Management's Discussion and Analysis
Of Financial Condition and Results of Operations

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, $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-Limited Operating History; 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 1996 and 1997, the Company significantly increased the number of its resellers,

distributors and system integrators on a worldwide basis. In 1997, Check Point entered into numerous distribution agreements with OEMs and Internet Service Providers. Check Point signed OEM agreements with Hewlett-Packard, IBM, 3Com Corporation, Ipsilon Networks (now Nokia), and TimeStep. In addition, Check Point also established relationships with major telecommunications providers and Internet Service Providers such as Alcatel Datacom, Deutsche Telecom, GTE Internetworking, Olivetti, MCI, USWest and WorldCom/UUNet Technologies, Inc., In 1996, the Company established national two-tier distribution relationships with Ingram Micro and Westcon in North America. In 1997, Check Point added SoftBank in Japan and Anixter Communication and Itergration in Europe to its diversified distribution channels. See "Risk Factors-Dependence Upon Limited Number of Key Resellers; Product Concentration" and "Dependence on Indirect Distribution".

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 would materially adversely affect the Company's operating results. See "Risk Factors-Limited Operating History; 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.

Non royalty-bearing grants from Government of Israel for funding certain approved research and Development activities are recognized at the time in which the Company's reports on its cost are approved by the chief scientist.

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.

	Year ended December 31,		
	1995	1996	1997
Revenues, net	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	52
Income taxes	0	1	3
Net income	51%	48%	49%

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 both in absolute dollars and as a percentage of revenues 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 from 1996 to1997 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 increased as a percentage of revenues in 1996 as compared with 1995, primarily due to increased sales and marketing activities in North America. Sales and marketing expenses decreased as a percentage of revenues from 1996 to 1997 as a result of significant increases in revenues. 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.

Quarterly Results of Operations

The following tables set forth certain unaudited consolidated statement of operations data for each of the quarters in 1996 and 1997, as well as the percentage of the Company's revenues represented by each item. The unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements contained herein and include all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of such information when read in conjunction with the Company's Consolidated Financial Statements and Notes thereto appearing elsewhere in this Prospectus. The Company believes that quarter-to-quarter comparisons of its financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. See

"Risk Factors n Limited Operating History; Potential Fluctuations in Operating Results; Anticipated Decline in Margins."

Quarter Ended (in thousands)

	Mar. 31, '96	June 30, '96	Sep. 30, '96	Dec. 31, '96	Mar. 31, '97	June 30, '97	Sep. 30, '97	Dec. 31, '97
Consolidated Statement of Operations Data:								
Revenues, net	$4,839	$ 7,377	$ 8,030	$ 11,623	$ 13,684	$ 17,258	$ 22,405	$ 29,587
Cost of revenues	232	416	634	677	1,004	1,295	1,719	2,043
Gross profit	4,607	6,961	7,396	10,946	12,680	15,963	20,686	27,544
Operating expenses								
Research and development	378	827	874	1,254	1,012	1,336	1,556	2,279
Sales and marketing	1,223	2,373	2,463	3,838	4,078	5,921	6,208	9,388
General and administrative	269	610	754	948	1,453	1,148	1,501	2,313
Total operating expenses	1,870	3,810	4,091	6,040	6,543	8,405	9,265	13,980
Operating income	2,737	3,151	3,305	4,906	6,137	7,558	11,421	13,564
Financial income, net	25	76	635	752	791	798	1,462	1,542
Equity losses related to affiliates	-	-	-	-	150	200	200	210
Income before income taxes	2,762	3,227	3,940	5,658	6,778	8,156	12,683	14,896
Income taxes (benefit)	(1)	(1)	192	160	305	440	727	833
Net income	$ 2,763	$ 3,228	$ 3,748	$ 5,498	$ 6,473	$ 7,716	$ 11,956	$ 14,063
As a Percentage of Revenues:								
Revenues, net	100%	100%	100%	100%	100%	100%	100%	100%
Cost of revenues	5	6	8	6	7	8	8	7
Gross profit	95	94	92	94	93	92	92	93
Operating expenses								
Research and development	8	11	11	11	7	8	7	8
Sales and marketing	25	32	31	33	30	34	28	32
General and administrative	6	8	9	8	11	7	7	8
Total operating expenses	39	51	51	52	48	49	41	47
Operating income	56	43	41	42	45	44	51	46
Financial income, net	1	1	8	7	6	5	7	5
Equity losses related to affiliates	-	-	-	-	1	1	1	1
Income before income taxes	57	44	49	49	50	47	57	50
Income taxes	0	0	2	2	2	3	3	3
Net income	57%	44%	47%	47%	47%	45%	53%	48%

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 quarters ended December 31, 1996 and 1997. 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. Cash and cash equivalents and short term investments were $65.2 million, and long term investments were $36.1, at December 31, 1997. 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 $1.9 million in 1997, primarily as a result of options execrising. The Company believes that existing sources of liquidity and cash flow, will be adequate to fund its operations through at least the end of 1998.

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 8.5% 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 and a substntial portion of the Company's costs are incurred in dollars. 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 significant hedging activities to date. See Note 2 of Notes to Consolidated Financial Statements.

Effective Corporate Tax Rate

The Company's effective tax rate in Israel was 0% in 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 this investment program 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 tax able at 15%-25% for an additional period of three (3) to six (6) years (based on the percentage of foreign ownership of the company). 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 reduced tax rate of 15%-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. See Note 9 of Notes to Consolidated Financial Statements. 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 started 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 982,000 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. See Note 9 of Notes to Consolidated Financial Statements.

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.

KOST, LEVARY & FORER

Certified Public Accountants (Israel)

A member of Ernst & Young International

Tel-Aviv, Israel

January 22, 1998

Consolidated Balance Sheets (in thousands of U.S. Dollars)

ASSETS	December 31,	
CURRENT ASSETS:	1996	1997
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.

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31,	
CURRENT LIABILITIES:	1996	1997
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 Shares 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.

Consolidated Statements of Operations (in thousands of U.S. Dollars)

	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)

(in thousands of U.S. Dollars)

	Share capital	Additional paid-in capital	Deferred com-pensation	Retained earnings (deficit)	Total
Balance as of January 1, 1995	$ (*	$ 30	$ -	$ (92)	$ (62)
Deferred compensation related to grant of stock option	-	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 (in thousands of U.S. Dollars)

	Year ended December 31,		
Cash flows from operating activities:	1995	1996	1997
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

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

Consolidated Statements of Cash Flows (Cont'd) (in thousands of U.S. Dollars)

	Year ended December 31,		
	1995	1996	1997
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
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 product 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 expended.

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:

Revenue from sales is recognized upon delivery of the software and the issuance of the related license, provided 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 receivable 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 receivable 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.

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,		December 31,		December 31,	
	1996	1997	1996	1997	1996	1997
U.S corporate debts	$ 19,633	$ 7,790	$ 688	$ (240)	$ 20,321	$ 7,550
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

	Cost	Gross unrealized losses	Estimated fair value
	December 31, 1997		
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

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

	December 31,	
	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.

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.

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	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:

On 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:

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 employee 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:

	Option (000)			Weighted Average Exercise Price		
	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 Dec. 31, '97	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 month 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
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. **Earning 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 ordinary stockholders	$ 4,847	$ 15,237	$ 40,208
Numerator for diluted earning per share - income available			
to ordinary 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 earning per share -			
adjusted weighted average shares and assumed conversions (in thousands)	33,960	35,454	37,470
Basic earning per share	$ 0.16	$ 0.49	$ 1.21
Diluted earning 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).

Note 11 | Selected Statements Of Operations Data

a. Sales classified by geographical destinations:

	Year ended December 31,		
	1995	1996	1997
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%
Forvall	(*	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

Board of Directors:

Gil Shwed
President and Chief Executive Officer

Shlomo Kramer
Executive Vice President

Marius Nacht
Vice President of International Operations

Deborah D. Triant
President and Chief Executive Officer
Check Point Software Technologies, Inc.

Hagi Schwartz
Vice President of Finance and Chief Financial Officer

Ayelet Tal
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Deborah D. Triant
President and Chief Executive Officer
Check Point Software Technologies, Inc.

Hagi Schwartz
Vice President of Finance and Chief Financial Officer

General Counsel:
Naschitz, Brandes & Co.

Legal Counsel:
Morrison & Foerster LLP
Skadden, Arps, Slate, Meagher & Flom LLP

Independent Auditors:
Kost Levary & Forer (a member of Ernst & Young International)

A copy of the company's annual report on a Form 20-F, filed with the Security and Exchange Commission, is available upon request from the company.

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