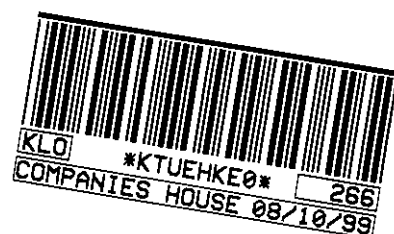


2258824

Rainbow Technologies Limited

Report and Accounts

31 December 1998



Rainbow Technologies Limited

Registered No. 2258824

DIRECTORS

W Straub
P Fevery

SECRETARY

T Watson

AUDITORS

Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

BANKERS

Barclays Bank PLC
City Office
Old Bank
Oxford OX1 3HS

REGISTERED OFFICE

Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended 31 December 1998.

RESULTS AND DIVIDENDS

The group profit for the year after taxation, amounted to £439,130 (1997 - £1,875,091). The company did not pay an interim dividend (1997 - £2,700,000). The directors do not recommend the payment of a final dividend for 1998.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the company continues to be the marketing and distribution of software protection systems.

During the year there was a restructuring of group operations in Europe. Ownership of the company has transferred to Rainbow 3.V. in the Netherlands. The company continues to retain its dominant share of the UK and Ireland market.

YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A company-wide programme, designed to address the impact of the Year 2000 on our business, has been commissioned by the Board and is under way. Resources have been allocated and the Board receives regular reports on progress.

A significant risk analysis has been performed to determine the impact of the issue on all our activities. From this, prioritised action plans have been developed which are designed to address the key risks in advance of critical dates and without disruption to the underlying business processes. Priority is given to those systems which could cause a significant financial or legal impact on the company's business if they were to fail. The plan also includes a requirement for the testing of systems changes, involving the participation of users.

The risk analysis also considers the impact on our business of Year 2000 related failures by our significant suppliers (including computer bureaux) and customers. In appropriate cases we have initiated formal communication with these other parties.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problem will remain, because at least some level of failure may still occur. However, the Board believes that it will achieve an acceptable state of readiness and has also provided resources to deal promptly with significant subsequent failures or issues that might arise.

Much of the cost of implementing the action plans will be subsumed into the recurring activities of the company.

Rainbow Technologies Limited

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The directors during the year and their interests in the share capital of the company were as follows:

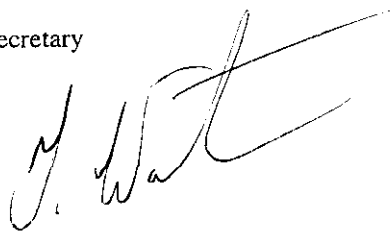
	<i>31 December 1998 Ordinary shares</i>	<i>31 December 1997 Ordinary shares</i>
W Straub	50	50
P Fevery	-	-

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board

Secretary



24 SEP 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of Rainbow Technologies Limited

We have audited the accounts on pages 6 to 16 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 10.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

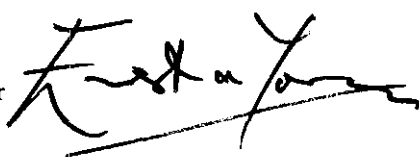
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the affairs of the company and of the group as at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
London



06 OCT 1999

Rainbow Technologies Limited

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1998

	Notes	1998 £	1997 £
TURNOVER	2	3,869,517	7,943,365
Cost of sales		1,733,946	2,727,260
GROSS PROFIT		2,135,571	5,216,105
Distribution costs		513,720	709,051
Administrative expenses		1,033,073	1,822,292
		1,546,793	2,531,343
OPERATING PROFIT	3	588,778	2,684,762
Interest receivable and similar income	4	65,664	42,221
Interest payable and similar charges	5	(18,536)	(32,451)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		635,906	2,694,532
Tax on profit on ordinary activities	8	196,776	819,441
PROFIT FOR THE FINANCIAL YEAR		439,130	1,875,091
Dividends	9	-	2,700,000
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	16	439,130	(824,909)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

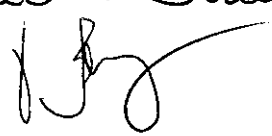
There are no recognised gains or losses other than the profit attributable to the shareholders of the company shown above.

A statement of movement on reserves can be found in note 16 to the accounts.

Rainbow Technologies Limited

GROUP BALANCE SHEET at 31 December 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible assets	10	728,920	677,409
CURRENT ASSETS			
Stocks	12	-	300,020
Debtors	13	651,745	1,874,873
Cash at bank and in hand		1,706,533	1,515,320
		2,358,278	3,690,213
CREDITORS: amounts falling due within one year	14	677,219	2,396,773
NET CURRENT ASSETS		1,681,059	1,293,440
TOTAL ASSETS LESS CURRENT LIABILITIES		2,409,979	1,970,849
CAPITAL AND RESERVES			
Called up share capital	15	50,000	50,000
Capital reserve	16	22,719	22,719
Profit and loss account	16	2,337,007	1,897,877
EQUITY SHAREHOLDERS' FUNDS	17	2,409,726	1,970,596
Minority interests		253	253
		2,409,979	1,970,849


Walter W. Straub ,
) Directors

24 SEP 1999

Rainbow Technologies Limited

BALANCE SHEET at 31 December 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible assets	10	728,920	677,409
Investments	11	120,000	120,000
		<u>848,920</u>	<u>797,409</u>
CURRENT ASSETS			
Stocks	12	-	300,020
Debtors	13	651,745	1,874,873
Cash at bank and in hand		1,706,533	1,515,320
		<u>2,358,278</u>	<u>3,690,213</u>
CREDITORS: amounts falling due within one year	14	820,191	2,539,745
		<u>1,538,087</u>	<u>1,150,468</u>
NET CURRENT ASSETS			
		<u>2,387,007</u>	<u>1,947,877</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>2,387,007</u>	<u>1,947,877</u>
CAPITAL AND RESERVES			
Called up share capital	15	50,000	50,000
Profit and loss account	16	2,337,007	1,897,877
		<u>2,387,007</u>	<u>1,947,877</u>
EQUITY SHAREHOLDERS' FUNDS	17	2,387,007	1,947,877
		<u>2,387,007</u>	<u>1,947,877</u>

Walter W. Straub) Directors


24 SEP 1999

Rainbow Technologies Limited

GROUP STATEMENT OF CASH FLOWS for the year ended 31 December 1998

	Notes	1998 £	1997 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	17(a)	220,388	4,349,853
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		65,664	42,221
Interest paid		(29,144)	(21,843)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		36,520	20,378
TAXATION			
Corporation tax repaid/(paid)		64,677	(1,128,268)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(136,056)	(56,322)
Receipts from sales of tangible fixed assets		5,684	7,648
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		(130,372)	(48,674)
EQUITY DIVIDENDS PAID		-	(2,700,000)
CASH INFLOW/(OUTFLOW) BEFORE FINANCING		191,213	493,289
FINANCING			
Net movement in long-term borrowings		-	(120,000)
INCREASE/(DECREASE) IN CASH		191,213	373,289
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
		1998 £	1997 £
Increase/(decrease) in cash		191,213	373,289
Cash outflow from repayment of loans		-	120,000
Change in net funds resulting from cash flows	17(b)	191,213	493,289
NET FUNDS AT 1 JANUARY 1998	17(b)	1,515,320	1,022,031
NET FUNDS AT 31 DECEMBER 1998	17(b)	1,706,533	1,515,320

Rainbow Technologies Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of Rainbow Technologies Limited and all its subsidiary undertakings drawn up to 31 December 1998. No profit and loss account is presented for Rainbow Technologies Limited as provided by section 230 of the Companies Act 1985. The profit dealt with in its accounts was £439,130 (1997- £1,875,091)

All subsidiaries have been included in the group accounts using the acquisition method of accounting.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Computer equipment	-	over 4 years
Furniture and office equipment	-	over 5 years
Motor vehicles	-	over 4 years
Freehold buildings	-	over 31 years

Freehold land is not depreciated.

Stocks

Stocks are stated at the lower of purchase cost on a first-in, first-out basis and net realisable value. Net realisable value is based on estimated selling price less further costs expected to be incurred to disposal.

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences, which are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that the taxation will be payable.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction.

All differences are taken to the profit and loss account.

Leasing commitments

Rentals paid under operating leases are charged to income as incurred.

Pension costs

It is the policy of the company to contribute to defined contribution, money purchase pension schemes for certain employees by payment to insurance companies. The assets of the scheme are held separately from those of the company. The premiums payable are charged to the profit and loss account. Any difference between amounts charged to the profit and loss account and contributions paid is shown as a separately identified liability or asset in the balance sheet.

Rainbow Technologies Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

2. TURNOVER

Company turnover represents the invoiced amount of goods sold and services provided stated net of value added tax.

The company turnover and pre-tax profit is attributable to one continuing activity, the marketing and distribution of software protection systems.

Analysis of turnover by geographical market:	1998 £	1997 £
UK	2,500,000	2,653,808
Other	1,369,517	5,289,557
	<u>3,869,517</u>	<u>7,943,365</u>

3. OPERATING PROFIT

This is stated after charging/(crediting):

	1998 £	1997 £
Auditors' remuneration	14,500	12,000
Depreciation	80,986	81,125
Operating lease rentals - other	1,674	6,522
- land and buildings	14,516	14,516
Exchange (gain)/loss	<u>(17,953)</u>	<u>24,034</u>

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	1998 £	1997 £
Other income	9,864	-
Bank deposit interest	55,800	42,221
	<u>65,664</u>	<u>42,221</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £	1997 £
Inter-company interest	<u>18,536</u>	<u>32,451</u>

Rainbow Technologies Limited

NOTES TO THE ACCOUNTS at 31 December 1998

6. STAFF COSTS

	1998 £	1997 £
Wages and salaries	516,326	808,533
Social security costs	80,953	79,507
Other pension costs	7,498	7,496
	<u>604,777</u>	<u>895,536</u>

The average weekly number of employees during the year was made up as follows:

	1998 No.	1997 No.
Office and management	10	10
Distribution and marketing	12	16
	<u>22</u>	<u>26</u>

7. DIRECTORS' REMUNERATION

Neither of the directors received any remuneration during the year.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is made up as follows:

	1998 £	1997 £
Based on the profit for the year:		
Current corporation tax	198,287	816,606
Corporation tax (over)/under provided in previous year	(1,511)	2,835
	<u>196,776</u>	<u>819,441</u>

9. DIVIDENDS

	1998 £	1997 £
Ordinary - interim paid	-	2,700,000
	<u>-</u>	<u>2,700,000</u>

Rainbow Technologies Limited

NOTES TO THE ACCOUNTS at 31 December 1998

10. TANGIBLE FIXED ASSETS *Group and Company*

	<i>Motor vehicles £</i>	<i>Computer equipment £</i>	<i>Furniture and office equipment £</i>	<i>Freehold land and buildings £</i>	<i>Total £</i>
Cost:					
At 1 January 1998	41,565	209,449	206,288	650,000	1,107,302
Additions	43,934	34,302	57,820	-	136,056
Disposals	-	(10,417)	(14,081)	-	(24,498)
At 31 December 1998	85,499	233,334	250,027	650,000	1,218,860
Depreciation:					
At 1 January 1998	11,813	153,385	166,348	98,347	429,893
Provided during the year	18,995	28,835	17,028	16,128	80,986
Disposals	-	(8,750)	(12,189)	-	(20,939)
At 31 December 1998	30,808	173,470	171,187	114,475	489,940
Net book value:					
At 31 December 1998	54,691	59,864	78,840	535,525	728,920
At 1 January 1998	29,752	56,064	39,940	551,653	677,409

11. INVESTMENTS *Company*

	<i>Subsidiary undertakings £</i>
Cost:	
At 1 January 1998 and 31 December 1998	120,000

Details of the investments in which the group or the company holds 20% or more of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of of business</i>
<i>Subsidiary undertakings</i>			
All held by the company unless otherwise indicated.			
Software Security International Limited	Ordinary shares	100%	Distributors of computer software
* International Security Solutions Limited	Ordinary shares	90%	Distributors of computer software

* Shares are held by Software Security International Limited.

Rainbow Technologies Limited

NOTES TO THE ACCOUNTS at 31 December 1998

12. STOCKS

	<i>Group and Company</i>	
	<i>1998</i>	<i>1997</i>
	<i>£</i>	<i>£</i>
Goods for resale	-	300,020

The difference between purchase price or production cost of stocks and their replacement cost is not material.

13. DEBTORS

	<i>Group and Company</i>	
	<i>1998</i>	<i>1997</i>
	<i>£</i>	<i>£</i>
Trade debtors	552,872	1,309,332
Amounts owed by fellow group undertakings	70,513	147,893
Prepayments and accrued income	25,528	28,798
Other debtors	2,832	388,850
	<u>651,745</u>	<u>1,874,873</u>

14. CREDITORS: amounts falling due within one year

	<i>1998</i>	<i>Group</i>	<i>1998</i>	<i>Company</i>
	<i>£</i>	<i>1997</i>	<i>£</i>	<i>1997</i>
		<i>£</i>		<i>£</i>
Trade creditors	25,316	176,208	25,316	176,208
Amounts owed to parent undertaking	15,714	344,430	15,714	344,430
Amounts owed to fellow group undertakings	243,651	1,456,770	386,623	1,599,742
Current corporation tax	198,287	298,716	198,287	298,716
Other taxes and social security	100,327	21,663	100,327	21,663
Accruals and deferred income	89,055	98,986	89,055	98,986
Other creditors	4,869	-	4,869	-
	<u>677,219</u>	<u>2,396,773</u>	<u>820,191</u>	<u>2,539,745</u>

15. SHARE CAPITAL

	<i>Authorised, allotted, called up and fully paid</i>	
	<i>1998</i>	<i>1997</i>
	<i>£</i>	<i>£</i>
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

Rainbow Technologies Limited

NOTES TO THE ACCOUNTS at 31 December 1998

16. RESERVES

<i>Group</i>	<i>Share capital £</i>	<i>Capital reserve £</i>	<i>Profit and loss account £</i>	<i>Total £</i>
At 1 January 1997	50,000	22,719	2,722,786	2,795,505
Loss for the year			(824,909)	(824,909)
At 1 January 1998	50,000	22,719	1,897,877	1,970,596
Profit for the year			439,130	439,130
At 31 December 1998	50,000	22,719	2,337,007	2,409,726

<i>Company</i>	<i>Share capital £</i>	<i>Profit and loss account £</i>	<i>Total £</i>
At 1 January 1997	50,000	2,722,786	2,772,786
Profit for the year		1,875,091	1,875,091
Dividend		(2,700,000)	(2,700,000)
	50,000	1,897,877	1,947,877
Profit for the year		439,130	439,130
At 31 December 1998	50,000	2,337,007	2,387,007

17. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities

	<i>1998 £</i>	<i>1997 £</i>
Operating profit	588,778	2,684,762
Depreciation	80,986	81,125
Decrease/(increase) in debtors	861,246	(49,958)
Decrease in stocks	300,020	29,233
(Decrease)/increase in creditors	(1,608,517)	1,605,518
Profit on disposal of fixed assets	(2,125)	(827)
	<u>220,388</u>	<u>4,349,853</u>

(b) Analysis of changes in net funds

	<i>At 1 January 1998 £</i>	<i>Cash flow £</i>	<i>At 31 December 1998 £</i>
Cash at bank and in hand	1,515,320	191,213	1,706,533

Rainbow Technologies Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

18. OTHER FINANCIAL COMMITMENTS

At 31 December 1998 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>1998</i>	<i>1998</i>	<i>1997</i>	<i>1997</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Operating leases which expire: within two to five years	14,516	1,674	14,516	6,450

19. RELATED PARTIES

The ultimate parent undertaking at 31 December 1998 was Rainbow Technologies Inc. incorporated in the United States of America. A copy of the group accounts, which incorporate the results of Rainbow Technologies Limited can be obtained from the parent undertaking at 50 Technology Drive, Irvine, CA927, USA.

The company has taken advantage of the exemption in paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are part of the Rainbow Technologies Inc., group or investees thereof.