



*United States Attorney
Southern District of New York*

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HEDGE FUND MANAGER FACES FEDERAL INSIDER TRADING
CHARGES

MICHAEL J. GARCIA, the United States Attorney for the Southern District of New York, announced that HILARY L. SHANE, a former Manhattan hedge fund manager, made her first appearance in court today to face insider trading charges unsealed late last week. SHANE is charged with insider trading in the stock of Compudyne Corporation ("Compudyne") in connection with a private investment in public equity ("PIPE") offering conducted in October 2001. Compudyne is a Nevada Company that provides physical and electronic public safety and security products.

The Indictment charges that in late September 2001, SHANE was solicited to invest in the Compudyne PIPE after agreeing to keep the information about the potential transaction confidential. On or about October 2, 2001, SHANE expressed her willingness to purchase up to 500,000 Compudyne shares in the PIPE offering at \$14 per share. The publicly-traded stock of Compudyne closed at approximately \$17.75 that day, the Indictment stated. Typically, a PIPE issuer's stock price will decline upon announcement of the PIPE issuance because the value of the outstanding shares is diluted, and because the PIPE shares are often offered at a price lower than the prevailing market price, the Indictment explains.

According to the Indictment, on or about October 8, 2001, Compudyne and its investment bank agreed to price the PIPE offering at \$12 per share. On that same day, SHANE agreed in writing to purchase a total of 475,000 unregistered shares of stock in Compudyne for \$12 per share pursuant to the PIPE offering. Approximately 237,000 of these shares were for her own account and approximately 238,000 of these shares were for the account of a hedge fund that SHANE managed, it was further charged.

As alleged in the Indictment, despite the fact that the purchase agreements imposed confidentiality and trading

restrictions on the investors, SHANE, beginning at approximately 8:22 a.m. on the morning of October 9, 2001, sold Compudyne shares short, based on the material, non-public information that Compudyne was engaged in a PIPE offering. By approximately 11:44 a.m., on October 9, 2001, when the Compudyne PIPE transaction was publicly announced, SHANE had caused short sales of approximately 122,900 Compudyne shares, the Indictment stated.

On or about October 31, 2001, according to the Indictment, SHANE used the newly registered shares in Compudyne, which she had purchased pursuant to the PIPE for \$12 per share, to cover the shares of stock that she had sold short for an average of approximately \$14.59 per share. It was further charged that, as a result, SHANE and the accounts on whose behalf she established short positions before 11:44 a.m. on October 9, 2001, received unlawful profits of more than \$315,000.

The Indictment charged SHANE with five counts of securities fraud. SHANE faces a maximum sentence on each count of 20 years in prison and a fine of \$5 million or twice the gross gain or gross loss from the offense.

SHANE, 39, lives in Jupiter, Florida.

Mr. GARCIA commended the Criminal Investigators of the United States Attorney's Office and thanked the National Association of Securities Dealers and the Securities and Exchange Commission for their assistance in the investigation.

Assistant United States Attorneys Marcia Isaacson and Neil Barofsky 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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