SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(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, 1998

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, 1998 – 36,278,288 (end of reporting period).

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

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

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 network security solutions for enterprise networks, including virtual private networks (VPNs), firewalls, intranet and extranet security and managed service provider (MSP) management software. The Company delivers solutions that enable secure, reliable and manageable business-to-business communications over virtually any Internet Protocol ("IP") network—such as extranets, intranets and the Internet. Check Point Software product offerings also include traffic control/quality of service (QoS) and IP address management. Check Point Software products are fully integrated and provide centralized management, distributed deployment, and comprehensive policy administration. Check Point Software products are based on its Open Platform for Secure Enterprise Connectivity (OPSEC), enabling integration with best of breed hardware, security applications and enterprise software applications. Some of the primary products include the market-leading enterprise security suite, Check Point FireWall-1 and the VPN-1 family for virtual private networking.

Industry Background

Information, and the ability to access and distribute it, is the top strategic asset in today's competitive business environment. This need to effectively use and communicate information as well as work more collaboratively 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 and manage the access to 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.

At the same time, the convergence of these two major transitions and the need for secure, managed communications, has led to the emergence of virtual private networks, or VPNs, 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

The increasing demands placed on enterprise security systems by the expansion of Internet services and global enterprise networking are quickly outpacing the capabilities of many 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 Software Solution

Check Point Software 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 enables integration with over 200 third-party security applications, computer hardware, internetworking hardware, appliances and enterprise 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 critical 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 200 third-party security applications, computer hardware, internetworking hardware, appliances and enterprise 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 FireWall-1 product family 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, 3DES and FWZ1. The Company extends the VPN to the mobile desktop users with its SecuRemote client software, available free of charge from the Company's website. In addition, through the combined use of FireWall-1/VPN and the Company's FloodGate-1 traffic control software, users can implement secure and reliable intranet and extranet VPNs for business communications.

Extensive, Scaleable Application Support. FireWall-1 supports over 150 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, VPN-1 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.

Products

Check Point's product lines offers a broad range of policy-based solutions for securing and managing networks. The Company's Enterprise Security Management product line includes its FireWall-1 family of products, its VPN-1 family of virtual private networking solutions and some associated products. The Company's Enterprise Traffic Control product line includes its FloodGate-1 bandwidth management solution. The Enterprise Infrastructure Management product line includes Meta IP IP address management products.

The Company is currently shipping FireWall-1 Version 4.0, VPN-1 product family, FloodGate-1 Version 1.5 Meta IP 4.1 and Provider-1, and is continuing to upgrade the functionality of its products.

FireWall-1

Check Point FireWall-1 is a comprehensive application suite that integrates access control, authentication, network address translation, content security, auditing and enterprise policy management. FireWall-1 is based on Check Point's patented Stateful Inspection technology to deliver high performance security, application support and scalability. The most widely used network security suite on the market today, FireWall-1 is ICSA and E3-certified. It is available on a variety of platforms including UNIX and Windows NT servers and several industry-leading third-party internetworking platforms.

The Company's FireWall-1 product contains 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 single site 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 (ConnectControl).

VPN-1

The Company's VPN-1 product family is designed to meet 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 VPN-1, the Company's SecuRemote product extends the virtual private network to the desktop and laptop by providing client to firewall encryption. The VPN-1 Appliance, another component in the VPN-1 product family, is a complete hardware and software security appliance providing secure Internet access for branch office deployments. VPN-1 Appliance includes complete enterprise security with FireWall-1, Virtual Private Networking with VPN-1 and integrated IP routing – all in a single product that can be quickly deployed and safely managed from a centralized management console.

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.

Meta IP

Meta IP is an automated solution for managing IP addressing and naming. Meta IP is designed to ensure control and reliability of address allocation and services while improving TCP/IP management efficiency. Meta IP's modular, replicated architecture enables multi-level fault-tolerance, cross-platform compatibility and distributed administration. Through its User-to-Address Mapping™(UAM) technology, Meta IP associates IP addresses with user login names, enabling comprehensive auditing and improved troubleshooting. The combination of UAM and FireWall-1 is the first and only solution to automatically enforce security policies by user in a dynamic addressing environment.

Provider-1

Check Point Provider-1 pairs network security capabilities with powerful policy-based management capabilities developed specifically for Managed Service Providers (MSPs). Provider-1 enables MSPs to centrally create and manage the network security policies of multiple corporate customers on a single hardware server, while maintaining complete and secure isolation between individual customer databases. Provider-1 is designed to enable MSPs to significantly reduce the hardware and personnel costs associated with managed security services.

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 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.

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 and VPN-1 as the leading brand names in enterprise security. Sales efforts focus on expanding the installed base and increasing penetration levels of end-user customers worldwide by leveraging multiple channels of distribution: value added resellers, distributors, OEMs, Managed Service Providers (MSPs), and direct sales.

The Company has OEM/bundling relationships with server and workstation vendors such as Compaq and IBM; internetworking device manufacturers such as Nortel Networks, 3Com Corporation, Nokia and Alcatel, and other suppliers of enterprise network products. 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 39%, 18% and 9% of the Company's revenues for 1996, 1997 and 1998, respectively, and 3% for the quarter ended March 31, 1999. 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 majority of its revenues in the foreseeable future from sales of its FireWall-1 and VPN-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 68%, 14% and 13% in 1996, 58%, 24% and 10% in 1997, and 57%, 26% and 8% in 1998, respectively, of total product sales.

To further expand the awareness of the Company's products, the Company has established informal marketing relationships with system integrators and vendors of complimentary products. System integrators with which the Company maintains informal cooperative relationships include Andersen Consulting, Computer Sciences Corporation, Electronic Data Systems, Integrated Network Services, Inc. and Price Waterhouse Coopers. The Company's OPSEC Alliance program is focused on establishing integration and/or compatibility with complimentary products and developing marketing relationships with these companies to promote the solutions. The integration and compatibility of these products with the Company's products provides customers with a more complete enterprise security solution, and provides the Company's channels with additional revenue opportunities. Companies that maintain a marketing relationship with the Company to promote their integrated products include Aladdin, Baltimore Technologies, Entrust, Hewlett-Packard, IBM, Novell, Security Dynamics, Symantec, Trend Micro and Verisign, as well as others. The Company also has informal marketing relationships with BackWeb, BMC Software, Microsoft, Netscape, Oracle and Progressive Networks to promote compatible products.

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.

Customer Service and Support

The Company operates a Worldwide Technical Services (WTS) organization, based in Dallas, Texas, with field locations throughout the world, 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 the installation, training, maintenance and support for their customers, with Check Point providing the 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 the pre-sales configuration, use and application support.

The Company recently announced a multiple stage worldwide 24-hour by 7-day call center, based in Dallas, Texas. The Company supports customers and sales personnel through a common information and response system that is available via e-mail, the world wide web, fax and telephone. The support structure includes "front line" call center engineers for resolving the majority of issues and questions in the first several minutes of a call. If necessary, bench-testing using real-world configurations are performed by senior support engineers. Extremely complex implementation issues are handled by the new Escalation Group, an organization that resides with the company's multiple research and development groups in Ramat-Gan, Israel; Redwood City, California; and Seattle, Washington to provide an extremely close coupling between customer issues and usage and product development. The Escalation Group conducts code analysis and detailed trouble shooting and delivers updated code, as appropriate. Experience from calls into the Escalation Group helps in the development of features and implementations in new products.

To provide hands-on training, education and certification, Check Point Software has formed an in-house educational services group. The group develops courses and curricula for Check Point Software classes conducted directly by the company or by an affiliate company. Such classes include both lecture-taught and computer-based training sessions on Check Point Software products, including installation, management and advanced implementations. Using a leveraged model, Check Point Software has trained hundreds of partners, and these partners have in turn established Authorized Training Centers. There are now over 100 Check Point Software Authorized Training Centers around the world.

Prospective customers typically receive 30-day evaluation copies of the Company's software products. If the customer elects to purchase the Company's product, they place their order through their Reseller, who in turn places the order to the Company. The Company issues an invoice to the Reseller, and sends a software key to the Reseller to provide to the customer which allows the evaluation copy to continue to function. The Company offers a variety of fee-based software services programs, including maintenance of the Company's software products in accordance with specifications contained in the user's guide, and access to technical support personnel and product enhancements.

Customers can purchase Software Subscription, which is the services program that provides product updates and version upgrades. Typically, an annual term of Software Subscription costs approximately 15% of the list price of the products covered. In addition, once the Software Subscription has been purchased, customers can then purchase a variety of support programs. These software support programs can be sold and delivered by the Company's Resellers and OEMs, or the customer can choose to purchase a Check Point software support program that is sold by the Reseller but delivered by Check Point through its Worldwide Technical Services (WTS) organization directly to the customer. Several support levels are available in the Check Point software support programs, with annual costs to the customer typically ranging from 15% to 50% of the list price of the products covered.

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 products for network security and management. 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.

Net research and development expenses for 1996, 1997 and 1998 were $3.8 million, $7.1 million and $10.6 million, respectively. As of December 31, 1998, the Company had 140 employees dedicated to research and development activities, quality assurance and backline support. The Company is a member of the International Computer Security Association (ICSA) 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 network security competitors include Cisco Systems, Network Associates, Axent and Secure Computing. Other competitors include Microsoft, Novell, Hewlett Packard, Sun Microsystems, IBM, WatchGuard, Sonic, NetScreen, Xedia, 3Com, Nortel, Lucent and Packeteer. 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. 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 holds two U.S. patents, No. 5,606,668 entitled "System for securing inbound and outbound data packet flow in a computer network" and No. 5,835,726 entitled "System for securing the flow of and selectively modifying packets in a computer network." The Company also has corresponding patent applications to U.S. Patent No. 5,606,668 pending in Canada and Japan, as well as under the European Patent Convention (designating Denmark, France, United Kingdom, Italy, and Sweden as countries in which patent coverage may potentially be sought). The Company has also filed co-pending PCT national phase patent applications in Canada, Japan, Korea, Norway, and under the European Patent Convention (designating France, United Kingdom, Italy, Sweden, Germany, Switzerland, and Finland) based on an earlier patent application filed in Israel entitled "Method for controlling computer network security," currently pending. A patent issued from the European Patent Office becomes effective as though it were a national patent in each designated member nation once national fees are paid. 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 federal trademark infringement and unfair competition against the Company in the United States District Court for 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 and mark 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. On May 17, 1999, the Court granted CSI's motion to renew its motion for summary judgment. The parties are currently preparing their submissions with respect to the renewed summary judgment motion. The Court has scheduled oral argument for July 30, 1999. 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/or 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, or financial condition.

Employees

As of March 31, 1999, the Company had 522 employees, of whom 161 were engaged in research, development, quality assurance and backline support, 200 were engaged in marketing and sales, 91 were engaged in customer support and 70 were engaged in MIS, 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. Forward-looking statements also include statements in (i) Item 1 – Description of Business regarding increased acceptance of Internet technologies, expansion of connectivity services, acceleration of the use of networks, increasing demands on enterprise security systems, the impact of the Company's OEM relationships on its sales goals, the contribution of the FireWall-1 and VPN-1 products to the Company's future revenue and the development of future products and (ii) Item 9 – Management's Discussion and Analysis of Financial Condition and Results of Operations("MD&A") regarding future sources of revenue, continued cooperation with Sun, ongoing relationships with current and future end-user customers, future costs and expenses, adequacy of capital resources and the Company's Year 2000 and Euro conversion readiness, exposure and expected expenditures. These statements involve risks and uncertainties and actual results could differ materially from such results discussed in these statements as a result of the risk factors set forth below, in the MD&A and elsewhere in this 20-F. 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 distribution 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 1998 results of operations. However, the Company believes that its sales to the Far East in 1999 may be adversely affected by conditions in the region. Sales to the Far East represented a material portion of the Company's revenues in 1998 (sales to customers in Japan accounted for approximately 7% of the Company's total revenues in 1998, and sales to customers in Japan and the rest of the Far East accounted for approximately 9% of the Company's total revenues in 1998). 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 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 1999, 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."

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 network security competitors include Cisco Systems, Network Associates, Axent and Secure Computing. Other competitors include Microsoft, Novell, Hewlett Packard, Sun Microsystems, IBM, WatchGuard, Sonic, NetScreen, Xedia, 3Com, Nortel, Lucent and Packeteer. 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. 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 is relatively new 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."

Customer Purchase Patterns Caused by Year 2000 Concerns May Negatively Impact Sales of our Products

Prior to the end of 1999 and continuing into 2000, there is likely to be an increased customer focus on addressing year 2000 compliance issues. Some customers have indicated to us that they will delay deployment of new software, including new versions and product updates, at various times over the next six to nine months to avoid the possibility of introducing or encountering any new year 2000 problems. There is a risk that existing or potential customers may also choose to defer new software product purchases as a result of year 2000 concerns. Moreover, customers may reallocate capital expenditures or personnel in order to fix year 2000 problems of existing systems instead of purchasing new software. If customers defer purchases or reallocate capital expenditures and personnel, it could materially adversely affect our business, future quarterly and annual operating results and financial condition. In addition, year 2000 compliance issues also could cause a significant number of companies, including our current customers, to reevaluate their current system needs and, as a result, consider switching to other systems and suppliers.

Year 2000 Compliance

Check Point Software is aware of the issues associated with the programming code in existing computer systems as the Year 2000 approaches. The "Year 2000 problem" is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two-digit year value to 00. The issue is whether computer systems will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

State of Readiness. The Company has been evaluating the Year 2000 readiness of the most current versions of the Check Point Products sold by the Company. Internal information technology systems used in our operations (IT Systems) and our non-IT Systems, such as security systems, building equipment, voice mail and other systems are being evaluated for Year 2000 readiness. The Company's evaluation primarily covers: identification of all products, IT Systems, and non-IT Systems; assessing business and customer satisfaction risks associated with such systems, creating action plans to address known risks, executing and monitoring action plans and contingency planning. The Company has completed the evaluation of the following products and believes the current version of these products are Year 2000 compliant: FireWall-1 Version 4.0, FloodGate, Meta IP, SecuRemote, Open Security Manager, VPN-1 Certificate Manager, and Provider-1. The Company has been encouraging customers to upgrade to current product versions.

With respect to internal IT Systems and non-IT Systems, the Company has initiated an assessment of its internal IT Systems including third-party software and hardware technology and its non-IT Systems. The Company expects to substantially complete the testing in the second quarter of fiscal year ending December 31, 1999. To the extent that the Company is not able to test the technology provided by third-party vendors, the Company is seeking assurance from such vendors that their systems are Year 2000 compliant. The Company has been informed by substantially all of its business application software suppliers that their software is, or shortly will be, Year 2000 compliant. The software from these suppliers is used in the Company's financial, sales, customer support and administrative operations. Further, the Company relies, both domestically and internationally, upon various vendors, governmental agencies, utility companies, telecommunications service companies, delivery service companies and other service providers who are outside of the Company's control. There is no assurance that such parties will not suffer a Year 2000 business disruption, which could have a material adverse effect on the Company's financial condition and results of operations.

Costs Associated with Year 2000 Issues. To date, the Company has not incurred any material costs in connection with identifying or evaluating Year 2000 compliance issues. Most of its expenses have related to the opportunity cost of time spent by employees of the Company evaluating its software, the current versions of its products, and Year 2000 compliance matters. It is possible that the Company may experience additional costs associated with assisting customers with upgrades, but such costs are expected by the management not to be material. There can be no assurance, however, that there will not be increased costs associated with, the Company's Year 2000 compliance efforts since these efforts are ongoing and, therefore, the potential impact of Year 2000 issues on the Company's financial condition and results of operations cannot be determined at this time.

Risks of Year 2000 Issues. There can be no assurance that the Company's products will contain all necessary date code changes. Any failure of the Company's products to perform, including malfunctions due to the onset of Year 2000, could result in claims against the Company, which could have a material adverse effect on the Company's business, financial condition and results of operations. Although the Company does not believe that it will incur any material costs or experience material disruptions in its business associated with preparing its internal systems for the Year 2000, there can be no assurances that the Company will not experience serious unanticipated negative consequences and/or material costs caused by undetected errors or defects in the technology used in its internal systems. Internal systems are primarily composed of third party software and third party hardware which contain embedded software and the Company's own software products. Worst case scenarios would include: corruption of data contained in the Company's internal information systems, hardware failure, and the failure of services provided by government agencies and other third parties (e.g., electricity, phone service, water transport, internet services, etc.).

Contingency Plans. The Company has not fully developed a comprehensive contingency plan to address situations that may result from the Year 2000. If Year 2000 compliance issues are discovered, the Company will evaluate the need for contingency plans relating to such issues.

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 39%, 18% and 9% of the Company's revenues for 1996, 1997, 1998, respectively, and 3% for the quarter ended March 31, 1999.

The Company has derived substantially all of its revenues from sales of its FireWall-1 product and VPN-1 product family and expects to continue to derive the vast majority of its revenues in the foreseeable future from sales of its FireWall-1 product and VPN-1 product family. During the first quarter of 1998, the Company announced Release 4.0 of Firewall-1, which it began 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 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."

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, Marius Nacht, Jerry Ungerman 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'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. Most of 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 holds two U.S. patents, No. 5,606,668 entitled "System for securing inbound and outbound data packet flow in a computer network" and No. 5,835,726 entitled "System for securing the flow of and selectively modifying packets in a computer network." The Company also has corresponding patent applications to U.S. Patent No. 5,606,668 pending in Canada and Japan, as well as under the European Patent Convention (designating Denmark, France, United Kingdom, Italy, and Sweden as countries in which patent coverage may potentially be sought). The Company has also filed co-pending PCT national phase patent applications in Canada, Japan, Korea, Norway, and under the European Patent Convention (designating France, United Kingdom, Italy, Sweden, Germany, Switzerland, and Finland) based on an earlier patent application filed in Israel entitled "Method for controlling computer network security," currently pending. A patent issued from the European Patent Office becomes effective as though it were a national patent in each designated member nation once national fees are paid.

In 1996, 1997 and 1998, 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 9% 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 federal trademark infringement and unfair competition against the Company in the United States District Court for 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 and mark 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. On May 17, 1999, the Court granted CSI's motion to renew its motion for summary judgment. The parties are currently preparing their submissions with respect to the renewed summary judgment motion. The Court has scheduled oral argument for July 30, 1999. 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/or 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, or 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

The Company receives certain tax benefits in Israel, particularly as a result of the "Approved Enterprise" status of the Company's facilities and programs. 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."

Anti-Takeover Effects Of Israeli Laws

The Israeli Companies Ordinance, which governs Israeli corporations, does not contain provisions that deal specifically with a merger that allows for the elimination of minority shareholders. Provisions that deal with "arrangements" between a company and its shareholders have been used, however, to effect squeeze-out mergers. These provisions generally require that the merger be approved by at least 75% of the shareholders present and voting on the proposed merger, at a shareholders meeting that has been called on at least 21 days' advance notice. In addition to shareholder approval, court approval of the merger is required, which entails further delay and may entail the imposition of additional requirements at the court's discretion. Alternatively, the acquirer can eliminate minority shareholders if it acquires at least 90% of all outstanding shares, excluding shares held by the acquirer prior to the acquisition, and none of the minority shareholders seeks to block the acquisition in court. The new Israeli Companies Law that will come into effect on February 1, 2000, does address squeeze-out mergers but does not significantly modify these requirements.

The new Companies Law also provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company. Similarly, the new Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company. This rule does not apply if someone else is already a majority shareholder of the company. Since regulations implementing these new rules have not yet been promulgated, we do not know to what extent or how these rules will apply to Israeli companies that are publicly traded outside of Israel. Finally, Israeli tax law treats certain acquisitions, particularly stock-for-stock swaps between an Israeli company and a foreign company, less favorably than United States tax law. Israeli tax law may, for instance, subject a shareholder who exchanges his Check Point shares for shares in a foreign corporation to immediate taxation.

Provisions Affecting a Potential Change of Control; Potential Rights of Unissued Preferred Shares

The Company's Board of Directors has the authority to issue up to 5,000,000 Preferred Shares and to determine the price, rights (including voting rights), preferences, privileges and restrictions of such Preferred Shares, without any vote or actions by the Company's shareholders. The rights and preferences of such Preferred Shares could include a preference over the Ordinary Shares on the distribution of the Company's assets upon a liquidation or sale of the Company, preferential dividends, redemption rights, and the right to elect one or more directors and other voting rights. The rights of the holders of the Ordinary Shares will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Shares that may be issued in the future. The Company has no current plans to issue Preferred Shares. The issuance of Preferred Shares, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting shares of the Company. Furthermore, certain provisions of the Company's Articles of Association could delay or make more difficult a merger, tender offer or proxy contest involving the Company. These provisions stipulate that the Company cannot engage in a business combination with an interested shareholder (defined generally as the beneficial owner of 15% of the outstanding shares and its affiliates) for a period of three years following the date that such shareholder became an interested shareholder, unless certain conditions are met. In addition, in the event the Company is in the market to have all or substantially all of its assets or stock acquired by a third party, SunSoft has been granted the first option to enter into negotiations with the Company for such acquisition. Such option may have the effect of delaying or making more difficult a merger or other acquisition of the Company.

Concentration of Share Ownership

The directors, executive officers and principal shareholders of the Company and their affiliates beneficially own approximately 30% 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.

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 36,000 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 40,465 square feet of office space for its marketing and field representatives at its United States sales and marketing headquarters in Redwood City, California, and approximately 15,700 square feet of office space for its support center in Dallas. These facilities are leased pursuant to leases for periods of up to five years; and at its regional offices in Texas, Colorado, Michigan, Illinois, Massachusetts, Washington, Georgia, North Carolina, New York, Pennsylvania, New Jersey, Virginia and Ontario, Canada; and internationally in England, France, Singapore, Germany, Japan and Australia.

ITEM 3. LEGAL PROCEEDINGS

On July 5, 1996, Checkpoint Systems Inc. ("CSI") filed an action alleging federal trademark infringement and unfair competition against the Company in the United States District Court for 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 and mark 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. On May 17, 1999, the Court granted CSI's motion to renew its motion for summary judgment. The parties are currently preparing their submissions with respect to the renewed summary judgment motion. The Court has scheduled oral argument for July 30, 1999. 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/or 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, or financial condition.

ITEM 4. CONTROL OF REGISTRANT

The following table sets forth certain information regarding ownership of the Company's Ordinary Shares as of April 30, 1999 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
Gil Shwed	4,158,166	11.35%
Marius Nacht.......................................	3,895,166	10.64%
		*
All directors & executive officers as a group (6 persons)................................	10,979,873	29.98%

The Company is not directly or indirectly controlled by another corporation or by any foreign government.

ITEM 5. NATURE OF TRADING MARKET

The Company's Ordinary Shares have traded publicly on the Nasdaq National Market under the symbol "CHKP" since March 3, 1999. From June 28, 1996 to March 2, 1999, the Company's Ordinary Shares have traded publicly on the Nasdaq National Market under the symbol "CHKPF". The Company's Ordinary Shares trade publicly only on the Nasdaq National Market. 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
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	47 _	26 9/16
Third Quarter	32 1/4	18 1/8
Fourth Quarter	45 13/16	13
1999		
First Quarter	55 1/2	34 5/8
Second Quarter (through June 22, 1999)	54 7/8	26 3/4

On June 22, 1999, the last reported sale price of the Company's Ordinary Shares on the Nasdaq National Market was $54 7/8 per share. According to the Company's transfer agent, as of April 30, 1999, there were approximately 191 holders of record of the Company's Ordinary Shares. Approximately 95% of the Company's Ordinary Shares were held in the United States by approximately 182 holders of record.

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

Until May 1998, Israel imposed restrictions on transactions in foreign currency. These restrictions affected our operations in various ways, and also affected the right of non-residents of Israel to convert into foreign currency amounts they received in Israeli currency, such as the proceeds of a judgment enforced in Israel. Despite these restrictions, foreign investors who purchased shares with foreign currency were able to repatriate in foreign currency both dividends (after deduction of withholding tax) and the proceeds from the sale of the shares. In 1998, the Israeli currency control regulations were liberalized significantly, as a result of which Israeli residents generally may freely deal in foreign currency and non-residents of Israel generally may freely purchase and sell Israeli currency and assets. There are currently no Israeli currency control restrictions on remittances of dividends on the ordinary shares or the proceeds from the sale of the shares; however, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

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

Israeli companies are generally subject to corporate tax at the rate of 36% of their taxable income. In the Company's case, the rate is currently effectively reduced, as described below.

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 Statement.

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. 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, as well as combined share capital and 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 become 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 in Israel and purchasers of shares in the Offering will consequently be exempt from paying Israeli 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 Ordinary Shares who is a resident of the United States generally is 25%, 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.

Passive Foreign Investment Company Status

Based upon its current and projected income, assets and activities, the Company believes that it is not currently a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes and will not be a PFIC for any subsequent year. The Company would be classified as a PFIC if, for any taxable 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. If the Company were a PFIC for any taxable year, a U.S. Shareholder would be subject to special tax rules on the receipt of an "excess distribution" on the Ordinary Shares (generally, a distribution which exceeds 125% of the average annual distributions in the prior three years) and on disposition of the Ordinary Shares. Under these rules, the excess distribution or gain would be allocated ratably over the U.S. Shareholder's holding period for the Ordinary Shares, the amount allocated to the current taxable year would be taxed as ordinary income, the amount allocated to each of the other taxable years would be subject to tax at the highest marginal rate in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year. The tax liability with respect to amounts allocated to years prior to the year of the disposition or "excess distribution" cannot be offset by any net operating losses.

U.S. Shareholders may avoid taxation under the rules described above by making a "qualified electing fund" election to include such holder's share of the Company's income on a current basis or a "deemed sale" election if we no longer are classified as a PFIC. However, a U.S. Shareholder may make a qualified electing fund election only if we agree to furnish the U.S. Shareholder annually with certain tax information. We do not presently prepare or provide such information, and such information may not be available to U.S. Shareholders if the Company is subsequently determined to be a PFIC.

U.S. Shareholders holding "marketable shares" (which we consider our Ordinary Shares to be) in a PFIC may make an election to mark that stock to market annually, rather than be subject to the above-described rules. Under such election the U.S. Shareholder will include in income each year an amount equal to the excess, if any, of the fair market value of the PFIC stock as of the close of the taxable year over the shareholder's adjusted basis in such stock. The shareholder is allowed a deduction for the excess, if any, of the adjusted basis of the PFIC stock over its fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains with respect to the stock included in income by the shareholder for prior taxable years. Amounts included in income pursuant to a mark-to-market election, as well as gain on the actual sale or other disposition of the PFIC stock, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on PFIC stock, as well as to any loss realized on the actual sale or disposition of PFIC stock to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included with respect to such stock.

A U.S. Shareholder who beneficially owns shares in a PFIC must file an annual return with the IRS on IRS Form 8621 that describes any distributions received with respect to such shares and any gain realized on the disposition of such shares.

ITEM 8. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of December 31, 1997 and 1998 and for the years ended December 31, 1996, 1997 and 1998 have been derived from the Company's Consolidated Financial Statements, set forth elsewhere in this Annual Report. These financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("U.S. GAAP"). The consolidated selected financial data as of December 31, 1994, 1995 and 1996 and for the years ended December 31, 1994 and 1995 have been derived from audited consolidated financial statement not included in this Annual Report and have also been prepared in accordance with U.S. GAAP. The selected Consolidated Financial Statements set forth below should be read in conjunction with and are qualified by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Company's Consolidated Financial Statements included elsewhere in this Annual Report.

	Year Ended December 31,				
	1994	**1995**	**1996**	**1997**	**1998**
			(in thousands)		
Consolidated Statement of Operations Data:					
Revenues, net	$794	$10,070	$34,580	$86,352	$141,941
Cost of revenues	118	779	2,884	6,839	13,623
Gross profit	676	9,291	31,696	79,513	128,318
Operating expenses					
Research and development, net	130	1,121	3,803	7,105	10,629
Sales and marketing	304	1,770	10,275	26,611	39,966
General and administrative	165	1,455	3,641	7,766	10,886
Total operating expenses	599	4,346	17,719	41,482	61,481
Operating income	77	4,945	13,977	38,301	66,837
Financial income (expenses), net	(53)	(24)	1,490	4,556	4,406
Other income	--	--	--	--	2,581
Income before income taxes	24	4,921	15,467	42,587	73,824
Income taxes (benefit)	0	(10)	346	2,309	3,947
	24	4,931	15,121	40,278	69,877
Equity losses related to affiliates	-	-	-	760	-
Net Income	$24	$4,931	$15,121	$39,518	$69,877
Earnings per share (1)	$0.00	$0.17	$0.48	$1.16	$1.97
Number of shares used in computing earnings per share (Basic) (1)	33,730	29,526	31,739	33,937	35,435
Earning per share (fully diluted)	$0.00	$0.15	$0.42	$1.04	$1.81
Number of Shares used in computing earnings per share (fully diluted)	33,730	33,786	35,993	38,052	38,694

	December 31,				
	1994	**1995**	**1996**	**1997**	**1998**
			(in thousands)		
Balance Sheet Data:					
Working capital (deficit)	$(133)	$1,528	$56,603	$60,817	$80,872
Total Assets	661	7,356	66,572	124,964	212,235
Shareholder's equity (deficit)	(62)	5,151	58,170	124,964	175,707

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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

Overview

Check Point develops, markets, and supports policy-based enterprise security, traffic control and IP address 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 $34.6 million, $86.4 million and $141.9 million in 1996, 1997 and 1998, respectively, substantially all of which have been derived from the sales of its FireWall-1 product family and related maintenance contracts.

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.

The Company recognizes revenues in accordance with the Statement of Position on Software Revenue Recognition (97-2 and 98-4). The Company sells its products to end-users worldwide through distributors, VARs, OEMs, system integrators and Managed Service Providers (MSPs). Prospective customers typically receive 30-day evaluation copies of the Company's software products. Revenues from software products are recognized upon delivery of the software: (i) when collection is probable; (ii) all license payments are due within one year; (iii) the license fee is otherwise fixed or determinable; (iv) vendor specific evidence exists to allocate the total fee to the undelivered elements of the arrangements' and (v) persuasive evidence of an arrangement exists. 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.

The Company has derived substantially all of its revenues from sales of its FireWall-1 family of software products. The Company expects to derive the vast majority of its revenues in the near future from sales of its FireWall-1 product suite and VPN-1 product family, and specifically the Internet Gateway and Enterprise product categories. If FireWall-1 or VPN-1 should fail to receive widespread market acceptance, or if end-users should subsequently adopt an alternative approach to enterprise security or VPNs, 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 39%, 18% and 9% of the Company's revenues for 1996, 1997 and 1998, respectively. In October 1998, Check Point announced that it would be transitioning its relationship with Sun Microsystems from an OEM relationship to a strategic ISV (Independent Software Vendor) relationship. Check Point anticipates that the two companies will continue to cooperate on a partnering and marketing level to promote sales of FireWall-1 on the Solaris platform, but Check Point will be able to work more closely with those end-user customers who were previously serviced by Sun. The Company expects future revenues from Sun to continue to decline. In 1997 and 1998, Check Point entered into numerous agreements with resellers, distributors, OEMs and Internet Service Providers. In 1996, 1997 and 1998, 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. In 1998, the Company established a new channel through Managed Service Providers to utilize Check Point's products in their managed service offerings.

On April 13, 1998, the Company merged with MetaInfo, Inc., a Washington corporation and industry leader in IP address management software and issued 683,200 ordinary shares in exchange for all the outstanding shares and options to purchase shares of MetaInfo. MetaInfo became a wholly-owned subsidiary of Check Point Software Technologies, Inc. The IP address management products integrate dynamic assignment of IP addresses (DHCP), mapping of IP addresses to user-friendly names (DNS), and directory services.

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 1999, 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.

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

Reported financial results reflect the acquisition of MetaInfo, Inc., which was accounted for as a pooling-of-interest transaction, and all prior period amounts have been restated.

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.

	1996	1997	1998
Revenues	100%	100%	100%
Cost of revenues	8	8	10
Gross profit	92	92	90
Operating expenses:			
Research and development, net	11	8	7
Sales and marketing	30	31	28
General and administrative	11	9	8
Total operating expenses	52	48	43
Operating income	40	44	47
Financial and other income, net	4	5	5
Equity losses related to affiliates	---	1	---
Income before income taxes	44	48	52
Income taxes	1	3	3
Net income	43%	45%	49%

Revenues. The Company's revenues are derived from the sale of software products and related maintenance and support contracts. The Company's revenues were $34.6 million, $86.4 million and $141.9 million in 1996, 1997 and 1998, 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 OEMs and other resellers and the introduction of new versions of FireWall-1. Revenues from sales to United States customers were 68%, 58% and 57% of revenues in 1996, 1997 and 1998, 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 $2.9 million, $6.8 million and $13.6 million for 1996, 1997 and 1998, respectively. Gross margins were 92%, 92% and 90% of the Company's revenues for 1996, 1997 and 1998, respectively. Gross margins declined from 1997 to 1998 as the Company expanded its customer and technical support organization, incurred increased royalties obligations and experienced 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 $3.8 million, $7.1 million and $10.6 million in 1996, 1997 and 1998, respectively, representing 11%, 8% 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 1996, 1997 and 1998 as a percentage of revenues as a result of the significant increase in revenues. The Company received non-royalty bearing grants of $298,000, $797,000 and $450,000 dollars for fiscal years 1996, 1997 and 1998, respectively. 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 $10.3 million, $26.6 million and $40.0 million in 1996, 1997 and 1998, respectively, representing 30%, 31% and 28% of revenues, respectively. The substantial increases in absolute dollars each year were due to the costs associated with the expansion of the Company's sales and marketing activities. Sales and marketing expenses decreased as a percentage of revenues from 1997 to 1998 as a result of significant increases in revenues. Sales and marketing expenses increased as a percentage of revenues in 1997 as compared with 1996, primarily due to increased sales and marketing activities in North America and rest of world. 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 $3.6 million, $7.8 million and $10.9 million in 1996, 1997 and 1998, respectively, representing 11%, 9% 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. 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 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 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 $82.7 million, and long term investments were $87.9, at December 31, 1998, as compared with cash and cash equivalents of $65.3 million and long term investments of $36.0 million in 1997. The Company generated net cash from operations of $15.4 million, $47.9 million and $69.4 million in 1996, 1997 and 1998, 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 $1.7 million, $2.6 million and $6.0 million in 1996, 1997 and 1998. respectively. Capital investments during 1998 were primarily for computer equipment and software for the Company's research and development and technical service organization efforts and with respect to our investments in accordance with the approved enterprise plans. As of December 31, 1998, the Company had no material commitments for capital expenditures. Net cash provided by financing activities was approximately $37.8 million in 1996, primarily resulting from the Company's initial public offering. Net cash provided by financing activities were approximately $2.2 million in 1997 and $6.0 million in 1998, primarily as a result of stock options exercised. We invest excess cash in marketable securities and bank deposits of varying maturities, depending on our projected cash needs for operations, capital purchases and other business purposes.

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 1998 was 8.6% (compared to 10.0% in 1996 and 7.1% in 1997), while the NIS devaluated by 17.6% against the dollar (compared to a devaluation of 3.7% in 1996 and 5.2% in 1997). As a result, the Company experienced increases in the cost of its operations in dollar terms in 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. Over 90% of the Company's sales are made in United States dollars. In addition, a substantial portion of the Company's costs is 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 non-monetary 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. In addition, in the quarter ended December 31, 1998, the Company recorded foreign exchange losses of approximately $2.0 million as a result of a steep devaluation of the NIS in relation to the dollar. 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.

Effective Corporate Tax Rate

The Company's effective tax rate was 1%, 3% and 3% in 1996, 1997 and 1998 respectively. These low tax rates were achieved due to the tax holiday prescribed by the Company's approved plan status of its production facilities in Israel.

The Company has been granted "Approved Enterprise" status by the Israeli government according to three investment plans. The Approved Enterprise status allows for a tax holiday for a period of two to four years and a reduced corporate tax rate of 10%-25% for an additional five or three years, respectively, on the respective investment plans' proportionate share of taxable income. The tax benefits under these investment plans are scheduled to gradually expire from 1999 to 2005. See Note 9 of Notes to Consolidated Financial Statements. Almost all of the Company's Israeli income has been generated from its Approved Enterprise. To date, almost all of the Company's sales of products 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 1,482,000 and 1,026,000 in 1997 and 1998 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 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 - 20%) and an income tax liability would be incurred of approximately $42.4 million as of December 31, 1998.

Year 2000 Compliance

Check Point Software is aware of the issues associated with the programming code in existing computer systems as the Year 2000 approaches. The "Year 2000 problem" is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two-digit year value to 00. The issue is whether computer systems will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

State of Readiness. The Company has been evaluating the Year 2000 readiness of the most current versions of the Check Point Products sold by the Company. Internal information technology systems used in our operations (IT Systems) and our non-IT Systems, such as security systems, building equipment, voice mail and other systems are being evaluated for Year 2000 readiness. The Company's evaluation primarily covers: identification of all Products, IT Systems, and non-IT Systems; assessing business and customer satisfaction risks associated with such systems, creating action plans to address known risks, executing and monitoring action plans, and contingency planning. The Company has completed the evaluation of the following products and believes the current version of these products are Year 2000 compliant: FireWall-1 Version 4.0, FloodGate, Meta IP, SecuRemote, Open Security Manager, VPN-1 Certificate Manager, and Provider-1. The Company has been encouraging customers to upgrade to current product versions.

With respect to internal IT Systems and non-IT Systems, the Company has initiated an assessment of its internal IT Systems including third-party software and hardware technology and its non-IT Systems. The Company expects to substantially complete the testing in the second quarter of fiscal year ending December 31, 1999. To the extent that the Company is not able to test the technology provided by third-party vendors, the Company is seeking assurance from such vendors that their systems are Year 2000 compliant. The Company has been informed by substantially all of its business application software suppliers that their software is, or shortly will be, Year 2000 compliant. The software from these suppliers is used in the Company's financial, sales, customer support and administrative operations. Further, the Company relies, both domestically and internationally, upon various vendors, governmental agencies, utility companies, telecommunications service companies, delivery service companies and other service providers who are outside of the Company's control. There is no assurance that such parties will not suffer a Year 2000 business disruption, which could have a material adverse effect on the Company's financial condition and results of operations.

Costs Associated with Year 2000 Issues. To date, the Company has not incurred any material costs in connection with identifying or evaluating Year 2000 compliance issues. Most of its expenses have related to the opportunity cost of time spent by employees of the Company evaluating its software, the current versions of its products, and Year 2000 compliance matters. It is possible that the Company may experience additional costs associated with assisting customers with upgrades, but such costs are expected by the management not to be material. There can be no assurance, however, that there will not be increased costs associated with, the Company's Year 2000 compliance efforts since these efforts are ongoing and, therefore, the potential impact of Year 2000 issues on the Company's financial condition and results of operations cannot be determined at this time.

Risks of Year 2000 Issues. There can be no assurance that the Company's products will contain all necessary date code changes. Any failure of the Company's products to perform, including malfunctions due to the onset of Year 2000, could result in claims against the Company, which could have a material adverse effect on the Company's business, financial condition and results of operations. Although the Company does not believe that it will incur any material costs or experience material disruptions in its business associated with preparing its internal systems for the Year 2000, there can be no assurances that the Company will not experience serious unanticipated negative consequences and/or material costs caused by undetected errors or defects in the technology used in its internal systems. Internal systems are primarily composed of third party software and third party hardware which contain embedded software and the Company's own software products. Worst case scenarios would include: corruption of data contained in the Company's internal information systems, hardware failure, and the failure of services provided by government agencies and other third parties (e.g., electricity, phone service, water transport, internet services, etc.).

Contingency Plans. The Company has not fully developed a comprehensive contingency plan to address situations that may result from the Year 2000. If Year 2000 compliance issues are discovered, the Company will evaluate the need for contingency plans relating to such issues.

European Currency Issues

Check Point Software is aware of the issues raised by the introduction of the Single European Currency ("Euro") on January 1, 1999 and during the transition period through January 1, 2002. Check Point's internal systems that are affected by the initial introduction of the Euro have been made Euro capable without material system modification costs. Further internal systems changes will be made during the three-year transition phase in preparation for the ultimate withdrawal of the legacy currencies in July 2002, and the costs of these changes are not expected to be material. The Company does not presently expect that introduction and use of the Euro will materially affect the Company's foreign exchange and hedging activities, or the Company's use of derivative instruments, or will result in any material increase in costs to the Company. While Check Point will continue to evaluate the impact of the Euro introduction over time, based on currently available information, management does not believe that the introduction of the Euro will have a material adverse impact on the Company's financial condition or overall trends in results of operations.

ITEM 9A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market risks relating to the Company’s operations result primarily from weak economic conditions in the markets in which the Company sells its products and from changes in exchange rates and from changes in interest rates. As of December 31, 1998 the Company has no derivative financial instruments.

Foreign Currency Risk

Over 90% of the Company’s sales are made in US dollars. In addition, a substantial portion of the Company’s costs are incurred in dollars. Since the dollar is the primary currency of 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 non-monetary 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.

As of December 31, 1998 the Company has no derivative financial instrument to hedge the exposure from changes in foreign currency exchange rates associated with revenue denominated in a foreign currency.

Even though the Company has mitigated and expects to continue mitigating the foreign currency exposure through salaries, research and development expenses and support for operations in which part of these costs are conducted in other currencies than the US dollar.

A portion of the Company’s marketable securities is invested in NIS Israeli Government debt securities with changing interest rates which are based upon the Israeli prime interest rate.

Since these investments were issued on behalf of the Israeli Government, they are considered as risk free. A hypothetical 10 percent change in foreign currency rates (primarily the NIS) against the U.S. Dollar, with all other variables held constant on the exposed Marketable Securities, would result in a decrease in the fair value of Marketable Securities of $1,208K, or an increase in the fair value of Marketable Securities of $1,336K.

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's marketable securities.

The Company's marketable securities comprise of mainly Israeli Government debts.

The fair value of the Company's long and short-term securities is based upon their market values as of December 31, 1998.

The table below presents principal amounts and related weighted average rates by date of the maturity for the Company's Marketable Securities.

(In thousands)

	Maturity			Total	Fair Value As of 12/31/98
	1999	**2000**	**2001**		
Investment in Marketable Securities					
NIS debt securities – Changing Interest Rate	$13,291			$13,291	$13,749
Weighted Average Interest Rate*	12.21%				
U.S. dollar linked debt securities - Changing Interest Rate	7,125	12,601	2,571	$22,297	$22,091
Weighted Average Interest Rate**	4.94%	5.09%	5.06%		

* Based upon the Israeli prime rate as of December 31, 1998.
** Based upon the Libor as of December 31, 1998

ITEM 10. DIRECTORS, OFFICERS AND KEY EMPLOYEES 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 Chairman of the Board
Marius Nacht	Senior Vice President, Director
Jerry Ungerman	Executive Vice President
Hagi Schwartz	Vice President of Finance, Chief Financial Officer
Shlomo Kramer	Founder, Director
Irwin Federman(1)(2)	Director
Ray Rothrock(1)(2)	Director
Alex Vieux	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.

Marius Nacht, a co-founder of the Company, has served as the Company's Senior Vice President since January 1, 1999. Mr. Nacht served as the Company's Vice President of International Operations from September 1995 until December 1998, and 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. 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.

Jerry Ungerman is Executive Vice President of the Company and has global responsibility for sales, marketing, business development and technical services. He has served in this position since November of 1998. He began his career with IBM in 1967 and from July 1971 to October 1998, Mr. Ungerman held a number of senior management positions with Hitachi Data Systems Corp., a provider of computer networking and data storage solutions for computing environments. Mr. Ungerman holds a B.S.B. in business from the University of Minnesota and is on the board of Serena Software.

Hagi Schwartz has served as the Company’s Vice President of Finance and Chief Financial Officer since January 1996 and served as a Director of the Company from November 21, 1997 to September 1998. From April 1991 to December 1995, Mr. Schwartz served as Controller of Mercury Interactive Corporation, an automated software quality corporation, as well as General Manager of Mercury Interactive Israel Ltd. From April 1992 to July 1992, he 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, he 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.

Shlomo Kramer, a co-founder of the Company, served as the Company's Executive Vice President from October 1996 until December 1998, 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. 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.

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., NeoMagic Inc. 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 USinternetworking, Shym Technology, Qpass, Reciprocal 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.

Alex Serge Vieux has served as a director of the Company since September 1998. He is Chairman and Chief Executive Officer of DASAR Brothers, Inc., which he founded in 1989. As part of DASAR, Mr. Vieux launched the highly regarded European (ETRE) and Asian (ATRE) Technology Roundtable Exhibition Conferences for chief executive officers. He is a member of the board of several public and private technology companies in the United States (Saqqara, NextAge) and Europe (BVRP Software, Cibox, Lernout & Hauspie, Oxydian, Keeboo), and has served as a senior advisor to both government and industry. Mr. Vieux is currently a visiting professor at the French University Paris Dauphine, where he is teaching telecom in the United States. Mr. Vieux is a graduate of the Institut d'Etudes Politiques in Paris and HEC. He also holds a Law degree from the Universite de Paris II-Assas and an M.B.A. from Stanford University, where he was a Fulbright Scholar.

Board Composition

The Company's Articles of Association provide for a Board consisting of not less than six or 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.

Independent Directors

Under Israeli law, "public" Israeli companies are required to appoint at least two directors who meet stringent standards of independence. Check Point believes that this requirement does not currently apply to companies that are publicly traded only outside of Israel. However, the new Israeli Companies Law, which will become effective on February 1, 2000, unequivocally extends the independent director requirement to Israeli companies that are publicly traded outside of Israel, such as on Nasdaq. Consequently, Check Point expects to appoint two outside directors in accordance with the new law.

Office Holders

Israeli law codifies the duty of care and fiduciary duties that an officeholder owes to a company. An office holder is generally a director or executive officer. Each of the persons listed above as a Director or executive officer is an Office Holder of the Company. Under the Companies Ordinance, an office holder's fiduciary duty includes avoiding any conflict of interest between the office holder's position in Check Point and his personal affairs, avoiding any competition with Check Point, avoiding exploiting any business opportunity of Check Point in order to receive personal advantage for himself or others and revealing to Check Point any information or documents relating to Check Point's affairs which the office holder has received due to his position as an office holder. Under Israeli law, all arrangements as to compensation by Check Point of office holders who are not directors require approval of the Board of Directors.

Audit Committee

The new Israeli Companies Law, which will become effective on February 1,2000, provides that public companies, including Israeli companies that are publicly traded outside of Israel, such as on the Nasdaq National Market, must appoint an audit committee of the board of directors, a certified public accountant to audit the company's financial statements and to report any improprieties that he or she may discover to the chairman of the board, and an internal auditor.

Approval of Related Party Transactions

Israeli law requires that transactions be approved as provided for in a company's articles of association, and in some circumstances by the audit committee and by the board of directors. The vote required by the audit committee and the board of directors for approval of these matters is a majority of the disinterested directors participating in a duly convened meeting. Shareholder approval is also required under some circumstances. Israeli law requires that an office holder of a company promptly disclose any personal interest that he may have and all related material information known to him, in connection with any existing or proposed transaction by the company. Once the office holder complies with these disclosure requirements, the company may approve the transaction in accordance with the provisions of its articles of association. If the transaction is with a third party in which the office holder has a personal interest, the approval must confirm that the transaction is not adverse to the company's interest. Furthermore, if the transaction is an extraordinary transaction, in addition to any approval stipulated by the articles of association, it also must be approved by the company's audit committee and then by its board of directors. An extraordinary transaction is a transaction other than in the ordinary course of business, otherwise than on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities. Under certain circumstances, shareholder approval is required. For example, shareholders must approve all compensation paid to directors in whatever capacity or any transaction in which a majority of the board members have a personal interest. An office holder with a personal interest in any matter may not be present at any audit committee or board of directors meeting where such matter is being approved, and may not vote. The new Israeli Companies Law, which will become effective on February 1, 2000, applies the same disclosure requirements to a shareholder that holds 25% or more of the voting rights in a public company, including an Israeli company that is publicly traded outside of Israel such as on Nasdaq. Transactions between a public company and a 25% shareholder, or transactions in which a 25% shareholder of the company has a personal interest but which are between a public company and another entity, require the approval of the board of directors and of the shareholders. Moreover, an extraordinary transaction with a 25% shareholder or the terms of compensation of a 25% shareholder must be approved by the audit committee, the board of directors and shareholders. The shareholder approval for an extraordinary transaction must include at least one third of the shareholders who have no personal interest in the transaction and are present at the meeting. However, the transaction can be approved by shareholders without this one third approval, if the total share holdings of those who vote against the transaction do not represent more than one percent of the voting rights in the company.

Indemnification of Directors and Officers

Israeli law permits a company to insure an office holder in respect of liabilities incurred by him as a result of the breach of his/her duty of care to the company or to another person, or as a result of the breach of his fiduciary duty to the company, to the extent that he/she acted in good faith and had reasonable cause to believe that the act would not prejudice the company. A company can also insure an office holder for monetary liabilities as a result of an act or omission that he/she committed in connection with his/her serving as an office holder. Furthermore, a company can indemnify an office holder for monetary liability in connection with his/her activities as an office holder. Our articles of association allow us to insure and indemnify office holders to the fullest extent permitted by law. We have acquired directors' and officers' liability insurance covering our officers and directors and our subsidiaries for certain claims.

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 seven persons as a group who served in the capacity of director or executive officer during the year ended December 31, 1998 was $1,528,590. In addition, the Company set aside $74,407 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 1999; the Company's directors who are not also officers may receive compensation in 1999, 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 31, 1999, 1,105,221 shares had been issued under the 1996 Israel Plan, options to purchase 2,643,756 Ordinary Shares were outstanding (including options incorporated from previous grants to employees in Israel prior to the adoption of the 1996 Israel Plan) and 2,851,023 shares remained available for future grant. The exercise prices range between $0.01 and $40.58. As of March 31, 1999, the Company's officers and directors hold options to purchase an aggregate of 781,437 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"). The number of Ordinary Shares authorized for issuance under the 1996 Plan currently is 9,000,000. As of May 31, 1999, 2,414,561 ordinary shares have been issued under the U.S. plan options to purchase 3,477,862 shares were outstanding (including options incorporated from the 1995 Plan) and 3,107,586 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 800,000 Ordinary Shares are currently reserved for issuance under the Purchase Plan. The Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code, is implemented by six-month offerings with purchases occurring at six-month intervals in February and July. The Purchase Plan is 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. Rieman, pursuant to which Dr. Rieman 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. Rieman's death, disability or 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; CHANGES IN SECURITY FOR REGISTERED SECURITIES AND USE OF PROCEEDS

Not applicable.

PART IV

ITEM 17. FINANCIAL STATEMENTS

CHECK POINT SOFTWARE TECHNOLOGIES LTD.
CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 1998
IN U.S. DOLLARS
INDEX

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ERNST & YOUNG
KOST, FORER & GABBAY

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, 1997 and 1998, 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, 1998. 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, 1997 and 1998, and the related consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles in the United States.

Tel-Aviv, Israel
January 20, 1999

KOST, FORER & GABBAY
Certified Public Accountants (Israel)

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 1997	December 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,434	$ 13,527
Short-term deposits	33,046	46,892
Marketable securities (Note 3)	26,777	22,253
Trade receivables (net of allowance for doubtful accounts of $ 1,045 and $ 783 at December 31, 1997 and 1998, respectively	15,144	26,746
Other receivables and prepaid expenses	4,654	6,925
Total current assets	85,055	116,343
LONG-TERM INVESTMENTS:		
Long-term investments (Note 4)	36,135	87,903
Severance pay fund (Note 7)	477	704
Total long-term investments	36,612	88,607
PROPERTY AND EQUIPMENT (Note 5):		
Cost	4,832	10,935
Less - accumulated depreciation	1,565	3,754
Property and equipment, net	3,267	7,181
DEFERRED INCOME TAXES	30	104
	$ 124,964	$ 212,235

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 1997	December 31, 1998
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit	$ 215	$ -
Trade payables	3,625	3,055
Employees and payroll accruals	8,595	7,564
Deferred revenues	5,072	11,798
Accrued professional services	607	1,224
Accrued expenses and other liabilities (Note 6)	6,124	11,830
Total current liabilities	24,238	35,471
ACCRUED SEVERANCE PAY (Note 7)	701	1,057
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: 34,773,327 Ordinary Shares and 1 Deferred Share as of December 1997; 36,278,287 Ordinary Shares and 1 Deferred Share as of December 31, 1998	110	114
Additional paid-in capital	40,529	46,776
Accumulated other comprehensive loss	-	(446)
Retained earnings	59,386	129,263
Total shareholders' equity	100,025	175,707
	$ 124,964	$ 212,235

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	1996	1997	1998
Revenues (Note 11a and b):			
Products sales	$ 33,150	$ 78,938	$ 124,290
Services	1,430	7,414	17,651
	34,580	86,352	141,941
Cost of revenues:			
Product sales	1,872	4,016	4,883
Services	1,012	2,823	8,740
	2,884	6,839	13,623
Gross profit	31,696	79,513	128,318
Operating expenses:			
Research and development, net (Note 11c)	3,803	7,105	10,629
Selling and marketing	10,275	26,611	39,966
General and administrative	3,641	7,766	10,886
Total operating expenses	17,719	41,482	61,481
Operating income	13,977	38,031	66,837
Financial income, net (Note 11d)	1,490	4,556	4,406
Other income	-	-	2,581
Income before income taxes	15,467	42,587	73,824
Income taxes	346	2,309	3,947
	15,121	40,278	69,877
Equity in losses of an affiliate	-	760	-
Net income	$ 15,121	$ 39,518	$ 69,877
Earnings per share: (Note 10c)			
Basic earnings per share	$ 0.48	$ 1.16	$ 1.97
Diluted earnings per share	$ 0.42	$ 1.04	$ 1.81

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Deferred compensation	Other comprehensive loss	Retained earnings	Total comprehensive income	Total
Balance as of January 1, 1996	$ 97	$ 439	$ (131)		$ 4,747		$ 5,152
Amortization of deferred compensation	-	-	82		-		82
Exercise of options (41,250 shares)	(*	69	-				69
Net income	-	-	-		15,121	15,121	15,121
Total comprehensive income						15,121	
Issuance of shares, net	9	37,737	-		-		37,746
Balance as of December 31, 1996	106	38,245	(49)		19,868		58,170
Amortization of deferred compensation	-	-	312		-		312
Net income	-	-	-		39,518	39,518	39,518
Total comprehensive income						39,518	
Issuance of shares and exercise of options (1,452,971 shares), net	4	2,284	(263)		-		2,025
Balance as of December 31, 1997	110	40,529	-		59,386		100,025
Unrealized holding losses on marketable securities	-	-	-	(446)		(446)	(446)
Total other comprehensive loss				(446)		(446)	
Net income	-	-	-		69,877	69,877	69,877
Total comprehensive income						69,431	
Issuance of shares and exercise of options 1,470,609 shares), net	4	6,247	-		-		6,251
Balance as of December 31, 1998	$ 114	$ 46,776	$ -	(446)	$ 129,263		$ 175,707

*) Amount lower than $ 1.

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,		
	1996	1997	1998
Cash flows from operating activities:			
Net income	$ 15,121	$ 39,518	$ 69,877
Adjustments to reconcile net income to net cash provided by operating activities:			
Capital gain	-	-	(2,581)
Amortization of deferred compensation	82	312	-
Depreciation and amortization	496	1,096	4,528
Equity in losses of an affiliate	-	760	-
Deferred income taxes	(10)	(10)	(74)
Increase in trade receivables	(5,152)	(6,846)	(11,602)
Increase in other receivables and prepaid expenses	(1,344)	(2,798)	(2,271)
Increase (decrease) in trade payables	1,065	2,208	(570)
Increase in accrued expenses and other liabilities	5,036	13,612	12,018
Increase in accrued severance pay, net	104	25	129
Other	-	50	39
Net cash provided by operating activities	15,398	47,927	69,493
Cash flows from investing activities:			
Investment in affiliates	-	(760)	-
Proceeds from sale of investment in affiliates	-	-	1,040
Proceeds from short-term deposits	-	63,065	46,439
Investment in short term deposits	(21,908)	(73,222)	(35,563)
Proceeds from sale of marketable securities	-	19,633	26,777
Investment in marketable securities	(19,956)	(27,758)	(13,572)
Investment in long-term marketable securities	-	(11,609)	(15,004)
Investment in long-term deposits	-	(24,722)	(71,450)
Purchase of property and equipment	(1,749)	(2,591)	(6,103)
Net cash used in investing activities	(43,613)	(57,964)	(67,436)
Cash flows from financing activities:			
Proceeds from issuance of shares and exercise of options, net	37,815	2,025	6,251
Short-term bank credit, net	(7)	215	(215)
Net cash provided by financing activities	37,808	2,240	6,036
Increase (decrease) in cash and cash equivalents	9,593	(7,797)	8,093
Cash and cash equivalents at the beginning of the year	3,638	13,231	5,434
Cash and cash equivalents at the end of the year	$ 13,231	$ 5,434	$ 13,527

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,		
	1996	1997	1998
Supplemental disclosure of cash flow activities:			
Cash paid during the year for:			
Income taxes	$ 17	$ 466	$ 320
Non-cash investing and financing information:			
Accrued issuance expenses	$ 278	$ 136	$ -
Proceeds in stock from realization of investment	$ -	$ -	$ 1,541

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 1:- GENERAL

a. Check Point Software Technologies Ltd. ("the Company"), an Israeli corporation, develops, markets and supports secure enterprise networking solutions. The Company's revenues are derived from the sales of network security (FireWall-1 family), traffic control (FloodGate-1 and Connect Control), IP address management (Meta IP) and related maintenance agreements. The Company sells its products worldwide through distributors, value added resellers ("VARs") and original equipment manufactures ("OEMs").

Revenues derived from the Company's two largest resellers represented 48%, 27% and 14% of the Company's revenues for 1996, 1997 and 1998, respectively. Revenues derived from the Company's largest reseller, SunSoft, represented 39%, 18% and 9% of the Company's revenues for 1996, 1997 and 1998, respectively. Sunsoft may terminate the agreement at any time upon 12 months' prior notice.

b. Merger with MetaInfo Inc. ("MetaInfo"):

On April 13, 1998, the Company merged with MetaInfo, a Washington corporation, by issuing 683,200 Ordinary Shares, in exchange for all of the outstanding shares and options to purchase shares of MetaInfo.

The merger was accounted for as a pooling of interests.
The accompanying consolidated financial statements have been restated to include the operating results of MetaInfo.

A reconciliation of amounts of revenues and net income previously reported by the Company with the combined amounts currently presented:

	Year ended December 31,		Three months ended March 31,
	1996	1997	1998
Revenues:			
Check Point Software	$ 31,869	$ 82,934	$ 30,857
MetaInfo	2,711	3,418	1,099
	$ 34,580	$ 86,352	$ 31,956
Net income (loss) from continued operations before income tax:			
Check Point Software	$ 15,587	$ 43,273	$ 16,337
MetaInfo	(120)	(686)	(127)
	$ 15,467	$ 42,587	$ 16,210
Net income	$ 15,121	$ 39,518	$ 15,149

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 non-monetary 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 subsidiaries, all of which are wholly-owned.

Intercompany transactions and balances have been eliminated upon consolidation.

d. Cash equivalents:

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

e. Short-term deposits:

The Company classifies deposits with original 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 in the 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". Equity securities are classified as securities available-for-sale and carried at fair value, with the unrealized gains and losses, net of income taxes, reported as a separate component of shareholders' equity.

Investment in non-marketable securities (other than those accounted by the equity method of accounting) are recorded at the lower of cost or estimated market value.

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	over the 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 models and the point at which the products are 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 cost reports are approved by the Chief Scientist.

j. Revenue recognition:

Revenues from software license agreements are recognized upon delivery of the software: (i) when collection is probable; (ii) all license payments are due within one year, (iii) the license fee is otherwise fixed and determinable; (iv) vendor specific evidence exists to allocate the total fee to the undelivered elements of the arrangements and (v) persuasive evidence of an arrangement exists. Costs related to insignificant obligations, primarily telephone support, are accrued upon shipment and are included in cost of revenues.

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

Deferred revenues include unearned amounts received under maintenance and support contracts.

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, 1997 and 1998, were $1,802, $5,449 and $5,657, 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 the 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, Europe and Asia. 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 that are 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. Basic and diluted earnings per share:

Basic earnings per share is computed based on the weighted average number of ordinary shares outstanding during each year. Diluted earnings per share is computed based on the weighted average number of ordinary shares outstanding during each year, plus dilutive potential ordinary shares considered outstanding during the year, in accordance with FASB Statement No. 128, "Earnings Per Share".

p. Accounting for 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 is equal to or above the market price of the underlying stock on the date of grant, no compensation expense is recognized.

In connection with the employee stock purchase plan through December 31, 1997, the Company recorded compensation expenses for the aggregate differences between the respective exercise price of the shares at their date of grant and the market value of the Ordinary stocks at December 31, 1997. In 1998, the employee stock purchase plan was qualified as a non-compensatory plan and, therefore, the Company did not record compensation for the aggregate differences.

U.S. dollars in thousands

q. Future adoption of new accounting standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). This Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the respective item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999 and must be applied to instruments issued, acquired or substantially modified after December 31, 1997. The Company does not expect the impact of this new Statement on the Company's consolidated balance sheets or results of operations to be material.

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 of marketable U.S. corporate securities is based on quoted market prices.

The carrying amount reported in the balance sheet for long-term deposits approximates its fair value. The fair value of Israeli Government debts is 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,	
	1997	1998	1997	1998
Cash and cash equivalents	$ 5,434	$ 13,527	$ 5,434	$ 13,527
Short-term deposits	$ 33,046	$ 46,892	$ 33,046	$ 46,892
Marketable securities	$ 26,777	$ 22,253	$ 26,516	$ 22,607
Long-term investments	$ 36,135	$ 87,903	$ 36,123	$ 87,761

U.S. dollars in thousands

NOTE 3:- MARKETABLE SECURITIES

	Cost		Gross unrealized gains (losses)		Estimated fair value	
	December 31,		December 31,		December 31,	
	1997	1998	1997	1998	1997	1998
U.S corporate debts	$ 7,790	$ 1,399	$ (240)	$ (56)	$ 7,550	$ 1,343
Israeli Government debts	$ 18,987	$ 20,854	$ (21)	$ 410	$ 18,966	$ 21,264

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

NOTE 4:- LONG-TERM INVESTMENTS

Long-term investments composed of Israeli Government debts, long-term deposits and equity investments are as follows:

	December 31,	
	1997	1998
Israeli Government debts and deposits *)	$ 36,135	$ 86,622
Equity investments **)		1,281
	$ 36,135	$ 87,903

*) Composed as follows:

	Amortized cost		Gross unrealized losses		Estimated fair value	
	December 31,		December 31,		December 31,	
	1997	1998	1997	1998	1997	1998
Israeli Government debts	$ 11,413	$ 15,172	$ 12	$ 142	$ 11,401	$ 15,030
Long-term deposits	24,722	71,450	-	-	24,722	71,450
	$ 36,135	$ 86,622	$ 12	$ 142	$ 36,123	$ 86,480

U.S. dollars in thousands

Aggregate maturities of long-term investments for years subsequent to December 31, 1998, are as follows:

Year of maturity	Israeli Government debts December 31, 1997	Israeli Government debts December 31, 1998	Long-term deposits December 31, 1997	Long-term deposits December 31, 1998	Total long-term investments (excluding other investments) December 31, 1997	Total long-term investments (excluding other investments) December 31, 1998
2000	$ -	$ 12,601	$ -	$ 70,925	$ -	$ 83,526
2001	309	2,571	-	525	309	3,096
	$ 309	$ 15,172	$ -	$ 71,450	$ 309	$ 86,622

**) On May 20, 1998, Check-Point realized its investment in an affiliate in exchange for $1,039 in cash and 69,275 Ordinary Shares of Memco Software Limited ("Memco").

As of December 31, 1998, the fair market value was $1,056 thousand, of which $446 thousand is unrealized loss reported as a separate item in shareholders' equity. The investment is presented as available for sale, and accordingly, the Company carries the changes in the market value of the investment to a separate component of shareholders' equity.

NOTE 5:- PROPERTY AND EQUIPMENT

	December 31, 1997	December 31, 1998
Cost:		
Computers and peripheral equipment	$ 3,574	$ 8,025
Office furniture and equipment	865	2,224
Motor vehicles	61	43
Leasehold improvements	332	643
	4,832	10,935
Accumulated depreciation:		
Computers and peripheral equipment	1,309	3,069
Office furniture and equipment	175	521
Motor vehicles	15	1
Leasehold improvements	66	163
	1,565	3,754
Depreciated cost	$ 3,267	$ 7,181

U.S. dollars in thousands

NOTE 6:- ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31, 1997	December 31, 1998
Income taxes	$ 1,360	$ 5,830
Marketing expenses payable	3,013	3,079
Accrued expenses including provision for warranty	1,751	2,921
	$ 6,124	$ 11,830

NOTE 7:- ACCRUED SEVERANCE PAY, NET

The Company's liability for severance pay, pursuant to Israeli law, is fully provided by an accrual. Part of the liability is funded through insurance policies and the cash value of these policies is recorded as an asset in the Company's balance sheet.

Severance expenses, net, for the years ended December 31, 1996, 1997 and 1998, were approximately $212, $429 and $707, respectively.

NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The facilities of the Company and its subsidiaries 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:

1999	$ 4,561
2000	4,059
2001	2,553
2002	2,358
2003	471
	$ 14,002

Rent expenses for the years ended December 31, 1996, 1997 and 1998, were approximately $542, $1,286 and $2,771, respectively.

b. Guarantees:

The Company has obtained bank guarantees in favor of its lessor in Israel, in the amount of $436.

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 and the parties cross motions for summary judgment, which were submitted in October 1997, were denied by the court in May 1998. The case is currently awaiting trial, which the Company expects will take place some time in the early Spring of 1999. Both parties have completed a pretrial order, filed proposed findings, and designated trial witnesses and exhibits. Due to the nature of the litigation, the Company, based on its legal advisors' opinion, 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 Company's production facilities have been granted the status of "Approved Enterprise", under the law, for three separate investment plans.

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

The Company's first plan was completed and commenced operations in 1995 and accordingly was tax exempt for four years. The second and third plans were approved in 1997 and 1998 respectively. The expansion program entitles the Company to a tax exemption for a period of two years for each plan 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 Company's second approved plan was completed and commenced during 1998.

The period of tax benefits, as detailed above, is subject to limitations of the earlier of 12 years from commencement of production, or 14 years from receipt of approval.

U.S. dollars in thousands

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 - 20%) and an income tax liability would be incurred of approximately $42,440 as of December 31, 1998.

Through December 31, 1998 the Company met all the requirements under the approvals.

Should the Company fail to meet such requirements in the future, 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 (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.

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,	
	1997	1998
Reserves and allowances	$ 30	$ 104
Balance at year-end	$ 30	$ 104

U.S. dollars in thousands

d. Income before income taxes is comprised as follows:

	Year ended December 31,		
	1996	1997	1998
Israel	$ 14,693	$ 41,535	$ 74,927
Foreign	774	1,052	(1,103)
	$ 15,467	$ 42,587	$ 73,824

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

	1996	1997	1998
Current	$ 356	$ 2,319	$ 4,021
Deferred	(10)	(10)	(74)
	$ 346	$ 2,309	$ 3,947
Domestic	$ (10)	$ 740	$ 2,725
Foreign	356	1,569	1,222
	$ 346	$ 2,309	$ 3,947

U.S. dollars in thousands

f. Reconciliation of the theoretical tax expenses:

A reconciliation between the theoretical tax expenses, 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,		
	1996	1997	1998
Income before taxes as reported in the statements of income	$ 15,467	$ 42,587	$ 73,824
Statutory tax rate in Israel	36%	36%	36%
Theoretical tax expenses	$ 5,568	$ 15,332	$ 26,577
Increase (decrease) in taxes resulting from:			
"Approved Enterprise" benefit (1)	(5,165)	(13,452)	(23,272)
Items for which deferred taxes were not recognized	461	564	759
Tax adjustment in respect of inflation in Israel	(573)	(1,360)	(1,154)
Non-deductible expenses	16	35	17
Differences between tax rate in Israel and in the rest of the world	39	1,190	1,020
Income taxes (benefit) as reported in the statements of income	$ 346	$ 2,309	$ 3,947
(1) Diluted earnings per share amounts of the benefit resulting from the exemption	$ 0.14	$ 0.35	$ 0.71

NOTE 10:- SHARE CAPITAL

The Ordinary Shares of the Company are traded on Nasdaq Stock 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 800,000 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 effecting an offering every six months. 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 the 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 under the Israel plan and 9,000,000 Ordinary Shares under the U.S. plan.

On September 14, 1998 the Board of Directors offered new options in lieu of options which were granted to employees under the Company's Stock Option Plan and have not been exercised, canceled or forfeited and their original price was higher than the Company's price in Nasdaq just before the board's decision. The new offering was in return for extending the vesting period and a new measurement date was set (September 14, 1998). The new exercise price is $ 19.125.

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		
	1996	1997	1998	1996	1997	1998
Outstanding at beginning of year	4,024	4,984	5,096	$ 0.80	$ 2.80	$ 9.05
Granted	1,229	1,705	3,640	9.75	24.51	19.18
Exercised	(41)	(1,446)	(1,471)	1.68	1.35	3.25
Forfeited	(228)	(147)	(1,311)	5.43	15.10	24.63
Outstanding at end of year	4,984	5,096	5,954	$ 2.79	$ 9.05	$ 13.8
Exercisable at year-end	1,370	1,106	896	$ 1.63	$ 3.86	$ 8.1

U.S. dollars in thousands

The options outstanding as of December 31, 1998, have been separated into ranges of exercise price, as follows:

Exercise price	Options outstanding as of December 31, 1998	Weighted average remaining contractual life	Weighted average exercise price
$ 0.01 - $ 0.73	969,677	0.68	0.37
$ 1.44 - $ 5.33	706,430	1.73	2.23
$ 9.57 - $ 14.36	239,337	2.37	12.89
$15.875 - $19.125	3,019,701	3.92	16.76
$22.62 - $25.75	512,872	3.48	23.4
$26.00 - $30.37	357,367	3.44	26.78
$31.5 - $40.58	149,118	3.81	32.78
$ 0.01 - $40.58	5,954,502	3.0	13.80

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 options 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 valuation Model with the following weighted-average assumptions for 1996, 1997 and 1998: 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 1996 and 0.5 for 1997 and 0.89 for 1998 and an expected life of the option of one year after the option is vested for 1996 and 6 months after the option is vested for 1997 and 1998.

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.

U.S. dollars in thousands

Pro forma information under SFAS 123:

	December 31,		
	1996	1997	1998
Net income as reported	$ 15,121	$ 39,518	$ 69,877
Pro forma net income	$ 15,033	$ 33,152	$ 61,697
Pro forma basic earning per share	$ 0.47	$ 0.98	$ 1.76
Pro forma diluted earning per share	$ 0.42	$ 0.87	$ 1.61

The weighted average fair values of options granted for the years ended December 31, 1996, 1997 and 1998 were $ 4.70, $ 8.05 and $ 11.56, respectively.

c. Earnings per share:

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

	1996	1997	1998
Numerator:			
Net income	$ 15,121	$ 39,518	$ 69,877
Numerator for basic and diluted earnings per share - income available to ordinary stockholders	$ 15,121	$ 39,518	$ 69,877
Denominator:			
Denominator for basic earnings per share - weighted average shares (in thousands)	31,746	33,937	35,435
Effect of dilutive securities (in thousands)	4,254	4,115	3,260
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions (in thousands)	36,000	38,052	38,695
Basic earnings per share	$ 0.48	$ 1.16	$ 1.97
Diluted earnings per share	$ 0.42	$ 1.04	$ 1.81

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

a. Geographic information:

The Company manages its business on the basis of one reportable segment. See note 1 for a brief description of the Company's business. The Company attributes revenues from external customers on the basis of where the products are being sold, as follows:

	1996		1997		1998	
	Revenues	Long-lived assets	Revenues	Long-lived assets	Revenues	Long-lived assets
Israel	$ 379	$ 772	$ 805	$ 1,053	$ 1,435	$ 2,126
Export:						
U.S.A.	23,376	974	50,333	1,974	81,010	4,682
Great Britain	2,572	-	7,144	39	12,823	101
Europe	2,080	-	13,304	81	24,464	113
Japan	4,651	-	8,246	43	10,617	61
Other	1,522	-	6,520	77	11,592	98
	$ 34,580	$ 1,746	$ 86,352	$ 3,267	$ 141,941	$ 7,181

b. Major customers data, percentage of total revenues:

	Year ended December 31, 1996	1997	1998
SunSoft	39%	18%	9%

c. Research and development, net:

In 1996, 1997 and 1998, research and development expenses were shown net of non-refundable and non-royalty bearing Israeli government grants of $288, $797 and $450, respectively.

U.S. dollars in thousands

d. Financial income, net:

	Year ended December 31,		
	1996	1997	1998
Financial expenses:			
Foreign currency translation adjustments	$ 320	$ 356	$ 4,619
Other	111	312	326
	431	668	4,945
Financial income:			
Interest and other	1,921	5,224	9,351
	1,921	5,224	9,351
Financial income, net	$ 1,490	$ 4,556	$ 4,406

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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, 1997 and 1998 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, 1998.

(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. Rieman 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, Forer & Gabbay 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: June 30, 1999