal  
Harford County technology company SafeNet Inc. ended its life as a public company yesterday, shielding it from scrutiny of its accounting issues and stock options investigations and eliminating the threat that its shares would be delisted. The company was taken private by California-based private equity firm Vector Capital, which acquired it for about \$634 million, or \$28.75 per share. Shares halted trading on the Nasdaq about 9 a.m. yesterday, according to Nasdaq. "Vector Capital is a leading technology private equity firm, and we are extremely excited to have the opportunity to work with them," Chris Fedde, SafeNet's president and chief operating officer, said in a statement. "Their long-term capital, technology focus and resources will greatly benefit SafeNet and our customers." Fedde will retain his position with SafeNet and run the day-to-day operations. SafeNet's chairman and interim chief executive, Walter W. Straub, will leave the company and will not be replaced as CEO, said Donna St. Germain, a company spokeswoman. The company has also named a new board of directors made up of Alex Slusky, founder and managing partner of Vector Capital; Chris Nicholson, partner at Vector; and David Fishman, principal at Vector. Fishman said additional board members from within SafeNet and outside the company would be added. A new chairman has not been named. The deal required that 78 percent of the company's shares be tendered, and several analysts have said the share price was too low. Lawsuits have been filed on behalf of stockholders alleging that the company breached its fiduciary duties to shareholders with the merger. SafeNet announced yesterday that about 17.9 million of the company's approximately 21.3 million outstanding shares - about 84 percent - were tendered.

The company's remaining outstanding shares will be converted to the right to receive \$28.75 per share in cash, the company said. Payments will go out within the next few business days to shareholders who tendered their shares, St. Germain said. Those who did not tender their shares will receive a form to fill out and return before they are paid, she said. Sean Jackson, an analyst with Avondale Partners in Nashville, Tenn., who doesn't own SafeNet shares, said the Belcamp encryption technology company made a recent

concerted effort to help the deal go through, talking to some of the larger shareholders. "Late last week, it started to look like they definitely were making a final push to get enough shares," Jackson said.

## **Change welcomed**

And analysts agreed that a move into the private sector would be a welcome change for SafeNet, which has been roiled by a stock options investigation and other issues. SafeNet announced last year that it received a federal subpoena for information about stock option awards as well as an informal inquiry from the Securities and Exchange Commission. It is one of dozens of companies being investigated for possibly changing the date of option awards to coincide with stock prices lower than they were on the actual date of the grant - a practice that is illegal if it is not disclosed and properly accounted for. The issues led to an internal investigation, the need to restate years of financial results and the threat of being delisted by Nasdaq. SafeNet disclosed in September that it would have to revise financial statements from 2000 through March 31, 2006, because some option grants "were or likely were accounted for using incorrect measurement dates under applicable accounting rules in effect at the time," according to an SEC filing. The stock faced delisting by the Nasdaq Stock Market over its delayed financial reports.

In October, two of the company's top officers resigned. SafeNet said in SEC filings last week that it reached settlement agreements with those executives: Anthony A. Caputo, former chairman and chief executive, and Carole D. Argo, who was president, chief operating officer and acting chief financial officer. The agreements demand that Caputo and Argo put \$1.5 million and \$100,000, respectively, into escrow accounts to be collected by the company once certain deadlines have passed. The SEC filing did not state whether Caputo's and Argo's terminations were with or without cause. The company's internal investigation is continuing, St. Germain said.

## **'A rocky road'**

"It's been a rocky road for SafeNet, so I think as a company being on the private side, it probably works out better for them as every quarter they're not going to have to go to investors and try to explain both the strengths and weaknesses of their business," said Daniel Ives, a vice president and analyst for Friedman Billings Ramsey, who does not own shares of SafeNet. "They can just plow ahead under the radar."

Fishman, of Vector Capital, said that, although SafeNet is private, the company still will be required to have audited financials - though it is unclear whether SafeNet will have to submit restated financial statements to the SEC. John Heine, a spokesman for the SEC, declined to comment on the case. SafeNet makes a range of encryption technologies to protect communications and sensitive data for businesses and the government. The company sells information security hardware, software and chips, and secures information on a range of technologies from satellites to cell phones. It began in a Timonium basement more than two decades ago as Information Resource Engineering Inc. It was founded by two National Security Agency engineers selling encryption technology to financial firms.

Caputo, SafeNet's first investor, became the company's chief executive in 1987 and took it public in December 1992.

In 2004, SafeNet merged with Rainbow Technologies Inc. in a \$457 million deal.

With its acquisition by Vector Capital, SafeNet will remain headquartered in Belcamp.

Fishman said the company does not foresee any job cuts. SafeNet employs about 1,100, including 200 at its Belcamp headquarters and 20 in Columbia.

The first step for the newly private company, he said, will be to help SafeNet get past its accounting issues. "Our No. 1 objective is just to help the company put behind them a lot of the time and money that's been spent around some of the accounting issues they've been struggling with," Fishman said. Long-term goals include growing SafeNet organically and potentially through acquisitions, Fishman said. "We think it's an outstanding business with an outstanding management team that has very strong customer relationships and markets that are quite attractive both on the government and the commercial side," Fishman said. "We would never have done this had we not been truly impressed by all the employees there and thought that this was just an incredible group of people that we want to partner with and support."