



## SafeNet advances through the storm

Harford security firm says profit and sales rose in past 2 quarters

By Jamie Smith Hopkins  
*The Baltimore Sun*  
July 27, 2007

It's been months of upheaval for tech company SafeNet Inc.: government inquiries about stock option manipulation, the resignations of top officers, an ownership change and - this week - the indictment of its former president.

Yet in many respects, the Harford County company says, business has never been better.

The information encryption and security firm, which went private in April amid the fallout from the stock option probe, said it has broken records for revenue and profit in the past two quarters despite the disruptions. Gains, said Ian Dix, the Belcamp company's chief marketing officer, were "well north of 10 percent."

SafeNet has new products to sell, freedom from Wall Street expectations and a \$400 million Defense Department contract.

"All throughout the events of the last ... 15 or 16 months, the company demonstrated an amazing ability to keep its head down and in the game," Dix said. "The people who are the lifeblood of this company continue to perform and have not proven to be distracted by this."

More tests are yet to come.

The arraignment yesterday of Carole D. Argo - president, chief operating officer and acting chief financial officer at SafeNet before resigning in October - further delayed the closure on its past that SafeNet would like to have. The indictment, which charges her with securities fraud and conspiracy, also refers to known and unknown "co-conspirators." It doesn't level charges against Anthony A. Caputo, the longtime chief executive who resigned the same day as Argo, but says a "former CEO" benefited from stock redating.

### ***Legal fees paid***

Meanwhile, SafeNet is contractually on the hook for Argo's legal fees. She pleaded not guilty yesterday and trial was set for December.

"We have paid fees and will continue to do so as long as we're obligated, although I won't comment on how long that obligation is," Dix said.

Public companies grant stock options - the right to buy stock at a future date for a specified price - as an employee incentive. The idea is to reward workers for improved stock performance down the line, so companies are supposed to create options at the current stock price only.

The indictment alleges that Argo, aided by accomplices, illegally made options profitable from the get-go by continually changing the dates of grants to take advantage of low points in stock prices. Argo and others made millions from the six-year "conspiracy," according to the charges.

"The indictment suggests that the backdating scheme, if you will, was concealed from the board of directors and from the auditors," said Roma W. Theus II, chairman of the corporate integrity and white-collar crime committee of DRI, a Chicago organization of corporate defense lawyers. "If that's true, then the company - the corporation itself - was a victim."

Theus said SafeNet would then be eligible for restitution if Argo is found guilty.

Dozens of U.S. companies have been caught up in backdating scandals. SafeNet, after announcing in May 2006 that it had received a federal subpoena, formed a special committee to investigate its stock option awards and appointed an independent board member as interim CEO when its top executives resigned.

The board decided the best way to move ahead was to put the company up for sale and end its public ownership.

"It does seem to be by-the-book, competent crisis management," said Eric Dezenhall, chief executive of Dezenhall Resources, a Washington firm that helps companies deal with such crises. "When an executive has left or has been dismissed, there is an intangible sense that action of some kind has been taken, and that's really what most audiences want to see."

Added Jonathan Bernstein, president of California-based Bernstein Crisis Management Inc.: "Hopefully they have done a thorough review of exactly why this happened and not assumed this was a one-time aberrant situation. ... The best form of fire-fighting is fire prevention."

That's because scandal is bad for business. Employees and customers might defect to competitors, said Mike Paul, president and senior counselor at MGP & Associates PR, a crisis and reputation management company in New York.

"If I were a salesperson for a competing company, I would say, 'Well, you know what happened, right? I happen to have the article right here,'" Paul said.

### ***Called improvement***

SafeNet, which counts government sales as almost half its business and sells encryption products to companies around the world, said the firm is doing well because some of the upheaval was an improvement.

Dix said Vector Capital, the private equity firm that acquired SafeNet in April, has been well received by employees - in no small part because Vector made everyone eligible for quarterly "overperformance" bonuses.

And Chris Fedde, promoted from head of the company's enterprise security division to SafeNet president in October, is someone "everybody knew and everybody liked," Dix said.

"Morale has, I think, never been higher at the company - certainly not in the three-plus years I've been here," Dix said.

[jamie.smith.hopkins@baltsun.com](mailto:jamie.smith.hopkins@baltsun.com)

Sun reporter Tricia Bishop contributed to this article.

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