

# SafeNet Reports Second Quarter Financial Results

Submitted by: Strategic Public Relations Ltd

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Adjusted EPS of \$0.30 in the Upper Range of Prior Company Guidance; Company Reiterates Full-Year Guidance

BALTIMORE, Maryland—July 30, 2004— SafeNet (NASDAQ: SFNT), setting the standard for information security, today announced results for the second quarter ended June 30, 2004.

Revenues for the three-month period ending June 30, 2004, increased 229% to \$54.3 million, compared to \$16.5 million for the same period in 2003. On a year-to-date basis, revenues increased by 161% to \$78.4 million from \$30.1 million for the first half of 2003. The financial results for the second quarter of 2004 comprise a full quarter effect from the operations of Rainbow Technologies, Inc., reflecting the close of the merger on March 15, 2004.

Adjusted net income for the 2004 second quarter was \$7.4 million, or \$0.30 per diluted share, compared to \$2.1 million, or \$0.19 per diluted share, for the quarter ended June 30, 2003. The quarterly adjusted net income and per share information excludes acquisition-related expenses, restructuring charges, and assumes a 35% income tax rate.

The net income calculated on a GAAP (Generally Accepted Accounting Principles) basis for the quarter ended June 30, 2004, was approximately \$400,000, or \$0.02 per diluted share, which compares to a net loss of \$2.4 million, or \$0.24 per diluted share, for the same period of 2003. The GAAP results for the three months ended June 30, 2004 included expenses related to the merger with Rainbow Technologies, Inc., including amortisation of intangibles of \$5.6 million, (\$2.1 million is related to prior acquisitions) amortisation of unearned compensation of \$2.2 million, and integration costs of \$2.8 million. These adjustments increased net income by \$7.0 million, or \$0.28 per diluted share, for the quarter ended June 30, 2004, compared to a net income increase of \$4.5 million, or \$0.42 per diluted share, for the quarter ended June 30, 2003.

Anthony Caputo, Chairman and CEO of SafeNet, stated, "Our growth strategy is on track, and we made strong progress on a number of our strategic priorities—most notably meeting financial expectations and delivering adjusted earnings per share, which increased by 50%. We also accomplished a significant enhancement of our senior management team, the formation of strategic alliances with Adobe and Oracle, and the release of several new products and product enhancements in both the Embedded and Enterprise divisions. As previously announced, we created a separate business unit for our rights management business. During the quarter, we saw this unit achieve very strong year over year growth of 19%. Based on this success, we've decided to build upon our strength in chips, intellectual property and software toolkits and create a second unit within the Embedded Division—the OEM/Networking business unit."

"Today marked another major milestone in our plans to extend our information security leadership," he added. "The new partnership with Ingram Micro gives us a national distribution outlet for our SSL VPN appliance to Ingram's nearly 165,000 resellers. We also created a new position for corporate alliances to cultivate senior-level relationships with both systems integrators and telecommunication service providers. Both of these actions represent entirely new distribution channels for our products and

services.”

He continued, “We have strengthened our government sales team and are building our pipeline of government business. We provide the industry’s strongest vertical offering, from wide area to virtual private network to Type 1/classified security. Our industry expertise and strong legacy across military and civilian agencies should mitigate against the impact of the timing of government deals, and we’ll be accelerating our marketing initiatives to win a growing share of the larger, more complex information security contracts.”

## Business Updates

Since the beginning of the second quarter of 2004, SafeNet has announced:

### Management and Operational Changes

- The promotion of Carole Argo to the newly created position of President and Chief Operating Officer. Argo’s primary focus will be executing the company’s growth strategy with a continuing role in merger and acquisition activity.
- The appointment of former Microsoft executive Ken Mueller as its new Chief Financial Officer. Mueller will be responsible for all accounting, finance, treasury and legal functions, with a near term focus of building a global financial organisation, which will support SafeNet’s continued growth.
- The appointment of Howard Seeger as Vice President, Business Development, of Corporate Alliances as part of SafeNet’s effort to strengthen its government channels. Seeger will lead executive level relationships with system integrators and telecommunication service providers to further deploy SafeNet technologies addressing new and existing government needs.
- The appointment of Jim Summers as Vice President of Programs to lead SafeNet Mykotronx’s programs and engineering teams. Summers will play a pivotal role in positioning SafeNet for success as the U.S. government embarks on its \$7.2 billion Crypto Modernisation program.
- The creation of the new OEM/Networking business unit and the appointment of Henk Pruim to lead the unit. Recognising the OEM/Networking business as an area with terrific opportunities, this new unit will focus on SafeNet chips, Intellectual Property and software toolkits to the networking markets.
- The establishment of the new Sentinel Business Unit in April combined with this unit’s strong year-to-year growth, due to the new focus and investment in SafeNet’s rights management business.

### Strategic Alliances

- The formation of an alliance with Oracle where SafeNet Luna SA, a Network-attached Hardware Security Module (HSM), supports Oracle® Database10g to provide hardware security and SSL acceleration for enterprise grid computing. SafeNet is working with Oracle to provide hardware security solutions to joint customers for secure grid computing capabilities.
- The formation of an alliance with Adobe allowing SafeNet’s Luna Series of products to work with Adobe’s document services to help customers deploy more secure documents on the Adobe Intelligent Document Platform. The Adobe Intelligent Document Platform utilises the Adobe Reader, PDF and Adobe’s document services to address all phases of the document lifecycle.

### Customer Wins

- The award of a multi-year production contract under the U.S. Government’s Crypto Modernisation Program, with the first delivery order valued at \$2.7 million.

- The selection of SafeNet's SafeXcel™-1141 VPN chip by WatchGuard Technologies, Inc. WatchGuard will deploy the SafeXcel chip in to its Firebox X integrated security appliances because it delivers the advanced security capabilities and performance level that Watchguard customers demand.

#### Product Announcements

- The development of Luna SP, an application security appliance designed to make it easier to deploy secure Java applications, such as Java Web Services, with powerful cryptographic functionality. Luna SP allows enterprises to quickly develop and deploy high-assurance applications across a network with the knowledge that only authorised application code is being used.
- The development of QuickSec™ IPS. QuickSec IPS provides developers with a toolkit that can be integrated with a security appliance that detects intrusion attempts in passing traffic, stopping and reporting them. QuickSec VPN, using SafeNet's leading hardware solutions, SafeXcel technology, will reduce time to market and improve system performance for customers.
- The addition of new license models for the Sentinel LM 7.3 software licensing and protection application. Sentinel LM 7.3 demonstrates SafeNet's commitment to the Sentinel LM product by enhancing the ease with which customers can add license management functionality to their applications.

#### Current Outlook for Third Quarter and Full Year 2004

The following statements are based on current expectations. These statements are forward-looking, and actual results may differ materially. These statements do not reflect the potential impact of any mergers, acquisitions or other business combinations that may be completed after the date of this release.

For the quarter ended September 30, 2004, SafeNet currently expects to achieve revenues in the range of \$58 to \$62 million. The adjusted net income is expected to be in the range of \$0.35 to \$0.38 per diluted share. Adjusted guidance excludes integration costs of \$3.0 million, amortisation of acquired intangible assets of \$5.5 million, amortisation of unearned compensation of \$2.0 million, and net tax adjustments of \$3.7 million. The adjustments are expected to increase net income by \$6.9 million, or \$0.27 per diluted share. The GAAP net income is expected to be in the range of \$0.07 to \$0.13 per share.

For the year ended December 31, 2004, the Company reiterates its prior guidance, and expects to achieve revenues in the range of \$200 to \$210 million. Adjusted net income guidance for 2004 remains between \$1.30 and \$1.40 per diluted share. Adjusted guidance excludes estimated integration costs of \$11.4 million, amortisation of acquired intangibles of \$19.3 million, amortisation of unearned compensation of \$6.5 million, and net tax adjustments of approximately \$12.5 million. The adjustments are expected to increase net income by \$24.7 million, or approximately \$1.08 per diluted share. The GAAP income per share guidance for 2004 is between \$0.19 and \$0.29 per share.

#### Conference Call

The conference call is available via live webcast on SafeNet's Investor Relations web site at [www.safenetinvestor.com](http://www.safenetinvestor.com). A replay of the conference call will be immediately available via webcast on SafeNet's Investor Relations site.

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[Financial Statements available on request]

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About SafeNet, Inc.

SafeNet is a global leader in information security. Founded more than 20 years ago, the company provides complete security utilising its encryption technologies to protect communications, intellectual property and digital identities, and offers a full spectrum of products including hardware, software, and chips. ARM, Bank of America, Cisco Systems, the Departments of Defense and Homeland Security, Adobe, Samsung, Texas Instruments, the U.S. Internal Revenue Service and scores of other customers entrust their security needs to SafeNet. For more information, visit [www.safenet-inc.com](http://www.safenet-inc.com).

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995

Statements contained in this document that are not historical facts could be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on management's current expectations and beliefs, are not guarantees of future performance and are subject to a number of risks, uncertainties and assumptions that could cause actual results to differ materially from those described in the forward-looking statements, including, among others: the risk that the SafeNet and Rainbow businesses will not be integrated successfully; costs related to the merger with Rainbow; and other economic, business, competitive, and/or regulatory factors affecting SafeNet's business generally, including those set forth in its filings with the Securities and Exchange Commission, including SafeNet's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, its Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 and its Current Reports on Form 8-K. If any of these risks or uncertainties materialises or any of these assumptions proves incorrect, SafeNet's results could differ materially from the expectations in these statements. SafeNet assumes no obligation and does not intend to update or alter these forward-looking statements, whether as a result of new information, future events, or otherwise.

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