

Check Point Software Technologies Ltd. Annual Report 1996



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without @ Check Point Software Technologies Ltd.

<http://www.checkpoint.com>

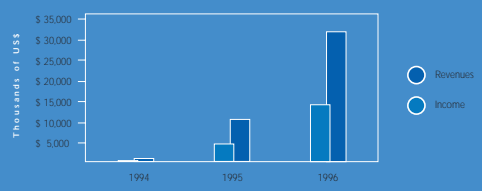
Consolidated Financial Highlights
(in thousands, except for per share data)

	1994	1995	1996
Revenues	\$ 794	\$ 9,546	\$ 31,869
Operating Income	77	\$ 4,860	14,099
Net Income	24	\$ 4,847	15,237
Earnings per Share	-	\$ 0.14	0.43

	Dec. 31, 1996
Total Assets	\$ 65,354
Shareholders' Equity	\$ 37,640

Check Point at a glance

Revenues and Net Income



Dear Shareholder,

As Chairman of the Management Team of Check Point Software Technologies Ltd, I would like to welcome you as a shareholder in our newly public company. We will be doing our best to serve your interests through building long term success in the rapidly growing markets where we compete. I am happy to report that in 1996 we made substantial progress in delivering on that goal. We not only fortified our position as the worldwide market leader of Internet firewalls, we also advanced our technology products and partnerships to become the leader in the important emerging market of integrated enterprise network security.

The past year was a time of remarkable growth for our company on all fronts. Our sales more than tripled, we quadrupled our installed base to over 16,000 units (the largest in the market by far), and we expanded our workforce four-fold. FireWall-1 for Windows NT made its debut mid-year and by the fourth quarter represented 40% of our channel licenses. We opened up the FireWall-1 technical architecture to enable integrated management of a broad spectrum of security and network management functions through the OPSEC Initiative (Open Platform for Secure Enterprise Connectivity). And Check Point launched a very successful initial public offering in June, resulting in NASDAQ:CHKPF.

The past year was a time of remarkable growth for Check Point on all fronts

Our financial results for the year reflect the quality of our products and our employees. Annual revenues for 1996 reached \$31.9 million, representing a 234% increase over 1995 revenues. Net income for the year was \$15.2 million or \$0.43 per share, representing an increase of 214% in net income and an increase of 207% in per share income. As a result of our rapid growth and high profitability combined with the proceeds from our mid-year initial public offering, the company strengthened its balance sheet to \$54.5 million in cash and short term investments as of December 31, 1996, compared to \$3.6 million for the previous year.

In 1996, we dramatically expanded our worldwide operations to establish a broad, diverse sales and distribution network, build market awareness and meet the needs of our growing installed base. Total operating expenses were \$15.8 million, up from \$4.1 million the previous year. Our sales and marketing departments were enlarged accordingly and we brought together a strong, experienced management team. Roughly half our channel sales were in the Americas, with the rest evenly divided between Europe and Asia-Pacific. Expansion in distribution and marketing channels also mirrored this growth. We opened eleven new offices worldwide. We increased our number of distributors and direct resellers to 150, including two major two-tier distributors in the United States: Ingram Micro and Westcon. We expect this expansion in our distribution capability to substantially increase our base of VARs and resellers while improving the efficiency of our sales operations. We have also made major investments in the training and support infrastructure to meet the needs of our expanding channel partners.

OEM partnerships are another important channel for Check Point. In 1996, we continued to strengthen our relationship with Sun Microsystems, as reflected in their substantial sales growth. At the same time, we expanded and diversified our OEM partnerships to include additional computer companies (Hewlett Packard, NCR) and internetworking companies (Bay Networks, Xylan, U.S. Robotics and recently 3com). These new relationships should contribute to growth in revenues and market presence during 1997.

Over the past year, the firewall market has grown even more competitive with a number of new entrants, including some large networking vendors. Many vendors have had difficulty sustaining their growth in this increasingly competitive environment. Yet, together with outstanding strategic partnerships and an international sales and marketing network, Check Point has continued to gain momentum due to its award-winning products built on scalable, extensible and heterogeneous technology.

For all the success we have enjoyed in 1996, we are committed to redoubling our efforts in the year ahead to expand our leadership position in the rapidly growing market for enterprise network security. Key initiatives for 1997 include increasing our product capabilities, building support for the OPSEC architecture, expanding our partnerships, and continuing to strengthen our marketing, distribution, training and support on a global basis.

I would like to take this opportunity to thank our staff of extremely dedicated and talented employees for their hard work and commitment. They are responsible for making Check Point the success it is today and I am certain that through their efforts, 1997 will be just as rewarding.



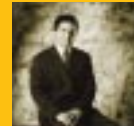
Gil Shwed
President & CEO

April 1997

We welcome
you as a
shareholder
in our new
public
company



Gil Shwed



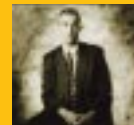
Shomo Kramer



Marka Nacht



Deborah Triant



Hag Schwartz



John Cunningham

And we feel certain that 1997 will be just as rewarding for Check

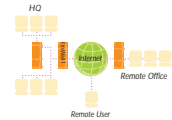
FireWall-1 has emerged as the de facto standard for enterprise network security

FireWall-1 Secure Enterprise Connectivity

The explosive growth of the Internet is changing the way the world conducts business. Enterprises, large and small, are using the Internet to build global communication networks that connect employees, customers and business partners in powerful, integrated computing environments. But as network activity increases, so do the risks to network security. Enterprise-wide computing, where anyone can connect anywhere in the corporate-wide network, demands an enterprise-wide security solution. Commitment to Secure Enterprise Connectivity is not only Check Point's mission, it is also the principal reason why FireWall-1 is the best-selling network security system in the world.



FireWall-1 represents a new generation of security technology, delivering unprecedented levels of security functionality, performance, extensibility and ease of use. Only FireWall-1 provides centralized, policy-based management for the entire enterprise - integrating all aspects of network security, including programs and systems from third party vendors, into a unified enterprise security system. The system can be deployed across heterogeneous platforms and diverse network protocols without restricting connectivity in any way. FireWall-1 is built on two key technological pillars: Check Point's unique Stateful Inspection technology for monitoring and screening network traffic, and OPSEC, the industry's first and only open architecture for the integration and centralized management of enterprise-wide security. Stateful Inspection overcomes the limitations of conventional firewall technology using a highly secure, efficient, and programmable process for screening network traffic in a gateway. OPSEC creates the framework for centrally managing an enterprise security policy and distributing the implementation through multiple system components across a diverse network environment. With the strength of Check Point's innovative technology underlying a powerful winning product family, it is not surprising that FireWall-1 has emerged as the de facto standard for enterprise security, protecting thousands of small to Fortune 100 companies and government agencies around the globe.



The FireWall-1 brand covers a growing family of products designed to meet the needs of our increasingly diverse customer base. This includes:

- **FireWall-1 Enterprise**
Check Point's flagship product for management of enterprise-wide security
- **FireWall-1 Internet Gateway**
products tailored for the needs of small to mid-sized businesses requiring protection for their Internet connections
- **Router Management Center**
manages the built-in security features of Cisco, Bay Networks and 3com routers
- **SecuRemote**
client encryption software which enables secure, private communications by mobile and remote users via dial-up connections through the user's Internet service provider
- **FireWall-First**
provides basic Internet access control while maintaining a high level of network security. FireWall-First is bundled with every computer in Sun Microsystems Netra series of Internet servers.

FireWall-1 has emerged as the de facto standard for enterprise network security

All facets of network security are defined and driven by a single enterprise-wide security policy



The OPSEC Alliance

Open Platform for Secure Enterprise Connectivity

As computer networks grow in size and scope, the demand for comprehensive network security solutions evolves rapidly. Many vendors offer effective independent solutions for security components such as encryption, authentication and content security. Consumers use these solutions across a wide assortment of security platforms including servers, routers, workstations and switches. The diversity of security components available and security platforms being used mandates an open, scalable, integrated solution. Check Point meets this challenge with a unique and revolutionary concept in enterprise-wide security: OPSEC (Open Platform

"Security Dynamics and Check Point Software have forged a strong relationship in providing our joint customers an integrated, comprehensive enterprise security solution for over two years. This solution combines SD's best-selling authentication and encryption products with Check Point's market-leading FireWall-1 software to give our joint customers the assurance that they have the best network security possible."
Charles R. Stuckey, Jr., Chairman, President and CEO, Security Dynamics, Inc.

for Secure Enterprise Connectivity). OPSEC provides a single platform which integrates and manages all aspects of network security through an open, extensible management framework. Third-party security applications can plug into the OPSEC framework via published APIs, industry-standard protocols, and INSPECT, a high-level scripting language. As a result of this architecture, customers can easily and seamlessly integrate a customized set of security components to best meet their requirements and later add new security modules as they become available.

"The integration of WebSENSE with FireWall-1 gives the network administrator network security, virus protection and Internet screening in one package. This type of integration is the wave of the future and we are pleased to be partnering with Check Point."
Phil Trubey, President and CEO, NetPartners Internet Solutions, Inc.

With OPSEC, all facets of network security are defined and driven by a single enterprise-wide security policy, ensuring that corporate security is safer, simpler to maintain and more comprehensive than ever before. Many vendors are now supporting the OPSEC architecture with their own security applications. Through OPSEC and these expanding partnerships, Check Point will be able to broaden the range of security functions supported through its integrated management console more rapidly than previously possible.



- Content Security
 - Computer Associates/Cheyenne Software
 - Firpan
 - Integralls
 - McAfee Associates
 - Symantec

- Authentication
 - Axent/AssureNet
 - RADIUS - Compliant Systems (e.g. ActivCard, Vasco)
 - Security Dynamics

- URL Filtering
 - NetPartners

- Encryption
 - Security Dynamics/RSA
 - TimeStep

- Accounting and Reporting
 - BellCore
 - Xpert Systems
 - Telemate

- Suspicious Activity Monitoring
 - Haystack Labs
 - ISS

All facets of network security are defined and driven by a single enterprise-wide security policy

Check Point Sales { Worldwide Distribution Network

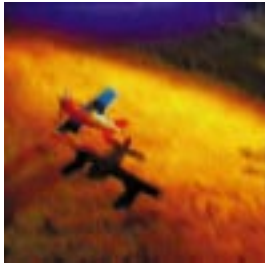
covers the

world

channel

partners

channel partners



The Internet is a global phenomenon, requiring a global company to ensure its security. Check Point is well-suited to the task. Its products are sold and supported through a worldwide network of hundreds of distributors, value-added resellers (VARs), system integrators, Internet Service Providers and OEMs. Check Point has recently added national two-tier distributors in the US, including Ingram Micro

"Check Point Firewall-1 allows us to offer different security domains for local government and engineering companies to control access to sensitive or confidential data. With the growing demand and rapid evolution of Internet and intranet solutions, Firewall-1 will continue to be an important component of our service offering to the Norwegian corporate market."

Bjorn Soland, Product Manager - Information Security, Telenor Bedrift AS

and Westcon - enabling the company to substantially increase its base of VARs and resellers while improving the efficiency of its sales operations. Internet service providers (ISPs) are quickly becoming an important new channel of Internet and intranet security products, especially through the new trend of ISPs offering managed Internet, intranet and extranet services. A large number of ISPs from around the world have announced relationships with Check Point to offer managed firewall services, including companies such as MCI, NTT PC, Telenor Bedrift AS, UUNet, U S West, Hitachi, Quza, UUNet Pipex, CompuServe Network Services, EU/Net Deutschland, Genuity, Digex and WITel. Check Point's international family of channel partners and OEMs receive support and training from 14 regional offices strategically located in North America, Europe, the Middle East and the

"Check Point Software is a leader in the network security market and we are excited to provide our resellers and vendor partners with access to the complete line of Check Point network security products." Amy Hoffman, Vice President of Product Marketing, Ingram Micro, Inc.

Pacific Rim. Check Point's US headquarters in Redwood City, CA are responsible for worldwide sales, operations, marketing and business development. Ramat Gan, Israel is the address of Check Point's corporate headquarters, international operations and R&D facilities.



Headquarters and R&D facilities:

- Ramat Gan, Israel

US Sales and Marketing:

- Redwood City, CA

Regional Offices:

- Houston, TX
- Lexington, MA
- Alexandria, VA
- El Segundo, CA
- Denver, CO
- Chicago, IL
- New York, NY
- Detroit, MI

International Offices:

- England
- France
- Germany
- Japan
- Singapore

Check Point covers the world with channel partners and regional offices

Dynamic OEM partnerships help us penetrate into new market segments



Partnerships { Strategic Alliances

Check Point's OEM partners continue to play an integral role in the company's distribution strategy. They not only provide vital market exposure by bundling Check Point products for their extensive customer bases, they also help the company penetrate new market segments by working with Check Point to create exciting integrated product offerings. The following joint projects illustrate the success and diversity of Check Point's OEM partnerships.

SunSoft, Inc., a subsidiary of Sun Microsystems, Inc., offers FireWall-1 as Solstice FireWall-1, a member of its Solstice family of enterprise management products. Solstice FireWall-1 is available through SunSoft, Inc. and its authorized distributors and resellers, including Sun Microsystems Computer Corporation (SMCC).

Bay Networks is integrating FireWall-1 into the Bay family of router platforms, marking the first time that a commercial firewall product is available on a router platform.

"The partnership between Bay Networks and Check Point Software was forged to deliver the first industrial-strength network security on a router platform. Bay Networks is proud to partner with Check Point to provide this critical functionality to customers." Lloyd Carney, Executive Vice President and General Manager, Enterprise Business Group, Bay Networks

Xylan Corporation, in partnership with Check Point, is creating the first firewall security in a LAN switch and the two companies will work together to provide the first user-based secure virtual LANs.

"Xylan considers Check Point an important strategic partner in offering network security to our customers. In coming together to deliver the industry's first secure virtual LANs, our two companies are providing customers with a premier solution for intranet security." Steve Kim, Chairman and CEO, Xylan Corporation

US Robotics is integrating FireWall-1 with its NT-based Edge-Server for the Total Control Enterprise Hub.

"Security is a critical function that many of our customers deploy in tandem with their remote access solutions. By offering the option to incorporate Check Point's FireWall-1 on our EdgeServer remote access platform, we are providing our customers a variety of ways to achieve the high level of security they require." Ross Manire, Senior Vice President and General Manager, Network Systems, U.S. Robotics

NCR Corporation has entered into a global OEM and marketing agreement with Check Point under which every NCR WorldMark enterprise server will ship with FireWall-1.



Customers

Users Talk Back

Over 16,000 Check Point firewalls have been installed worldwide at thousands of locations, protecting sensitive corporate data in such industries as finance, defense, telecommunications, retail, health care, high-technology and manufacturing. Check Point's customer base encompasses non-profit organizations, small firms, multinational corporations, industry-leading Fortune 500 companies and numerous government agencies. Applications of Check Point products are equally as diverse. Our customers use Check Point products through out their companies, from their internet gateways and their departmental servers to their remote and regional offices and the laptops of their sales people and telecommuters. But as diverse as each customer and their use of Check Point products, there is one common thread: Check Point's products are critical to their business. For example, a large metropolitan newspaper in the U.S. uses FireWall-1 to create a country-wide virtual private network with its suppliers, distribution network and journalists. One of the world's largest health maintenance organizations (HMOs) is using Check Point products to protect confidential communications on its Extranet and provide access to colleagues in the medical community, including hospitals, research facilities and suppliers.

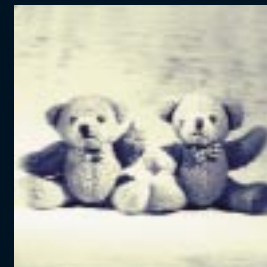


U S West's INTERPRISE

Centralized Management

"FireWall-1 allows U S West to centrally manage and quickly configure our management firewall service customers. In the ultra-competitive Internet services market, you must keep up with the break-neck speed of change, and FireWall-1 enables us to do that while our competitors are left behind in the dust." Michael Sabo, Director Internet Service Development, U S West's INTERPRISE Networking Services

A major telecommunications company is securing and managing its hundreds of points-of-presence and providing network security to business customers worldwide with FireWall-1. A utility company is implementing FireWall-1 to restrict access to business-critical resources on-line while protecting various power plants and energy facilities across the country. A real-time news delivery service for the financial community is supplying instantaneous news and stock quotes from more than 500 different sources to its customer base, securely, thanks to FireWall-1. One of the world's largest pharmaceutical companies uses FireWall-1 at each of its research and development facilities worldwide to protect its trade secrets, formulas and patient applications, remotely managing each facility from a single location with one, central network security policy. And a major retailer uses Check Point products to secure each server at its headquarters facility, the servers at each of its stores country wide, as well as its corporate Web server.



KinderCare Corporation

Enterprise Security

"Check Point FireWall-1 enables KinderCare to centrally manage our enterprise security policy while protecting our organization's mission critical internet and intranet communications." David Burke, Director of Communications Infrastructure, KinderCare Corporation

DHL Systems, Inc.

Internet Access

DHL Systems, a technology service company for DHL Worldwide Express, is charged with providing all global network services to the organization, the world's largest and most experienced international air express network, linking more than 1,986 locations in more than 223 countries. DHL provides their customers up-to-the-minute, on-line package tracking information via two redundant Web servers. One resides at DHL Systems' facility in Burlingame, California, the other in London, England. Customers can track their packages from the company's Web site by simply entering a package tracking number. The Web-based application accesses DHL's global trace and track databases hidden from the customer by the firewall and reports back through the firewall with the package status. DHL protects its global network (DHLNET) behind these servers with Check Point FireWall-1. They selected FireWall-1 because it was straightforward to implement, features an easy to use graphical user interface that streamlines maintenance activities, and of course, met their stringent security requirements with Check Point's patented Stateful Inspection technology. With replicated sites and firewalls on both sides of the Atlantic, DHL has a high degree of both security and disaster protection. Should an earthquake ever impact their California facility, for example, they are protected by the replicated server with FireWall-1 in London, and customers have uninterrupted access to the DHL Web site to find their packages, wherever they may be.

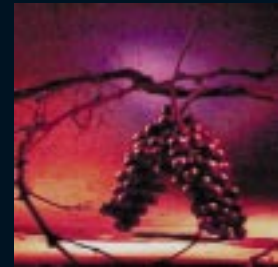


"At DHL, Internet access is a necessity for our business. FireWall-1 enables DHL customers to access our Web services, especially our package tracking service, without compromising our internal information infrastructure."
Derek Archer, Director Network Services, DHL Systems

Robert Mondavi Winery

Internet Communications

Robert Mondavi Winery is a 30+ year old company comprised of seven separate wineries, boasting a worldwide distribution of their combined production volume of 5.5 million cases of wine annually. As a global business, protecting confidential information is a primary concern to the company. Mondavi protects its confidential corporate information, such as growing and harvest plans, shipping contacts, regulatory records, and distribution lists, with Check Point FireWall-1 on a Microsoft Windows NT server. They selected the FireWall-1 enterprise security solution after consulting with technical staff members of the world's leading router manufacturer who recommended the FireWall-1 product. Robert Mondavi Winery also uses FireWall-1 to control the access lists on its Cisco routers to consolidate maintenance activities with a single GUI that is much easier to use than the router's command line interface.



"Thanks to FireWall-1, we've achieved secure Internet and intranet communications, enabled FTP, and maintained our legacy IP addresses. There's really not more one could ask of a firewall."
Michael Davis, Network Administrator, Robert Mondavi Winery

Report of
Independent
Auditors

Corporate Headquarters

Check Point Software Technologies Ltd.
34 Kibbutzim St.
Diamond Tower
Ramat Gan 52520
Israel
Telephone: (972)-3-6131933
Facsimile: (972)-3-5759256

Subsidiaries

Check Point Software Technologies, Inc.
400 Seaport Court
Suite 105
Redwood City CA 94063
USA
Telephone: (1) 415-5620400
Facsimile: (1) 415-562-0410

Check Point Software Technologies (UK) Ltd.
St Johns Innovation Centre
Cowley Rd, Cambridge CB4 4WS
United Kingdom
Telephone: (44) (0)1223 421338
Facsimile: (44) (0)1223 421391

Check Point Software Technologies SARL
CNIT Service Affaires
2 Place de La Defense
B.P. 240
92551 Paris La Defense
France
Telephone: (33) (0)1 46 92 24 97
Facsimile: (33) (0)1 46 92 24 00

CheckPoint Software Technologies GmbH
Postfach 1136
85387 Allershausen
Germany
Telephone: (49) (0) 8166 68096
Facsimile: (49) (0) 8166 68087

Check Point Software Technologies (Singapore) Ltd.
31-02 Suntec Tower II
9 Temasek Boulevard
S-038969 Singapore
Telephone: (65) 434 5618
Facsimile: (65) 434 5617

<http://www.checkpoint.com>