SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F/A

(Mark One)

( ) REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1997

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________

Commission file number 0-28584

CHECK POINT SOFTWARE TECHNOLOGIES LTD.
(Exact name of Registrant as Specified in Its Charter)

ISRAEL
(Jurisdiction of Incorporation or Organization)

3A Jabotinsky Street, Ramat-Gan 52520, Israel
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Securities registered or to be registered pursuant to Section 12(g) of the Act: Ordinary Shares of NIS 0.01 nominal value

Ordinary shares (par value NIS 0.01) of registrant outstanding at December 31, 1997 - 34,194,221 (end of reporting period) .

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No _____

Indicate by check mark which financial statement item the registrant has elected to follow:

_X_ Item 17 ___ Item 18

Securities for which there is a reporting obligation pursuant to Section 12(g) of the Act: None

Explanatory Note

All items in the Registrant's Annual Report on Form 20-F for the year ended December 31, 1996 are included herein; however, only the following items are hereby amended, to the extent set forth herein, by this Form 20-F/A: Part I, Item 1 and Part IV, Item 19.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Check Point Software Technologies Ltd. (together with its subsidiaries the "Company" or "Check Point") develops, markets and supports policy-based management solutions for active networks. The Company delivers solutions that enable secure, reliable and manageable business-to-business communications over any Internet Protocol ("IP") network with product offerings that span three product lines: Enterprise Security Management, Enterprise Traffic Management and Enterprise Infrastructure Management. Products within these lines include the market-leading enterprise security suite, Check Point™ FireWall-1® and FireWall-1/VPN for virtual private networking; SecuRemote™ secure remote access software; the industry's premier policy-based bandwidth management solution, FloodGate-1™; a third-party security device management solution, Open Security Manager™; and IP address management software that simplifies the set-up, integration and administration of complex networks, MetaIP™.

Industry Background

Information, and the ability to access and distribute it, is increasingly becoming a key strategic asset in today's competitive business environment. This need to effectively use and communicate information has driven the extensive deployment of network-based communications systems. The resulting explosion in connectivity is in turn driving the need for technology to safeguard the information available over these increasingly global networks.

Explosion of Connectivity

The network computing market has undergone two major transitions over the past decade, the convergence of which has contributed to the recent dramatic increase in global connectivity. The first of these transitions was the migration of corporate computing environments from centralized mainframe systems to distributed client/server environments. The ability to access and share information through client/server technology has expanded the need for connectivity beyond workgroup LANs to enterprise-wide networks spanning multiple LANs and WANs. The second major transition has been the widespread adoption of the Internet for business to business communications. Internet-based business applications have rapidly expanded beyond e-mail to a broad range of business applications and services including electronic publishing, direct to customer transactions, product marketing, advertising and customer support.

The convergence of these two major transitions has also led to the emergence of "virtual private networks" using the public Internet infrastructure and associated protocols and applications to share information and services both within the enterprise and with business partners and customers. As a result, businesses are able to share internal information and to run enterprise applications across geographically dispersed facilities as well as enable customers, suppliers and other business partners to inexpensively link into their enterprise information systems. As Internet protocols and infrastructure gain increasingly widespread acceptance for global communication, new wide-area connectivity services continue to emerge at a rapid rate, such as database access, transaction processing services, audio and telephone services and video teleconferencing services. This expansion of services and applications is further accelerating the use of networks as global communication systems.

The Need For Network Security

Although the explosion of connectivity and information exchange provides tremendous benefits, it also exposes an organization's sensitive information and mission critical applications to unauthorized access, both through connections to the public Internet and from within the enterprise. In addition, the transmission of data over the Internet also exposes the data to unauthorized interception. These risks create a critical need for enterprises to protect their information and information systems from unauthorized access and use.

Historical methods for securing information resources are no longer adequate to meet the security requirements of today's global networks. In the centralized mainframe environments that dominated the information systems landscape in previous years, organizations were able to secure a limited number of access points through physical barriers and controlled access to data through log-on procedures and password protection. However, in today's distributed network environments with multiple points of access and multiple network resources, it is impractical to individually secure every application and resource on the network. Therefore, an additional layer of security at the network level is needed to act as a "virtual" barrier to control access to the network and to regulate and protect the flow of data between network segments.

Traditional Approaches to Network Security

Over the past few years, a number of "firewall" products have been introduced which were designed primarily to safeguard a company's Internet connections. The term "firewall" refers to a system that controls the flow of data between an internal network and the Internet or between internal network segments. Firewall products to date have largely been based upon one of two common architectures: router-based packet filters and proxy-based application-level gateways. These types of firewalls were designed primarily as point solutions focused on controlling information and communication exchange at a single access point or gateway.

Packet Filters. Typically implemented in routers, packet filters screen communications by analyzing the individual communication packets that make up the communication stream. Packet filters allow or disallow each packet based upon information available in the packet's header. Because packet filters do not have access to context information from the entire communication, they are unable, for many applications, to extract enough information to make an informed security decision.

Application-Level Gateways. Application-level gateways are systems that screen communications at a network gateway by running a separate software program that acts as a proxy for each application to be allowed through the gateway. Rather than providing a direct connection between an internal user and an external host, application-level gateways establish a connection to the external host on behalf of the internal user, copy the data received, and retransmit the data if the communication is to be allowed. Because separate software programs are written for each application that is allowed access througateway, application-level gateways lack the extensibility necessary to address the rapid development of new Internet applications and services. Furthermore, the high overhead associated with the application code limits the scaleability of application-level gateways.

The increasing demands placed on enterprise security systems by the expansion of Internet services and global enterprise networking are quickly outpacing the capabilities of these traditional Internet firewall architectures. These demands include the need to define and transparently enforce an integrated, enterprise-wide security policy that can be managed centrally and implemented on a distributed basis. An effective network security solution also needs to be open and extensible to enable it to address the rapidly changing requirements of the Internet and intranets, including the addition of new applications, such as authentication, encryption, URL filtering, anti-virus protection, and Java and ActiveX security services and functions.

The Check Point Solution

Check Point developed a fundamentally new approach to network security and traffic management that provides a platform for secure enterprise connectivity. Check Point's Stateful Inspection technology, the foundation of Check Point's network security and traffic management product offerings, enables system administrators to define and transparently enforce an integrated, centrally managed, enterprise-wide network traffic policy that provides for secure and reliable communications. In addition, the Company's Open Platform for Secure Enterprise Connectivity (OPSEC) architecture provides a single platform that manages over 140 third-party security applications from within Check Point's open, extensible management framework. The following are the key factors that differentiate Check Point's solution from historical network security approaches:

Stateful Inspection Technology. Check Point's FireWall-1 and FloodGate-1 product offerings are based upon its Stateful Inspection technology that enables the screening of all communications attempting to pass through a gateway in a highly secure but efficient way. By being able to extract and maintain extensive "state information" from all relevant communications layers, the system can verify the data for full compliance with the security and traffic policy and make intelligent security and traffic prioritization decisions. By extracting and analyzing data in place without copying, FireWall-1 causes virtually no performance degradation, enabling it to scale effectively as network bandwidths increase. In addition, Check Point's proprietary implementation of Stateful Inspection in a "virtual machine" design provides in-place upgradability and is designed to enable the Company's products to be easily ported to a wide range of platforms. In addition, because Check Point's products reside at network access points, which is the critical convergence point for network security and traffic management, the company has a unique advantage by being able to apply this same architectural foundation to manage traffic flow and network performance, inspecting traffic only once for both crititcal network decisions. State information is extracted data maintained to provide context for future screening decisions.

Open Platform for Secure Enterprise Connectivity ("OPSEC"). Check Point's Open Platform for Secure Enterprise Connectivity, or OPSEC, integrates and centrally manages the entire enterprise security policy through an open, extensible management framework. Today, over 140 third-party security applications can be plugged into the OPSEC framework through published application programming interfaces ("APIs"), industry-standard protocols and the Company's high-level scripting language, INSPECT. Once integrated, all applications can be set up and managed from a single, centralized administrative workstation, utilizing a single policy editor. The OPSEC architecture is designed to allow end-users to choose system components that best meet their requirements, whether from the Company or various third-party vendors, and to rapidly exploit new developments in security technology.

Broad, Integrated Enterprise Solution. The FireWall-1 product family extends across all major market segments, from small businesses to large, enterprise networks. The Company's streamlined FireWall-*First!* product is designed to provide entry-level Internet access control. The FireWall-1 product family also extends across a broad range of platforms, including Sun Microsystems (SunOS and Solaris), Microsoft (Windows NT), Intel x86 (Solaris), Hewlett-Packard (HP-UX) and IBM Corporation (AIX). FireWall-1 also supports all major networking technologies, including 10BaseT, 100BaseT, ATM, FDDI and Token Ring. FireWall-1 provides a broad range of features and functionality including the following:

Integration of Third-Party Security Applications. Through OPSEC, end-users of FireWall-1 are able to integrate the product into various network management systems and add new features and functionality such as authentication, encryption, URL filtering, content security, anti-virus protection, suspicious activity monitoring, auditing and reporting controls and Java and ActiveX security.

Implementation of the Virtual Private Network and Secure Remote Access. The FireWall-1 architecture supports multiple authentication methods including both Security Dynamics (SecurID) and SKey. In addition, FireWall-1 provides integrated data encryption to shield communications over public networks from unauthorized monitoring or alteration, enabling companies to set up "virtual private networks" offering a level of privacy comparable to private communication lines. The FireWall-1 architecture supports multiple encryption and key management methods including RSA, DES and FWZ1. The Company extends the VPN to the mobile desktop users with its SecuRemote client encryption software. In addition, through the combined use of FireWall-1/VPN and the Company's FloodGate-1 traffic management software, users can implement secure and reliable intranet and extranet VPNs for business communications.

Extensive, Scaleable Application Support. FireWall-1 supports over 120 pre-defined applications, including database and enterprise applications such as Oracle SQL*Net, network management protocols such as SNMP, multimedia applications such as RealAudio, Microsoft's NetMeeting and Microsoft's NetShow, and Internet applications such as Secure HTTP. In addition, through the easy-to-use graphical user interface, system administrators can easily add support for new or custom applications by completing simple, on-line templates, or by writing simple macros using INSPECT, the Company's high-level scripting language.

Centralized Management. Check Point's enterprise-level FireWall-1, FireWall-1/VPN and FloodGate-1 products are capable of configuring and managing an enterprise-wide network policy at multiple inspection points across heterogeneous platforms, including servers (UNIX and Windows NT), routers, switches and hubs from a single, centralized administrative workstation, eliminating the need to configure each gateway and server independently. With FireWall-1 and FloodGate-1 Enterprise, the system administrator can define a single security policy for the enterprise that is then automatically distributed to each gateway. The Company's products contain extensive monitoring and reporting capabilities designed to improve the manageability of the system.

Ease of Use. FireWall-1 and Flood-Gate-1 were designed to be easily installed, configured and managed by a system administrator. Both products offer point and click installation and configuration through a powerful and intuitive graphical user interface. FireWall-1 and FloodGate-1 also allow for new security and traffic prioritzation policies to be implemented or existing policies to be modified without interrupting system operation. Once a security policy is defined, it is automatically checked for consistency to ensure that rules within the policy do not conflict, ensuring a high degree of integrity and reducing the potential for user mistakes.

Products

Check Point's product lines offers a broad range of policy-based solutions for active networks. The Company's Enterprise Security Management product line includes its FireWall-1 family of products, its FireWall-1/VPN and SecuRemote virtual private networking solutions, and the entry-level FireWall-*First!* product. The Company's Enterprise Traffic Management product line includes its FloodGate-1 bandwidth management solution. The Enterprise Infrastructure Management product line includes the Open Security Manager third-party security device management software and MetaIP IP address management products.

The Company is currently shipping FireWall-1 Version 3.0, FloodGate-1 Version 1.1 and Open Security Manager 1.0, and is continuing to upgrade the functionality of its products.

	Description	Scope	U.S. List Price	Introduction Date
ENTERPRISE SECURITY MANAGEMENT				
FireWall-1 Enterprise	Firewalls, Internet and Intranet gateway(s) with distributed management capabilities	• Unlimited nodes	$18,900	Q2, 1994
FireWall-1 Security Center	FireWall-1 Enterprise with management capabilities	• Unlimited nodes • Unlimited routers managed	$39,995	Q2, 1994
Add-on Inspection Modules	Additional Inspection Modules for multiple gateway implementation	• Single gateway, unlimited nodes	$5,000 to $7,000	Q2, 1994
FireWall-1 Single Internet Gateway	Internet and Intranet gateway(s) with full featured network security for small to medium businesses	• Up to 25 nodes • Up to 50 nodes • Up to 100 nodes • Up to 250 nodes	$2,995 $4,995 $7,995 $9,995	Q2, 1994 Q2, 1995
VIRTUAL PRIVATE NETWORKING				
FireWall-1VPN Modules	Extends FireWall-1 to include site-to-site encryption for virtual private networks		$2,995	Q3, 1995
SecuRemote	Extends a company's virtual private network to the desktop for mobile and remote workers		No charge for unlimited desktop licenses	Q1, 1996
ENTERPRISE TRAFFIC MANAGEMENT				
FloodGate-1	Policy-based bandwidth management solution that alleviates traffic congestion on oversubscribed Internet and Intranet links	• Dial-up lines up to 256K • T1 and E1 lines • 10 Mbps lines	$4,995 $9,995 $18,990	Q3, 1997
ENTERPRISE INFRASTRUCTURE MANAGEMENT				
Open Security Manager	Third-party security device management solution that allows network managers to define, manage, and distribute security policies for multiple third-party security devices such as Cisco PIX, Microsoft RRAS NT-based router, and routers from Bay Networks, Cisco, and 3Com	• Single device • Up to 10 devices • Unlimited devices	$1,495 $9,995 $19,995	Q4, 1997

FireWall-1

The FireWall-1 Enterprise and Internet Gateway products contain the full flexibility of the FireWall-1 management and security capabilities, including a rule-based editor, object managers and authentication features. In addition to the functionality provided by FireWall-1 Internet Gateway, the FireWall-1 Enterprise products also enable centralized management of multiple gateways with distributed implementation, as well as remote management of the network security system. FireWall-1 Enterprise and Internet Gateway products consist of one Management Module and one firewall Module. Additional Inspection or firewall Modules for the support of multiple gateway environments are sold separately. All FireWall-1 products are compatible and FireWall-1 Internet Gateway products can be upgraded while retaining the same management and user interface capabilities. Optional features include the VPN module with encryption for virtual private networks, a router management extension and a load balancing module (Connect control).

FireWall-1 Versions 3.0 and above implement the Company's OPSEC architecture, a policy management framework that provides central integration, configuration and management of over 140 third-party network security and management technologies. OPSEC provides a single platform that allows organizations to implement the additional functionality of various network security technologies available from the Company and various third-party vendors' solutions. For example, FireWall-1 enables the integration of content security (anti-virus screening, URL filtering and Java security), high-availability, and auditing and reporting. This functionality is in addition to that previously available such as access control, network address translation, router security management, authentication and encryption.

Check Point's add-on load balancing module, called ConnectControl™, is designed to provide the ability to group a set of replicated servers under a single, logical address and to allocate client requests uniformly across that server set, thus enabling companies to improve response times to high traffic applications such as web servers.

FireWall-1/VPN and SecuRemote

FireWall-1/VPN meets the need of organizations to protect the privacy and integrity of network communications by establishing a confidential communications channel for virtual private networking. Multiple encryption schemes are supported including emerging standards for interoperability between different vendors. Encryption, decryption and key management, including digital signatures and certificate authority, are all fully integrated with FireWall-1's Management Module and rule base editor and log viewer. Used in conjunction with FireWall-1/VPN, SecuRemote extends the virtual private network to the desktop and laptop by providing client to firewall encryption.

FireWall-First!

FireWall-*First!* provides basic Internet access control while maintaining a high level of network security, and is designed to be used as a company's first Internet access control option. FireWall-*First!* uses a simplified HTML-based graphical user interface that the system administrator can access on-line using a Web browser. FireWall-*First!* is currently offered pursuant to a bundling arrangement under which FireWall-*First!* is included with every computer in Sun Microsystems' Netra series of Internet servers as well as in HP servers. FireWall-*First!* offers support for four pre-configured Internet services: e-mail (SMTP), Web (HTTP), file transfer (FTP) and Telnet, and one optional service such as RealAudio or SQLNet. FireWall-*First!* supports up to five outbound connections at any one time. Check Point offers upgrade options to allow customers to increase the number of concurrent users or to upgrade from FireWall-*First!* to the FireWall-1 product line.

FloodGate-1

FloodGate-1 is a policy-based bandwidth management solution that alleviates traffic congestion on oversubscribed Internet and Intranet links. The flagship product of the company's Enterprise Traffic Management product line, FloodGate-1 enables organizations to define and manage enterprise-wide policies that precisely control valuable bandwidth resources to optimize network performance and alleviate network congestion.

Open Security Manager

The Company is also currently shipping its router security management product that can also be an add-on to FireWall-1. OSM is a third-party security device management product that allows network managers to define, manage, and distribute security policies for multiple third-party security devices such as Cisco PIX and Microsoft's RRAS NT-based router, and routers from Bay Networks, Cisco, and 3Com.

Technology

The FireWall-1 Technology

Check Point's FireWall-1 technology provides a powerful, easy-to-use solution for the implementation of an integrated network security policy across an enterprise-wide network. The cornerstone of the FireWall-1 technology is the Company's patented Stateful Inspection technology, which enables the highly efficient, transparent screening of all communications attempting to pass through a network gateway, and its new OPSEC architecture. OPSEC provides a single platform that manages various aspects of network security through an open, extensible management framework. Various third party security applications plug into the OPSEC framework through published application programming interfaces (APIs) such as CVP (Content Vectoring Protocol) which integrates virus scanning software and other content inspection programs, UFP (URL Filtering Protocol) which integrates URL list services and SAMP (Suspicious Activity Monitoring Protocol) which integrates suspicious activity monitoring programs, and through industry-standard protocols such as RADIUS, Manual IPSec, SKIP and SNMP. Once integrated into the OPSEC framework, all applications can be set up and managed from a central point, utilizing a single policy editor. In addition, the behavior of the inspect engine can be customized by end-users and third parties through programs written in the Company's INSPECT programming language.

FireWall-1 technology is implemented in both the Management Module and the Inspection or firewall Module. The Management Module defines the security policy through a set of rules established by the system administrator that the Inspection and firewall Module enforces.

The Management Module

The Management Module contains an easy to use, object-oriented graphical user interface that enables the system administrator to easily define, implement and monitor a security policy for the enterprise. In implementing a security policy, a system administrator first defines the elements that need to be managed (for example, network objects, users and services), sets the rules by which those elements are managed and, finally, monitors the ongoing system operation.

Rule-Based Editor. The Management Module's rule-based editor serves as the central control window for viewing and defining the security policy.

The system administrator can define a security policy consisting of a set of rules that can be applied to all or a specified set of gateways. The Management Module then assimilates these rules into an enterprise-wide policy and develops control commands that are sent to the various Inspection Modules implemented at each gateway. In order to allow for a high degree of flexibility in defining a security policy, each rule is composed of three parts:

- *Match.* Matches the communication based on its source, destination and requested service or application. Any combination of objects or object groups can be selected in each category, as well as the term "Any" which accepts all sources, destinations or services without looking for a match in the appropriate field.

- *Action and Tracking.* Defines the action to be taken (for example, accept or reject) and the tracking mechanism (the data to be logged and any alert to be generated).

- *Scope.* Defines the gateway on which each rule will be implemented.

Matching is done by order of appearance in the rule-base to create consistent and predictable system operation. Once a security policy is defined in the rule-base, it is stored in the Management Module and automatically checked for consistency to ensure that rules within the policy do not conflict. This ensures a high degree of integrity and reduces the potential for user mistakes in defining the security policy. The system administrator can then instruct the system to install the new or revised policy in all or specified gateways configured in the system. The installation of this new or revised policy can be done without interrupting system operation.

Object Managers. In defining the elements that need to be managed, the system administrator specifies which applications and services, running on which computers, are allowed to be accessed by which client computers and/or users.

The Management Module contains the following three object managers that the system administrator can access through the graphical user interface in order to define the elements to be managed:

- *Network Object Manager.* Defines the properties of network elements such as gateways, servers, routers, network segments and domains.

- *User Object Manager.* Defines and tracks user properties and user privileges for network access. Users are grouped into access groups, enabling the high-level definition of user policies based on groups.

- *Services Object Manager.* Defines the properties of each application supported. The Services Object Manager is a key differentiating feature of Check Point's technology, providing pre-configured support for more than 120 pre-defined Internet applications. The Company believes this is significantly more than any other competing network security product. The Services Object Manager provides additional flexibility to system administrators by allowing them to easily add new or custom applications. New services can be defined by completing simple on-line templates or by writing simple macros using Inspect, the Company's high-level scripting language.

The object managers can define new objects based on the characteristics defined in external databases and by the use of on-line forms. Objects can also be grouped and their attributes updated as needed to reflect changes in the enterprise network.

Viewers. After configuring and installing the security policy, the system administrator is able to monitor ongoing system operation, generate comprehensive and customized reports, and be notified and alerted in real-time of suspicious network activity.

The following describes the functionality of these software tools:

- *System Status Viewer.* Allows the system administrator to continuously monitor the status of each gateway in the system, including defining an alert in the case of a change in the state of a gateway.

- *Log Viewer.* Enables the system administrator to analyze all connections logged either on line or historically. The information about each logged connection includes its date and time, source and destination, service requested, action taken (for example, accepted, rejected or encrypted) as well as several other protocol specific and system parameters. Managing massive quantities of log records, identifying security breaches and analyzing and tracking usage patterns all require powerful analysis tools. As a result, the log viewer contains a comprehensive query and reporting engine. Using a point-and-click interface, any field can be selected from the log records and combined with other fields to generate comprehensive and customized reports.

The Management Module is currently available for the following platforms: Sun Microsystems (SunOS and Solaris), Microsoft (Windows NT), Intel x86 (Solaris) and Hewlett-Packard (HP-UX).

The Inspection Module

The Inspection Module is a "virtual" or software-only engine that enforces the network security policy on the gateway on which it resides. For each communication introduced into the resident gateway, the Inspection Module inspects each packet comprising the communication and then enforces the security policy. The Inspection Module looks at all communication layers and extracts only the relevant data. A portion of this data (state information) is maintained in order to provide context for future security decisions. The information extracted from the current data packet and the state information from previous communications is used by the Inspection Module to make the security decision. This allows the Inspection Module to understand the full communication (for example, accept the response to a valid query sent in a previous packet or dynamically open and close communication channels). Since the Inspection Module extracts and analyzes only relevant data, it is able to operate in a highly efficient manner, support a large number of protocols and applications and be quickly extended to new applications.

After the Inspection Module analyzes the data, it decides what action to take based on the inspection instructions provided to it by the Management Module. Unlike many traditional network security products, the Inspection Module is capable of actions well beyond mere acceptance or rejection. The Inspection Module can currently perform the following functions:

- Accept the data for further processing or routing.
- Block the communication attempt, discard the data and prevent further processing or routing.
- Reject, block the communication and notify the originator that the data has not been passed.
- Accept the data only if the user is authenticated.
- Encrypt the content of the packet, effectively establishing a private link.
- Translate the source or destination address of the packet.

The Inspection Module also contains a tracking mechanism that can be used to log specific data from a communication attempt, as well as to generate an alert and notify the system administrator of every communication or break-in attempt. The Inspection Module is designed to be flexible to allow system administrators to incorporate additional methods for encryption and authentication, to implement additional actions, and to add tracking mechanisms for improved logging, auditing and alerting.

Inspection Modules are currently available on the following platforms: Sun Microsystems (SunOS and Solaris), Microsoft (Windows NT), Intel x86 (Solaris) and Hewlett-Packard (HP-UX). Inspection Modules are not currently available on the following major platforms: Silicon Graphics workstations, MacIntosh and Digital VAX. In addition, the Company has agreements with Bay Networks, IBM, Ipsilon Networks, Inc., NCR Corp., 3Com Corporation and Xylan Corporation pursuant to which each incorporates the Company's FireWall-1 technology in certain of its internetworking products such as servers, routers, switches and hubs.

The FireWall-First! Product. The FireWall-*First!* product combines the Company's Stateful Inspection technology with an easy to use HTML-based graphical user interface that makes it extremely simple to install and configure a security policy. FireWall-*First!* allows the system administrator to specify the security policy based upon a set of four pre-defined incoming services and one additional service that the system administrator can select from a list of optional services. For each pre-defined or optional service, the system administrator specifies if the service is allowed access inbound to the Internet server and outbound from the network. In addition, the system administrator can elect to allow all outbound communications to be accepted through the firewall. By having a simple, pre-defined configuration table, users with basic access and publishing requirements can easily and securely connect to the Internet without the need to define a more comprehensive security policy. Each FireWall-*First!* gateway is separately managed through its own streamlined security policy table.

The HTML-based user interface is platform independent, allowing a system administrator to use an existing Web browser on any kind of hardware platform. As the result, the system administrator is not required to have in-depth knowledge of the underlying gateway hardware and operating system software. FireWall-*First!* is currently being bundled with the Sun Microsystems' Netra series of Internet servers.

Sales and Marketing

The Company's sales and marketing strategy is designed to promote its products as strategic components of enterprise networks. The Company's marketing efforts are focused on promoting FireWall-1 as the leading brand name in enterprise security. Sales efforts focus on expanding the installed base and increasing penetration levels of end-user customers worldwide by leveraging two channels of distribution: OEMs and a multi-level reseller channel, both of which are supported by the Company's field organization.

In order to increase demand for the Company's products and assist resellers in winning and supporting key customer accounts, the Company intends to continue to expand its field organization which was established in early 1996 and strengthened in 1997. In 1996 and 1997, the Company significantly increased the number of its resellers, distributors, OEM's and system integrators on a worldwide basis. The field organization also acts as a liaison between the end-user and the Company's marketing and product development organizations. The Company expects to continue to expand its field organization in additional countries in Europe and Asia.

The Company has a strategic OEM agreement with SunSoft, Inc., ("SunSoft") under which Sun markets and distributes the Company's products worldwide under the name Solstice FireWall-1. The OEM agreement with SunSoft grants SunSoft a worldwide, non-exclusive license to market and distribute FireWall-1, subject to certain limitations. In exchange for the license of FireWall-1, SunSoft is obligated to pay Check Point fees based on its distribution of FireWall-1. Check Point is obligated to release versions of FireWall-1 that are compatible with Sun Microsystems' Solaris operating system. SunSoft may terminate the agreement at any time upon 12 months' prior written notice. See "Item 1 Description of Business — Risk Factors — Dependence Upon Limited Number of Key Resellers; Product Concentration."

The Company also has OEM relationships with server and workstation vendors such as SunSoft, Hewlett-Packard, IBM and NCR, internetworking device manufacturers such as Bay Networks, 3Com Corporation and Xylan, and other suppliers of enterprise network products such as TimeStep and U.S. Robotics. The Company believes that strategic OEM relationships can significantly contribute to the achievement of its sales and marketing goals by integrating complementary technologies. Additionally, OEMs provide primary support and training to their customers enabling Check Point to concentrate its support efforts on high-level technical assistance for these resellers. See "Item 1 Description of Business — Risk Factors — Dependence Upon Limited Number of Key Resellers; Product Concentration; Impact of New Product Introductions."

The Company also currently sells its products to end-user customers through numerous resellers and distributors worldwide. The Company expects that it will continue to be dependent upon a limited number of resellers for a significant portion of its revenues. If anticipated orders from these resellers fail to materialize, the Company's business, operating results and financial condition will be materially adversely affected. Revenues from the Company's largest reseller, SunSoft, represented 64%, 42% and 19% of the Company's revenues for 1995, 1996, 1997, respectively, and 13% for the quarter ended March 31, 1998. Revenues from Forval Interactive, Inc. ("Forval") represented less than 10% of the Company's revenues for 1995 and 10% and 9% of the Company's revenues for 1996 and 1997, respectively, and revenues derived from NeTegrity, Inc. represented 11%, 6% and 4% of the Company's revenues for 1995, 1996 and 1997, respectively. Although the Company believes that its relationship with SunSoft is satisfactory, there can be no assurance that SunSoft will maintain its current purchase levels or that it will elect to continue its relationship with the Company. Sun Microsystems, an affiliate of SunSoft, has developed and markets SunScreen, a network security product that is competitive with the Company's products, and a group at SunSoft is currently selling SunScreen and other security products including the Company's products. In addition, because of the Company's dependence upon sales to SunSoft, the Company's revenues are subject to fluctuations related to SunSoft's June 30 fiscal year end, which could result in proportionally lower sales in the quarter ending September 30 relative to sales in the quarter ending June 30. See "Risk Factors — Dependence Upon Limited Number of Key Resellers; Product Concentration; Impact of New Product Introductions."

The Company's agreements with its OEMs and resellers are non-exclusive. These agreements generally provide for discounts based on minimum purchase commitments and/or expected or actual volumes purchased or resold by the reseller.

The Company has derived substantially all of its revenues and expects to continue to derive the vast majority of its revenues in the foreseeable future from sales of its FireWall-1 products. See "Item 1 Description of Business — Risk Factors — Dependence Upon Limited Number of Key Resellers; Product Concentration; Impact of New Product Introductions." Revenues from the sales to customers in the United States, Europe and Japan were 83%, 8% and 6% in 1995, 70%, 14% and 10% in 1996, and 59%, 24% and 9% in 1997, respectively, of total product sales. However, the Company believes that since it sells its products to resellers and OEMs in the United States that have significant international customer bases, a significant portion of its products are resold by these resellers and OEMs outside the United States.

To further expand the awareness of the Company's products, the Company has established informal marketing relationships with system integrators and vendors of complementary products. System integrators with which the Company maintains informal cooperative relationships include Andersen Consulting, Computer Sciences Corporation, Electronic Data Systems and Integrated Network Services, Inc. The Company also has informal marketing relationships with Microsoft Corporation, Oracle Corporation, Progressive Networks, Inc., VDOnet Ltd. and VocalTec Ltd.

The Company conducts a number of marketing programs to support the sale and distribution of its products. These programs are designed to inform existing and potential OEM, resellers, and end-user customers about the capabilities and benefits of the Company's products. Marketing activities include: press relations and education; publication of technical and educational articles in industry journals; participation in industry tradeshows; product/technology conferences and seminars; competitive analysis; sales training; advertising; development and distribution of Company literature; and maintenance of Check Point's World Wide Web site.

Customer Service and Support

The Company recently announced a Worldwide Technical Services (WTS) organization, based in Dallas, Texas, which offers a wide range of professional services, technical support and training, enabling the Company to partner with customers in implementing secure, reliable business communications solutions.

The Company's OEMs and resellers generally provide installation, training, maintenance and support for their customers, with Check Point providing high-level technical backup support. As part of Check Point's direct market participation, the Company employs technical consultants and systems engineers who work closely with OEMs, resellers and territory sales managers to assist with pre-sales configuration, use and application support. The Company supports all customers and sales personnel through centralized teams of technical support engineers located in the United States and Israel and through a common information and response system that is available via e-mail, the World Wide Web, fax and telephone. The Company has also recently established its Authorized Training Center Program to provide resellers and end-users technical support training and expects to continue to expand this program.

Prospective customers typically receive 30-day evaluation copies of the Company's software products. If the customer elects to purchase the Company's product, the Company issues an invoice and a software key is then sent to the customer that allows the evaluation copy to continue to function. Upon purchasing a Check Point product, the customer receives 90 days of free support. The Company offers warranty and software support, including maintenance of the Company's software products in accordance with specifications contained in the user's guide, access to technical support personnel and free product enhancements.

In addition, customers can purchase an annual support contract that includes technical assistance, product updates and version upgrades. Typically, an annual support contract costs approximately 20% of the list price of the product that is to be supported, of which a portion is retained by the reseller and the balance is received by the Company. The reseller provides the customer with the support, or the customer can elect to have Check Point provide that support directly, though its WTS organization. This support includes upgrades and updates for the supported products. Various support levels are available, both from the Company's resellers and OEMs, and from the Company directly.

The Company's resellers generally are able to resolve most support requests. The Company provides access to databases that contain solutions to common problems. In cases in which a reseller is unable to resolve a support issue, the reseller escalates the matter to the Company's support staff. The Company maintains three centers, two in the United States (Dallas, Texas and Redwood City, California) and one in Israel, staffed by highly skilled support staff. Issues that can not be resolved by the support staff are escalated to software engineers on the Company's development team or to the field organization for problem resolution.

The Company offers ongoing training to various tiers of its distribution channel. These training sessions cover sales and marketing as well as in-depth technical information. The Company also offers training and seminars to existing and potential customers relating to the Company's products at its customer training facility in Dallas, Texas or, in some cases, at the customer site. In addition, certain distributors and resellers offer training and seminars both to their own resellers and to end users.

Product Development

The Company believes that its future success will depend upon its ability to enhance its existing products and develop and introduce new products that address the increasingly sophisticated needs of end-users. The Company works closely with its distribution channels and major customers, who provide significant feedback for product development and innovation. See "Risk Factors – Rapid Technological Change."

The Company's new product development efforts are focused on enhancements to its current family of products and new network security products, including products that support additional platforms. Future development efforts are expected to focus on the addition of new network administration features; extended support for applications; support for additional encryption and authentication standards; and a further enhanced graphical user interface. Although the Company expects to develop its new products internally, it may, based upon timing and cost considerations, acquire or license certain technologies or products from third parties.

The Company has continued to upgrade and add functionality to the FireWall-1 product family since its introduction in April 1994, as well as to extend and broaden its product offerings to additional areas. The following table lists the release dates of principal enhancements to Check Point products that have been introduced by the Company. All are FireWall-1 products unless otherwise noted.

Date and Product/Version	Principal New Features
April 1994 - Version 1.07	First shrink-wrapped firewall product.
December 1994 - Version 1.08	Support for Intel x86 running Solaris.
April 1995 - Version 1.2	User authentication. Integrated anti-spoofing.
October 1995 - Version 2.0	Virtual private network support (encryption). Client authentication. Address translation. HTTP security extensions. HP platform.
April 1996 - FireWall-*First!*	Basic Internet access control with streamlined Web browser based interface.
July 1996 - Version 2.1	SecuRemote for client encryption, support for Windows NT and Windows 95 graphical user interface management.
April 1997 - Version 3.0	Implements OPSEC, ConnectControl module for load balancing.
September 1997 - FloodGate-1 Version 1.0	Policy-based enterprise traffic management, including support for weighted prioritization of traffic
October 1997 – Open Security Manager 1.0	Third-party security management, including sufor Cisco PIX, Microsoft RRAS NT-based router, and routers from 3Com, Cisco and Bay Networks
May 1998 – Version 4.0	Integrated public key infrastructure (PKI) through X.509 digital certificates from Entrust, LDAP user management, VPN acceleration and standards-based encryption for interoperability (IKE, previously known as ISAKMP/Oakley)

Net research and development expenses for 1995, 1996 and 1997 were $1.1 million, $3.3 million and $6.2 million, respectively. As of December 31, 1997, the Company had 78 employees dedicated to research and development activities, quality assurance and backline support. The Company is a member of the National Computer Security Association and the Secure Wide Area Networking Task Force.

Competition

The market for enterprise security products and services is intensely competitive and the Company expects competition to increase in the future. The Company's principal enterprise security competitors include Ascend Communications Inc., Cisco, Cyberguard Corporation, Raptor Systems, Inc., Secure Computing Corporation, Sun Microsystems and Trusted Information Systems Inc.. The Company also competes with companies focused on providing hardware and software to the enterprise network market, including Digital Equipment Corporation, International Business Machines Corporation, Microsoft, Novell, Inc. and 3Com Corporation. The Company expects additional competition from other emerging and established companies. There can be no assurance that the Company's current and potential competitors, including its current OEM partners, will not develop network security products that may be more effective than the Company's current or future products or that the Company's technologies and products will not be rendered obsolete by such developments. In particular, the enterprise security market has historically been characterized by low financial barriers to entry.

Many of the Company's current and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical and marketing resources than the Company. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than the Company. In addition, certain of the Company's competitors may determine, for strategic reasons, to consolidate, to substantially lower the price of their enterprise security products or to bundle their products with other products, such as hardware products or other enterprise software products. The Company expects there will be increasing consolidation in the enterprise security market and that there can be no assurance that such consolidation will not materially adversely impact the Company's competitive position. In addition, current and potential competitors have established or may establish financial or strategic relationships among themselves, with existing or potential customers, resellers or other third parties. For example, Compaq Computer Corporation, an investor in Raptor, has an agreement to bundle Raptor's network security software with certain of its product offerings. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. There can be no assurance that the Company will be able to compete successfully against current and future competitors. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which would materially adversely affect the Company's business, operating results and financial condition.

In the future, vendors of operating system software or networking hardware may enhance their products to include functionality that is currently provided by the Company's FireWall-1 family of products. The widespread inclusion of the functionality of the Company's software as standard features of operating system software or networking hardware could render the FireWall-1 family of products obsolete and unmarketable, particularly if the quality of such functionality were comparable to that of the Company's products. Furthermore, even if the network security functionality provided as standard features by operating systems software or networking hardware is more limited than that of the Company's FireWall-1 software, there can be no assurance that a significant number of customers would not elect to accept more limited functionality in lieu of purchasing additional software. In the event of any of the foregoing, the Company's business, operating results and financial condition would be materially and adversely affected. See "Risk Factors — Competition."

The Company believes that the principal competitive factors affecting the market for network security products include security effectiveness, manageability, technical features, performance, ease of use, price, scope of product offerings, distribution relationships and customer service and support. Although the Company believes that its FireWall-1 products generally compete favorably with respect to such factors, there can be no assurance that the Company can maintain its competitive position against current and potential competitors, especially those with significantly greater financial, marketing, service, support, technical and other competitive resources.

Proprietary Rights and Trademark Litigation

The Company relies primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. The Company seeks to protect its software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. The Company has been issued one U.S. patent with respect to its Stateful Inspection technology. The Company also presently has one patent application pending in theUnited States and has made counfilings in Israel, Canada and Japan and filed under the European Patent Convention and the PCT relating to certain aspects of its technology. A patent issued from the European Patent Office becomes effective as though it were a national patent in each designated member nation. The Company has designated Germany, France, Great Britain, Italy and Sweden. The PCT is an option that facilitates the filing of parallel patent applications on the same invention in several nations. As of January 31, 1995, there were more than 70 nations that adhered to the treaty. The Company has not yet designated nations under the PCT. In 1996 and 1997, the Company's sales to customers in jurisdictions other than the United States and Japan were less than 8% of total revenue. There can be no assurance that the Company's applications, whether or not being currently challenged by applicable governmental patent examiners, will be issued with the scope of the claims sought by the Company, if at all. Furthermore, there can be no assurance that others will not develop technologies that are similar or superior to the Company's technology or design around any patents issued to the Company. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may copy aspects of the Company's products or obtain and use information that the Company regards as proprietary. Policing any of such unauthorized uses of the Company's products is difficult, and although the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States or Israel. To date, the Company has not conducted any material amount of business in such countries. There can be no assurance that the Company's efforts to protect its proprietary rights will be adequate or that the Company's competitors will not independently develop similar technology.

There can be no assurance that third parties will not claim infringement by the Company with respect to current or future products. The Company expects that software companies will increasingly be subject to infringement claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Responding to such claims, regardless of merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all, which could have a material adverse effect upon the Company's business, operating results and financial condition.

On July 5, 1996, Checkpoint Systems Inc. ("CSI") filed an action alleging trademark infringement and unfair competition against the Company in the United States District Court of the District of New Jersey. CSI, a manufacturer of theft prevention devices for retail stores, seeks to enjoin the Company from using the "Check Point" name in connection with the Company's products and services, and an unspecified amount of damages. Discovery in the case is completed. On August 7, 1997 CSI moved for summary judgment. On September 22, 1997, the Company filed its own motion for summary judgment. On May 26, 1998, the Court denied those motions. The parties are currently discussing the scheduling of a trial date. Due to the nature of the litigation, the Company cannot determine the total expense or possible loss, if any, that may ultimately be incurred. Although management believes, after consideration of the nature of the claims, that the resolution of this matter will not have a material adverse effect on the Company's business, operating results and financial condition, the results of litigation are inherently uncertain and there can be no assurance that the CSI litigation will not have a material adverse effect on the Company's business, operating results and financial condition.

Employees

As of March 31, 1998, the Company had 333 employees, of whom 90 were engaged in research, development, quality assurance and backline support, 136 were engaged in marketing and sales, 45 were engaged in customer support and 50 were engaged in administration and finance. The Company believes that its relations with its employees are satisfactory.

The Company is subject to various Israeli labor laws and labor practices, and to administrative orders extending certain provisions of collective bargaining agreements between the Histadrut (Israel's General Federation of Labor) and the Coordinating Bureau of Economic Organizations (the Israeli federation of employers' organizations) to all private sector employees. For example, mandatory cost of living adjustments, which compensate Israeli employees for a portion of the increase in the Israeli consumer price index, are determined on a nationwide basis. Israeli law also requires the payment of severance benefits upon the termination, retirement or death of an employee. The Company meets this requirement by contributing on an ongoing basis towards "managers' insurance" funds that combine pension, insurance and, if applicable, severance pay benefits. In addition, Israeli employers and employees are required to pay specified percentages of wages to the National Insurance Institute, which is similar to the United States Social Security Administration. Other provisions of Israeli law or regulation govern matters such as the length of the workday, minimum wages, other terms of employment and restrictions on discrimination.

RISK FACTORS

This Form 20-F contains forward-looking statements that involve risks and uncertainties. The statements contained in this Form 20-F that are not purely historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including, without limitation, statements regarding the Company's expectations, beliefs, intentions, goals, plans, investments or strategies regarding the future. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements.

Potential Fluctuations in Future Operating Results; Anticipated Decline in Margins

The quarterly operating results of the Company can vary significantly due to several factors, any of which could have a material adverse effect on the Company's operating results, and there can be no assurance that the Company will continue to be profitable on a quarterly or annual basis. The Company has experienced an increase in the percentage of its quarterly revenues which occur during the last few weeks of the quarter. This trend has reduced the Company's visibility of its quarterly operating results and increased the risk that revenues expected in a quarter will not be realized until the following quarter. Other factors which can cause fluctuations in operating results include seasonal trends in customer purchasing, the volume and timing of orders and the ability to fulfill orders, the level of product and price competition, the Company's ability to develop new and enhanced products and control costs, the mix of products and goods sold, the mix of distrinbution channels through which products are sold, the Company's ability to integrate the technology and operations of acquired businesses with those of the Company, changes in customer capital spending budgets, fluctuations in foreign currency exchange rates and general economic factors.

Many companies that export products to the Far East have been adversely affected by recent developments in local currency and banking markets, and in general economic conditions, in the region. The Company does not believe that economic conditions in Asia had a material adverse effect on its 1997 results of operations. However, the Company believes that its sales to the Far East in 1998 may be adversely affected by conditions in the region. Sales to the Far East represented a material portion of the Company's revenues in 1997 (sales to customers in Japan accounted for approximately 8.7% of the Company's total revenues in 1997, and sales to customers in Japan and the rest of the Far East accounted for approximately 15% of the Company's total revenues in 1997). There can be no assurance that continued negative developments in the Asian region will not have a material adverse effect on the Company's future operating results.

The Company's revenues are subject to seasonal fluctuations related to the June 30 fiscal year-end of its largest customer, SunSoft, Inc., the slowdown in spending activities in Europe for the quarter ending September 30 and the year-end purchasing cycles of many end-users of the Company's products. The Company believes that, in the absence of exceptional factors such as new product introductions, it will continue to encounter quarter-to-quarter seasonality that could result in proportionately lower sales in the quarters ending September 30 and March 31 relative to sales in the quarters ending June 30 and December 31, respectively.

The Company operates with virtually no backlog and, therefore, the timing and volume of orders within a given period and the ability to fulfill such orders determines the amount of revenues within a given period. The Company's sales are principally derived through indirect channels, which makes revenues from such sales difficult to predict. Furthermore, the Company's expense levels are based, in part, on expectations as to future revenues. If revenue levels are below expectations, operating results are likely to be adversely affected. Net income may be disproportionately affected by a reduction in revenues because of the relatively small amount of the Company's expenses which vary with its revenues. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Due to all of the foregoing factors, it is likely that in some future quarter the Company's operating results may be below the expectations of public market analysts and investors. In such event, the price of the Company's Ordinary Shares would likely be materially adversely affected. See "Item 8 — Selected Financial Data" and "Item 9 — Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company expects gross margins to decline as it expands its customer and technical support organization, incurs increased royalty obligations to third parties and experiences increasing competition and pricing pressure. The Company also expects that it will experience increasing competition and pricing pressure, which would result in lower gross margins. In 1998, the Company intends to continue to make significant investments to further develop its sales and marketing organizations. In addition, the Company intends to further expand its research and development organization and make additional investments in its general and administrative infrastructure. As a result, the Company expects operating margins to decrease from historical levels. The amount and timing of these additional expenditures are likely to result in fluctuations in operating margins. Any material reduction in gross or operating margins could materially adversely affect the Company's operating results. See "Item 9 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview."

Dependence Upon Limited Number of Key Resellers; Product Concentration; Impact of New Product Introductions

The Company expects that it will continue to be dependent upon a limited number of resellers for a significant portion of its revenues. If anticipated orders from these resellers fail to materialize, the Company's business, operating results and financial condition will be materially adversely affected. Revenues from the Company's largest reseller, SunSoft, represented 64%, 42% and 19% of the Company's revenues for 1995, 1996, 1997, respectively, and 13% for the quarter ended March 31, 1998. Revenues from Forval Interactive, Inc. ("Forval") represented less than 10% of the Company's revenues for 1995 and 10% and 9% of the Company's revenues for 1996 and 1997, respectively, and revenues derived from NeTegrity, Inc. represented 11%, 6% and 4% of the Company's revenues for 1995, 1996 and 1997, respectively. Although the Company believes that its relationship with SunSoft is satisfactory, there can be no assurance that SunSoft will maintain its current purchase levels or that it will elect to continue its relationship with the Company. Sun Microsystems, an affiliate of SunSoft, has developed and markets SunScreen, a network security product that is competitive with the Company's products, and a group at SunSoft is currently selling SunScreen and other security products including the Company's products. In addition, because of the Company's dependence upon sales to SunSoft, the Company's revenues are subject to fluctuations related to SunSoft's June 30 fiscal year end, which could result in proportionally lower sales in the quarter ending September 30 relative to sales in the quarter ending June 30.

The Company has derived substantially all of its revenues from sales of its FireWall-1 products and expects to continue to derive the vast majority of its revenues in the foreseeable future from sales of its FireWall-1 products. During the fourth quarter of 1997 the Company introduced its FloodGate-1 family of products and during the first quarter of 1998 announced Release 4.0 of Firewall-1, which it expects to commence shipping in late 1998. The Company's future financial performance will depend in significant part on the successful development, introduction, marketing and customer acceptance of new products and enhancements and new features for its existing product lines. If Release 4.0 of FireWall-1 or FloodGate-1 fail to receive widespread market acceptance or if customers delay ordering products or cancel orders for existing products in anticipation of new releases, the Company's business, operating results and financial condition would be materially adversely affected. See "Item 9 — Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 1 - Description of Business — Industry Background," " — Products," " — Sales and Marketing," " — Product Development" and " — Competition."

Competition

The market for enterprise security products and services is intensely competitive, and the Company expects competition to increase in the future. The Company's principal enterprise security competitors include Ascend Cisco, Cyberguard Corporation, Raptor, Secure Computing, Sun Microsystems (an affiliate of SunSoft, the Company's largest customer) and TIS. The Company also competes with companies focused on providing hardware and software to the enterprise network market, including Digital Equipment Corporation, International Business Machines Corporation, Microsoft, Novell, Inc. and 3Com Corporation. The Company also expects additional competition from other emerging and established companies. There can be no assurance that the Company's current and potential competitors, including its current OEM partners, will not develop network security products that may be more effective than the Company's current or future products or that the Company's technologies and products will not be rendered obsolete by such developments. In particular, the enterprise security market has historically been characterized by low financial barriers to entry.

Many of the Company's current and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical and marketing resources than the Company. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than the Company. In addition, certain of the Company's competitors may determine, for strategic reasons, to substantially lower the price of their enterprise security products or to bundle their products with other products, such as hardware products or other enterprise software products. The Company expects there will be increasing consolidation in the enterprise security market and there can be no assurance that such consolidation will not materially adversely impact the Company's competitive position. Further, current and potential competitors have established or may establish financial or strategic relationships among themselves, with existing or potential customers, resellers or other third parties. For example, Compaq Computer Corporation, which acquired Digital Equipment Corporation in 1998 and is an investor in Raptor, has an agreement to bundle Raptor's network security software with certain of its product offerings. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. There can be no assurance that the Company will be able to compete successfully against current and future competitors. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which would materially adversely affect the Company's business, operating results and financial condition.

In the future, vendors of operating system software or networking hardware may enhance their products to include functionality that is currently provided by the Company's FireWall-1 family of products. The widespread inclusion of the functionality of the Company's software as standard features of operating system software or networking hardware could render the FireWall-1 family of products obsolete and unmarketable, particularly if the quality of such functionality were comparable to that of the Company's products. Furthermore, even if the enterprise security functionality provided as standard features by operating systems software or networking hardware is more limited than that of the Company's FireWall-1 software, there can be no assurance that a significant number of customers would not elect to accept more limited functionality in lieu of purchasing additional software. In the event of any of the foregoing, the Company's business, operating results and financial condition would be materially adversely affected. See "Item 1 - Description of Business — Competition."

Rapid Technological Change

The enterprise security industry is characterized by rapid technological advances, changes in customer requirements, frequent new product introductions and enhancements and evolving industry standards in computer hardware and software technology. As a result, the Company must continually change and improve its products in response to changes in operating systems, application software, computer and communications hardware, networking software, programming tools and computer language technology. The introduction of products embodying new technologies and the emergence of new industry standards may render existing products obsolete or unmarketable. In particular, the market for Internet and intranet applications has only recently begun to develop and is rapidly evolving. The Company's future operating results will depend upon the Company's ability to enhance its current products and to develop and introduce new products on a timely basis that address the increasingly sophisticated needs of its customers and that keep pace with technological developments, new competitive product offerings and emerging industry standards. There can be no assurance that the Company will be successful in developing and marketing new products or product enhancements that respond to technological change and evolving industry standards, that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these products, or that any new products and product enhancements will adequately meet the requirements of the marketplace and achieve market acceptance. If the Company does not respond adequately to the need to develop and introduce new products or enhancements of existing products in a timely manner in response to changing market conditions or customer requirements, the Company's business, operating results and financial condition would be materially adversely affected. See "Item 1 Description of Business — Product Development."

Risks Associated With Emerging Network Security, Internet and Intranet Markets

The markets for the Company's products are rapidly evolving. There can be no assurance that the Internet or common public protocols will continue to be used to facilitate communications or that the market for enterprise security systems in general will continue to expand. Continued growth of this market will depend, in large part, upon the continued expansion of Internet usage and the number of organizations adopting or expanding intranets, upon the ability of their respective infrastructures to support an increasing number of users and services, and upon the continued development of new and improved services for implementation across the Internet, and between the Internet and intranets. If the necessary infrastructure or complementary products and services are not developed in a timely manner and, consequently, the enterprise security, Internet and intranet markets fail to grow or grow more slowly than the Company currently anticipates, the Company's business, operating results and financial condition would be materially adversely affected. See "Item 1 - Description of Business — Industry Background."

Dependence Upon Key Personnel

The Company's future performance depends, in significant part, upon the continued service of its key technical, sales and management personnel, including Gil Shwed, Shlomo Kramer, Marius Nacht, Deborah D. Triant, John W. Cunningham and Hagi Schwartz. The loss of the services of one or more of the Company's key personnel would have a material adverse effect on the Company's business, operating results and financial condition. The Company has key person life insurance policies on Messrs. Shwed, Kramer and Nacht in the amount of $5.0 million each and the Company is designated as the beneficiary in each. The Company's future success also depends on its continuing ability to attract and retain highly qualified technical, sales and managerial personnel.

Competition for such personnel is intense, and there can be no assurance that the Company can retain its key technical, sales and managerial employees or that it can attract, motivate or retain other highly qualified technical, sales and managerial personnel in the future. If the Company cannot retain or is unable to hire such key personnel, the Company's business, operating results and financial condition would be materially adversely affected. See "Item 1 - Description of Business — Sales and Marketing."

Integration of Acquisitions

The Company completed its first acquisition transaction in April 1998 when it acquired MetaInfo and expects to acquire other businesses or product lines in the future. Acquisitions involve a number of special risks, including, among other things, the difficulty of assimilating the technologies, operations and personnel of acquired companies with those of the Company, the potential disruption of the Company's business, the diversion of resources, including the attention of the Company's management team the incurrence of acquisition-related expenses, the write-off or amortization of intangible assets, the assumption of unknown liabilities, the inability to maintain uniform standards, controls, procedures and policies and the integration of new personnel. For example, the MetaInfo transaction has required, and may continue to require, among other things, the integration of product offerings, coordination of the research and development and sales and marketing efforts, the assumption by the Company of liabilities under certain agreements and the addition of a significant number of additional personnel. The Company could face similar integration issues with respect to future acquisitions, and there can be no assurance that the Company will be successful in addressing these risks. In addition, future acquisitions may result in the issuance of dilutive securities, the assumption or incurrence of debt obligations and large one-time expenses. Any failure to successfully address these acquisition-related risks could materially adversely effect the Company's business, operating results and financial condition.

Principal Operations in Israel; International Operations

The Company is incorporated under the laws of, and its principal offices and research and development facilities are located in, the State of Israel. Although substantially all of the Company's sales currently are being made to customers outside Israel, the Company is nonetheless directly influenced by the political, economic and military conditions affecting Israel, and any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on the Company's business, operating results and financial condition.

The Company intends to expand its international operations, which will require significant management attention and financial resources. In order to expand worldwide sales, the Company must establish additional marketing and sales operations, hire additional personnel and recruit additional resellers internationally. To the extent that the Company is unable to do so effectively, the Company's growth is likely to be limited and the Company's business, operating results and financial condition would be materially adversely affected. In addition, as the Company expands its international operations, a portion of revenues generated in international jurisdictions may be subject to taxation by such jurisdictions at rates higher than those to which the Company is subject in Israel. The Company's worldwide sales are currently denominated in United States dollars. An increase in the value of the United States dollar relative to foreign currencies would make the Company's products more expensive and, therefore, potentially less competitive in those markets. Additional risks inherent in the Company's worldwide business activities generally include unexpected changes in regulatory requirements, tariffs and other trade barriers, costs of localizing products for foreign countries, lack of acceptance of localized products in foreign countries, longer accounts receivable payment cycles, difficulties in operations management, potentially adverse tax consequences, including restrictions on the repatriation of earnings, and the burdens of complying with a wide variety of foreign laws. There can be no assurance that such factors will not have a material adverse effect on the Company's future international sales and, consequently, the Company's business, operating results and financial condition. See "Item 1 Description of Business — Sales and Marketing" and "Item 9 Management's Discussion and Analysis of Financial Condition and Results of Operations."

Product Liability; Risk of Product Defects

The Company's sales agreements typically contain provisions designed to limit the Company's exposure to potential product liability or related claims. In selling its products, the Company relies primarily on "shrink wrap" licenses that are not signed by the end-user, and, for this and other reasons, such licenses may be unenforceable under the laws of certain jurisdictions. As a result, the limitation of the liability provisions contained in the Company's agreements may not be effective. The Company's products are used to manage network security which may be critical to organizations and, as a result, the sale and support of products by the Company may entail the risk of product liability and related claims. A product liability claim brought against the Company could have a material adverse effect upon the Company's business, operating results and financial condition. Software products as complex as those offered by the Company may contain undetected errors or failures when first introduced or when new versions are released. In particular, the personal computer hardware environment is characterized by a wide variety of non-standard configurations that make pre-release testing for programming or compatibility errors very difficult and time-consuming. Despite testing by the Company and by current and potential customers, there can be no assurance that errors will not be found in new products or releases after commencement of commercial shipments. The occurrence of these errors could result in adverse publicity, loss of or delay in market acceptance or claims by customers against the Company, any of which could have a material adverse effect upon the Company's business, operating results and financial condition. See "Item 1 Description of Business — Sales and Marketing" and "— Products and Product Development."

Dependence on Proprietary Technology; Risks of Infringement; Trademark Litigation

The Company relies primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. The Company seeks to protect its software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. The Company has been issued one U.S. patent with respect to its Stateful Inspection technology. The Company also presently has one patent application pending in the United States and has made counterpart filings in Israel, Canada and Japan and filed under the European Patent Convention and the Patent Cooperation Treaty (the "PCT") relating to certain aspects of its technology. A patent issued from the European Patent Office becomes effective as though it were a national patent in each designated member nation. The Company has designated Germany, France, Great Britain, Italy and Sweden. The PCT is an option that facilitates the filing of parallel patent applications on the same invention in several nations. As of January 31, 1997, there were more than 70 nations that adhered to the treaty. The Company has not yet designated nations under the PCT. In 1996 and 1997, the Company's sales to resellers in individual countries other than the United States, Japan, Great Britain and other countries in Europe were less than 8% of total revenue. There can be no assurance that the Company's applications will be issued within the scope of the claims sought by the Company, if at all. Furthermore, there can be no assurance that any issued patent will not be challenged, and if such challenges are brought, that such patents will not be invalidated. In addition, there can be no assurance that others will not develop technologies that are similar or superior to the Company's technology or design around any patents issued to the Company. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may copy aspects of the Company's products or obtain and use information that the Company regards as proprietary. Policing any of such unauthorized uses of the Company's products is difficult, and although the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States or Israel. To date, the Company has not conducted any material amount of business in such countries. There can be no assurance that the Company's efforts to protect its proprietary rights will be adequate or that the Company's competitors will not independently develop similar technology.

There can be no assurance that third parties will not claim infringement by the Company with respect to current or future products. The Company expects that software companies will increasingly be subject to infringement claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Responding to such claims, regardless of merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all, which could have a material adverse effect upon the Company's business, operating results and financial condition.

On July 5, 1996, Checkpoint Systems Inc. ("CSI") filed an action alleging trademark infringement and unfair competition against the Company in the United States District Court of the District of New Jersey. CSI, a manufacturer of theft prevention devices for retail stores, seeks to enjoin the Company from using the "Check Point" name in connection with the Company's products and services, and an unspecified amount of damages. Discovery in the case is completed. On August 7, 1997 CSI moved for summary judgment. On September 22, 1997, the Company filed its own motion for summary judgment. On May 26, 1998, the Court denied those motions. The parties are currently discussing the scheduling of a trial date. Due to the nature of the litigation, the Company cannot determine the total expense or possible loss, if any, that may ultimately be incurred. Although management believes, after consideration of the nature of the claims, that the resolution of this matter will not have a material adverse effect on the Company's business, operating results and financial condition, the results of litigation are inherently uncertain and there can be no assurance that the CSI litigation will not have a material adverse effect on the Company's business, operating results and financial condition.

Government Regulation of Technology Exports

A number of governments have imposed controls, export license requirements and restrictions on the export of certain technology, specifically encryption technology. As a result, the Company has not received and may not receive approval to sell certain of its encryption security products in certain markets. The Company conducts its research and development activities in Israel, and as a result is required to obtain export permission from the Israeli government before exporting certain encryption technologies. In addition, to the extent that its resellers operating from the United States seek to sell the Company's software products outside the United States, or to the extent that the Company's products incorporate certain encryption technology developed in the United States, additional export controls are imposed by the United States. As a result, competitors that face less stringent controls on their products may be able to compete more effectively than the Company in the global enterprise security market. There can be no assurance that these factors will not have a material adverse effect on the Company's business, operating results and financial condition. See "Item 1 Description of Business — Technology" and "— Products."

Approved Enterprise Status and Research and Development Grants

The Company receives certain tax benefits in Israel, particularly as a result of the "Approved Enterprise" status of the Company's facilities and programs, and has benefited in the past from certain Israeli government research and development grants. To be eligible for tax benefits, the Company must meet certain conditions, relating principally to adherence to the investment program filed with the Investment Center of the Israeli Ministry of Industry and Trade and to periodic reporting obligations. The Company believes that it will be able to meet such conditions. Should the Company fail to meet such conditions in the future, however, it would be subject to corporate tax in Israel at the standard rate of 36%, and could be required to refund tax benefits already received. There can be no assurance that such grants and tax benefits will be continued in the future at their current levels or otherwise. The termination or reduction of certain programs and tax benefits (particularly benefits available to the Company as a result of the Approved Enterprise status of the Company's facilities and programs) or a requirement to refund tax benefits already received would have a material adverse effect on the Company's business, operating results and financial condition. See "Item 1 Description of Business — Research and Development" and "Item 7 — Israeli Taxation, Foreign Exchange Regulation and Investment Programs."

Concentration of Share Ownership

The directors, executive officers and principal shareholders of the Company and their affiliates beneficially own approximately 33% of the outstanding Ordinary Shares. As a result, these shareholders are able to exercise significant influence over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may have the effect of delaying or preventing a change in control of the Company. See "Item 4 — Control of Registrant."

The Company's Board of Directors and shareholders have adopted resolutions that provide that, subject to the provisions of the Israel Companies Ordinance (New Version), 1983, as amended (the "Companies Ordinance"), the Company may indemnify its Office Holders (as defined in the Companies Ordinance) for (a) any monetary obligation imposed upon them for the benefit of a third party by a judgment, including a settlement agreed to in writing by the Company, or an arbitration decision certified by the court, as a result of an act or omission of such person in his capacity as an Office Holder of the Company, and (b) reasonable litigation expenses, including legal fees, incurred by such Office Holder or which he is obligated to pay by a court order, in a proceeding brought against him by or on behalf of the Company or by others, or in connection with a criminal proceeding in which he was acquitted, in each case relating to acts or omissions of such person in his capacity as an Office Holder of the Company. An "Office Holder" is defined in the Companies Ordinance as a director, managing director, chief business manager, vice managing director, deputy managing director, other manager directly subordinate to the managing director and any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title.

Year 2000 Compliance

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code filed and cannot distinguish 21st century dates from 20th century dates. These date code fields will need to distinguish 21st century dates from 20th century dates and, as a result, many companies' software and computer systems may need to be upgraded or replaced in order to comply with such "Year 2000" requirements. The Company is in the process of reviewing its internal programs, and has not yet determined whether there are any significant Year 2000 issues within the Company's systems or products. The Company is also in the process of determining whether third-party software or equipment that it utilizes is not Year 2000 compliant. Failure of such internal programs, systems, products and third-party equipment or software to operate properly with regard to the year 2000 and thereafter could require the Company to incur unanticipated expenses to remedy any problems, which could have a material adverse effect on the Company's business, operating results and financial condition. Furthermore, the purchasing patterns of customers and potential customers may be affected by Year 2000 issues as companies expend significant resources to correct or patch their current software systems for Year 2000 compliance. These expenditures may result in reduced funds available to purchase products such as those offered by the Company, which could result in a material adverse effect on the Company's business, operating results and financial condition.

ITEM 2. DESCRIPTION OF PROPERTY

The Company's headquarters and research and development facilities are located in Ramat-Gan, Israel, a suburb of Tel-Aviv, where the Company leases approximately 33,465 square feet of office space. These facilities are leased pursuant to a lease that expires in August 2000 with renewal options. The Company also leases approximately 40,880 square feet of office space for its marketing and field representatives at its United States sales and marketing headquarters in Redwood City, California, these facilities are leased pursuant to leases for periods of between 15 months and 6 years; and at its regional offices in Texas, Colorado, Michigan, Illinois, Massachusetts, Georgia, North Carolina, New York, Pennsylvania, New Jersey, Virginia and Ontario, Canada; and internationally in England, France, Singapore, Germany and Japan.

ITEM 3. LEGAL PROCEEDINGS

On July 5, 1996, Checkpoint Systems Inc. ("CSI") filed an action alleging trademark infringement and unfair competition against the Company in the United States District Court of the District of New Jersey. CSI, a manufacturer of theft prevention devices for retail stores, seeks to enjoin the Company from using the "Check Point" name in connection with the Company's products and services, and an unspecified amount of damages. Discovery in the case is completed. On August 7, 1997 CSI moved for summary judgment. On September 22, 1997, the Company filed its own motion for summary judgment. On May 26, 1998, the Court denied those motions. The parties are currently discussing the scheduling of a trial date. Due to the nature of the litigation, the Company cannot determine the total expense or possible loss, if any, that may ultimately be incurred. Although management believes, after consideration of the nature of the claims, that the resolution of this matter will not have a material adverse effect on the

Company's business, operating results and financial condition, the results of litigation are inherently uncertain and there can be no assurance that the CSI litigation will not have a material adverse effect on the Company's business, operating results and financial condition.

ITEM 4. CONTROL OF REGISTRANT

The following table sets forth certain information regarding ownership of the Company's Ordinary Shares as of May 31, 1998 for (i) each person who is known by the Company to own beneficially more than ten percent of the Company's outstanding Ordinary Shares, (ii) each of the Company's directors, (iii) each of the Company's executive officers, and (iv) all current executive officers and directors as a group.

Name of Ten Percent Shareholders, Officers and Directors	Amount Owned	Percentage of Class
Marius Nacht……………………………………	3,895,166	11.0%
Gil Shwed ……………………………………	4,145,166	11.8%
		*
		*
All directors & executive officers as a group (8 persons)…………………………	11,616,106	33%

ITEM 5. NATURE OF TRADING MARKET

The Company's Ordinary Shares have traded publicly only on the Nasdaq National Market under the symbol "CHKPF" since June 28, 1996. The Company's initial public offering price was $14.00 per share. The following table lists the high and low closing sale prices for the Company's Ordinary Shares for the periods indicated as reported by the Nasdaq National Market:

	High	Low
1996		
Second Quarter (beginning June 28, 1996)…………	$24 M	$19
Third Quarter…………	33 _	14 _
Fourth Quarter…………	35 _	16 _
1997		
First Quarter…………	27 5/8	16 1/4
Second Quarter …………	32 1/8	19 1/8
Third Quarter…………	29 3/8	23
Fourth Quarter …………	51	32
1998		
First Quarter…………	45 14/16	30 1/2
Second Quarter (through June 26, 1998) …………	47 _	26 9/16

On June 26, 1998, the last reported sale price of the Company's Ordinary Shares on the Nasdaq National market was $31 _ per share. According to the Company's transfer agent, as of May 26, 1998, there were approximately 199 holders of record of the Company's Ordinary Shares. Approximately 68% of the Company's Ordinary Shares were held in the United States by approximately 193 holders of record in the United States.

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY-HOLDERS

Under current Israeli regulations, any dividends or other distributions paid in respect of Ordinary Shares will be freely repatriable in non-Israeli currencies at the rate of exchange prevailing at the time of conversion, provided that Israeli income tax has been paid on, or withheld from, such payments.

Neither the Memorandum of Association or Articles of Association of the Company nor the laws of the State of Israel restrict in anyway the ownership or voting of ordinary shares by non-residents of Israel, except with respect to subjects of countries which are at a state of war with Israel.

ITEM 7. TAXATION

ISRAELI TAXATION, FOREIGN EXCHANGE REGULATION AND INVESTMENT PROGRAMS

The following is a summary of the current tax laws of the State of Israel that are material to the Company and its shareholders, including U.S. and other non-Israeli shareholders. The following also includes a discussion of certain Israeli government programs benefiting various Israeli businesses, including the Company. To the extent that the discussion is based on legislation yet to be subject to judicial or administrative interpretation, there can be no assurance that the views expressed herein will accord with any such interpretation in the future. This discussion is not intended and should not be construed as legal or professional tax advice and does not cover all possible tax considerations.

Israeli Tax Considerations

General Corporate Tax Structure

Between 1993 and 1996, the regular rate of corporate tax to which Israeli companies are subject decreased by 1% each year, i.e. from 39% in 1993 down to 36% in 1996 and thereafter. However, the effective rate of tax payable by a company from income from its "Approved Enterprise" (as further discussed below) may be considerably lower. See "Item 6 — Exchange Controls and Other Limitations Affecting Security Holders Law for the Encouragement of Capital Investments, 1959."

Law for the Encouragement of Industry (Taxes), 1969

Pursuant to the Law for the Encouragement of Industry (Taxes), 1969 (the "Industry Law"), a company qualifies as an "Industrial Company" if it is resident in Israel and at least 90% of its income in any tax year, determined in Israeli currency (exclusive of income from defense loans, capital gains, interest and dividends) is derived from an "Industrial Enterprise" it owns. An "Industrial Enterprise" is defined for purposes of the Industry Law as an enterprise the major activity of which, in a given tax year, is industrial production.

The Company qualifies as an Industrial Company. As an Industrial Company, it is entitled to certain tax benefits, including a deduction of 12.5% per annum on the cost of patents or certain other intangible property rights.

The tax laws and regulations dealing with the adjustment of taxable income for inflation in Israel provide that Industrial Enterprises, such as those of the Company, are eligible for special rates of depreciation deductions. These rates vary in the case of plant and machinery according to the number of shifts in which the equipment is being operated and range from 20% to 40% on a straight-line basis, or 30% to 50% on a declining balance basis for equipment first put into operation on or after June 1, 1989 (instead of the regular rates which are applied on a straight-line basis). See Note 2g and 8c of Notes to Consolidated Financial Statemen.

Moreover, Industrial Enterprises which are Approved Enterprises (see below) can choose between (a) the special rates referred to above, and (b) accelerated regular rates of depreciation applied on a straight-line basis in respect of property and equipment, generally ranging from 200% (in respect of equipment) to 400% (in respect of buildings) of the ordinary depreciation rates during the first five years of service of these assets, provided that the depreciation on a building may not exceed 20% per annum.

Eligibility for benefits under the Industry Law is not contingent upon the approval of any Government agency. No assurance can be given that the Company will continue to qualify as an Industrial Company or will be able to avail itself of any benefits under the Industry Law in the future.

Law for the Encouragement of Capital Investments, 1959

General. Certain of the Company's facilities have been granted Approved Enterprise status pursuant to the Law for the Encouragement of Capital Investments, 1959 (the "Investment Law"), which provides certain tax and financial benefits to investment programs that have been granted such status.

The Israeli Investment Center, a statutory body made up of representatives of various Government ministries, has the discretion, within the funding limits set by the Government budget, to grant the status of an "Approved Enterprise" to a project submitted to it if such project is likely to meet the objectives of the Investment Law and it is desirable to encourage the implementation of the project by the grant of the approval. The objectives of the Investment Law are to attract capital to Israel and encourage economic initiative and investments of foreign and local capital in order to (i) develop the Israeli economy's productive capacity, utilize its resources and economic potential efficiently and maximize the productive capacity of existing enterprises, (ii) improve the State's balance of payments by reducing imports and increasing exports, and (iii) assist in the absorption of immigration, distribute the population over the area of the country and create sources of employment.

The Investment Law provides that a capital investment program in production facilities (or other eligible facilities) may, upon application to the Israeli Investment Center, be designated as an Approved Enterprise. Each approval for an Approved Enterprise relates to a specific investment program, delineated both by the financial scope of the investment, including sources of funds, and by the physical characteristics of the facility or other assets. The tax benefits available under an approval relate only to taxable profits attributable to the specific program and are contingent upon meeting the criteria set out in the approval. The taxable income attributed to an Approved Enterprise in any year is computed as a ratio of the increase, if any, in the company's sales in that year compared to its sales in the year before the Approved Enterprise commenced its manufacturing activities.

In the event that (i) only a part of a company's taxable income is derived from an Approved Enterprise, or (ii) the company owns more than one Approved Enterprise, the resulting effective corporate tax rate of the company represents the weighted combination of the various applicable rates. A company owning a "mixed enterprise" (for example, a company whose income is derived both from an Approved Enterprise and from other sources) may not distribute a dividend which is attributable only to the Approved Enterprise.

Subject to certain provisions concerning income subject to the Alternative Benefits (see below), any dividends distributed by a company with an Approved Enterprise are deemed attributable to the entire enterprise, and the effective tax rate applicable to such dividend will represent the weighted combination of the various tax rates applicable to the company's Approved Enterprise and other activities.

Tax Benefits. Income derived from an Approved Enterprise is subject to corporate tax at the reduced rate of 25% until the earliest of (i) seven consecutive years, commencing in the year in which the specific Approved Enterprise first generates taxable income (which income is not offset by deductions attributable to other sources), (ii) 12 years from commencement of production or (iii) 14 years from the date of grant of the Approved Enterprise status.

A company owning an Approved Enterprise which was approved after April 1, 1986, may elect to forego the entitlement to grants and to the tax benefits otherwise available under the Investment Law, and apply for an alternative package of tax benefits ("Alternative Benefits"). Under the Alternative Benefits, undistributed income from the Approved Enterprise is fully tax exempt (a tax holiday) for a defined period. (Such tax exempt income attributable to the Approved Enterprise can be distributed to shareholders without subjecting the Company to taxws, only upon the complete liquidation of the Company). The tax holiday ranges from two to 10 years, depending principally upon the geographic location within Israel. On expiration of the tax holiday, the Approved Enterprise is eligible for the reduced tax rate (25%) for the remainder of the otherwise applicable period of benefits as described above.

Dividends paid out of income derived by an Approved Enterprise are generally subject to withholding tax at the source at the rate of 15%. The reduced rate of 15% is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. In addition, a company which elects the Alternative Benefits will be subject to corporate tax at the otherwise applicable rate of 25% of the gross amount of the dividend (or lower in the case of an FIC which is at least 49% owned by non-Israeli residents; see below) if it pays a dividend out of income derived by its Approved Enterprise during the tax exemption period. Based on its first investment program, the Company was granted Approved Enterprise status, has elected the Alternative Benefits and has been granted a tax exemption for a period of four years commencing in 1995, the year in which it first earned taxable income and ending in 1998. In June 1997, the Company's application for an expansion program was approved. The expansion program entitles the Company to a tax exemption for a period of two years and to a reduced tax rate of 10%-25% for an additional period of five to eight years, based on the percentage of foreign ownership in the Company. The aforementioned benefits are in respect of the taxable income which the Company derives from the expansion program.

The tax benefits available to an Approved Enterprise relate only to taxable income attributable to that specific enterprise and are contingent upon the fulfillment of the conditions stipulated by the Investment Law, the regulations published thereunder and the instruments of approval for the specific investments in the Approved Enterprise. In the event of the failure of the Company to comply with these conditions, the tax and other benefits could be canceled, in whole or in part, and the Company might be required to refund the amount of the canceled benefits (including the grants), with the addition of Israeli consumer price index ("CPI") linkage differences and interest. The Company believes that its Approved Enterprise has substantially complied with all applicable conditions.

The Approved Enterprise of a company which qualifies as a "Foreign Investors' Company" (an "FIC") is entitled to further tax benefits. Subject to certain conditions, an FIC is a company in which more than 25% of the share capital (in terms of shares, which for this purpose is deemed to include long-term shareholder loans, rights to profits, voting and appointment of directors) is owned, directly or indirectly, by persons who are not residents of Israel. Such a company with a foreign investment of more than 25% will be eligible for an extension of the period of tax benefits for its Approved Enterprises (up to ten years), and to further tax benefits should the foreign investment rise above 49%. The Company has becomea FIC after the Initial Public Offering, although foreign investment in the Company is not expected to exceed 49%.

Financial Benefits. An Approved Enterprise is also entitled to a grant from the Government of Israel with respect to investments in certain production facilities located in designated areas within Israel, provided it did not elect the Alternative Benefits. Grants are available for enterprises situated in development areas and for high technology skill intensive enterprises in Jerusalem. The investment is computed as a percentage (currently up to 20%, depending upon the location of the enterprise) of the original costs of the fixed assets for which Approved Enterprise status has been granted. To date, the Company has not received any such grant.

From time to time, the Government has considered reducing the benefits available to companies under the Investment Law. The termination or substantial reduction of any of the benefits available under the Investment Law, particularly the exemption from tax under the Alternative Benefits program, could have a material adverse effect on future investments by the Company in Israel.

Taxation Under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 1985 (the "Inflationary Adjustments Law") is intended to neutralize the erosion of capital investments in business and to prevent tax benefits resulting from deduction of inflationary expenses. This law applies a supplementary set of inflationary adjustments to the taxable profits computed under regular historical cost principles.

The Inflationary Adjustments Law introduced a special tax adjustment for the preservation of equity based on changes in the CPI, under which certain corporate assets are classified broadly into fixed (inflation-resistant) assets and non-fixed assets. If shareholders' equity exceeds the depreciated cost of fixed assets (each as defined in the Inflationary Adjustment Law), a tax deduction is allowed which takes into account the effect of the annual rate of inflation on such excess (up to a ceiling of 70% of taxable income for companies in any single year, with the unused portion carried forward on a linked basis, without time limit). If the depreciated cost of such fixed assets exceeds shareholders' equity, then such excess, multiplied by the annual inflation rate, is added to taxable income.

Under the Inflationary Adjustments Law, taxable income is measured in real terms, in accordance with the changes in the CPI. The discrepancy between the change in (i) the CPI and (ii) the exchange rate of the Israeli currency to the U.S. dollar, each year and cumulatively, may result in a significant difference between taxable income and the income denominated in U.S. dollars as reflected in the Consolidated Financial Statements of the Company. In addition, subject to certain limitations, depreciation of fixed assets and losses carried forward are adjusted for inflation on the basis of changes in the CPI. An FIC may, subject to certain conditions, elect to measure its results for tax purposes in dollar terms.

Tax Benefits and Government Support of Research and Development

Israeli tax law has allowed, under certain conditions, a tax deduction in the year incurred for expenditures (including capital expenditures) in scientific research and development projects, if the expenditures are approved or funded by the relevant Israeli Government Ministry (determined by the field of research). The research and development is for the promotion of the enterprise and is carried out by, or on behalf of, the company seeking such deduction. Expenditures not so approved or funded are deductible over a three-year period.

Under the Law for the Encouragement of Industrial Research and Development, 1984 (the "Research Law"), a research and development program approved by a research committee is eligible for grants of between 30% and 66% of the project's expenditures (depending on the circumstances) upon meeting certain criteria, against the payment of royalties from the sale of the product developed in accordance with the program. The Company received relatively minor grants under the Research Law, and has satisfied all financial obligations relating thereto. The Research Law requires that the manufacture of any product developed as a result of research and development funded by the Israeli Government take place in Israel. It also provides that know-how from the research and development which is used to produce the product may not be transferred to third parties without the approval of a research committee. Such approval is not required for the export of any products resulting from such research or development.

Royalties are generally required to be paid on sales of the products developed with such grants, up to a U.S. dollar-linked amount equal to the grant (or, in certain cases, 150% of the grant). If a company that has obtained such grants requests and obtains permission to manufacture outside of Israel the product developed in accordance with the program, the royalty rates and the maximum royalties payable increase significantly.

The Israeli Government also makes available funding for research and development of generic technology. This funding, which may be granted to a consortium of companies with an interest in a common generic technology, is non-refundable and not subject to royalties.

Capital Gains Tax

Israeli law imposes a capital gains tax on the sale of capital assets by both residents and non-residents of Israel. The law distinguishes between the "Real Gain" and the "Inflationary Surplus." The Real Gain is the excess of the total capital gain over the Inflationary Surplus, computed on the basis of the increase in the Israeli CPI between the date of purchase and the date of sale. The Inflationary Surplus is taxed at a rate of 10% for residents of Israel (and is exempt from tax for non-residents if calculated according to the exchange rate of the dollar instead of the Israeli CPI), while the Real Gain is added to ordinary income which is taxed at the ordinary rate for individuals and 36% for corporations. Inflationary Surplus accumulated from and after December 31, 1993 is exempt from any capital gains tax and purchasers of shares in the Offering will consequently be exempt from paying tax on the Inflationary Surplus. Sales by both residents and non-residents of Israel of securities of most Israeli companies that qualify as "Industrial Companies" or "Industrial Holding Companies" on recognized stock exchanges in Israel and outside of Israel are presently exempt from the capital gains tax.

Pursuant to the Convention Between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income (the "U.S.-Israel Tax Treaty"), the sale, exchange or disposition of Ordinary Shares by a person who qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty (which is defined to include a U.S. corporation and a U.S. individual) and who is entitled to claim the benefits afforded to such resident ("Treaty U.S. Resident") will not be subject to the Israeli capital gains tax unless such Treaty U.S. Resident holds, directly or indirectly, Ordinary Shares representing 10% or more of the voting power of the Company during any part of the 12-month period preceding such sale, exchange or disposition. A sale, exchange or disposition of Ordinary Shares by a Treaty U.S. Resident who holds, directly or indirectly, Ordinary Shares representing 10% or more of the voting power of the Company at any time during such preceding 12-month period would be subject to such Israeli tax; however, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against the U.S. income tax imposed with respect to such sale, exchange or disposition, subject to the limitations applicable to foreign tax credits.

Dividend Distributions

Non-residents of Israel are subject to income tax on income derived from sources in Israel. On distributions of dividends other than bonus shares (stock dividends), income tax at the rate of 25% (15% for dividends generated by an "Approved Enterprise") is withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. Under the U.S. - Israel Tax Treaty, the withholding tax with respect to dividends paid to a holder of OrdinarShares who is a resident of the United States generally is 2%, but is reduced to 12.5% in the case of a corporate recipient that owns in excess of 10% of the voting stock of the company during the Company's taxable year preceding the distribution of the dividend and the portion of the company's taxable year prior to the distribution of the dividend (however, under the Investment Law, dividends generated by an "Approved Enterprise" are taxed at the rate of 15%).

UNITED STATES FEDERAL INCOME TAXES

The following summary sets forth the material United States federal income tax consequences that may be applicable to the following persons who invest in the Ordinary Shares and hold such Ordinary Shares as capital assets ("U.S. Shareholders"): (i) citizens or residents (as defined for U.S. federal income tax purposes) of the United States, (ii) corporations or other entities created or organized in or under the laws of the United States or any state thereof and (iii) estates or trusts the income of which is subject to United States federal income taxation regardless of its source. This discussion is based on the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), United States Treasury Regulations promulgated thereunder and administrative and judicial interpretations thereof, all as in effect as of the date of this Prospectus. This discussion does not consider (a) all aspects of U.S. federal income taxation that may be relevant to particular U.S. Shareholders by reason of their particular circumstances (including potential application of the alternative minimum tax), (b) U.S. Shareholders subject to special treatment under the U.S. federal income tax laws, such as financial institutions, insurance companies, broker-dealers and tax-exempt organizations, or foreign individuals or entities, (c) U.S. Shareholders owning directly or by attribution 10% or more of the Company's outstanding voting shares or (d) any aspect of state, local or non-United States tax laws.

The following summary does not address the impact of an Investor's individual tax circumstances. Accordingly, each investor should consult his or her own tax advisor as to the particular tax consequences to him or her of an investment in the Ordinary Shares, including the effects of applicable state, local or foreign tax laws and possible changes in the tax laws.

Dividends Paid on the Ordinary Shares

A U.S. Shareholder generally will be required to include in gross income as ordinary dividend income the amount of any distributions paid on the Ordinary Shares (including the amount of any Israeli taxes withheld therefrom) to the extent that such distributions are paid out of the Company's current or accumulated earnings and profits as determined for U.S. federal income tax purposes. Distributions in excess of such earnings and profits will be applied against and will reduce the U.S. Shareholder's tax basis in the Ordinary Shares and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such Ordinary Shares. Such dividends, which will be treated as foreign source income for U.S. foreign tax credit purposes, generally will not qualify for the dividends received deduction available to corporations. The amount of any cash distribution paid in NIS will equal the U.S. dollar value of the distribution, calculated by reference to the exchange rate in effect on the date of the distribution.

Credit for Israeli Taxes Withheld

Subject to certain conditions and limitations, any Israeli tax withheld or paid with respect to dividends on the Ordinary Shares generally will be eligible for credit against a U.S. Shareholder's United States federal income tax liability or, at such U.S. Shareholder's election, may be claimed as a deduction. Such limitations include extensive separate computation rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the United States federal income taxes otherwise payable with respect to each such class of income. Dividends with respect to the Ordinary Shares generally will be classified as "passive income" for the purpose of computing U.S. Shareholder's foreign tax credit limitations. Foreign tax credits may not be used to reduce liability for the United States individual and corporate minimum taxes by more than 90%.

Disposition of the Ordinary Shares

The sale or exchange of Ordinary Shares generally will result in the recognition of gain or loss in an amount equal to the difference between the amount realized by the U.S. Shareholder and the U.S. Shareholder's tax basis in the Ordinary Shares sold or exchanged. Such gain or loss will be a capital gain or loss and will be long-term if the U.S. Shareholder's holding period for the Ordinary Shares exceeds one year. In general, any such gain will be treated as U.S. source income for U.S. foreign tax credit purposes.

Tax Status of the Company for U.S. Federal Income Tax Purpose

If the Company were deemed to be a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes, any gain recognized by a U.S. Shareholder upon the sale of Ordinary Shares (or the receipt of certain distributions) would be treated as ordinary income, such income would be allocated over such U.S. Shareholder's holding period for such Ordinary Shares and an interest charge would be imposed on the amount of deferred tax on such income which is allocated to prior taxable years. Generally, the Company will be treated as a PFIC for any tax year if, in such tax year or any prior tax year, either (i) 75% or more of its gross income is passive in nature, or (ii) on average, 50% or more of its assets (by value or, if the Company elects, by their adjusted basis for computing earnings and profits) produce or are held for the production of passive income. The Company does not believe it satisfies either of the tests for PFIC status because the nature of neither its income nor its assets is sufficiently passive within the meaning of the PFIC rules. If the Company were determined to be a PFIC, however, a U.S. Shareholder could elect to treat his or her Ordinary Shares as an interest in a qualified electing fund (a "QEF Election"), in which case such U.S. Shareholder would be required to include in income currently his or her proportionate share of the Company's earnings and profits in years in which the Company is a PFIC whether or not distributions of such earnings and profits are actually made to such U.S. Shareholder, but any gain subsequently recognized upon the sale by such U.S. Shareholder of his or her Ordinary Shares generally would be taxed as a capital gain. In the event the Company is determined to be a PFIC for any tax year, the Company will take such steps as are reasonably necessary to notify U.S. Shareholders of such determination. U.S. Shareholders should consult with their own tax advisors regarding their eligibility for, and the manner and advisability of, making a QEF Election if the Company is determined to be a PFIC.

ITEM 8. SELECTED FINANCIAL DATA

The following selected consolidated historical financial data of the Company is qualified by reference to and should be read in conjunction with the Company's Consolidated Financial Statements and related Notes thereto and "Item 9 — Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 20-F. The Consolidated Financial Statements have been prepared in accordance with Israeli GAAP. As applicable to the Company's Consolidated Financial Statements, United States GAAP and Israeli GAAP are identical in all material respects. There were no differences between Israeli GAAP and United States GAAP affecting net income of the Company for any of the periods presented herein. The selected financial information set forth below as of December 1996 and 1997, and for each of the years ended December 31, 1995, 1996 and 1997, is derived from the Consolidated Financial Statements of the Company which are included elsewhere herein. The balance sheet data at December 31, 1993 and 1994 is derived from consolidated financial statements not included in this Form 20-F which have also been audited by independent accountants.

	Period for July 5, 1993 (inception) to December 31, 1993	Year Ended December 31,			
		1994	1995	1996	1997
Consolidated Statement of Operations Data:					
Revenues	$0	$ 794	$9,456	$31,869	$82,934
Cost of revenues	0	118	585	1,959	6,061
Gross profit	0	676	8,691	29,910	76,873
Operating expenses					
Research and development, net	74	130	1,101	3,333	6,183
Sales and marketing	17	304	1,738	9,897	25,595
General and administrative	28	165	1,262	2,581	6,415
Total operating expenses	119	599	4,101	15,811	38,193
Operating income (loss)	(119)	77	4,860	14,099	38,680
Financial income (expenses), net	3	(53)	(23)	1,488	4,593
Income (loss) before income taxes	(116)	24	4,837	15,587	43,273
Income taxes (benefit)	0	0	(10)	350	2,305
	$(116)	$ 24	$4,847	$15,237	40,968
Equity losses related to affiliates	-	-	-	-	760
Net Income (loss)	(116)	24	4,847	15,237	40,208
Earnings (loss) per share (1)	$(0.00)	$0.00	$0.17	$0.49	$1.21
Number of shares used in computing earnings (loss) per share (Basic) (1)	33,482	33,730	29,048	31,203	33,359
Earning per share (fully diluted)	0.00	0.00	0.15	0.43	1.07
Number of Shares used in computing earnings per share (fully diluted)	33,482	33,730	33,308	35,455	37,471

	December 31,				
	1993	1994	1995	1996	1997
			(in thousands)		
Balance Sheet Data:					
Working capital (deficit)	$(146)	$(133)	$4,739	$56,631	$61,446
Total Assets	37	661	7,102	65,354	123,860
Shareholder's equity (deficit)	(116)	(62)	5,041	57,640	100,184

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(1) See Note 2 of Notes to Consolidated Financial Statements for an explanation of the determination of shares used in computing earnings per share.

ITEM 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 20-F contains forward-looking statements that involve risks and uncertainties. The statements contained in this Form 20-F that are not purely historical are forward-looking statements within the meaning of Section 21E of the Exchange Act, including, without limitation, statements regarding the Company's expectations, beliefs, intentions, goals, plans, commitments or strategies regarding the future. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth above, under "Item 1 - Description of Business — Risk Factors" and elsewhere in this Form 20-F.

Overview

Check Point develops, markets, and supports policy-based enterprise security and traffic management solutions that protect information assets and enhance the performance of enterprise networks. Check Point was founded in July 1993, introduced its first product, FireWall-1, in April 1994 and began generating revenues in the third quarter of 1994. The Company's revenues totaled, $9.5 million and $31.9 million and $82.9 million in 1995, 1996 and 1997, respectively, substantially all of which have been derived from the sales of FireWall-1 products and related maintenance contracts. The Company has had 14 consecutive quarters of profitability beginning in the third quarter of 1994. There can be no assurance, however, that the Company will remain profitable on a quarterly or annual basis.

Although the Company has experienced significant percentage growth in revenues and net income, the Company does not believe that such growth rates are sustainable. The Company believes that period-to-period comparisons of its financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. In addition, the Company's limited operating history makes the prediction of future operating results difficult or impossible. See "Risk Factors – Potential Fluctuations in Future Operating Results; Anticipated Decline in Margins."

The Company recognizes revenues in accordance with the Statement of Position of Software Revenue Recognition (SOP 91-1). The Company sells its FireWall-1 family of software products to end-users worldwide through distributors, VARs, OEMs and system integrators. Prospective customers typically receive 30-day evaluation copies of the Company's software products. If the customer elects to purchase the Company's products, the Company issues an invoice and a software key is then sent to the customer that allows the evaluation copy to continue to function. Revenues from software products are recognized on shipment of the software key and the issuance of the related license and when no significant vendor obligations remain. The Company offers an annual maintenance contract, the fee for which is determined as a percentage of the list price. Maintenance revenues are recognized ratably over the duration of the maintenance contract. Payments for maintenance are generally made in advance and are non-refundable. Deferred revenues consist of two components: prepaid product revenues and unamortized portions of maintenance contracts. Historically, deferred revenues at the end of any quarter have not had any consistent relationship to revenues in the subsequent quarter or any subsequent period. Through December 31, 1997, there had been no significant returns of any of the Company's products.

The Company has derived substantially all of its revenues and expects to continue to derive the vast majority of its revenues in the foreseeable future from sales of its FireWall-1 family of software products, and specifically the Internet Gateway and Enterprise product categories. If FireWall-1 should fail to receive widespread market acceptance, or if end-users should subsequently adopt an alternative approach to enterprise security, the Company's business, operating results and financial condition would be materially adversely affected.

Revenues from sales to the Company's largest reseller, SunSoft, represented 64%, 42% and 19% of the Company's revenues for 1995, 1996 and 1997, respectively. If SunSoft were to reduce its current level of purchases or terminate its agreement with the Company, the Company's operating results would be materially adversely affected. In 1997, Check Point entered into numerous agreements with resellers, distributiors, OEMs and Internet Service Providers. In 1996 and 1997, the Company significantly increased the number of its resellers, distributors and system integrators on a worldwide basis. In addition, in the quarter ended December 31, 1996, the Company established national two-tier distribution relationships with Ingram Micro and Westcon in North America. See "Risk Factors – Dependence Upon Limited Number of Key Resellers; Product Concentration; Impact of New Product Introductions."

The Company expects gross margins to decline as it expands its customer and technical support organization and incurs increased royalty obligations to third parties. The Company also expects that it will experience increasing competition and pricing pressure, which would result in lower gross margins. In 1998, the Company intends to continue to make significant investments in the further development and expansion of its sales and marketing organization, including the expansion of its field organization both in the United States and in additional countries in Europe and Asia. In addition, the Company expects to further expand its research and development organization and make additional investments in its general and administrative infrastructure. As a result, the Company expects operating margins to decrease from historical levels. The amount and timing of these additional expenditures are likely to result in fluctuations in operating margins. Any material reduction in gross or operating margins could materially adversely affect the Company's operating results. See "Risk Factors ; Potential Fluctuations in Future Operating Results; Anticipated Decline in Margins" and "– Competition."

Research and development expenditures have been charged to operations as incurred. Statement of Financial Accounting Standards ("FAS") 86 requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have been insignificant.

Results of Operations

The following table presents for the periods indicated line items from the Company's statement of operations as a percentage of the Company's revenues.

	1995	1996	1997
Revenues	100%	100%	100%
Cost of revenues	6	6	7
Gross profit	94	94	93
Operating expenses:			
Research and development, net	12	10	7
Sales and marketing	18	32	31
General and administrative	13	8	8
Total operating expenses	43	50	46
Operating income	51	44	47
Financial income, net	0	5	6
Equity losses related to affiliates	---	---	1
Income before income taxes	51	49	51
Income taxes	0	1	3
Net income	51%	48%	48%

Revenues. The Company's revenues are derived from the sale of software products and related maintenance contracts. The Company's revenues were $9.5 million, $31.9 million and 82.9 million in 1995, 1996 and 1997, respectively. These increases resulted primarily from the growth in the market for the Company's enterprise security products, expanded awareness of the Company's products, increased sales through SunSoft and other resellers and the introduction of Versions 1.2, 2.0, 2.1 and 3.0 of FireWall-1 in April 1995, October 1995, July 1996, and April 1997 respectively. Revenues from sales to United States customers were 83%, 70% and 59% of revenues in 1995, 1996 and 1997, respectively. However, the Company believes that since it sells its products to resellers and OEMs in the United States that have significant international customer bases, a significant portion of its products are resold by these resellers and OEMs outside the United States.

Cost of Revenues. The Company's cost of revenues is comprised of the cost of freight, media, software production, manuals and packaging, the cost of post-sale customer support and royalties. Cost of revenues was $585,000, $2.0 million and $6.0 million for 1995, 1996 and 1997, respectively. Gross margins were 94%, 94% and 93% of the Company's revenues for 1995, 1996 and 1997, respectively. The Company anticipates that gross margins will decline as the Company expands its customer and technical support organization, incurs increased royalties obligations and experiences increased competition and pricing pressures.

Research and Development, Net. Research and development expenses consist primarily of salaries and other related expenses for research and development personnel, as well as the cost of facilities and depreciation of capital equipment.

Net research and development expenses were $1.1 million, $3.3 million and $6.2 million in 1995, 1996 and 1997, respectively, representing 12%, 10% and 7% of revenues, respectively. The increases in absolute dollars were due to the addition of new development personnel. Research and development costs decreased in each of 1996 and 1997 as a percentage of revenues as a result of the significant increase in revenues. The Company anticipates that research and development expenditures will increase in the short term and may fluctuate as a percentage of revenues thereafter as the Company continues to expand its research and development organization.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries, commissions, advertising, trade shows, travel and other related expenses. Sales and marketing expenses were 1.7 million, $9.9 million and $25.6 million in 1995, 1996 and 1997, respectively, representing 18%, 32% and 31% of revenues, respectively. The substantial increases in absolute dollars from 1995 to 1996 and 1997 were due to the costs associated with the expansion of the Company's sales and marketing activities, including the opening of a subsidiary in the United States in the third quarter of 1995. These expenses continued to increase in 1996 and 1997 as the Company further expanded its sales and marketing efforts. Sales and marketing expenses decreased as a percentage of revenues from 1996 to 1997 as a result of significant increases in revenues. Sales and marketing expenses increased as a percentage of revenues in 1996 as compared with 1995, primarily due to increased sales and marketing activities in North America. The Company anticipates that its sales and marketing expenditures will increase in absolute dollars and may fluctuate as a percentage of revenues thereafter as the Company continues to expand its sales and marketing activities.

General and Administrative. General and administrative expenses consist primarily of salaries and other related expenses including outside professional fees. General and administrative expenses were $1.3 million, $2.6 million and $6.4 million in 1995, 1996 and 1997, respectively, representing 13%, 8% and 8% of revenues, respectively. The increase in absolute dollars was primarily due to the addition of staff, increased costs associated with the expansion of the Company's business and, in 1995, significantly higher outside professional fees. General and administrative expenses for 1995 included a non-cash charge of $250,000 related to the amortization of deferred compensation. General and administrative expenses for 1996 increased in absolute dollars primarily due to increased salary and related expenses. The decreases in general and administrative expenses as a percentage of revenues for all periods were attributable to the significant increase in revenues. The Company anticipates that general and administrative expenses will increase in absolute dollars and may fluctuate as a percentage of revenues as the Company expands its finance and administrative infrastructure, and continues to incur additional costs associated with being a public company.

The Company's future revenues and operating results are uncertain and may fluctuate from quarter to quarter and from year to year due to a combination of factors, including the timing of new product releases and acceptance of new products, the demand for the Company's products, the volume and timing of orders and the ability to fulfill orders, the level of product and price competition, the expansion of the Company's sales and marketing organizations, the Company's ability to develop new and enhanced products and control costs, the Company's ability to attract and retain key technical, sales and managerial employees, the mix of distribution channels through which product is sold, the mix of products and services sold, the growth in the acceptance of, and activity on, the Internet and World Wide Web, the growth of intranets, seasonal trends in customer purchasing, customer capital spending budgets, foreign currency exchange rates and general economic factors. The Company's revenue is subject to seasonal fluctuations related to SunSoft's June 30 fiscal year-end, the slowdown in spending activities in Europe for the quarter ending September 30 and the year-end purchasing cycles of many end-users of the Company's products. The impact of SunSoft's fiscal year-end purchases resulted in proportionately higher sales to SunSoft in the quarter ended June 30, 1997 relative to sales to SunSoft in the quarter ended September 30, 1997. The Company believes that the seasonal effect of purchases by end-users of the Company's products contributed to the growth in revenue in the quarter ended December 31, 1996. The Company believes that it will continue to encounter quarter-to-quarter seasonality that could result in proportionately lower sales in the quarters ending September 30 and March 31 relative to sales in the quarters ending June 30 and December 31, respectively.

The Company operates with virtually no backlog and therefore the timing and volume of orders within a given period and the ability to fulfill such orders determines the amount of revenues within a given period. The Company's sales are principally derived through indirect channels, which makes revenues from such sales difficult to predict. Furthermore, the Company's expense levels are based, in part, on expectations as to future revenues. If revenue levels are below expectations, operating results are likely to be adversely affected. Net income may be disproportionately affected by a reduction in revenues because of the relatively small amount of the Company's expenses which vary with its revenues. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Due to all of the foregoing factors, it is likely that in some future quarter the Company's operating results may be below the expectations of public market analysts and investors. In such event, the price of the Company's Ordinary Shares would likely be materially adversely affected.

Liquidity and Capital Resources

The Company has primarily financed its operations through cash generated from operations and proceeds from its initial public offering. Cash and cash equivalents and short term investments were $65.2 million, and long term investments were $36.1, at December 31, 1997 respectively. The Company generated net cash from operations of $4.3 million, $14.8 million and $48.3 million in 1995, 1996 and 1997 respectively. Net cash from operations for these periods consisted primarily of net income plus increases in accrued expenses and other liabilities offset by increases in trade receivables. The Company's capital investments have amounted to $380,000, $1.2 million and $2.5 million in 1995, 1996 and 1997 respectively. As of December 31, 1997, the Company had no material commitments for capital expenditures. Net cash used in financing activities was approximately $384,000 in 1995 as a result of the repayment of shareholder loans. Net cash provided by financing activities was approximately $37.6 million in 1996, primarily resulting from the Company's initial public offering. Net cash provided by financing activities was approximately $2 million in 1997, primarily as a result of options execrising.

The Company believes that its existing sources of liquidity and cash flow will be adequate to fund its operations through at least the end of 1999.

Impact of Inflation and Currency Fluctuations

The cost of the Company’s operations in Israel, as expressed in dollars, is influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by a devaluation of the NIS in relation to the dollar. The rate of inflation in Israel in 1997 was 7% (compared to 14.4% in 1994 , 8.1% in 1995 and 10.6% in 1996), while the NIS devaluated by 5.2% against the dollar (compared to a devaluation of 1.1% in 1994 and 3.9% in 1995 and 3.7% in 1996). As a result, the Company experienced increases in the cost of its operations in dollar terms in 1994, 1995 ,1996 and 1997 relating primarily to the cost of salaries in Israel that are paid in NIS partially linked to the consumer price index in Israel. These increases did not materially adversely affect the Company’s results of operations in such periods, although there can be no assurance that there will not be a material adverse effect on the Company’s business, operating results and financial condition in the future should this pattern recur. All of the Company’s worldwide sales are priced in United States dollars, but the majority of its purchases of materials and production are priced in NIS. As the Company expands its worldwide sales and marketing organizations, the Company expects expenses incurred in NIS to decrease as a percentage of expenses. The Company’s Consolidated Financial Statements are also presented in United States dollars. Transactions and balances denominated in United States dollars are presented in the Consolidated Financial Statements at their original amounts. Non-dollar transactions and balances have been translated into United States dollars in accordance with the principles set forth in FAS No. 52. The Company has not engaged in any hedging activities to date.

Effective Corporate Tax Rate

The Company’s effective tax rate in Israel was 0% in 1993, 1994, 1995 ,1996 and 1997. In 1994, the Company’s investment program relating to the development of FireWall-1 was granted “Approved Enterprise” status under the Law for the Encouragement of Capital Investments, 1959, pursuant to which the Company has elected to forego certain Israeli government grants in return for an alternative package of tax benefits. Under this law, the undistributed income of the Company derived from an investment program designated as an Approved Enterprise is fully exempt from corporate tax for a period of four years commencing in 1995, the year in which it first earned taxable income, and ending in 1998, after which time it will be taxable at 25% for an additional period of three (3) years. In June 1997, the Company was granted a new Approved Enterprise Status. See Note 8 of Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 20-F for the fiscal year ended December 31, 1996 as filed with the Securities and Exchange Commission. All of the Company’s Israeli income has been generated from its Approved Enterprise. To date, all of the Company’s sales have been made from Israel. The Company’s United States subsidiary, which commenced operations in July 1995, operates pursuant to a cost plus agreement with the Company. The Company’s United States subsidiary incurred income taxes of $360,000 and 1,482,000 in 1996 and 1997 respectively . In addition, as the Company expands its international operations, a portion of revenues generated in foreign jurisdictions may be subject to taxation by such jurisdictions at rates higher than those to which the Company is subject in Israel.

If an Israeli company distributes a cash dividend to its shareholders from the tax-exempt income of its Approved Enterprise, it will be required to pay tax at the rate that would have been applicable to income without the tax exemption (generally 25%), on the amount distributed plus the applicable tax on such amount.

ITEM 10. DIRECTORS AND OFFICERS OF THE REGISTRANT

The directors, executive officers and key employees of the Company are as follows:

Name	Position
Gil Shwed(1)	President, Chief Executive Officer and Director
Shlomo Kramer...	Executive Vice President and Director
Marius Nacht	Vice President of International Operations and Director
Deborah D. Triant.......................................	President and Chief Executive Officer of Check Point Software Technologies Inc. and Director
John W. Cunningham..................................	Vice President of Worldwide Sales and Field Operations of Check Point Software Technologies Inc.
Hagi Schwartz..	Vice President of Finance, Chief Financial Officer and Director
Ayelet Tal..	Controller and Director
Irwin Federman(1)(2)....................................	Director
Ray Rothrock(1)(2)	Director

(1) Member of Compensation Committee
(2) Member of Audit Committee

Gil Shwed, a co-founder of the Company, has served as the Company's President and Chief Executive Officer and as a director of the Company since its inception in July 1993. From June 1992 until June 1993, Mr. Shwed founded and served as a Software Manager for Heliogram, a software development company. From May 1991 until June 1992, Mr. Shwed served as a Consultant and Chief Developer at Graphics Arts, a division of Optrotech Ltd., an automated optical imaging company. From February 1987 until February 1991, Mr. Shwed served in the Israel Defense Forces. Additionally, from February 1991 to July 1993, Mr. Shwed served as a Consultant for E&M Computing, a Sun Microsystems representative in Israel.

Shlomo Kramer, a co-founder of the Company, has served as the Company's Executive Vice President since October 1996, and served as Vice President of Product and Business Development from October 1995 to October 1996. From July 1993 to October 1995, Mr. Kramer served as a Vice President of the Company. Mr. Kramer has served as a director of the Company since its inception in July 1993. From March 1992 until April 1993, Mr. Kramer directed product analysis, definition and development at Algotec, a medical imaging company, which Mr. Kramer co-founded. From October 1990 until June 1992, Mr. Kramer managed a research group in the Israeli Defense Forces. Mr. Kramer received a Masters degree in Computer Science from Hebrew University of Jerusalem as well as a B.S. in Mathematics and Computer Science from Tel Aviv University.

Marius Nacht, a co-founder of the Company, has served as the Company's Vice President of International Operations since September 1995. From July 1993 to September 1995, Mr. Nacht served as a Vice-President of the Company. Mr. Nacht has served as a director of the Company since its inception in July 1993. From November 1992 to June 1993, Mr. Nacht was a Software Consultant for Elta, a subsidiary of Israel Aircraft Industries. From May 1990 to June 1992, Mr. Nacht was Software Development Manager of Optrotech Ltd., an automated optical imaging company and co-founded Graphic Arts, a division of Optrotech Ltd. Mr. Nacht received a Masters degree in Electrical Engineering and Communication Systems from Tel Aviv University, as well as a B.S. in Physics and Mathematics from Hebrew University of Jerusalem.

Deborah D. Triant has served as the President and Chief Executive Officer of Check Point Software Technologies Inc. and as a director of the Company since July 1995. Prior to that time, from February 1993 to June 1995, Dr. Triant was Vice President of Marketing of Adobe Systems, Inc., a graphics software company. From September 1990 to September 1993, Dr. Triant served as President and Chief Executive Officer of Sitka Corporation, a subsidiary of Sun Microsystems, a software and hardware company. Prior to such time, Dr. Triant held management positions at Xerox Corporation and MITRE Corporation, a systems engineering corporation, and served as Assistant Professor of Mathematics at the University of California, Santa Cruz. Dr. Triant received a Ph.D. in Mathematics from Columbia University as well as a B.A. from Sarah Lawrence College. Dr. Triant is a director of Altera Corporation.

John W. Cunningham has served as Vice President of Worldwide Sales and Field Operations of Check Point Software Technologies Inc. since November 1995. From January 1995 to September 1995, Mr. Cunningham served as Vice President of Sales of RadioLAN, Inc., a high performance wireless LAN corporation. From April 1988 to December 1995, Mr. Cunningham served in a variety of sales capacities for Bay Networks, a networking company, most recently as Vice President of Central Region Sales. Mr. Cunningham received a B.S. in Industrial Management from Lawrence Technological University.

Hagi Schwartz has served as the Company's Vice President of Finance and Chief Financial Officer since January 1996 and as a Director of the Company since November 21, 1997. From April 1991 to December 1995, Mr. Schwartz served as Controller of Mercury Interactive Corporation, an automated softwarquality corporation, as well as General Manager of Mercury Interactive Israel Lt. From April 1992 to July 1992, Mr. Schwartz also served as Acting Chief Financial Officer of Mercury Interactive Corporation. From October 1989 to April 1991, Mr. Schwartz served as Controller for Lannet Data Communications Ltd., a data communications company. From September 1986 to October 1989, Mr. Schwartz served as Senior Auditor for Somekh Chaikin, a public accounting firm in Israel. Mr. Schwartz received a B.A. in Accounting and Economics from Bar Ilan University in Tel Aviv.

Ayelet Tal has served as the Company's Controller since September 1996, and as Director of the Company since November 21, 1997. From August 1991 to August 1996, Ms. Tal served as Senior Audit Manager for BDO Almagor, a public accounting firm in Israel. Ms. Tal received a B.A. in Accounting and Economics from Bar Ilan University in Tel Aviv and is a certified public accountant (Israel).

Irwin Federman has served as a director of the Company since November 1995. Mr. Federman has been a General Partner of U.S. Venture Partners, a venture capital firm, since April 1990. From 1988 to 1990, he was a Managing Director of Dillon Read & Co., an investment banking firm, and a general partner in its venture capital affiliate, Concord Partners. Mr. Federman is a director of Komag Incorporated, Western Digital Corporation, TelCom Semiconductor, Inc., SanDisk Corp. and a number of private companies. Mr. Federman received a B.S. from Brooklyn College.

Ray Rothrock has served as a director of the Company since November 1995. Mr. Rothrock has been a member of Venrock Associates, a venture capital firm, since 1988 and a General Partner of Venrock Associates since 1995. Mr. Rothrock is also a director of Spyglass, Inc., Digital Express Group, Inc. and Haystack Labs, Inc. and a number of private companies. Mr. Rothrock received a B.S. in engineering from Texas A&M University, an M.S. from the Massachusetts Institute of Technology and an M.B.A. from the Harvard Business School.

Board Composition

The Company's Articles of Association provide for a Board consisting of not less than six nor more than ten members. Each director is elected to serve until the next annual general meeting of shareholders and until his or her successor has been elected. Each officer is elected by and serves at the discretion of the Board of Directors. Each of the Company's officers and directors, other than nonemployee directors, devotes substantially full time to the affairs of the Company. The Company's nonemployee directors devote such time to the affairs of the Company as is necessary to discharge their duties. There are no family relationships among any of the directors, officers or key employees of the Company.

The Articles of Association of the Company provide that any director may, by written notice to the Company, appoint another person to serve as an alternate director and may cancel such appointment. Any person, whether or not already a director, may act as an alternate and the same person may act as the alternate for several directors. An alternate has the number of votes equivalent to the number of the directors who appointed him. The term of appointment of an alternate director may be for one meeting of the Board or for a specified period or until notice is given of the cancellation of the appointment. To the Company's knowledge, no director currently intends to appoint any other person as a substitute director, except if the director is unable to attend a meeting of the Board.

The Company's Articles of Association provide that the Board of Directors may delegate all of its powers to committees of the Board of Directors as it deems appropriate, subject to the provisions of Israeli law. The Board of Directors has appointed a Compensation Committee and Audit Committee.

Approval of Certain Transactions; Statutory Audit Committee

The Company is subject to the provisions of the Israel Companies Ordinance. The Companies Ordinance codifies the duty of care and fiduciary duties which an Office Holder has to the Company. Each of the persons listed above, with the exception of Mr. Cunningham, is an Office Holder of the Company.

The Companies Ordinance's disclosure provisions require that an Office Holder promptly disclose any direct or indirect personal interest that he or any of his affiliates may have, and all related material information known to him, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction (that is, a transaction other than in the ordinary course of business, otherwise than on market terms, or likely to have a material impact on the company's profitability, assets or liabilities), the Office Holder must also disclose any personal interest held by the Office Holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the Office Holder is, directly or indirectly, a 10% or greater shareholder, director or general partner or in which he has the right to appoint at least one director or the general manager. An Office Holder with respect to whom one of the foregoing matters is brought for statutory audit committee or Board of Directors approval may not be present during the statutory audit committee or Board of Directors discussions and may not vote.

The Companies Ordinance requires that certain transactions, actions and arrangements involving an Office Holder (or a third party in which an Office Holder has an interest) be approved as provided for in a company's Articles of Association (generally, Board approval) as not being adverse to the company's interest. In certain cases, such a transaction must be approved by a statutory audit committee of the company's Board of Directors whose members meet certain criteria of independence as defined in the Companies Ordinance and by the Board of Directors itself (with further shareholder approval required in the case of extraordinary transactions). The vote required by the statutory audit committee and the Board of Directors for approval of such matters, in each case, is a majority of the disinterested directors participating in a duly convened meeting. The Company does not currently have a statutory audit committee.

Indemnification

The Articles of Association of the Company include a provision to the effect that, subject to the provisions of the Companies Ordinance, the Company may (i) procure insurance for or indemnify any Office Holder to the fullest extent permitted by Israeli law; provided that the procurement of any such insurance or provision of any such indemnification, as the case may be, is approved by the statutory audit committee of the Company and otherwise as required by law; or (ii) procure insurance for or indemnify any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder. The Company has acquired directors' and officers' liability insurance covering the officers and directors of the Company and its subsidiaries for certain claims.

ITEM 11. COMPENSATION OF DIRECTORS AND OFFICERS

The aggregate direct remuneration paid to all nine persons as a group who served in the capacity of director or executive officer during the year ended December 31, 1997 was $1,423,946. In addition, the Company set aside $81,738 for pension and disability insurance for certain executive officers. This does not include amounts expended by the Company for automobiles made available to its officers, expenses (including business travel, professional and business association dues and expenses) reimbursed to officers and other fringe benefits commonly reimbursed or paid by companies in Israel. No directors of the Company received compensation for serving in such capacity in 1997. The Company's directors who are also officers will not receive any compensation for serving in their capacity as directors in 1998; the Company's directors who are not also officers may receive compensation in 1998, subject to Audit Committee, Board and shareholder approval.

ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT AND SUBSIDIARIES

Stock Options

Israel Stock Option Plan

The Company's 1996 Israel Stock Option Plan (the "1996 Israel Plan") was adopted by the Board of Directors on April 12, 1996. The number of Ordinary Shares authorized for issuance under the 1996 plans is 6,600,000. As of May 30, 1998, 813,580 shares had been issued under the 1996 Israel Plan, options to purchase 1,897,220 Ordinary Shares were outstanding (including options incorporated from previous grants to employees in Israel prior to the adoption of the 1996 Israel Plan) and 3,889,200 shares remained available for future grant. The exercise prices range between $0.01 and $45.125. As of December 31, 1998, the Company's officers and directors hold options to purchase an aggregate of 2,072,920 shares under all the Company's stock option plans.

The 1996 Israel Plan is administered by the Board of Directors, which has broad discretion, subject to certain limitations, to determine the persons entitled to receive options, the terms and conditions on which options are granted and the number of shares subject to each grant. Pursuant to Section 102 of the Israel Income Tax Ordinance, grantees who receive options under the 1996 Israel Plan (excluding grantees who previously received options that were incorporated upon the adoption of the 1996 Israel Plan, and those who are not employees of the Company) are afforded certain tax benefits. In order to qualify for these benefits, the options are registered in the name of the Trust Company of Israel General Bank, as trustee (the "Trustee") for each of the employees who is granted options. Each option, and any Ordinary Shares acquired upon the exercise of the option, must be held by the Trustee until the expiration of two years from the date of the grant of the option. The 1996 Israel Plan provides for the options granted under the Plan to have a maximum exercise period of seven years from the date of grant, and for tax-qualified options to become exercisable in equal installments on the second, third, fourth and fifth anniversaries of the date of grant. Options that are not tax-qualified options may become exercisable beginning one year from the date of grant. Options that are not exercised will become available for further grant by the Board under the 1996 Israel Plan.

United States Stock Option Plan

The Company's 1996 United States Stock Option Plan (the "1996 Plan") was adopted by the Board of Directors on April 12, 1996, and was approved by the shareholders as the successor to the Company's 1995 Stock Option Plan (the "1995 Plan"). On April 3, 1997, the Board of Directors voted, subject to shareholder approval, to increase the number of Ordinary Shares authorized for issuance under the 1996 Plan from 3,900,000 to 7,500,000. The number of Ordinary Shares authorized for issuance under the 1996 Plan currently is 9,000,000. As of May 31, 1998, 1,183,020 options for 3,098,435 shares were outstanding (including options incorporated from the 1995 Plan) and 4,718,545 shares remained available for future grant. Ordinary Shares subject to outstanding options, including options granted under the 1995 Plan, which expire or terminate prior to exercise will be available for future issuance under the 1996 Plan.

Under the 1996 Plan, employees (including officers) and independent consultants may, at the discretion of the plan administrator, be granted options to purchase Ordinary Shares at an exercise price not less than 85% of the fair market value of such shares on the grant date (the Company does not intend to issue options at an exercise price of less than fair market value). Non-employee members of the Board of Directors will be eligible solely for automatic option grants under the 1996 Plan.

The 1996 Plan is administered by the Compensation Committee of the Board. The Compensation Committee has complete discretion to determine which eligible individuals are to receive option grants, the number of shares subject to each such grant, the status of any granted option as either an incentive option or a non-statutory option under the Federal tax laws, the vesting schedule to be in effect for each option grant and the maximum term for which each granted option is to remain outstanding. In no event, however, may any one participant in the 1996 Plan acquire Ordinary Shares under the 1996 Plan in excess of 1,000,000 shares, exclusive of any option grants received prior to January 1, 1996.

The exercise price for options granted under the 1996 Plan may be paid in cash. Options may also be exercised on a cashless basis through the same-day sale of the purchased shares. The Compensation Committee may also permit the optionee to pay the exercise price through a promissory note payable in installments over a period of years. The amount financed may include any Federal or state income and employment taxes incurred by reason of the option exercise.

The Compensation Committee has the authority to effect, from time to time, the cancellation of outstanding options under the 1996 Plan in return for the grant of new options for the same or different number of option shares with an exercise price per share based upon the fair market value of the Ordinary Shares on the new grant date.

In the event the Company is acquired by merger, consolidation or asset sale, the Ordinary Shares subject to each option outstanding at the time under the 1996 Plan will terminate to the extent not assumed by the acquiring entity. The Compensation Committee also has discretion to provide for the acceleration of one or more outstanding options under the 1996 Plan and the vesting of shares subject to outstanding options upon the occurrence of certain hostile tender offers.

Under the automatic grant program each individual who first joins the Board as a non-employee director on or after the effective date of the 1996 Plan will receive at that time, an automatic option grant for 10,000 Ordinary Shares. In addition, at each annual shareholders meeting, beginning in 1997, each non-employee director will automatically be granted at that meeting, whether or not he or she is standing for reelection at that particular meeting, a stock option to purchase 1,000 Ordinary Shares, provided such individual has served on the Board for at least six months prior to such meeting. Each option will have an exercise price equal to the fair market value of the

Ordinary Shares on the automatic grant date and a maximum term of ten years, subject to earlier termination following the optionee's cessation of Board service. The option will become exercisable in a series of four annual installments over the optionee's period of Board service, beginning one year from the grant date.

The Board may amend or modify the 1996 Plan at any time. The 1996 Plan will terminate on April 11, 2006, unless sooner terminated by the Board.

Employee Stock Purchase Plan

On November 24, 1996, the Company adopted an Employee Stock Purchase Plan (the "Purchase Plan") which was ratified by the Company's Shareholders. A total of 300,000 Ordinary Shares has been reserved for issuance under the Purchase Plan. On April 20, 1997, the Board of Directors voted, subject to shareholder approval, to increase the number of Ordinary Shares reserved for issuance under the purchase plan from 300,000 to 800,000. The Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code, will be implemented by six-month offerings with purchases occurring at six-month intervals. The first offering period commenced on February 1, 1997 and will terminate on the last business day in July 1997. The Purchase Plan will be administered by the Compensation Committee of the Board. Employees of the Company's U.S. subsidiary, Check Point Software Technologies, Inc., are eligible to participate if they are employed for more than 20 hours per week. The Purchase Plan permits eligible employees to purchase Ordinary Shares through payroll deductions, which may not exceed 15% of an employee's compensation, nor more than 1,250 shares per participant on any purchase date. The price of the Ordinary Shares purchased under the Purchase Plan will be 85% of the lower of the fair market value of the Ordinary Shares at the beginning of the six-month offering period or on the semi-annual purchase date. Employees may end their participation in the Purchase Plan at any time during the offering period, and participation ends automatically on termination of employment with the Company. Each outstanding purchase right will be exercised immediately prior to a merger or consolidation. The Board may amend or terminate the Purchase Plan immediately after the close of any purchase date. However, the Board may not, without shareholder approval, materially increase the number of Ordinary Shares available for issuance, alter the purchase price formula so as to reduce the purchase price payable for Ordinary Shares, or materially modify the eligibility requirements for participation or the benefits available to participants. The Purchase Plan will in all events terminate in July 2006.

Change of Control Arrangements

The Compensation Committee of the Board of Directors, as administrator of the 1996 Plan, has the authority to provide for accelerated vesting of the Ordinary Shares subject to outstanding options held by the executive officers in connection with certain changes in control of the Company or the subsequent termination of the officer's employment following the change in control event.

On July 24, 1995, the Company's wholly-owned United States subsidiary, Check Point Software Technologies, Inc., entered into a four-year employment agreement with Dr. Triant, pursuant to which Dr. Triant became the President and Chief Executive Officer of the U.S. Subsidiary and was appointed to the Board of Directors of the Company. The agreement provides for the grant of an option which becomes exercisable in four equal annual installments and provides for acceleration of exercisability in connection with certain changes in control of the Company. The agreement provides for severance payments in the event of Dr. Triant's death, disability, termination without cause or her resignation for good reason.

On December 5, 1995, the Company entered into an employment agreement with Hagi Schwartz, pursuant to which Mr. Schwartz was employed as the Company's Chief Financial Officer. Either party is entitled to terminate the agreement at any time upon not less than three months notice, but in the event of a change of control of the Company the notice must be at least six months.

ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

Not applicable.

PART II

ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED

Not Applicable

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

Not applicable.

PART IV

ITEM 17. FINANCIAL STATEMENTS

CHECK POINT SOFTWARE TECHNOLOGIES LTD.
CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 1997
IN U.S. DOLLARS

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KOST LEVARY & FORER
A MEMBER OF
ERNST & YOUNG INTERNATIONAL

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

CHECK POINT SOFTWARE TECHNOLOGIES LTD.

We have audited the accompanying consolidated balance sheets of Check Point Software Technologies Ltd. and its subsidiaries as of December 31, 1996 and 1997, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 1996 and 1997, and the related consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles in the United States.

Tel-Aviv, Israel
January 22, 1998

KOST, LEVARY and FORER
Certified Public Accountants (Israel)
A member of Ernst and Young International

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CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 1996	December 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,971	$ 5,423
Short-term deposits	21,908	33,046
Marketable securities (Note 3)	19,633	26,777
Trade receivables (net of allowance for doubtful accounts: 1997 - $ 928, 1996 - $ 309)	7,844	14,629
Other accounts receivable and prepaid expenses	1,677	4,546
Total current assets	64,033	84,421
LONG-TERM INVESTMENTS:		
Long-term investments (Note 4)	-	36,135
Severance pay fund (Note 7)	113	477
Total long-term investments	113	36,612
PROPERTY AND EQUIPMENT (Note 5):		
Cost	1,636	4,131
Less - accumulated depreciation	448	1,334
Property and equipment, net	1,188	2,797
DEFERRED INCOME TAXES	20	30
	$ 65,354	$ 123,860

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 1996	December 31, 1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 1,049	$ 3,111
Employees and payroll accruals	2,788	8,551
Deferred revenues	873	4,917
Accrued professional services	557	607
Accrued expenses and other liabilities (Note 6)	2,135	5,789
Total current liabilities	7,402	22,975
ACCRUED SEVERANCE PAY (Note 7)	312	701
SHAREHOLDERS' EQUITY (Note 10):		
Share capital - Authorized: 94,999,000 Ordinary Shares of NIS 0.01 nominal value; 10 Deferred Shares of NIS 1 nominal value; 5,000,000 Preferred Shares of NIS 0.01 nominal value Issued and outstanding: 32,741,250 Ordinary Shares and 1 Deferred Share as of December 1996; 34,194,221 Ordinary Shares and 1 Deferred Share as of December 31, 1997	104	108
Additional paid-in capital	37,681	39,965
Deferred compensation	(48)	-
Retained earnings	19,903	60,111
Total shareholders' equity	57,640	100,184
	$ 65,354	$ 123,860

The accompanying notes are an integral part of the consolidated financial statements.

January 22, 1998		
Date of approval of the financial statements	Gil Shwed - President, Chief Executive Officer and Director	Marius Nacht - Vice President of International Operations

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except earnings per share)

	Year ended December 31,		
	1995	1996	1997
Revenues (Note 11a and b)	$ 9,546	$ 31,869	$ 82,934
Cost of revenues	585	1,959	6,061
Gross profit	8,961	29,910	76,873
Operating expenses:			
Research and development, net (Note 11c)	1,101	3,333	6,183
Sales and marketing	1,738	9,897	25,595
General and administrative	1,262	2,581	6,415
Total operating expenses	4,101	15,811	38,193
Operating income	4,860	14,099	38,680
Financial income (expenses), net (Note 11d)	(23)	1,488	4,593
Income before income taxes	4,837	15,587	43,273
Income taxes (benefits)	(10)	350	2,305
	4,847	15,237	40,968
Equity in losses of affiliates	-	-	760
Net income	$ 4,847	$ 15,237	$ 40,208
Earnings per share:			
Basic earnings per share (Note 10c)	$ 0.16	$ 0.49	$ 1.21
Diluted earnings per share (Note 10c)	$ 0.14	$ 0.43	$ 1.07

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Deferred compensation	Retained earnings (deficit)	Total
Balance as of January 1, 1995	$ *	$ 30	$ -	$ (92)	$ (62)
Deferred compensation related to grant of stock options	-	380	(380)	-	-
Amortization of deferred compensation	-	-	250	-	250
Issuance of shares	6	-	-	-	6
Net income	-	-	-	4,847	4,847
Stock split at April 18, 1996	89	-	-	(89)	-
Balance as of December 31, 1995	95	410	(130)	4,666	5,041
Issuance of shares, net (3,000,000 shares)	9	37,202	-	-	37,211
Amortization of deferred compensation	-	-	82	-	82
Exercise of options (41,250 shares)	*	69	-	-	69
Net income	-	-	-	15,237	15,237
Balance as of December 31, 1996	104	37,681	(48)	19,903	57,640
Issuance of shares and exercise of options (1,452,971 shares), net	4	2,284	(264)	-	2,024
Amortization of deferred compensation	-	-	312	-	312
Net income	-	-	-	40,208	40,208
Balance as of December 31, 1997	$ 108	$ 39,965	$ -	$ 60,111	$ 100,184

* Amount lower than $ 1 thousand.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	1995	1996	1997
Cash flows from operating activities:			
Net income	$ 4,847	$ 15,237	$ 40,208
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred compensation	250	82	312
Depreciation and amortization	75	450	886
Equity in losses of affiliates	-	-	760
Deferred income taxes	(10)	(10)	(10)
Increase in trade receivables	(2,492)	(4,944)	(6,785)
Increase in other accounts receivable and prepaid expenses	(108)	(1,285)	(2,749)
Increase in trade payables	166	783	2,062
Increase in accrued expenses and other liabilities	1,465	4,388	13,653
Increase in accrued severance pay, net	84	104	25
Other	-	-	76
Net cash provided by operating activities	4,277	14,805	48,438
Cash flows from investing activities:			
Investment in affiliates	-	-	(760)
Change in short-term marketable securities and deposits, net	-	(41,864)	(18,282)
Investments in long-term marketable securities and deposits	-	-	(36,331)
Purchase of property and equipment	(380)	(1,162)	(2,495)
Net cash used in investing activities	(380)	(43,026)	(57,868)
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares and exercise of options, net	6	37,558	1,882
Short-term bank debt, net	(10)	-	-
Proceeds from shareholders' loan	38	-	-
Principal payment of shareholders' loan	(418)	-	-
Net cash provided by (used in) financing activities	(384)	37,558	1,882
Increase (decrease) in cash and cash equivalents	3,513	9,337	(7,548)
Cash and cash equivalents at the beginning of the year	121	3,634	12,971
Cash and cash equivalents at the end of the year	$ 3,634	$ 12,971	$ 5,423

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Year ended December 31,		
	1995	1996	1997
Supplemental disclosure of cash flow activities:			
Cash paid during the year for:			
Interest	$ 26	$ -	$ -
Income taxes	$ 5	$ 17	$ 466
Non-cash investing and financing information:			
Accrued issuance expenses	$ -	$ 278	$ 136

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1: GENERAL

Check Point Software Technologies Ltd.("the Company"), an Israeli corporation, develops, markets and supports enterprise security software products that enable connectivity with security and manageability. The Company's revenues are derived from the sales of Firewall-1 family of software products and related maintenance agreements. The Company sells its Firewall-1 products worldwide through distributors, value added resellers ("VARs") and original equipment manufactures ("OEMs").

Revenues derived from the Company's two largest resellers represented 69%, 52% and 28% of the Company's revenues for 1995, 1996 and 1997, respectively. Revenues derived from the Company's largest reseller, SunSoft, represented 64%, 42% and 19% of the Company's revenues for 1995, 1996 and 1997, respectively. Sunsoft may terminate the agreement at any time upon 12 months' prior notice.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States.

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in United States Dollars:

Over 90% of the Company's sales are made in United States dollars. In addition, a substantial portion of the Company's costs are incurred in dollars. Since the dollar is the primary currency in the economic environment in which the Company and its subsidiaries operate, the dollar is their functional currency, and, accordingly, monetary accounts maintained in currencies other than the dollar (principally cash and cash equivalents, short-term deposits, marketable securities, long-term investments and liabilities) are remeasured using the foreign exchange rate at the balance sheet date. Operational accounts and nonmonetary balance sheet accounts are measured and recorded at the rate in effect at the date of the transaction. The effects of foreign currency remeasurement are reported in current operations.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

Intercompany transactions and balances have been eliminated.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash and with maturities of three months or less when purchased.

e. Short-term deposits:

The Company classifies deposits with maturities of more than three months and less than one year as short-term deposits. The short-term deposits are presented at their cost, including accrued interest.

f. Investments in debt and equity securities:

In accordance with Statement of Financial Accounting Standard ("SFAS") 115, "Accounting for certain investment in debt and equity securities", the Company has classified its marketable debt into held-to-maturity category. Securities classified as held-to-maturity are reported at amortized cost. Realized gains and losses, and declines in value of securities judged to be other-than-temporary, are included in "Financial income (expenses), net". Interest and dividends on all securities are included in "Financial income (expenses), net".

g. Property and equipment:

These assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives, at the following annual rates:

	%
Computers and peripheral equipment	33
Office furniture and equipment	10 - 20
Motor vehicles	15

Leasehold improvements - according to the related lease period.

h. Research and development costs:

Research and development costs are charged to the statement of operations as incurred. SFAS No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have been insignificant. Therefore, all research and development costs have been expensed.

i. Government grants:

Non royalty-bearing grants from the Government of Israel for funding certain approved research and development activities are recognized at the time in which the Company’s reports on its costs are approved by the Chief Scientist.

j. Revenue recognition:

Revenues from sales are recognized upon delivery of the software and the issuance of the related license, provided that no significant vendor obligations remain such as the right of return and collection of the related receivable is probable. Costs related to insignificant obligations, primarily telephone support, are accrued upon shipment and are included in cost of revenues.

Revenues from maintenance contracts are recognized ratably over the term of the agreement.

k. Warranty costs:

The Company provides a warranty for up to 90 days at no extra charge. A provision is recorded for probable costs in connection with warranties based on Company's experience and engineering estimates.

l. Income taxes:

Deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences and income tax credits. Temporary differences result primarily from differences between the tax bases of assets and liabilities and their financial reporting amounts. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized. Valuation allowances are established to reduce deferred tax assets to the amounts expected to be realized. Income tax expense consists of the taxes payable for the current period and the change during the period in deferred tax assets and liabilities.

m. Advertising expenses:

Advertising costs are expensed as incurred. Advertising expenses for the years ended 1996 and 1997, were $ 1,669 and $ 5,144, respectively.

n. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of, cash and cash equivalents, short-term deposits, marketable securities, trade receivables and long-term investments.

The Company's cash and cash equivalents, short-term deposits and part of the long-term investments are invested in deposits with major banks worldwide. At times, such deposits in U.S. may be in excess of insured limits. Management believes that the financial institutions that hold the Company's investments are financially sound, and accordingly, minimal credit risk exists with respect to these investments.

The Company's trade receivables are derived from sales to customers located primarily in the United States and Europe. The Company performs ongoing credit evaluations of its customers and, to date, has not experienced any material losses. The allowance for doubtful accounts is determined with respect to specific debts doubtful of collection.

The Company’s marketable securities include investments in debentures of U.S. Corporations. Management believes that those Corporations are financially sound, the portfolio is well diversified, and accordingly, minimal credit risk exists with respect to these marketable securities.

o. Earnings per share:

As of December 31, 1997, the Financial Accounting Standards Board Statement No. 128, "Earnings Per Share" (“SFAS. No. 128”) replaced the calculation of primary and fully-diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes the dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully-diluted earnings per share. All earnings per share amounts for all periods presented have been restated to conform to SFAS No. 128 requirements.

p. Stock Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), in accounting for its employee stock options plans. Under APB 25, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

U.S. Dollars in thousands

The Company applies SFAS No. 123, "Accounting for Stock-Based Compensation" with respect to warrants issued to non-employees. SFAS No. 123 requires use of option valuation models to measure the fair value of the warrants at the grant date.

In connection with the employee stock purchase plan through December 31, 1997 the Company recorded compensation for the aggregate differences between the respective exercise price of the stocks at their date of grant and the market value of the Ordinary stocks at December 31, 1997. Such amount was expensed.

q. Future adoption of New Accounting Standard:

1. In October 1997, the AICPA issued SOP 97-2, “Software Revenue Recognition”, which changes the requirements for revenue recognition effective for transactions that the Company will enter into beginning January 1, 1998. The Company does not anticipate that the new "SOP" will have a material effect on the Company's financial results.

2. In June 1997, the FASB issued Statements of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" and No. 131 “Disclosure About Segments of an Enterprise and Related Information”. These statements are effective for fiscal years beginning after December 15, 1997. These statements do not have a measurement effect on the financial statements. However, they do require additional disclosure.

r. Fair value of financial instruments:

1. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:
Cash and cash equivalents and short-term deposits - The carrying amount reported in the balance sheet for cash and cash equivalents and short term deposits approximates its fair value.
Marketable securities - The fair value for marketable U.S. corporate securities are based on quoted market prices.
The carrying amount reported in the balance sheet for long-term deposits approximates its fair value. The fair value for Israeli Government debts are based on their market prices.

2. The carrying amounts and fair values of the Company's financial instruments are as follows:

	Carrying amount		Fair value	
	December 31,		December 31,	
	1996	1997	1996	1997
Cash and cash equivalents	$12,971	$ 5,423	$12,971	$ 5,423
Short-term deposits	$21,908	$ 33,046	$21,908	$ 33,046
Marketable securities	$19,633	$ 26,777	$ 20,321	$ 26,516
Long-term investments	$ -	$ 36,135	$ -	$ 36,123

NOTE 3: MARKETABLE SECURITIES

	Cost		Gross unrealized gains (losses)		Estimated fair value	
	December 31					
	1996	1997	1996	1997	1996	1997
U.S corporate debts	$ 19,633	$ 7,790	$ 688	$ (240)	$ 20,321	$ 7,550

U.S. Dollars in thousands

Israeli Government debts	$ -	$ 18,987	$ -	$ (21)	$ -	$ 18,966

All the Company's marketable securities are classified as held-to-maturity and are due in one year or less.

NOTE 4: LONG-TERM INVESTMENTS

	December 31, 1997		
	Cost	Gross unrealized losses	Estimated fair value
Israeli Government debts	$ 11,413	$ (12)	$ 11,401
Long-term deposits	$ 24,722	$ -	$ 24,722

All of the Israeli Government debts held by the Company are classified as held-to-maturity.

Aggregate maturities of long-term investments for years subsequent to December 31, 1997 are as follows:

	Israeli Government debts	Long-term deposits	Total long-term investments
1999	$ 11,104	$ 24,722	$ 35,826
2000	$ -	$ -	$ -
2001	$ 309	$ -	$ 309
	$ 11,413	$ 24,722	$ 36,135

U.S. Dollars in thousands

NOTE 5: PROPERTY AND EQUIPMENT

	December 31, 1996	December 31, 1997
Cost:		
Computers and peripheral equipment	$ 1,272	$ 3,524
Office furniture and equipment	264	377
Motor vehicles	32	61
Leasehold improvements	68	169
	1,636	4,131
Accumulated depreciation:		
Computers and peripheral equipment	375	1,162
Office furniture and equipment	59	130
Motor vehicles	4	15
Leasehold improvements	10	27
	448	1,334
Depreciated cost	$ 1,188	$ 2,797

NOTE 6: ACCRUED EXPENSES AND OTHER LIABILITIES

	1996	1997
Income taxes payable	$ 364	$ 1,337
Marketing expenses payable	701	3,013
Provision for warranty	100	200
Accrued expenses	970	1,239
	$ 2,135	$ 5,789

NOTE 7: ACCRUED SEVERANCE PAY, NET

The Company's liability for severance pay, pursuant to Israeli law, is fully provided for through insurance policies and by accrual.

Severance expenses, net, for the years ended December 31, 1995, 1996 and 1997 were approximately $21, $212 and $429, respectively.

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The facilities of the Company and its U.S. subsidiary are rented under operating leases for periods, including renewal options, ending in 2003.

U.S. Dollars in thousands

Future minimum lease commitments under non-cancelable operating leases for the years ended December 31, are as follows:

1998	$ 3,243
1999	3,047
2000	1,978
2001	1,692
2002	1,745
Thereafter	260
	$ 11,965

Rent expenses for the years ended December 31, 1995, 1996 and 1997 were approximately $ 107, $ 481 and $ 1,184, respectively.

b. Guarantees:

The Company has obtained bank guarantees in favor of its lessor in Israel, in the amount of $336.

c. Litigation:

On July 5, 1996, Checkpoint Systems, Inc. ("CSI") filed an action alleging trademark infringement and unfair competition against the Company in the United States District Court of the District of New Jersey. CSI a manufacturer of theft prevention devices for retail stores, seeks to enjoin the Company from using the "Check Point" name in connection with the Company's products and services, and an unspecified amount of damages. Discovery in the case is completed. On August 7, 1997 CSI moved for summary judgment. On September 22, 1997, the Company filed its own motion for summary judgment. The parties respective motions are before the Court, and the Company does not know when a decision will be rendered. Due to the nature of the litigation, the Company cannot determine the total expense or possible loss, if any, that may ultimately be incurred.

NOTE 9: TAXES ON INCOME

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law"):

The production facilities of the Company have been granted the status of an "Approved Enterprise" under the Law.

According to the provisions of the Law, the Company has chosen to enjoy "Alternative benefits" - waiver of grants in return for tax exemption - and, accordingly, its income from the "Approved Enterprise" is tax-exempt for a period of four years commencing in 1995, and subject to a reduced tax rate of 25% for an additional period of three years.

The tax exempt income attributable to the "Approved Enterprise" can be distributed to shareholders without subjecting the Company to taxes only upon the complete liquidation of the Company. The Company's Board of Directors has determined that such tax exempt income will not be distributed as dividends. Accordingly, no deferred income taxes have been provided on income attributable to the Company's "Approved Enterprise".

If the retained tax exempt income is distributed in a manner other than in the complete liquidation of the Company, it would be taxed at the corporate tax rate applicable to such profits as if the Company had not chosen the alternative tax benefits (currently - 25%) and an income tax liability would be incurred of approximately $ 16,362 as of December 31, 1997.

Through December 31, 1997 the Company met all the conditions required under the approval.

U.S. Dollars in thousands

Should the Company fail to meet such conditions in the future, however, it could be subject to corporate tax in Israel at the standard rate of 36% and could be required to refund tax benefits already received.

Income from sources other than the "Approved Enterprise", during the benefit period, will be subject to tax at regular rates (37% in 1995 and 36% in 1996 and thereafter).

By virtue of the Law, the Company is entitled to claim accelerated rates of depreciation on equipment used by the "Approved Enterprise" during five tax years.

In June 1997, the Company's application for an expansion program was approved. The expansion program entitles the Company to a tax exemption for a period of two years and to a reduced tax rate of 10% - 25% for an additional period of five to eight years, based on the percentage of foreign ownership in the Company. The aforementioned benefits are in respect of the taxable income which the Company derives from the expansion program.

b. Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969:

The Company is an "industrial company" under the above law and as such is entitled to certain tax benefits, including accelerated rate of depreciation and deduction of public offering expenses.

c. Deferred tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

	December 31, 1996	December 31, 1997
Reserve and allowances	$ 20	$ 30
Balance at year end	$ 20	$ 30

d. Income (loss) before income taxes is comprised as follows:

	Year ended December 31, 1995	1996	1997
Israel	$ 5,162	$ 14,693	$ 41,535
Foreign	(325)	894	1,738
	$ 4,837	$ 15,587	$ 43,273

e. Provisions for income tax expense are comprised as follows:

	Year ended December 31, 1995	1996	1997
Current	$ -	$ 360	$ 2,315
Deferred	(10)	(10)	(10)
	$ (10)	$ 350	$ 2,305

f. Reconciliation of the theoretical tax expenses:

A reconciliation between the theoretical tax income, assuming all income is taxed at the statutory rate applicable to income of the Company and the actual income tax as reported in the statements of income, is as follows:

Year ended December 31,

	1995	1996	1997
Income before taxes as reported in the statements of income	$ 4,837	$ 15,587	$ 43,273
Statutory tax rate in Israel	37%	36%	36%
Theoretical tax expenses	$ 1,790	$ 5,611	$ 15,578
Increase (decrease) in taxes resulting from:			
"Approved Enterprise" benefit (1)	(2,093)	(5,165)	(13,452)
Items for which deferred taxes were not recognized	192	461	564
Tax adjustment in respect of inflation in Israel	2	(573)	(1,360)
Non-deductible expenses	99	16	35
Differences between tax rate in Israel and in the rest of the world	-	-	940
Income taxes (benefit) as reported in the statements of income	$ (10)	$ 350	$ 2,305
(1) Diluted earnings per share amounts of the benefit resulting from the exemption	$ 0.06	$ 0.15	$ 0.36

NOTE 10: SHARE CAPITAL

The Ordinary Shares of the Company are traded in Nasdaq National Market.

a. Employee stock purchase plan:

In January 1997, the Company's Board of Directors adopted the Employee Stock Purchase Plan (the "Purchase Plan"), which provides for the issuance of a maximum of 300,000 Ordinary Shares. Eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase Ordinary Shares. The Purchase Plan will be implemented by six months offerings with purchases occurring at six month intervals. The price of Ordinary Share purchased under the Purchase Plan will be equal to 85% of the lower of the fair market value of the Ordinary Share on the commencement date of each offering period, or on the semi-annual purchase date.

b. Stock options:

1. Under the Company's Stock Option Plan, Options granted to employees are at an exercise price which equals fair market value at the date of grant and are granted for periods not to exceed 10 years.

The Company's 1996 Incentive Employee Stock Option Plan has authorized the grant of options to employees for up to 6,600,000 Ordinary Shares.

2. On December 20, 1995 the Company granted 742,500 stock options to Naschitz, Brandes & Co., its Israeli general counsel, at an exercise price equal to the fair market price of the Ordinary Shares. As required by SFAS 123, these options were measured at fair value (Black - Scholes Option Pricing Model) of the options, which amounted to $ 380, of which $ 250 related to past services and was amortized in 1995, and the remainder was amortized over the vesting period (including $82 amortized in 1996 and $48 amortized in 1997).

A summary of the Company's stock option activity, and related information for the years ended December 31 is as follows:

Options (000)	Weighted Average Exercise Price

U.S. Dollars in thousands

	1995	1996	1997	1995	1996	1997
Outstanding-beginning of year	330	4,173	5,029	$0.01	$0.81	$2.91
Granted	3,843	1,080	1,604	0.88	10.59	22.50
Exercised	-	(42)	(1,444)	-	1.69	1.35
Forfeited	-	(182)	(128)	-	0.70	13.22
Outstanding-end of year	4,173	5,029	5,061	$0.81	$2.91	$10.65
Exercisable at end year	396	1,387	1,158	$1.68	$0.95	$ 9.17

The options outstanding as of December 31, 1997 have been separated into ranges of exercise price, as follows:

Exercise price	Options outstanding as of December 31, 1997	Weighted average remaining contractual life	Weighted average exercise price
$ 0.01 - $ 0.73	1,966,483	2.57	$ 0.40
$ 1.68 - $ 3.83	843,309	2.61	$ 2.14
$ 5.33 - $ 7.83	87,000	2.61	$10.69
$10.67 - $14.00	335,283	2.11	$ 12.84
$16.00 - $19.12	950,925	2.76	$ 16.47
$22.62 - $25.75	420,700	3.39	$ 23.55
$26.00 - $30.37	326,250	4.18	$ 27.86
$32.75 - $38.75	97,000	4.32	$ 37.68
$41.00 - $45.12	34,250	3.96	$ 41.90
$ 0.01 - $45.12	5,061,200	2.80	$ 9.40

Under SFAS 123, pro forma information regarding net income and earnings per share is required (for grants issued after December 1994), and has been determined as if the Company had accounted for its employee stock option under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black & Scholes Option Pricing Model with the following weighted-average assumptions for 1995, 1996 and 1997: risk-free interest rates of 6%, dividend yields of 0%, volatility factors of the expected market price of the Company's Ordinary Shares of 1.135 for 1995 and 1996 and 0.5 for 1997 and an expected life of the option of one year after the option is vested for 1995 and 1996 and 6 months after the option is vested for 1997.

The Black & Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's option, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period. Because statement 123 is applicable only to option granted subsequent to December 31, 1994 its pro forma effect will not be fully reflected until 1997.

Pro forma information under SFAS 123:

	December 31,		
	1995	1996	1997
Net income as reported	$ 4,847	$ 15,237	$ 40,208

U.S. Dollars in thousands

Pro forma net income	$ 4,768	$ 14,789	$ 36,736
Pro forma basic earning per share	$ 0.16	$ 0.47	$ 1.10
Pro forma diluted earning per share	$ 0.14	$ 0.42	$ 0.98
Shares used in calculation pro forma basic earnings per share (thousands)	29,700	31,203	33,359
Shares used in calculation pro forma diluted earnings per share (thousands)	33,960	35,454	37,470

The total compensation expense included in the consolidated statements of income for 1995, 1996 and 1997 is $ 250, $ 82 and $312, respectively.

The weighted average fair values of options granted for the years ended December 31, 1995, 1996 and 1997 were $ 0.20, $ 4.70 and $ 9.20, respectively.

c. Earnings per share:

The following table sets forth the computation of historical basic and diluted earning per share:

	December 31,		
	1995	1996	1997
Numerator:			
Net income	$ 4,847	$ 15,237	$ 40,208
Numerator for basic earnings per share - income available to common stockholders	$ 4,847	$ 15,237	$ 40,208
Numerator for diluted earning per share - income available to common stockholders after assumed conversion	$ 4,847	$ 15,237	$ 40,208
Denominator:			
Denominator for basic earning per share - weighted average shares (in thousands)	29,700	31,203	33,359
Effect of dilutive securities (in thousands)	4,260	4,251	4,111
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions (in thousands)	33,960	35,454	37,470
Basic earnings per share	$ 0.16	$ 0.49	$ 1.21
Diluted earnings per share	$ 0.14	$ 0.43	$ 1.07

d. Dividends:

Dividends on the Ordinary Shares if any, will be paid in NIS. Dividends paid to shareholders outside Israel will be converted into dollars, on the basis of the exchange rate prevailing at the date of payment.

Substantially all of the Company's retained earnings are derived from its "Approved Enterprise" and are not available for dividend distribution (See Note 9a).

U.S. Dollars in thousands

NOTE 11: SELECTED STATEMENTS OF OPERATIONS DATA

	Year ended December 31,		
	1995	1996	1997
a. Sales classified by geographical destinations:			
Israel	$ 141	$ 378	$ 805
Export:			
U.S.A.	7,957	22,355	48,688
Great Britain	487	2,572	7,144
Europe	281	1,824	12,699
Japan	542	3,320	7,186
Rest of the world	138	1,420	6,412
	$ 9,546	$ 31,869	$ 82,934

b. Major customers data, percentage of total revenues:

	1995	1996	1997
SunSoft	64%	42%	19%
Forval	*	10%	*
Netegrity Inc.	11%	*	*

* Less then 10% of total revenues.

c. Research and development, net:

In 1996 and 1997, research and development expenses were shown net of non-refundable and non-royalty bearing Israeli government grants of $288 and $797 respectively.

d. Financial income (expenses), net:

	1995	1996	1997
Financial expenses:			
Foreign currency translation adjustments	$ -	$ 320	$ 356
Interest and other	43	111	274
	43	431	630
Financial income:			
Foreign currency translation adjustments	12	-	-
Interest and other	8	1,919	5,223
	20	1,919	5,223
Financial income (expenses), net	$ (23)	$ 1,488	$ 4,593

ITEM 18. FINANCIAL STATEMENTS

Not applicable.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements:

Consolidated Balance Sheets of Check Point and its Subsidiaries as of December 31, 1996 and 1997
Consolidated Statement of Operations, changes in Shareholders' equity and cash flows of Check Point and its Subsidiaries for each of the three years in the period ended December 31, 1997

(b) Exhibits:

2.1†**	Agreement between the Company and SunSoft, Inc. dated November 30, 1994
2.2†**	Agreement between the Company and Bay Networks, Inc. dated March 28, 1996
2.3**	1996 Israel Stock Option Plan
2.4*	1996 United States Stock Option Plan
2.5*	Employee Stock Purchase Plan
2.6**	Form of Indemnification Agreement for officers and directors of Registrant
2.7**	Employment Agreement between the Company and Deborah D. Triant dated July 24, 1995
2.8**	Employment Agreement between the Company and Hagi Schwartz dated December 5, 1995
2.9**	Distributor Agreement between the Company and Forval Creative Inc. dated January 15, 1996
2.10†**	Agreement between the Company and NeTegrity Corporation (formerly Internet Security Corporation) dated May 18, 1994, as amended November 16, 1995
23.1	Consent of Kost, Levary and Forer, Independent Auditors

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* Incorporated by reference to identically numbered exhibits filed with Registrant Form F-1 Registration Statement originally filed with the Securities and Exchange Commission on February 7, 1997 as amended May 1, 1997, May 5, 1997 and May 6, 1997.

† Confidential treatment has been granted for certain portions of this exhibit.

** Incorporated by reference to exhibits filed with Registrant's Form F-1 Registration Statement originally filed with the Securities and Exchange Commission on May 31, 1996.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this amendment to its annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHECK POINT SOFTWARE TECHNOLOGIES LTD.

By: ________________________________
Hagi Schwartz
Chief Financial Officer

Date: July __, 1998