



Letter of Comment No: 42
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Financial Accounting Standards Board
MP&T Director – File Reference 1102-001
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Dear Sir or Madam:

Rainbow Technologies, Inc., offers its comments on the Invitation to Comment on accounting for stock options. As a small technology company with approximately 500 employees worldwide, we are deeply concerned about the proposed mandatory expensing of stock options.

We believe that such a treatment of stock options would lead to extremely volatile fluctuations in the reported results of the company without any connection to the success or failure of our company. First of all, this is because stock options do not represent an expense. Corporate cash actually increases as options are exercised.

Option pricing models are fatally flawed as tools to value stock options because stock options are very different from freely traded options. Any tool that tries to predict future behavior of something this complicated is doomed to failure. There is not and there will never be a tool that accurately predicts the future.

The cost to shareholders is the same as when a company issues more shares because that is what happens, more shares are issued and the cost is dilution. We believe that the current disclosure under FAS 123 is adequate to give investors accurate and timely information on stock options. The mandatory expensing of stock options is possibly good public relations for some politicians but it is bad accounting and will have to be ignored by investors in order to make sense of the operations of a company.

In our company all employees receive stock options and, therefore, our results would be more distorted than companies that only issue stock options to “fat cats.” You have to wonder what is fair and accurate about that.

There are many technical arguments about these issues but we wanted to offer our plain view of things.

We thank you for considering our views.

Sincerely,

Patrick E. Fcvery
Chief Financial Officer