CHECK POINT SOFTWARE TECHNOLOGIES LTD
Form 20-F
June 25, 2001

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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, 2000

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: Non

Securities registered or to be registered pursuant to Section 12(g) of the Act: Ord

of NIS 0.01 nominal value

Ordinary shares (par value NIS 0.01) of registrant outstanding at December 31, 2000 -235,464,986 (end of reporting period).

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: No

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:

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS.

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

The following selected consolidated statements of income data for the years ended December 31, 1998, 1999 and 2000, and the selected consolidated balance sheet data as of December 31, 1999 and 2000 have been derived from the Company's audited consolidated financial statements, set forth elsewhere in this Form 20-F. These financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("US

GAAP"). The selected consolidated statement of income data for the years ended December 31, 1996 and 1997 and the selected consolidated balance sheet data as of December 31, 1996, 1997, and 1998, have been derived from audited consolidated financial statements not included in this Form 20-F and have also been prepared in accordance with US GAAP. The selected consolidated financial statements set forth below should be read in conjunction with and are qualified by reference to our consolidated financial statements and the related notes as well as "Item 5: Operating and Financial Review and Prospects" included elsewhere in this Annual Report on Form 20-F.

	YEAR ENDED DECEMBER 31,				
	1996 (*)	1997 (*)	1998 (*)	1999	200
	(IN THOUSANDS, EXCEPT SHARE DATA)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Revenues................................	$34,580	$86,352	$141,941	$219,567	$425
Cost of revenues........................	2,884	6,839	13,623	22,423	35,
Gross profit............................	31,696	79,513	128,318	197,144	390,
Operating expenses:					
Research and development, net...........	3,803	7,105	10,629	18,923	30,
Sales and marketing.....................	10,275	26,611	39,966	68,229	110,
General and administrative..............	3,641	7,766	10,886	13,069	20,
Total operating expenses................	17,719	41,482	61,481	100,221	160,
Operating income........................	13,977	38,031	66,837	96,923	229,
Financial income, net...................	1,490	4,556	4,406	12,770	29,
Capital gain	--	--	2,581	192	
Income before taxes on income...........	15,467	42,587	73,824	109,885	258,
Taxes on income.........................	346	2,309	3,947	14,104	37,
	15,121	40,278	69,877	95,781	221,
Equity in losses of an affiliate.........	-	760	-	-	
Net Income..............................	$15,121	$39,518	$69,877	$95,781	$221,
Basic net earnings per share (1).........	$0.08	$0.19	$0.33	$0.43	$0.9
Shares used in computing basic net earnings per share (1)..................	190,476	203,622	212,610	222,930	232,61
Diluted net earnings per share (1).......	$0.07	$0.17	$0.30	$0.39	$0.8
Shares used in computing diluted net earnings per share (1)..................	215,958	228,312	232,170	246,456	262,51

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	DECEMBER 31,				
	1996 (*)	1997 (*)	1998 (*)	1999	2
	(IN THOUSANDS)				
BALANCE SHEET DATA:					
Working capital	$56,603	$60,817	$80,872	$198,204	$313
Total Assets............................	66,572	124,964	212,235	394,346	777
Shareholder's equity	58,170	100,025	175,707	292,508	549

(1) See Note 2q of Notes to consolidated financial statements for an explanation of the determination of shares used in computing net earnings per share.

(*) 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.

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 4 - Information on the Company 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 5: Operating and Financial Review and Prospects" regarding future sources of revenue, ongoing relationships with current and future end-user customers and resellers, future costs and expenses, adequacy of capital resources and the Company's Year 2001 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 this Form 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.

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 and Nortel Networks. Other competitors include 3Com Corporation, Lucent Technologies, Microsoft Corp., Network Associates, NetScreen Technologies Inc., Nokia (the Company and Nokia jointly develop Firewall-1 and VPN-1

security appliances, however Nokia sells separately its own VPN solution which excludes a firewall), Novell Inc., SonicWALL Inc., Symantec Inc., WatchGuard Technologies Inc., and Secure Computing. 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 entry barriers.

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 that 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 VPN-1/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 VPN-1/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 VPN-1/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 "Item 4 - Information on the Company."

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 resellers 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 4 - Information on the Company."

POTENTIAL FLUCTUATIONS IN FUTURE OPERATING RESULTS; POTENTIAL 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. Historically, the Company has not been dependant on significant amounts of revenues being generated during the end of a quarter. This trend may change in the future and the Company could experience a dependency of significant amounts of revenues being generated during the end of a quarter thereby increasing the risk of revenues being realized in 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.

The Company's sales to the Far East (including Japan), in millions, were $22, $36, and $70 in 1998, 1999 and 2000 respectively, representing 16% of revenues for the years 1998, 1999, and 2000. The economy in this region is still unstable, and therefore the Company cannot predict if similar levels of sales in the region are sustainable.

During the last quarter of 2000, in general, purchases of information technology products in the United States showed a significant slowdown. The Company cannot predict the length of this current negative economic climate

and indeed whether this slowdown will affect other parts of the world such as Asia and Europe.

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 make 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 due to 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 5: Operating and Financial Review and Prospects."

The Company may experience a decline in operating margins as it expands its customer and technical support organization. The Company also expects that it will experience increasing competition and pricing pressure, which may result in lower operating margins. In 2001, 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 additional countries in Europe, Asia, and Latin America. 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. See "Item 5: Operating and Financial Review and Prospects."

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 4 - Information on the Company."

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.

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 2001, the Company announced the Check Point Next Generation release of VPN-1/FireWall-1, which will begin shipping in the third quarter of 2001. 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 resellers 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 5: Operating and Financial Review and Prospects" and "Item 4 - Information on the Company."

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 and Jerry Ungerman. The loss of the services of one or more of the Company's key personnel could 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 4 - Information on the Company."

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 resellers 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 4 - Information on the Company" and "Item 5: Operating and Financial Review and Prospects."

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 resellers, 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 resellers against the Company, any of which could have a material adverse effect upon the Company's business, operating results and financial condition.

See "Item 4 - Information on the Company."

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 as set forth below in the section entitled "Proprietary Rights and Trademark Litigation in "Item 4 - Information on the Company." In 1998, 1999 and 2000, the Company's sales to resellers in individual countries other than the United States, Japan, Great Britain and other countries in Europe, not including Israel, were less than 9% of total revenue. There can be no assurance that the Company's patent 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, which could have a material adverse effect upon the Company's business, operating results and financial condition.

GOVERNMENT REGULATION OF TECHNOLOGY EXPORTS

A number of governments have imposed controls, export license requirements and restrictions on the export of certain technology, and 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.

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 4 - Information on the Company" and the section entitled "Israeli Taxation, Foreign Exchange Regulation and Investment Programs" in "Item 10: Additional Information."

ANTI-TAKEOVER EFFECTS OF ISRAELI LAWS

Under the Israeli Companies Law, a merger is generally required to be approved by the shareholders and board of directors of each of the merging companies. Shares held by a party to the merger are not counted toward the required

approval. If the share capital of the company that will not be the surviving company is divided into different classes of shares, the approval of each class is also required. A merger may not be approved if the surviving company will not be able to satisfy its obligations. At the request of a creditor, a court may block a merger on this ground. In addition, a merger can be completed only after all approvals have been submitted to the Israeli Registrar of Companies and 70 days have passed from the time that a proposal for approval of the merger was filed with the Registrar.

The Israeli 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 25% shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company. Similarly, the Israeli 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, unless someone else already holds a majority of the voting power of the company. These rules do not apply if the acquisition is made by way of a merger.

Regulations promulgated under the Israeli Companies Law provide that these tender offer requirements do not apply to companies whose shares are listed for trading outside of Israel if, according to the law in the country in which the shares are traded, including the rules and regulations of the stock exchange on which the shares are traded, either:

- There is a limitation on acquisition of any level of control of the company; or

- The acquisition of any level of control requires the purchaser to do so by means of a tender offer to the public.

The Israeli Companies Law provides specific rules and procedures for the acquisition of shares held by minority shareholders, if the majority shareholder holds 90% or more of the outstanding shares.

Finally, Israeli tax law treats specified acquisitions, including a stock-for-stock swap between an Israeli company and a foreign company, less favorably than does U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his Ordinary 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.

CONCENTRATION OF SHARE OWNERSHIP

As of May 31, 2001, the directors, executive officers and principal shareholders of the Company and their affiliates beneficially own approximately 29% 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 7: Major Shareholders and Related Party Transactions."

The Company's Board of Directors and shareholders have adopted resolutions that provide that, subject to the provisions of Israeli law, the Company may indemnify its Office Holders (in general, directors and senior officers) 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.

EUROPEAN CURRENCY ISSUES

The Company 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. The Company'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 balance of the 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.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY-HOLDERS

Until May 1998, Israel imposed restrictions on transactions in foreign currency. These restrictions affected the Company's 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 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 nor the Articles of Association of the Company nor the laws of the State of Israel restrict in any way 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 4. INFORMATION ON THE COMPANY

Check Point Software Technologies Ltd. (together with its subsidiaries the "Company" or "Check Point") develops, markets and supports Internet security solutions for enterprise networks, and service providers (Telcos, ISPs, ASPs and MSPs) including Virtual Private Networks (VPNs), firewalls, intranet and extranet security. The Company delivers solutions that enable secure, reliable and manageable business-to-business communications over any Internet Protocol ("IP") network--including the Internet, intranets and extranets. Check Point product offerings also include traffic control/quality of service (QoS) and IP address management. Check Point products are fully integrated as a part of the Company's Secure Virtual Network (SVN) architecture and provide centralized management, distributed deployment, and comprehensive policy administration. The capabilities of Check Point products can be extended with the Open Platform for Security (OPSEC), enabling integration with best of breed hardware, security applications and enterprise software applications.

INDUSTRY BACKGROUND

Information, and the ability to access and distribute it, is one of the main strategic assets 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

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

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 security applications, such as authentication, encryption, URL filtering, anti-virus protection, and Java and ActiveX security services and functions.

THE CHECK POINT SOLUTION

With the introduction of the Secure Virtual Network (SVN) architecture, Check Point delivers a fundamentally new approach to Internet security deployment. With a single security framework, an organization can connect and secure all elements of the enterprise network: networks, applications, systems and users.

Check Point's Stateful Inspection technology, the foundation of all

Check Point solutions, 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 Security (OPSEC) framework provides a single platform that enables integration with multiple 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 VPN-1 and FireWall-1 product offerings are based upon 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, VPN-1 and FireWall-1 cause virtually no performance degradation, enabling it to scale effectively as network bandwidth 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 Security Enterprise Connectivity ("OPSEC"). Check Point's Open Platform for Security, or OPSEC, allows users to integrate, manage, and deploy all aspects of network security through an open, extensible management framework. Today, more than 270 vendors have joined the OPSEC Alliance, embracing OPSEC as the industry's de-facto framework for securing the Internet. OPSEC partners develop specialized solutions that span the range of enterprise network security technologies - from high-performance internetworking, server and appliance platforms with embedded Check Point SVN software, to authentication, public key infrastructure, content security, intrusion detection, and other solutions. Additionally, through the OPSEC Check Point Certified Managed Service Provider (CCMSP) program, customers have the option to select a complete managed service offering from among a group of the world's leading MSPs participating in this program. The OPSEC framework 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 Internet Security Solution. The VPN-1 and FireWall-1 product families extend across all major market segments, from small businesses to large enterprise networks. Most products support a broad range of platforms, including Sun Microsystems (Solaris), IPSO, Microsoft (Windows NT), Linux, Hewlett-Packard (HP-UX) and IBM Corporation (AIX). Both VPN-1 and

FireWall-1 also support all major networking technologies, including 10BaseT, 100BaseT, ATM, FDDI and Token Ring. Check Point's Internet security solutions provide a broad range of features and functionality including the following:

Integration of Third-Party Security Applications. Through OPSEC, end-users of VPN-1and FireWall-1 are able to integrate the product into various network management systems and add new features and functionality such as public key infrastructure, authentication, encryption, URL categorization, content security, anti-virus protection, intrusion detection, auditing and reporting controls and enterprise directory integration.

Implementation of the Virtual Private Networks. The VPN-1 architecture supports multiple authentication methods including digital certificates, password-based techniques, biometrics and authentication tokens. In addition, VPN-1 provides data encryption capabilities 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 VPN-1 product family supports multiple encryption and key management methods including IPSec, DES, IKE, AES, and 3DES. The Company extends the VPN to the mobile desktop users with its SecuRemote and SecureClient software. In addition, the multi-vendor interoperability offered by VPN-1 enables the deployment of secure and reliable intranet and extranet VPNs for business communications.

Extensive, Scaleable Application Support. VPN-1 and FireWall-1 support 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 products are capable of configuring and managing an enterprise-wide network policy at multiple enforcement points from a single, centralized administrative workstation, eliminating the need to configure each gateway and server independently. The system administrator can define a single

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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 offer a broad range of policy-based solutions for securing and managing networks. The Company's Security 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 Traffic Control product line includes its FloodGate-1 bandwidth management solution. The Management product line includes Meta IP address management products.

The Company is currently shipping version 4.1 for all 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.

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 VPN-1's Management Module and rule base editor and log viewer. Included in the Company's VPN-1 product family is VPN-1 SecuRemote to extend the VPN to the desktop and laptop by providing end-to-end encryption support, and VPN-1 SecureClient incorporating all VPN-1 features plus a personal firewall.

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 Traffic Control 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(TM) (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 users 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.

SofaWare

Check Point is a financial and strategic investor in SofaWare Technologies Ltd., a company established in 2000. Check Point has the right to acquire a controlling interest in SofaWare. SofaWare's goal is to provide the home and home office market with Internet security solutions, based on Check Point's Stateful Inspection technology. SofaWare's Safe@Home product protects the entire home network and enables consumers to easily manage and configure their security settings. Safe@Home also enables service providers to offer managed security solutions including content filtering and other value-added services to their subscribers.

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: distributors, Value Added Resellers (VARs), Original Equipment Manufacture (OEMs), system integrators, and Managed Service Providers (MSPs).

The Company has OEM bundling relationships with server and workstation vendors such as Compaq and IBM; internetworking device manufacturers such as Nokia and Intrusion.com, 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, OEM partners 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 the section "Risk Factors" in "Item 3: Key Information."

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. In 2000 and 1998, no reseller exceeded 10% of the Company's revenues. Approximately 12% of the Company's revenues were derived from a single reseller in 1999. See the section "Risk Factors" in "Item 3: Key Information." The Company's agreements with its OEM partners 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 the section "Risk Factors" in "Item 3: Key Information."" Revenues from the sales to customers in the Americas, Europe and Japan were 57%, 26% and 7% in 1998, 53%, 29% and 11% in 1999, and 48%, 34%, and 9% in 2000 respectively, of total revenues.

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 Accenture, Computer Sciences Corporation, Electronic Data Systems, Integrated Network Services, Inc. and PriceWaterhouse 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, Network Associates, Novell, RSA Security, Symantec, Trend Micro and VeriSign, as well as many others. The Company also has informal marketing relationships with BackWeb, BMC Software, Microsoft, Netscape/AOL, 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 partners, 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 resellers in implementing secure, reliable business communications solutions.

The Company's OEM partners and resellers generally provide the installation, training, maintenance and support for their customers, with Check Point providing the high-level technical backup support. Check Point also offers direct support agreements to end users who prefer to purchase directly from the manufacturer. As part of Check Point's direct market participation, the Company employs technical consultants and systems engineers who work closely with OEM partners, resellers and territory sales managers to assist with the pre-sales configuration, use and application support.

The Company operates a worldwide 24-hour by 7-day call center, based in Dallas, Texas. The Company supports resellers, partners, and sales personnel through standard systems and processes and are available via e-mail, the Internet, fax and telephone. The support structure includes "front line" call center engineers for resolving the majority of issues and questions during the first call. If necessary, bench testing using real-world configurations are performed by senior support engineers. Third level support is provided by the Escalation Group, an organization that resides with the Company's multiple research and development groups in Ramat Gan, Israel 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 troubleshooting and delivers updated code, as appropriate. Analysis of historical trouble tickets is conducted and tracked. This information is used in the development of features and enhancements in new product releases

To provide hands-on training, education and certification, Check Point has an in-house educational services group. The group develops courses and curricula for Check Point 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 products, including installation, management and advanced implementations. The Company offers industry level certification programs including Check Point Certified Security Engineer (CCSE) and Check Point Certified Security Administrator (CCSA). Using a leveraged model, Check Point has trained hundreds of partners, and these partners have in turn established Authorized Training Centers. There are now over 222 Check Point Authorized Training Centers in 47 countries around the world.

The Company also has an established professional services organization with consultants in locations throughout the world. They offer a set of consulting services that includes on-site support for installation of its

products, and assistance in developing sound security business practices.

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 support 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 are encouraged to purchase software subscription, which is a component of the services program that provides product updates and version upgrades for Check Point's products. 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 OEM partners 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.

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 resellers, who provide significant feedback for product development and innovation. See the section "Risk Factors" in "Item 3: Key Information."

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.

RESEARCH AND DEVELOPMENT

The Company's research and development activities involve the development of new products and modules in response to identified market demands and the support and enhancement of our existing products. We regard significant portions of our software products and systems as proprietary and rely on a combination of statutory and common law copyright, trademark and trade secret laws, customer licensing agreements, employee and third party nondisclosure agreements and other methods to protect our proprietary rights. The Company generally enters into confidentiality agreements with employees, consultants, customers and potential customers and limit access to, and distribution of its proprietary information. Some of the Company's products are co-developed with and co-owned by its technology and business partners.

Net research and development expenses for 1998, 1999 and 2000 were $10.6 million, $18.9 million and $30.3 million, respectively. At December 31, 2000, the Company had 311 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

See "Item 3, Key Information, Risk Factors"

PROPRIETARY RIGHTS AND TRADEMARK LITIGATION

The Company relies primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. The Company seeks to protect its software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection.

The Company has patents pending worldwide and holds two U.S. patents, No. 5,606,668 and No. 5,835,726. 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 Germany, 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, Ireland, Sweden, Germany, Switzerland, and Finland) based on an earlier patent application filed in Israel 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, and all other local requirements are met. The EPO opposition period of nine months from grant of the patent at the EPO can effect the enforcement of that patent nationally if an opposition is filed during that time. If the opposition is won, it can negate the patent altogether or result in the protection being offered by the patent being narrowed. There can be no assurance that the Company's applications, whether or not 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, which are or will be subject to protection under intellectual property laws. 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") a manufacturer of theft prevention devices for retail stores, filed an action alleging trademark infringement and unfair competition against the Company in the United States District Court for the District of New Jersey. CSI seeks to enjoin the Company from using the "Check Point" name in connection with the Company's products and services. The trial court dismissed CSI's claim for damages on summary judgment. The trial was conducted in November, 1999. The District Court issued its opinion in Check Point's favor on July 12,2000. CSI has filed its appellant's brief alleging that the District Court misapplied the governing law. On April 5th 2001, oral argument was presented to the Appellate court. The matter has been taken under advisement. The Company is unable to predict the outcome of this litigation. In the event that CSI is granted the full injunctive relief it is seeking and the Company is required to cease using the "Check Point" name in connection with its products and services, the Company may incur material expenses in launching a new name.

EMPLOYEES

As of March 31, 2001, the Company had 1137 employees, of whom 331 were engaged in research, development, quality assurance and backline support, 456 were engaged in marketing and sales, 223 were engaged in customer support and operations, and 127 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

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and restrictions on discrimination.

ORGANIZATIONAL STRUCTURE

The Company is organized under the laws of the State of Israel, which wholly owns the subsidiaries specified below.

NAME OF SUBSIDIARY	COUNTRY OF INCORPORATIO
Check Point Software Technologies Inc. (*)	United States of America
Check Point Software Technologies (Canada) Inc.	Canada
Check Point Software Technologies (Australia) PTY, Ltd.	Australia
Check Point Software Technologies (Japan) Ltd.	Japan
Check Point Software Technologies (Singapore) PTE Ltd.	Singapore
Check Point Software Technologies SARL	France
Check Point Software Technologies (Netherlands) B.V.	Holland

Check Point Software Technologies (Netherlands) B.V. acts as a holding company and wholly owns the following principal operating subsidiaries specified below.

NAME OF SUBSIDIARY	COUNTRY OF INCORPORATIO
Check Point Software Technologies B.V.	Holland
Check Point Software Technologies (Italia) S.R.L.	Italy
Check Point Software Technologies (Switzerland) A.G.	Switzerland
Check Point Software Technologies Norway A.S.	Norway
Check Point Software Technologies (Spain) S.A.	Spain
Check Point Software Technologies Mexico S.A. de C.V.	Mexico

Check Point Software Technologies (Brazil) LTDA	Brazil
Check Point Software Technologies (UK) Ltd.	United Kingdom
Check Point Software Technologies GmbH	Germany
C.P.S.T. Sweden A.B.	Sweden

(*) Check Point Software Technologies Inc wholly owns MetaInfo Inc, incorporated in the United States of America

Israel Check Point Software Technologies Ltd. China is a representative office of Israel located in Beijing, China.

PLANTS, PROPERTY AND EQUIPMENT

The Company's headquarters and Research and Development facilities are located in Ramat-Gan, Israel, near Tel-Aviv, where the Company leases approximately 135,000 square feet of office space. These facilities are leased pursuant to leases that expire 2003, 2004, and 2006 including 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 31,275 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. In addition the Company leases office space in its US regional offices in Texas, Colorado, Michigan, Illinois, Massachusetts, Washington, Georgia, North Carolina, New York, Arizona, Florida, Pennsylvania, New Jersey, Virginia and Ontario. Other leased offices include Canada, England, France, Singapore, Germany, Japan, Holland, Italy, Australia, Sweden, Norway, Spain, Brazil and Mexico.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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 $141.9 million, $219.6 million and $425.3 million in the years 1998, 1999 and 2000, respectively, substantially all of which were derived from the sales of its FireWall-1 and VPN-1 product families including related software subscriptions, technical services and training programs.

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.

The Company accounts for software sales in accordance with Statement of Position (SOP) 97-2, "Software Revenue Recognition," as amended. SOP 97-2, generally requires revenues earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair value of the element. The Company has adopted SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions", for all multiple element transactions entered into after January 1, 2000. SOP 98-9 requires that revenue be recognized under the "residual method" when vendor specific objective evidence ("VSOE") of fair value exists for all undelivered elements and VSOE does not exist for the delivered elements.

Revenue from license fees is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable, and collectibility is probable. The Company maintains certain provisions for product returns and rebates in accordance with SFAS No. 48 "Revenue Recognition when Right of Return Exists". Such provisions amounted to $ 7.1 million and $ 10.1 million as of December 31, 1999 and 2000, respectively. The Company from time to time considers arrangements regarding certain customers with payment terms extending beyond customary payment terms not to be fixed or determinable. If the fee is not fixed or determinable, revenue is deferred and recognized when payments become due from the customer, providing that all other revenue recognition criteria have been met.

Software subscription, specified upgrades, support, consulting services and training program revenue included in multiple element arrangements is deferred and recognized on a straight-line basis over the term of the software subscription and support agreement. The VSOE of fair value of the undelivered elements (software subscription, specified upgrades, support, consulting services and training) is generally determined based on the price charged for the undelivered element when sold separately. Deferred revenues also include amounts received from customers for which services have not been provided.

The Company has derived substantially all of its revenues from sales of its FireWall-1 and VPN-1 families of software products including related software subscriptions, support, technical services and training programs. 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.

No customer, distributor or reseller, exceeded 10% of the Company's revenues in either 1998 or 2000. During 1999 approximately 12% of the revenues were derived from a single distributor.

During each of the three years 1998, 1999 and 2000, the Company significantly increased the number of its distributors, resellers, system integrators and managed service providers on a worldwide basis.

The following table sets forth, for the periods indicated, the percentage of total consolidated revenues derived from sales into each of the regions identified in the table.

REGION	YEAR ENDED DECEMBER 31, 1998	1999	2000
Americas	57%	53%	48%
Great Britain	9%	9%	8%
Europe (excluding Great Britain)	17%	20%	26%
Japan	7%	11%	9%
Other - mostly Asia Pacific	10%	7%	9%

The Company may experience declining operating margins as it expands its customer and technical support organization. The Company also expects that it will experience increasing competition and pricing pressure, which would result in lower operating margins. In 2001, 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 additional countries in Europe, Asia, and Latin America. 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.

Research and development costs, net of grants received, 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.

RESULTS OF OPERATIONS:

The following table presents, for the periods indicated, line items from the Company's statements of income (in thousands of US$).

	1998	1999	2000
Revenues	$141,941	$219,567	$425,283
Cost of revenues	13,623	22,423	35,265
Gross profit	128,318	197,144	390,018
Operating expenses:			
Research and development, net	10,629	18,923	30,309

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	1998	1999	2000
Sales and marketing	39,966	68,229	110,003
General and administrative	10,886	13,069	20,409
Total operating expenses	61,481	100,221	160,721
Operating income	66,837	96,923	229,297
Financial income, net	4,406	12,770	29,147
Capital gain	2,581	192	---
Income before taxes on income	73,824	109,885	258,444
Taxes on income	3,947	14,104	37,231
Net income	$69,877	$95,781	$221,213

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

	1998	1999	2000
Revenues	100%	100%	100%
Cost of revenues	10	10	8

Gross profit	90	90	92
Operating expenses:			
Research and development, net	7	9	7
Sales and marketing	28	31	26
General and administrative	8	6	5
Total operating expenses	43	46	38
Operating income	47	44	54
Financial income, net	3	6	7
Capital gain	2	---	---
Income before taxes on income	52	50	61
Taxes on income	3	6	9
Net income	49%	44%	52%

Revenues. The Company's revenues are derived from the sale of software products and related software subscriptions, support contracts, consulting services and training. The Company's revenues were approximately $141.9 million, $219.6 million and $425.3 million in 1998, 1999 and 2000, 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, VPN-1 and Provider-1. Revenues from sales to the Americas resellers were 57%, 53% and 48% of revenues in 1998, 1999 and 2000, respectively. However, the Company believes that since it sells its products to resellers and OEMs in the United States that have significant international reseller 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 $13.6 million, $22.4 million and $35.3 million for 1998, 1999 and 2000, respectively. Gross margins were 90%, 90% and 92% of the Company's revenues for 1998, 1999 and 2000, respectively.

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 $10.6 million, $18.9 million and $30.3 million in 1998, 1999 and 2000, respectively, representing 7%, 9% and 7% of revenues, respectively. The increases in absolute dollars were due to the addition of new

development personnel. The Company received non-royalty bearing grants of $450,000, $60,000 and $392,000 in 1998, 1999 and 2000, 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 $40.0 million, $68.2 million and $110.0 million in 1998, 1999 and 2000, respectively, representing 28%, 31% and 26% of revenues, respectively. The substantial increase in absolute dollars each year was 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 in 2000 as compared with 1999, primarily due to a significant increase in revenues. The Company anticipates that its sales and marketing expenditures will increase in absolute dollars and may fluctuate as a percentage of revenues thereafter as the Company continues to expand its sales and marketing activities.

General and Administrative. General and administrative expenses consist primarily of outside professional fees, salaries and other related expenses. General and administrative expenses were $10.9 million, $13.1 million and $20.4 million in 1998, 1999 and 2000, respectively, representing 8%, 6% and 5% of revenues, respectively. The increase in absolute dollars was primarily due to the addition of staff, and 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 increases 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 financial and administrative infrastructure, and continues to incur additional costs associated with being a public company.

QUARTERLY RESULTS OF OPERATIONS. The following table sets forth certain unaudited consolidated statements of income data for each of the quarters in 1999 and 2000, as well as the percentage of the Company's revenues represented by each item. The unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements contained herein and include all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of such information when read in conjunction with the Company's consolidated financial statements and Notes thereto appearing elsewhere in this annual report. The Company believes that quarter-to-quarter comparisons of its financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

Quarter ended, US$ in thousands, except per share data

	FISCAL YEAR 1999	FISCAL YEAR

	Q1	Q2	Q3	Q4	Q1	Q2	
Revenues	$43,772	$50,051	$57,799	$67,945	$78,166	$90,668	$1
Cost of revenues	4,711	5,092	6,053	6,567	7,644	8,006	
Gross profit	39,061	44,959	51,746	61,378	70,522	82,662	1
Operating expenses:							
Research and development, net	4,043	4,353	4,892	5,635	6,175	6,659	8
Sales and marketing	12,643	15,744	18,34	21,49	24,218	27,733	2
General and administrative	2,862	3,219	3,385	3,603	5,199	4,502	5
Total operating expenses	19,548	23,316	26,620	30,737	35,592	38,894	41
Operating income	19,513	21,643	25,126	30,641	34,930	43,768	64
Financial income, net	2,624	2,705	3,609	3,832	5,494	6,411	7
Capital gain	---	192	---	---	---	---	
Income before taxes on income	22,137	24,540	28,735	34,473	40,424	50,179	72
Taxes on income	2,434	3,008	4,010	4,652	5,545	6,508	10
Net income	$19,703	$21,532	$24,725	$29,821	$34,879	$43,671	$6
Basic net earnings per share	$0.09	$0.10	$0.11	$0.13	$0.15	$0.19	$
Shares used in computing basic net earnings per share	219,540	220,914	224,106	227,160	230,256	231,663	23
Diluted net earnings per share	$0.08	$0.09	$0.10	$0.12	$0.13	$0.17	
Shares used in computing diluted net earnings per share	241,830	243,354	248,526	256,704	262,941	263,637	26
AS A PERCENTAGE OF REVENUES							
Revenues	100%	100%	100%	100%	100%	100%	1
Cost of revenues	11	10	10	10	10	9	
Gross profit	89	90	90	90	90	91	
Operating expenses:							
Research and development, net	9	9	8	8	8	7	
Sales and marketing	29	31	32	32	31	31	
General and administrative	6	6	6	5	7	5	
Total operating expenses	44	46	46	45	46	43	
Operating income	45	44	44	45	44	48	
Financial income, net	6	5	6	6	7	7	
Income before taxes on income	51	49	50	51	51	55	
Taxes on income	6	6	7	7	7	7	
Net income	45%	43%	43%	44%	45%	48%	5

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'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 due to the relatively small amount of the Company's expenses, which vary with its revenues. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Due to all of the foregoing factors, it is likely that in some future quarter the Company's operating results may be below the expectations of public market analysts and investors. In such event, the price of the Company's Ordinary Shares would likely be materially adversely affected.

LIQUIDITY AND CAPITAL RESOURCES

The Company has primarily financed its operations through cash generated from operations. Cash and cash equivalents and short term investments were $438.4 million, and long term investments were $219.3 million, totaling $657.7 million as of December 31, 2000, as compared with cash and cash equivalents and short term investments of $242.5 million and long term investments of $82.9 million totaling $325.4 million as of 1999. The Company generated net cash from operations of $70.3 million, $144.3 million and $315.7 million in 1998, 1999 and 2000. Net cash from operations for these periods consisted primarily of net income plus increases in deferred revenues, accrued expenses and other liabilities offset by increases in trade receivables, other receivables and prepaid expenses. The Company's capital investments amounted to approximately $6.1 million, in each of 1998 and 1999 and $9.1 million in 2000. Capital investments during 2000 were primarily for computer equipment and software for the Company's research and development and technical service organization efforts. As of December 31, 2000, the Company had no material commitments for capital expenditures. Net cash provided by financing activities was approximately $5.2 million, $15.7 million and $25.8 million in 1998, 1999 and 2000, respectively, primarily as a result of stock options exercised. Excess cash is invested in marketable securities and bank deposits of varying maturities, depending on 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 middle of 2002.

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 was zero in 2000 (compared to 1.3% in 1999 and 8.6% in 1998), while the NIS was revaluated upwards by 2.8% against the dollar (compared to 0.2% in 1999 and a devaluation of 17.6% in 1998). These decreases 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. Most of the Company's revenues are denominated 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 and reporting 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. 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 SFAS No. 52 "Foreign Currency Translation". The Company has not engaged in any significant hedging activities

in the years up to and including 2000.

EFFECTIVE CORPORATE TAX RATE

The Company's effective tax rate was 5.3%, 12.8% and 14.4% in 1998, 1999 and 2000, respectively. These low tax rates were achieved due to the tax holiday prescribed by the Company's Approved Enterprise status of its production facilities in Israel.

The Company has been granted "Approved Enterprise" status by the Israeli government for four 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%-20% for an additional six to eight years on the respective investment plans' proportionate share of taxable income. The tax benefits under these investment plans are scheduled to gradually expire from 2004 to 2008. See Note 8b of Notes to the consolidated financial statements. Almost all of the Company's Israeli income has been generated from its Approved Enterprises. 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, operated pursuant to a cost plus agreement with the Company through 1998 and has operated as a distributor since 1999. The Company's United States subsidiary incurred income taxes of $1 million, $2.5 million and $5.1 million in 1998, 1999 and 2000, respectively. See Note 8d of Notes to the consolidated financial statements. 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 and an income tax liability would be incurred of approximately $80 million as of December 31, 2000.

EUROPEAN CURRENCY ISSUES

The Company 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. The Company'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 balance of the 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.

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. Other than forward exchange currency contracts described below which are used for hedging cash flow in transactions which are not denominated in U.S. Dollars, the Company does not use derivative financial instruments in its investment portfolio.

FOREIGN CURRENCY RISK

Most of the Company's sales are denominated in US dollars. In addition, a substantial portion of the Company's costs are incurred in dollars. The Company's management believes that the dollar is the primary currency of the economic environment in which the Company and its subsidiaries operate, and thus the dollar is their functional and reporting currency. 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 into US dollars 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. All transaction gains and losses of the remeasurement of monetary

balance sheet items are reflected in the statement of income as financial income or expenses, as appropriate.

The Company enters into foreign exchange forward contracts to minimize the short-term impact of foreign currency fluctuations on assets denominated in Japanese Yen. These contracts are highly inversely correlated to the hedge items and are designated as, and considered effective as, hedges of the underlying assets.

Gains and losses on the contracts are included in net financial income, and offset foreign exchange gains and losses from the revaluation of intercompany balances or other current assets and liabilities denominated in currencies other than the functional currency of the reporting entity.

Company's management is of the opinion that, due to the fact that the above transactions are carried out with well established institutions, liabilities owing to the Company will be fulfilled as of December 31, 2000. Total outstanding transactions to sell/purchase U.S. dollars in exchange for the Japanese yen, were in the amount of $ 6,669,000. The above transactions were for a period of 1.5 months. Gain and losses, which are included in the financial statements for the year ended December 31, 2000, were insignificant.

INTEREST RATE RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment in marketable securities. The Company's marketable securities comprise of Israeli Government debts and U.S. corporate debts. The fair value of the Company's long and short-term securities is based upon their market values as of December 31, 2000.

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

(In thousands U.S. Dollars)

	MATURITY						TOTAL BOOK VALUE	FAIR VALUE AT 12/31/2000
	2001	2002	2003	2004	2005	2006		
INVESTMENT IN MARKETABLE SECURITIES								
U.S. dollar linked debt securities - Changing Interest								

Rate	15,694	6,312	11,486	1,144			34,636	35,529
Weighted Average Interest Rate*	5.90%	5.94%	6.77%	7.00%				
U.S. Corporate debts - Fixed Interest Rate	55,519	41,935	38,498	23,550	42,900	14,549	216,951	216,977
Weighted Average Interest Rate	7.77%	7.11%	6.54%	7.12%	7.20%	6.55%		
U.S. Corporate debts - Zero coupon		1,194					1,194	1,171

o Based upon the Libor as of December 31, 2000

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The directors and executive officers of the Company as at December 31, 2000 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
Eyal Desheh..............................	Chief Financial Officer
Shlomo Kramer............................	Founder, Director
Irwin Federman (1)(2)(3).................	Director
David Rubner.............................	Director
Ray Rothrock (1)(2)(3)...................	Director
Alex Vieux...............................	Director
Tal Shavit...............................	Director

(1) Member of Compensation Committee

(2) Member of Audit Committee

(3) Outside Director

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. In 2001, the position of President was transferred from Mr. Shwed to Mr. Ungerman. 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. In 2001, Mr. Nacht was appointed Vice President of the Board. 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. In 2001, Mr. Ungerman was appointed President of the Company. 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.

Eyal Desheh, chief financial officer, joined the Company in May 2000. Prior to this appointment, he served as chief financial officer for Scitex Corporation Ltd., a world leader in digital imaging solutions for graphics communications, where he was responsible for all the major finance functions, investor relations, risk management, mergers and acquisitions and legal affairs. Before joining Scitex, he served in numerous finance and business development roles at Bezeq, The Israeli Telecommunications Corp. Ltd., Teva Pharmaceuticals Ltd., H.L. Financial Services Ltd. and Bank Hapoalim. Mr. Desheh holds a B.A. in Economics and an M.B.A in Finance both from Hebrew University of Jerusalem.

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 Centillium Communications, Inc., Komag Incorporated, MMC Networks,

Inc., NeoMagic Inc., Netro Corporation, Nuance Communications, Inc., QuickLogic, Inc., SanDisk Corp., and a number of private companies. Mr. Federman received a B.S. in Economics 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, Fogdog Sports, Inc., and a number of private companies. Mr. Rothrock received a B.S. in engineering from Texas A&M University, an M.S. from the Massachusetts Institute of Technology and an M.B.A. from the Harvard Business School.

David Rubner has served as a director of the Company since June 1999. Mr. Rubner is chairman & chief executive officer of Rubner Technology Ventures Ltd. Prior to starting this company, David Rubner served as president and chief executive officer of ECI Telecommunications Ltd, Israel's largest high-tech company. Prior to this appointment, he held the positions of chief engineer, vice president of operations and executive vice president and general manager of the telecommunications division. Mr. Rubner holds a B.S. degree in engineering from Queen Mary College, University of London, and an M.S. degree from Carnegie Mellon University. Mr. Rubner is a member of the Presidium of the Electronics Industries Association and was a recipient of the Industry Prize in 1995.

Alex Serge Vieux has served as a director of the Company since September 1998. He is chief executive officer of DASAR Brothers, Inc., which he founded in 1989, the owner of ETRE, the European Technology Roundtable Exhibition. 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 telecommunications 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 Fullbright Scholar.

Dr. Tal Shavit became a director of the Company in June 2000. Dr. Shavit is an organizational consultant who heads her own consulting firm, "Insight", which she founded 12 years ago. Dr. Shavit specializes in consulting to global high-tech companies, as well as venture capitalists and start-ups, on international collaboration, mergers and acquisitions, and rapid organizational growth. She also lectures at the Technion-Israel Institute of Technology and the New York Polytechnic University on issues relating to high-tech management.

BOARD COMPOSITION

The Company's Articles of Association provide for a Board consisting of not less than 6 or more than 12 members. Each director (other than an outside director, as explained below) 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.

OUTSIDE AND INDEPENDENT DIRECTORS

In accordance with Israel's Companies Law and the regulations promulgated under the Companies Law, the Company must have two outside directors. The outside directors must meet certain statutory requirements of independence. The term of office of an outside director is three years. An outside director can be removed from office only under very limited circumstances. Both of the outside directors must serve on the company's statutory audit committee, and at least one outside director must serve on each committee of the Board of Directors. The Company has appointed Irwin Federman and Ray Rothrock as its outside directors under Israel's Companies Law. In addition, the Nasdaq National Market requires at least three independent directors, all of who are financially literate and one of whom has accounting or related financial management expertise. The responsibilities of the audit committee under the Nasdaq rules include evaluating the independence of a company's outside auditors. Our current audit committee complies with the Nasdaq rules.

AUDIT COMMITTEE

The Israeli Companies Law requires public companies to appoint an audit committee. The responsibilities of the audit committee include identifying irregularities in the management of the company's business and approving related party transactions as required by law. An audit committee must consist of at least three directors, including both of the outside directors. The Chairman of the Board of Directors, any director employed by or otherwise providing services to the company, and a controlling shareholder or any relative of a controlling shareholder may not be a member of the audit committee. An audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder, unless at the time of approval two outside directors are serving as members of the audit committee and at least one of the outside directors was present at the meeting in which an approval was granted. In addition, the Nasdaq National Market requires the Company to establish an audit committee, at least a majority of whose members are independent of management. The Company's Board of Directors has appointed an audit committee that satisfies both the Israeli law and the Nasdaq National Market requirements.

APPROVAL OF CERTAIN TRANSACTIONS; OBLIGATIONS OF DIRECTORS, OFFICERS AND SHAREHOLDERS

The Israeli Companies Law codifies the fiduciary duties that office holders, including directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and such person's personal affairs, avoiding any competition with the company, avoiding exploiting any corporate opportunity of the company in order to receive personal advantage for such person or others, and revealing to the company any information or documents relating to the company's affairs which the office holder has received due to his or her position as an office holder. Each person listed in the table that appears above at the beginning of this Item 10 is an office holder.

Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors require approval of the Board of Directors unless the Articles of Association provide otherwise. Arrangements regarding the compensation of directors also require audit committee and shareholder approval. The Israeli Companies Law requires that an office holder promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder is a five percent or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction not in the ordinary course of business, a transaction that is not on market terms, or a transaction that is likely to have a material impact on the company's profitability, assets or liabilities.

In the case of a transaction that is not an extraordinary transaction, after the office holder complies with the above disclosure requirements, only Board approval is required unless the Articles of Association of the company provide otherwise. Such approval must determine that the transaction is not adverse to the company's interest. If the transaction is an extraordinary transaction, then in addition to any approval required by the Articles of Association, it also must be approved by the audit committee and by the Board and, under specified circumstances, by a meeting of the shareholders. An Israeli company whose shares are publicly traded shall not be entitled to approve such a transaction unless, at the time the approval was granted, two members of the audit committee were outside directors and at least one of them was present at the meeting at which the audit committee decided to grant the approval. An office holder who has a personal interest in a matter that is considered at a meeting of the Board of Directors or the audit committee generally may not be present at this meeting or vote on this matter.

The Israeli Companies Law applies the same disclosure requirements to a controlling shareholder of a public company, which includes a shareholder that holds 25% or more of the voting rights if no other shareholder owns more

than 50% of the voting rights in the company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the terms of compensation of a controlling shareholder who is an office holder, require the approval of the audit committee, the Board of Directors and the shareholders of the company. The shareholder approval must either include at least one-third of the disinterested shareholders who are present, in person or by proxy, at the meeting or, alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than one percent of the voting rights in the company.

Under the Israeli Companies Law, a shareholder has a duty to act in good faith towards the company and other shareholders and refrain from abusing his or her power in the company, including, among other things, voting in the general meeting of shareholders on the following matters:

- any amendment to the Articles of Association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of interested party transactions that require shareholder approval.

In addition, any controlling shareholder, any shareholder who can determine the outcome of a shareholder vote and any shareholder who, under the company's Articles of Association, can appoint or prevent the appointment of an office holder, is under a duty to act with fairness towards the company. The Israeli Companies Law does not describe the substance of this duty.

INDEMNIFICATION OF DIRECTORS AND OFFICERS; LIMITATIONS ON LIABILITY

Israeli law permits a company to insure an office holder in respect of liabilities incurred by him or her as a result of the breach of his or her duty of care to the company or to another person, or as a result of the breach of his or her fiduciary duty to the company, to the extent that he or 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 or she committed in connection with his or her serving as an office holder. Moreover, a company can indemnify an office holder for (a) monetary liability imposed upon him or her in favor of other persons pursuant to a court judgment, including a compromise judgment or an arbitrator's decision approved by a court, and (b) reasonable litigation expenses, including attorneys' fees, actually incurred by him or her or imposed upon him or her by a court, in an action, suit or proceeding brought against him or her by or on behalf of the company or other persons, or in connection with a criminal action which does not require criminal intent in which he or she was convicted, in each case in connection with his or her activities as an office holder. The Company's Articles of Association allow for insurance and indemnification of office holders to the fullest extent permitted by law, provided such insurance or indemnification is approved by the audit committee. The Company has acquired directors' and officers' liability insurance covering the officers and directors of the Company and its subsidiaries for certain claims.

COMPENSATION OF DIRECTORS AND OFFICERS

The aggregate direct remuneration paid to all 10 persons as a group who served in the capacity of director or executive officer during the year ended December 31, 2000 was $1,348,164. In addition, the Company set aside $92,715 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. The Company's directors who are also officers will not receive any compensation for serving in their capacity in 2001; the Company's directors who are not also officers may receive compensation in 2001.

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 plan is 56,760,000. As of May 31, 2001, 8,567,203 shares had been issued under the 1996 Israel Plan, 18,144,055 options to purchase Ordinary shares were outstanding (including options incorporated from previous grants to employees in Israel prior to the adoption of the

1996 Israel Plan) and 30,048,742 shares remained available for future grant. The exercise prices range between $0.002 and $86.54. As of May 31, 2001, the Company's officers and directors hold options to purchase an aggregate of 8,321,500 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 that 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 is 78,240,000. As of May 31, 2001, 31,867,570 Ordinary shares have been issued under the U.S. plan, options to purchase 9,632,806 shares were outstanding (including options incorporated from the 1995 Plan) and 36,739,624 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 3,000,000 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 a 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 30,000 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 11,250 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 terminated sooner 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 6,000,000 Ordinary shares were authorized for issuance under the Purchase Plan. As of May 31, 2001 a total of 714,696 Ordinary shares have been issued 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 subsidiaries 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 1,875 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.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

The following table sets forth certain information regarding ownership of the Company's Ordinary shares as of May 31, 2001 for (i) each person who is known by the Company to own beneficially more than five 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..........................	27,948,996	11.63%
Marius Nacht.......................	26,501,796	11.03%

All directors & executive officers as a group (ten persons including Gil Shwed and Marius Nacht).......	70,825,401	29.47%

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

ITEM 8. FINANCIAL INFORMATION

CONSOLIDATED FINANCIAL STATEMENTS

Our financial statements set forth in the accompanying index to Consolidated Financial Statements included in this Annual Report on Form 20-F beginning on page F-1 are hereby incorporated into this Annual Report by reference.

LEGAL PROCEEDINGS

On July 5, 1996, Checkpoint Systems, Inc. ("CSI") a manufacturer of theft prevention devices for retail stores, filed an action alleging trademark infringement and unfair competition against the Company in the United States District Court for the District of New Jersey. CSI seeks to enjoin the Company from using the "Check Point" name in connection with the Company's products and services. The trial court dismissed CSI's claim for damages on summary judgment. The trial was conducted in November, 1999. The District Court issued its opinion in Check Point's favor on July 12, 2000. CSI has filed it's appellant's brief alleging that the District Court misapplied the governing law. On April 5th 2001, oral argument was presented to the Appellate court. The matter has been taken under advisement. The Company is unable to predict the outcome of this litigation or the total expenses that the Company would incur if CSI is granted the relief that it is seeking. In the event that CSI is granted the full injunctive relief it is seeking and the Company is required to cease using the "Check Point" name in connection with its products and services, the Company may incur material expenses in launching a new name.

On June 20th 2001, the European Commission advised the Company that it had received a complaint filed by Stonesoft Corporation alleging certain anti competitive actions by the Company. Up till June 25th 2001, the Company had not yet received a copy of the complaint. The Company intends to cooperate with the European Commission and take all necessary steps to defend its interests.

ITEM 9. THE OFFER AND LISTING

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 were traded publicly on the Nasdaq National Market under the symbol "CHKPF". The Company's Ordinary shares trade publicly only on the Nasdaq National Market.

On December 20, 1999, the Company's Board of Directors approved a two-for-one

stock split in the form of a stock dividend effective January 31, 2000. On June 29, 2000 the Company's Board of Directors approved a two-for-one stock split in the form of a stock dividend effective July 25, 2000. On January 18, 2001, the Company's Board of Directors approved a three-for-two stock split in the form of a stock dividend effective February 12, 2001. All numbers below reflect this adjustment.

The annual high and low reported sale prices for the ordinary shares were $113.33 and $30.54, respectively for the year 2000, $34.85 and $4.46 respectively for the year 1999, $7.96 and $2.17 respectively for the year 1998, and $17.00 and $5.42 respectively for 1997.

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:

1999	HIGH	LOW
First Quarter	9.25	5.77
Second Quarter	9.15	4.46
Third Quarter	15.60	9.09
Fourth Quarter	34.85	13.83

2000		
First Quarter	93.29	30.54
Second Quarter	77.90	44.96
Third Quarter	106.83	70.19
Fourth Quarter	113.33	68.42
MOST RECENT SIX MONTHS		
May 2001	69.64	53.86
April 2001	80.01	41.38
March 2001	71.31	45.31
February 2001	104.13	64.13
January 2001	110.58	73.67
December 2000	105.92	69.88

On June 18, 2001, the last reported sale price of the Company's Ordinary shares on the Nasdaq National Market was $43.04 per share. According to the Company's transfer agent, as of June 16, 2001, there were approximately 209 holders of record of the Company's Ordinary Shares. Approximately 94% of

the Company's Ordinary shares were held in the United States by approximately 197 holders of record.

ITEM 10. ADDITIONAL INFORMATION

ARTICLES OF ASSOCIATION

The following is a summary of the material provisions of our Articles of Association and related provisions of Israeli corporate law. This summary is qualified in its entirety by reference to the complete text of the Articles of Association; see "Item 19, Exhibit 2.5".

DESCRIPTION OF SHARES

The company's authorized share capital consists of 500,000,000 Ordinary Shares, NIS 0.01 nominal value, 5,000,000 Preferred Shares, NIS 0.01 nominal value, and 10 Deferred Shares, NIS 1 nominal value. The Deferred Shares are not entitled to any rights other than the right to receive their nominal value upon liquidation of the Company.

DESCRIPTION OF ORDINARY SHARES

All issued and outstanding Ordinary Shares of the Company are validly issued, fully paid and non-assessable. The Ordinary Shares do not have pre-emptive rights. Neither the Memorandum of Association nor Articles of Association of the Company nor the laws of the State of Israel restrict in any way the ownership or voting of Ordinary Shares by non-residents of Israel, except with respect to subjects of counties which are at a state of war with Israel.

DIVIDEND AND LIQUIDATION RIGHTS. Subject to the rights of the holders of shares with preferential or other special rights which may be authorized in the future, holders of Ordinary Shares are entitled to receive dividends out of assets legally available therefore, and in the event of the winding up of the Company to share ratably in all assets remaining after payment of liabilities, subject to applicable law.

VOTING, SHAREHOLDER MEETINGS AND RESOLUTIONS. Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

An annual general meeting is to be held once every calendar year at such time (within a period of not more than 15 months after the last preceding annual general meeting) and at such place, either within or out of the State of Israel, as may be determined by the Board of Directors. The quorum required for a general meeting of shareholders consists of at least two shareholders present in person or by proxy and holding, or representing, more than 50% of the voting rights of the issued share capital. A meeting adjourned for lack of quorum shall be adjourned to the same day in the next week at the same time and place, or to such time and place as the chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. If at such

reconvened meeting a quorum is not present within one half hour from the time appointed for holding the meeting, any two shareholders present in person or by proxy will constitute a quorum, regardless of the number of shares represented.

An ordinary resolution (such as resolution for the election of directors and the appointment of auditors) shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting, in person or by proxy, and voting thereon. A special or extraordinary resolution (such as a resolution amending the Memorandum of Association or Articles of Association) shall be deemed adopted if approved by the holders of not less than 75% of the voting power represented in person or by proxy at the meeting and voting thereon.

Israel's Companies Law requires that certain transactions, actions and arrangements be approved by the shareholders. Such transactions, actions and arrangements include: (i) arrangements with a director as to the term of office or compensation; (ii) certain extraordinary transactions as defined in the Companies Law); and (iii) any action or extraordinary transaction involving a director or officer in which a majority of the Board or the statutory audit committee has a personal interest. See "Item 10. Directors and Executive Officers of the Registrant - Approval of Certain Transactions; Obligations of Directors, Officers and Shareholders."

TRANSFER OF SHARES AND NOTICES. Fully paid Ordinary Shares are issued in registered form and may be transferred freely. Each shareholder of record is entitled to receive at least 21 days' prior notice of shareholder meetings. For purposes of determining the shareholders entitled to notice and to vote at such meeting, the Board of Directors may fix the record date which shall be not more than 40 nor less than 4 days prior to the date of the meeting.

ELECTION OF DIRECTORS. The Ordinary Shares do not have cumulative voting rights in the election of directors. Thus, the holders of Ordinary Shares conferring more than 50% of the voting power have the power to elect all the directors, to the exclusion of the remaining shareholders.

TRANSFER AGENT AND REGISTRAR. American Stock Transfer & Trust Company is the Transfer Agent and Registrar for the Ordinary Shares.

DESCRIPTION OF PREFERRED SHARES

The Company has 5,000,000 Preferred Shares authorized. The Board of Directors has the authority to issue the Preferred Shares in one or more series and to fix the rights, preferences, privileges and restrictions of such shares, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series, without further vote or action by the shareholders. The issuance of Preferred Shares may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the shareholders. For example, the Board of Directors could issue Preferred Shares with voting and conversion rights may adversely affect the voting power of the holders of Ordinary shares, including the loss of voting control to others. The Company currently has no plans to issue any Preferred Shares.

PROVISIONS AFFECTING A POTENTIAL CHANGE OF CONTROL

The Company's Articles of Association provide that the Company may not engage in any business combination with an interested shareholder for a period of three years following the date that such shareholder became an interested

shareholder, unless: (a) prior to such date, the Board of Directors approved either the business combination or the transaction that resulted in the shareholder's becoming an interested shareholder; or (b) upon consummation of the transaction that resulted in the shareholder's becoming an interested shareholder, the interested shareholder owned at least 75% of the voting shares of the Company outstanding at the time the transaction commenced. A business combination includes: (i) any merger or consolidation involving the Company and the interested shareholder: (ii) any sale, transfer, pledge or other disposition of 10% or more of the assets of the Company, in a transaction involving the interested shareholder; (iii) subject to certain exceptions, any transaction that results in the issuance or transfer by the Company of any shares of the Company to the interested shareholder, (iv) any transaction involving the Company that has an effect of increasing the proportionate share of the shares of any class or series of the Company of the Company beneficially owned by the interested shareholder, or (v) the receipt by the interested shareholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the Company. In general, the Articles of Association define an interested shareholder as any entity or person beneficially owning 15% or more of the outstanding voting shares of the Company and any entity or person affiliated with, or more of the outstanding voting shares of the Company and any entity or person affiliated with, controlling or controlled by such entity or person.

REGISTRATION RIGHTS

The holders of approximately 5,500,000 Ordinary Shares (the "Registrable Securities") have certain "piggy-back" rights to register those shares under the Securities Act.

INDEMNIFICATION

The Articles of Association of the Company allow the Company to procure insurance for or indemnify any director or officer to the fullest extent permitted by Israeli law. The Company has acquired directors' and officers' liability insurance covering the officers and directors of the Company and its subsidiaries for certain claims.

ISRAELI TAXATION, FOREIGN EXCHANGE REGULATION AND INVESTMENT PROGRAMS

The following is a summary of the material aspects of the current tax structure applicable to the Company and its shareholders, including U.S. and other non-Israeli shareholders. The following also contains a discussion of certain Israeli and United States tax consequences and certain Israeli government programs benefiting the Company. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

ISRAELI TAX CONSIDERATIONS

Proposed Tax Reform

On May 4, 2000, a committee chaired by the then Director General of the Israeli Ministry of Finance, Avi Ben-Bassat, issued a report recommending a sweeping reform in the Israeli system of taxation. The proposed reform would significantly alter the taxation of individuals, and would also affect corporate taxation. In particular, the proposed reform would reduce, but not eliminate, the tax benefits available to approved enterprises such as the Company's. The proposed reform would also impose a capital gains tax on individuals on the sale of shares, unless the selling shareholder is entitled to benefits under a tax treaty. The Israeli cabinet has approved the recommendations in principle, but implementation of the reform requires legislation by Israel's Knesset. In the interim, a new Israeli government has been formed, and there are indications that the new government may eliminate significant aspects of the proposed reform. The Company cannot be certain whether the proposed reform will be adopted, when it will be adopted or what form any reform will ultimately take.

General Corporate Tax Structure

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

Tax benefits under the Law for the Encouragement of Capital Investments, 1959

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 Investment Law provides that a proposed capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry and Commerce of the State of Israel, be designated as an approved enterprise. Each certificate of approval for an approved enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, e.g., the equipment to be purchased and utilized pursuant to the program. The tax benefits derived from any such certificate of approval relate only to taxable income attributable to the specific approved enterprise. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. Income derived from activity that is not integral to the activity of the enterprise should not be divided between the different enterprises and should not enjoy tax benefits.

Taxable income of a company derived from an approved enterprise is subject to company tax at the maximum rate of 25%, rather than 36%, for the benefit period. This period is ordinarily seven years commencing with the year in which the approved enterprise first generates taxable income, and is limited to 12 years from completion of the investment under the approved plan or 14 years from the date of approval, whichever is earlier. The Investment

Law also provides that a company that has an approved enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program.

A Foreign Investors Company ("FIC") as described in the law of encouragement of capital investment may enjoy benefits for a period of up to 10 years, or 12 years if it complies with certain export criteria stipulated in the law. A FIC is a company of which more than 25% of its shareholders are foreign residents.

A company owning an approved enterprise may elect to receive an alternative package of benefits. Under the alternative package, a company's undistributed income derived from an approved enterprise will be exempt from company tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location of the approved enterprise within Israel, and such company will be eligible for a reduced tax rate for the remainder of the benefits period.

The Company has been granted "Approved Enterprise" status by the Israeli government for four 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 six to eight years on the respective investment plans' proportionate share of taxable income. The tax benefits under these investment plans are scheduled to gradually expire from 2004 to 2008. The dividend recipient is taxed at the reduced rate applicable to dividends from approved enterprises (15%), if the dividend is distributed during the tax exemption period or within 12 years thereafter. Tax must be withheld at source, regardless of whether the dividend is converted into foreign currency. If classified as a FIC there is no limit on the period during which a dividend may be distributed from approved enterprise profits and will always enjoy the benefits of the law.

Subject to certain provisions concerning income under the alternative package of benefits, all dividends are considered to be attributable to the entire enterprise and their effective tax rate is the result of a weighted combination of the various applicable tax rates. The Company is not obliged to distribute exempt retained profits under the alternative package of benefits, and may generally decide from which year's profits to declare dividends. The Company currently intends to reinvest the amount of its tax-exempt income and not to distribute such income as a dividend.

The Investment Center bases its decision as to whether or not to approve an application, on the criteria set forth in the Investment Law and regulations, the then prevailing policy of the Investment Center, and the specific objectives and financial criteria of the applicant. Accordingly, there can be no assurance that any such application will be approved. In addition, the benefits available to an approved enterprise are conditional upon the fulfillment of conditions stipulated in the Investment Law and its regulations and the criteria set forth in the specific certificate of approval, as described above. In the event that a company does not meet these conditions, it would be required to refund the amount of tax benefits, with the addition of the consumer price index linkage adjustment and interest.

The Company has derived, and expects to continue to derive, a substantial portion of its income from its Approved Enterprise facilities. Subject to compliance with applicable requirements, income derived from its Approved Enterprise facility will be tax exempt for a period of two to four years and after will be subject to a reduced company tax of up to 25% depending on the extent of foreign shareholders holding the Company's ordinary shares for the following three to eight years.

Grants Under the Law for the Encouragement of Industrial Research and

Development, 1984

Under the Law for the Encouragement of Industrial Research and Development, 1984, research and development programs that meet certain criteria and are approved by a governmental committee of the Office of the Chief Scientist, or the OCS, are eligible for grants of up to 50% of the project's expenditure, as determined by the research committee, in return for the payment of royalties from the sale of the product developed in accordance with the program and subject to other conditions. Regulations promulgated under the Research Law generally provide for the payment of royalties to the Chief Scientist ranging from 3% to 5%, on revenues from products developed using such grants until 100- 150% of the dollar-linked grant is repaid.

The technology developed pursuant to the terms of these grants may not be transferred to third parties without the prior approval of a governmental committee under the Research Law. Such approval is not required for the export of any products resulting from such research or development. Approval of the transfer of technology may be granted in certain

circumstances only if the recipient abides by all the provisions of the Research Law and regulations promulgated thereunder, including the restrictions on the transfer of know-how and the obligation to pay royalties in an amount that may be increased. There can be no assurance that such consent, if requested, will be granted.

Tax Benefits and Grants for Research and Development

Israeli tax law allows, 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 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 are deductible over a three-year period. However, expenditures from proceeds made available to the Company through government grants are not deductible, according to Israeli law.

Tax Benefits Under the Law for the Encouragement of Industry (Taxation), 1969

According to the Law for the Encouragement of Industry (Taxation), 1969, or the Industry Encouragement Law, an "Industrial Company" is a company resident in Israel, at least 90% of the income of which, in any tax year, determined in Israeli currency, exclusive of income from certain government loans, capital gains, interest and dividends, is derived from an "Industrial Enterprise" owned by it. An "Industrial Enterprise" is defined as an enterprise whose major activity in a given tax year is industrial production activity. The Company currently qualifies as an "Industrial Company" within the definition of the Industry Encouragement Law. Under the Industry Encouragement Law, Industrial Companies are entitled to certain preferred corporate tax benefits such as:

- Deduction of public offering expenses

- Deduction of purchases of know-how and patents utilized in the development or advancement of their enterprise, over an eight-year period for tax purposes;

- Accelerated depreciation rates on equipment and buildings.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. No assurance can be given that the Company will continue to qualify as an "Industrial Company" or that the benefits described above will be available in the future.

Special Provisions Relating to Taxation Under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 1985, generally referred to as the "Inflationary Adjustments Law," represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation. The Inflationary Adjustments Law is highly complex. The material aspects to the Company can be described as follows:

There is a special tax adjustment for the preservation of equity whereby certain corporate assets are classified broadly into fixed, inflation resistant, assets and non-fixed (soft) assets. Where a company's equity, as defined in law, exceeds the depreciated cost of fixed assets, a deduction from taxable income that takes into account the effect of the applicable annual rate of inflation on such excess is allowed, up to a ceiling of 70% of taxable income in any single tax year, with the unused portion permitted to be carried forward on a linked basis. If the depreciated cost of fixed assets exceeds a company's equity, then such excess multiplied by the applicable annual rate of inflation is added to taxable income.

Subject to certain limitations, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase in the Israeli consumer price index.

Gains on certain traded securities, which are normally exempt from tax, are taxable in certain circumstances. However, dealers in securities are subject to the regular tax rules applicable to business income in Israel. One of the net effects of the Inflationary Adjustments Law is that our taxable income for Israeli corporate tax purposes will be different from our dollar income reflected in our financial statements, which are based on changes in the shekel exchange rate with respect to the dollar.

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Capital Gains Tax on Sales of Ordinary Shares

Israeli law imposes a capital gains tax on the sale of capital assets. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain that is equivalent to the increase of the relevant asset's reduced purchase price that is attributable to the increase in the Israeli consumer price index between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus. The inflationary surplus accumulated from and after December 31, 1993, is exempt from any capital gains

tax in Israel while the real gain is added to ordinary income, which is taxed at ordinary rates of 30% to 50% for individuals and 36% for corporations.

Pursuant to the Convention Between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended, 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 United States-Israel Tax Treaty and who is entitled to claim the benefits afforded to such person by the United States- Israel Tax Treaty generally will not be subject to the Israeli capital gains tax unless such Treaty United States Resident holds, directly or indirectly, shares representing 10% or more of the Company's voting power during any part of the 12- month period preceding such sale, exchange or disposition, subject to certain conditions. A sale, exchange or disposition of ordinary shares by a Treaty United States Resident who holds, directly or indirectly, shares representing 10% or more of the Company's voting power at any time during such preceding 12-month period would be subject to such Israeli tax, to the extent applicable; however, under the United States-Israel Tax Treaty, such Treaty United States Resident would be permitted to claim a credit for such taxes against the United States federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in United States laws applicable to foreign tax credits. The United States-Israel Tax Treaty does not relate to United States state or local taxes.

Taxation of Non-Resident Holders of Ordinary Shares

Non-residents of Israel are subject to Israeli income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares, stock dividends, income tax at the rate of 25%, 12.5% for dividends not generated by an approved enterprise if the non-resident is a United States corporation and holds 10% or more of the Company's voting power throughout a certain period, and 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 United States- Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a Treaty United States Resident will be 25%, however, under the Investment Law, dividends generated by an approved enterprise are taxed at the rate of 15%.

Under a recent amendment to the Inflationary Adjustments Law, non-Israeli corporations might be subject to Israeli taxes on the sale of traded securities in an Israeli company, subject to the provisions of any applicable double taxation treaty.

Foreign Exchange Regulations

Dividends, if any, paid to the holders of the ordinary shares offered hereby, and any amounts payable upon dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of the ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into freely repatriable dollars at the rate of exchange prevailing at the time of conversion.

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 there from) 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 amounts 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 the

Company no longer is classified as a PFIC. However, a U.S. Shareholder may make a qualified electing fund election only if the Company agrees to furnish the U.S. Shareholder annually with certain tax information.

The Company does 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 the Company considers the 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 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are no additional forms of market risk that apply to the Company beyond currency and interest rate fluctuations

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

There are no defaults, dividend arrearages or delinquencies that are required to be disclosed.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

There are no material modifications to the rights of security holders that are required to be disclosed. As of December 31, 2000, the net proceeds from our initial public offering were primarily used for purchasing fixed assets, Research and development and hiring employees. None of the net proceeds from our initial public offering were paid, directly or indirectly, to any of our directors, officers or general partners or any of their associates, or to any person owning ten percent or more of any class of equity securities, or any of our affiliates.

ITEM 15. RESERVED.

ITEM 16. RESERVED.

PART III

ITEM 17. FINANCIAL STATEMENTS

The Company has responded to Item 18.

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 to F-25 incorporated herein by reference.

ITEM 19. EXHIBITS

Exhibits:

2.1**	1996 Israel Stock Option Plan
2.2*	1996 United States Stock Option Plan
2.3*	Employee Stock Purchase Plan
2.4**	Form of Indemnification Agreement for officers and directors of Registran
2.5	Articles of Association

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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.

** 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 and authorized the undersigned to sign this annual report on its behalf.

CHECK POINT SOFTWARE TECHNOLOGIES LTD.

By: /s/ Gil Shwed

Gil Shwed
Chief Executive Officer and Chairman of the Board

By: /s/ Eyal Desheh

Eyal Desheh
Chief Financial Officer

Date: June 25, 2001

CHECK POINT SOFTWARE TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2000

IN U.S. DOLLARS

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[ERNST & YOUNG LETTERHEAD]

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, 1999 and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period

ended December 31, 2000. These financial statements are the responsibility of Check Point Software Technologies Ltd.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 Check Point Software Technologies Ltd. and its subsidiaries as of December 31, 1999 and 2000, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Tel-Aviv, Israel
January 17, 2001

KOST FORER & GABBAY
A Member of Ernst & Young International

CHECK POINT SOFTWARE TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE DATA)

	1999
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 25,835
Short-term deposits	176,252
Marketable securities	40,403
Trade receivables, net	47,639
Other receivables and prepaid expenses	9,287
TOTAL CURRENT ASSETS	299,416
LONG-TERM INVESTMENTS	82,884
LONG-TERM PREPAID EXPENSES	1,145

PROPERTY AND EQUIPMENT, NET	9,694
DEFERRED INCOME TAXES	1,207
	$ 394,346
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Trade payables	$ 4,972
Employees and payroll accruals	15,632
Deferred revenues	55,999
Accrued expenses and other liabilities	24,609
TOTAL CURRENT LIABILITIES	101,212
ACCRUED SEVERANCE PAY, NET	626
SHAREHOLDERS' EQUITY:	
Share capital - Authorized: 500,000,000 Ordinary shares of NIS 0.01 par value; 10 Deferred shares of NIS 1 par value; 5,000,000 Preferred shares of NIS 0.01 par value as of December 31, 1999 and 2000 Issued and outstanding: 227,913,078 Ordinary shares, 1 Deferred share and no Preferred shares as of December 31, 1999; 235,464,986 Ordinary shares, 1 Deferred share and no Preferred shares as of December 31, 2000	234
Additional paid-in capital	67,230
Retained earnings	225,044
TOTAL SHAREHOLDERS' EQUITY	292,508
	$ 394,346

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

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CHECK POINT SOFTWARE TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

U.S. DOLLARS IN THOUSANDS (EXCEPT PER SHARE DATA)

YEAR ENDED DECEMBER

	1998	1999
Revenues:		
Products sales	$ 124,290	$ 172,270
Services	17,651	47,297
	141,941	219,567
Cost of revenues:		
Product sales	4,883	7,613
Services	8,740	14,810
	13,623	22,423
Gross profit	128,318	197,144
Operating expenses:		
Research and development, net	10,629	18,923
Sales and marketing	39,966	68,229
General and administrative	10,886	13,069
Total operating expenses	61,481	100,221
Operating income	66,837	96,923
Financial income, net	4,406	12,770
Capital gain	2,581	192
Income before taxes on income	73,824	109,885
Taxes on income	3,947	14,104
Net income	$ 69,877	$ 95,781
Basic net earnings per share	$ 0.33	$ 0.43
Diluted net earnings per share	$ 0.30	$ 0.39

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

CHECK POINT SOFTWARE TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE DATA)

	SHARE CAPITAL	A
Balance as of January 1, 1998	$ 110	
Tax benefit related to exercise of stock options	-	
Issuance of shares upon exercise of options, net (8,823,654 shares)	4	
Comprehensive income -		
Unrealized holding losses on available-for-sale marketable securities	-	
Net income	-	
Total comprehensive income		
Balance as of December 31, 1998	114	
Tax benefit related to exercise of stock options	-	
Stock split effected as a stock dividend (100%)	116	
Issuance of shares upon exercise of options, net (10,243,356 shares)	4	
Comprehensive income -		
Unrealized holding gains on available-for-sale marketable securities	-	
Net income	-	
Total comprehensive income		
Balance as of December 31, 1999	234	
Tax benefit related to exercise of stock options	-	
Stock split effected as a stock dividend (100%)	236	
Issuance of shares upon exercise of options, net (7,551,908 shares)	12	
Stock split effected as a stock dividend (50%)	241	
Comprehensive income -		
Net income	-	
Total comprehensive income		
Balance as of December 31, 2000	$ 723	

	RETAINED EARNINGS
Balance as of January 1, 1998	$ 59,386
Tax benefit related to exercise of stock options	-
Issuance of shares upon exercise of options, net (8,823,654 shares)	-

Comprehensive income -	
Unrealized holding losses on available-for-sale marketable securities	-
Net income	69,877
Total comprehensive income	
Balance as of December 31, 1998	129,263
Tax benefit related to exercise of stock options	
Stock split effected as a stock dividend (100%)	-
Issuance of shares upon exercise of options, net (10,243,356 shares)	-
Comprehensive income -	
Unrealized holding gains on available-for-sale marketable securities	-
Net income	95,781
Total comprehensive income	
Balance as of December 31, 1999	225,044
Tax benefit related to exercise of stock options	-
Stock split effected as a stock dividend (100%)	-
Issuance of shares upon exercise of options, net (7,551,908 shares)	-
Stock split effected as a stock dividend (50%)	-
Comprehensive income -	
Net income	221,213
Total comprehensive income	
Balance as of December 31, 2000	$ 446,257

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

CHECK POINT SOFTWARE TECHNOLOGIES LTD.AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. DOLLARS IN THOUSANDS

	YEAR ENDED D	
	1998	19
Cash flows from operating activities:		
Net income	$ 69,877	$
Adjustments to reconcile net income to net cash		

provided by operating activities:		
Capital gain	(2,581)	
Depreciation and amortization	4,528	
Deferred income taxes, net	(74)	
Increase in trade receivables, net	(11,602)	(
Increase in other receivables and prepaid expenses	(2,271)	
Increase (decrease) in trade payables	(570)	
Increase (decrease) in employees and payroll accruals	(1,031)	
Increase in accrued expenses and other liabilities	6,323	
Increase in deferred revenues	6,726	
Increase in tax benefit related to exercise of stock options	801	
Increase in accrued severance pay, net	129	
Other	39	
Net cash provided by operating activities	70,294	1
Cash flows from investing activities:		
Proceeds from short-term deposits	46,439	
Investment in short-term deposits	(35,563)	(1
Proceeds from sale of investment in Memco Software Ltd.	1,040	
Proceeds from held-to-maturity marketable securities	26,777	
Investment in held-to-maturity marketable securities	(28,351)	(
Investment in long-term deposits	(71,450)	(
Investment in privately held companies	(225)	
Purchase of property and equipment	(6,103)	
Net cash used in investing activities	(67,436)	(1
Cash flows from financing activities:		
Proceeds from issuance of shares upon exercise of options, net	5,450	
Short-term bank credit, net	(215)	
Net cash provided by financing activities	5,235	
Increase in cash and cash equivalents	8,093	
Cash and cash equivalents at the beginning of the year	5,434	
Cash and cash equivalents at the end of the year	$ 13,527	$

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

CHECK POINT SOFTWARE TECHNOLOGIES LTD.AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. DOLLARS IN THOUSANDS

	YEAR ENDED	
	1998	19
Supplemental disclosure of cash flow activities:		
Cash paid during the year for income taxes	$ 320	$ 7
Non-cash investing and financing activities:		
Proceeds in shares from realization of investment in Memco	$ 1,541	$

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

CHECK POINT SOFTWARE TECHNOLOGIES LTD.AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. DOLLARS IN THOUSANDS

NOTE 1:- GENERAL

Check Point Software Technologies Ltd. ("Check Point Ltd."), an Israeli corporation, and its subsidiaries (collectively, "the Company" or "Check Point"), are engaged in securing the Internet. The Company's Secure Virtual Network (SVN) software architecture provides the infrastructure that enables secure and reliable inter communications. SVN secures business-to-business (B2B) communications between networks, systems, applications and users across the Internet, intranets and extranets. Check Point's Open Platform for Security (OPSEC) provides the framework for integration and interoperability solutions.

The Company's revenues are derived from the sales of network security policy based solutions (Firewall-1 and VPN families), traffic control (Flood Gate-1 and Connect Control), IP address management (Meta IP) and related software subscription, support and training program agreements. The Company sells its software products worldwide through distributors, resellers, system integrators,

Original Equipment Manufacturers ("OEMs"), and managed security service providers

No customer exceeded 10% of the Company's revenues in 1998 and in 2000. During 1999, approximately 12% of the revenues were derived from a single customer.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared according to United States generally accepted accounting principles (US GAAP)

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:

Most of the Company's revenues are denominated in United States dollars ("dollars"). In addition, a substantial portion of the Company's costs are incurred in dollars. The Company's management believes that the dollar is the primary currency of the economic environment in which Check Point Ltd. and each of its subsidiaries operate. Thus, the dollar is their functional and reporting currency. Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into U.S. dollars in accordance with Statement of Financial Accounting Standard ("SFAS") No. 52 "Foreign Currency Translation" All transaction gains and losses of the re-measurement of

monetary balance sheet items are reflected in the statement of income as financial income or expenses, as appropriate.

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 with original maturities of three months or less.

e. Short and long-term deposits:

Bank deposits with maturities of more than three months but less than one year are included in short-term deposits. Bank deposits with maturities of more than one year are included in long-term investments. Deposits are presented at cost while related accrued interest is included in other receivables.

f. Investments in marketable securities:

The Company accounts for investments in debt and equity securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

Management determines the appropriate classification of its investments in marketable debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity and are stated at amortized cost. The amortized cost of held-to-maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortizations, interest and declines in value adjusted to be other than temporary are included in interest income, net. Debt securities for which the Company does not have the intent or the ability to hold to maturity are classified as available-for-sale. Securities available for sale are carried at fair value, with the unrealized gains and losses, net of income taxes, reported as a separate component of shareholders' equity, accumulated other comprehensive income. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statement of income.

g. Investments in privately held companies:

Investments in non-marketable, privately held companies are recorded at the lower of cost or estimated fair value since the Company does not have the ability to exercise significant influence over operating and financial policies of the investee.

h. Property and equipment:

Property and equipment are stated at cost less accumulated depreciation and depreciated using the straight-line method over the estimated useful lives of the assets, ranging from two to ten years. Leasehold improvements are amortized by the straight-line method over the term of the lease.

The Company periodically assesses the recoverability of the carrying amount of property and equipment, providing for any possible impairment losses, based on the difference between the carrying amount and fair value of such assets in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". As of December 2000, no impairment losses have been identified.

i. Research and development costs:

Research and development costs, net of grants received, are charged to the statement of income 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.

j. Government grants:

Non-royalty-bearing grants from the Government of Israel, for funding certain approved research and development activities, are recognized as they are earned and included as a deduction of research and development costs. Such grants amounted to $ 450, $60 and $392 in 1998, 1999 and 2000, respectively.

k. Revenue recognition:

The Company derives its revenues from license fees for its products, software subscription, specified upgrades, support and training programs. The Company sells its products primarily through distributors, resellers, OEM's, system integrators, and managed security service providers, all of which are considered end-users.

The Company accounts for software sales in accordance with Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," as amended. SOP 97-2, generally requires revenues earned on software arrangements involving multiple elements to be allocated

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to each element based on the relative fair value of the element. The Company has adopted SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions", for all multiple element transactions entered into after January 1, 2000. SOP 98-9 requires that revenue be recognized under the "residual method" when vendor specific objective evidence ("VSOE") of fair value exists for all undelivered elements and VSOE does not exist for the delivered elements.

Revenue from license fees is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable, and collectability is probable. The Company maintains certain provisions for product returns and rebates in accordance with SFAS No. 48 "Revenue Recognition when Right of Return Exists" and based on its experience. Such provisions amounted to, $ 7,133 and $ 10,050 as of December 31, 1999 and 2000, respectively. The Company from time to time considers arrangements regarding certain customers with payment terms extending beyond customary payment terms not to be fixed or determinable. If the fee is not fixed or determinable, revenue is deferred and recognized when payments become due from the customer providing that all other revenue recognition criteria have been met.

Software subscription, support, consulting service, and training program revenue included in multiple-element arrangements is deferred and recognized on a straight-line basis over the term of the software subscription and support agreement. The VSOE of fair value of the undelivered elements (software subscription, specified upgrades, support, consulting services and training) is generally determined based on the price charged for the undelivered element when sold separately. Deferred revenues also include amounts received from customers for which services have not been provided.

l. Severance pay:

The Company's liability for severance pay is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. The Company records as expenses the net increase in its funded or unfunded severance liability. Employees are entitled to one month salary for each year of employment, or a portion thereof. The Company's liability is fully provided by monthly deposits with severance pay funds, insurance policies and by an accrual. This liability is presented as accrued severance pay, net.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial profits.

The amount of deposited funds as of December 31, 1999 and 2000 was $ 1,094 and $ 1,937 respectively.

Severance expenses for the years ended December 31, 1998, 1999 and 2000, were approximately $ 707, $ 1,152 and $ 1,549, respectively.

m. Warranty costs:

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

n. Income taxes:

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes". This Statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

o. Advertising expenses:

Advertising costs are expensed as incurred. Advertising expenses for the years ended 1998, 1999 and 2000 were $ 6,834, $ 9,570 and $ 14,431, respectively.

p. 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 deposits. The majority of the Company's cash and cash equivalents, short-term deposits and the long-term deposits are invested in dollar and dollar linked investments and are deposited in major banks worldwide. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. 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 geographically diversified and derived from sales to customers mainly 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 amounting to $ 1,425 and $ 2,972 as of December 31, 1999 and 2000, respectively.

The Company's marketable securities include investments in debentures of the Israeli Government and of U.S. corporations which are considered by management to be

financially sound. The Company's investments in debts are diversified among high-credit quality securities, in accordance with the Company's investment policy.

The Company enters into foreign exchange forward contracts to minimize the short-term impact of foreign currency fluctuations on assets denominated in Japanese Yen. These contracts are highly inversely correlated to the hedge items and are designated as, and considered effective as, hedges of the underlying assets.

Gains and losses on the contracts are included in net financial income, and offset foreign exchange gains and losses from the revaluation of intercompany balances or other current assets and liabilities denominated in currencies other than the functional currency of the reporting entity.

Company's management is of the opinion that, due to the fact that the above transactions are carried out with well established institutions, liabilities owing to the Company will be fulfilled as of December 31, 2000. Total outstanding transactions to sell/purchase U.S. dollars in exchange for the Japanese yen, were in the amount of $ 6,669. The above transactions were for a period of 1.5 months. Gain and losses, which are included in the financial statements for the year ended December 31, 2000, were insignificant.

As of December 31, 2000, the exchange rate of the U.S. dollar in relation to the Yen was $ 1 = Yen 114.9.

q. 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".

The total weighted average number of shares related to the

outstanding options excluded from the calculations of diluted net income, since they would have an anti-dilutive effect, were 502,380, 1,503,050 and 694,128 for 1998, 1999 and 2000, respectively.

r. 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") and Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44") in accounting for its employee stock option plans. Under APB 25, when the exercise price of the Company's share options is less than the market price of the underlying shares

on the date of grant, compensation expense is recognized. The pro forma disclosures required by SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), are provided in Note 9d.

s. Fair value of financial instruments:

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

1. The carrying amount of cash and cash equivalents, short-term deposits, trade receivable and trade payable approximate their fair values due to the short-term maturities of these instruments.

2. The fair value of marketable securities is based on quoted market prices, and do not differ materially from the carrying amount.

3. The carrying amount of the Company's long-term deposits are estimated by discounting the future cash flows using the current interest rates for deposits of similar terms and maturities. The carrying amount of the long-term deposits approximates their fair value.

4. The fair value of foreign currency transactions (used for hedging purposes) is estimated by obtaining current quotes from investment bankers.

t. Impact of recently issued accounting standards:

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, which is required to be adopted in years beginning after June 15, 2000. Because of the Company's minimal use of derivatives, management does not anticipate that

the adoption of the new Statement will have a significant effect on earnings or the financial position of the Company.

NOTE 3:- MARKETABLE SECURITIES

	AMORTIZED COST		GROSS UNREALIZED GAINS (LOSSES)	
	DECEMBER 31,		DECEMBER 31,	
	1999	2000	1999	2000
U.S. corporate debts	$ 25,851	$ 55,519	$ (127)	$ 108
Israeli Government debts	$ 14,552	$ 15,694	$ (83)	$ 255

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NOTE 4:- LONG -TERM INVESTMENTS

As of December 31, 1999 and 2000 all of the Company's securities are classified as held-to-maturity. Prior to December 31, 1999 certain of the Company's marketable securities sold in 1999 were classified as available-for-sale.

Long-term investments composed of Israeli Government debts, U.S. corporate debts, long-term deposits and investments in privately held companies are as follows:

	1999
U.S. corporate debts (a)	$ 18,28
Israeli Government debts and deposits (a)	3,14
Deposits	60,85
Investments in privately held companies	60
	$ 82,88

(a) Composed as follows:

	AMORTIZED COST		GROSS UNREALIZED (GAIN) LOSSES		ESTI
	DECEMBER 31,		DECEMBER 31,		
	1999	2000	1999	2000	1999
U.S. corporate debts	$ 18,281	$ 180,110	$ (132)	$ (2,650)	$ 18
Israeli Government debts	3,148	18,942	6	638	3
	$ 21,429	$ 199,052	$ (126))	$ (2,012)	$ 21

The amortized cost and the market value of, held-to-maturity securities, which are due after one through five years as of December 31, 2000, are $199,052 and $197,040 respectively.

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NOTE 5:- PROPERTY AND EQUIPMENT

	1999
Cost:	
Computers and peripheral equipment	$ 13,154
Office furniture and equipment	2,830
Other	1,034
	17,018
Accumulated depreciation	7,324
Depreciated cost	$ 9,694

Depreciation expenses amounted to approximately $ 2,189, $ 3,570 and $ 7,107 for

1998, 1999 and 2000, respectively.

NOTE 6:- ACCRUED EXPENSES AND OTHER LIABILITIES

	1999
Income taxes payable	$ 8,655
Marketing expenses payable	4,844
Other	11,110
	$ 24,609

NOTE 7:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The facilities of the Company and its subsidiaries are rented under operating leases for periods ending in 2005.

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

2001	$ 5,324
2002	4,512
2003	906
2004	174
2005	157
	$ 11,073

Rent expenses for the years ended December 31, 1998, 1999 and 2000, were approximately $ 2,771, $ 4,275 and $ 6,125, respectively.

b. Litigation:

On July 5, 1996, Checkpoint Systems, Inc. ("CSI") a manufacturer

of theft prevention devices for retail stores, filed an action alleging trademark infringement and unfair competition against the Company in the United States District Court for the District of New Jersey. CSI seeks to enjoin the Company from using the "Check Point" name in connection with the Company's products and services. The trial court dismissed CSI's claim for damages on summary judgment. The trial was conducted in November 1999. The District Court issued its opinion in Check Point's favor on July 12, 2000. CSI has filed its appellant's brief alleging that the District Court misapplied the governing law.

According to the estimation of the Company's management an adequate provision was recorded in the balance sheets as of December 31, 1999 and 2000, in order to reflect the potential loss in respect of the litigation.

NOTE 8:- TAXES ON INCOME

a. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increases in the Israeli Consumer Price Index ("Israeli CPI"). As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a further difference between taxable income and the income before taxes shown in the financial statements. In accordance with paragraph 9(f) of SFAS No. 109, Check Point Ltd. has not provided deferred income taxes on the difference between the functional currency and the tax bases of assets and liabilities.

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

Check Point Ltd. production facilities have been granted the status of "Approved Enterprise", under the Law, for four separate capital investment plans:

1. Income derived from the first program was tax-exempt for the four-year period ended December 31, 1998 and is eligible for a reduced tax rate of 20% for the six-year period ending December 31, 2004

2. Income derived from the second program was tax-exempt for a two-year period ended December 31, 1999, and is eligible for a reduced tax rate of 20% for the eight-year period ending December 31, 2007

3. Income derived from the third program is tax-exempt for

a two year period ending December 31, 2000, and will be eligible for a reduced tax rate of 20% for the eight-year period ending December 31, 2008

4. Check Point Ltd.'s fourth program was approved in 2000. Capital investments under the plan have already commenced. Upon completion, income derived from the fourth program will entitle Check Point Ltd. to benefits similar to those of the previous programs.

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.

Tax-exempt income attributable to the "Approved Enterprise" can be distributed to shareholders without subjecting Check Point Ltd. to taxes only upon the complete liquidation of the Company. Check Point Ltd.'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 Check Point Ltd.'s "Approved Enterprise".

If the retained tax-exempt income (approximately $320,000 as of December 31, 2000) is distributed in a manner other than in the complete liquidation of the Company, it would be taxed at the corporate tax rate (currently - 20%) applicable to such profits as if Check Point Ltd. had not chosen the alternative tax benefits and an income tax liability would be incurred of approximately $ 80,000 as of December 31, 2000.

Should Check Point Ltd. fail to meet such requirements in the future, it could be subject to the regular Israeli corporate tax rate of 36%, and could be required to refund tax benefits already received.

Income from sources other than the "Approved Enterprise" are subject to tax at regular Israeli corporate tax rate of 36%.

c. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:

Check Point Ltd. is an "industrial company" under the above law and as such is entitled to certain tax benefits, including accelerated rates of depreciation and the deduction of public offering expenses.

d. 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. As of December 31, 1999 and 2000, the Company's deferred taxes calculated on reserves and allowances are comprised as follows:

	DECEMBER
	1999
U.S. carry forward tax deductions	$ 61,629
Accrued vacation, severance pay and fixed assets	1,207
Net deferred tax assets before valuation allowance	62,836
Valuation allowance	(61,629)
Net deferred tax assets	$ 1,207
Domestic	$ 199
Foreign	1,008
	$ 1,207

The subsidiary in the U.S. has provided valuation allowances in respect of deferred tax assets resulting from tax benefits related to employee stock option exercises, which will be credited to additional paid-in capital when realized. Management currently believes that it is more likely than not that those deferred tax deductions will not be realized in the foreseeable future.

Through December 31, 2000, Check Point Inc. had a U.S. federal loss carry forward of approximately $ 400 million that can be carried forward and offset against taxable income for 15 to 20 years.

e. Income before taxes on income is comprised as follows:

	YEAR ENDED DECEMBER 31,	
	1998	1999
Domestic	$ 74,927	$ 110,635
Foreign	(1,103)	(750)
	$ 73,824	$ 109,885

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

	YEAR ENDED DECEMBER 31,	
	1998	1999
Current	$ 4,021	$ 15,207
Deferred	(74)	(1,103)
	$ 3,947	$ 14,104

Domestic	$ 2,725	$ 10,796
Foreign	1,222	3,308
	$ 3,947	$ 14,104

g. 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,	
	1998	1999
Income before taxes as reported in the statements of income	$ 73,824	$ 109,885
Statutory tax rate in Israel	36%	36%
Theoretical tax expenses	$ 26,577	$ 39,559
Increase (decrease) in taxes resulting from:		
"Approved Enterprise" benefit (*)	(23,272)	(29,326)
Items for which deferred taxes were not provided	759	829

Tax adjustment in respect of inflation in Israel	(1,154)	(547)
Non-deductible expenses	17	11
Differences between tax rate in Israel and in the rest of the world	1,020	3,578
Income taxes as reported in the statements of income	$ 3,947	$ 14,104
(*) Basic net earnings per share amounts of the benefit resulting from the exemption	$ 0.11	$ 0.13
(*) Diluted net earnings per share amounts of the benefit resulting from the exemption	$ 0.10	$ 0.12

NOTE 9:- SHARE CAPITAL

The Ordinary shares of the Company are traded on NASDAQ National Market. The Ordinary shares confer upon their holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends, if declared.

a. General:

On December 20, 1999, the Company's Board of Directors approved a two-for-one stock split in the form of a stock dividend effective January 31, 2000. On June 29,

2000 the Company's Board of Directors approved a two-for-one stock split in the form of a stock dividend effective July 25, 2000. On January 18, 2001, the Company's Board of Directors approved a three-for-two stock split in the form of a stock dividend effective February 12, 2001

Shareholders who otherwise would be entitled to receive fractional shares as they hold a number of old Ordinary shares that are not evenly divisible by the split number will be entitled to a cash payment in lieu thereof.

All shares, options and earnings per share amounts have been retroactively adjusted for all periods presented to reflect the stock splits effected as a stock dividend.

b. Deferred share:

The Deferred share is not entitled to any rights other than the right to receive its nominal value upon liquidation of the Company.

c. Employee Stock Purchase Plan ("ESPP"):

The Company reserved a total of 6,000,000 shares for issuance under the ESPP. Eligible employees use up to 15% of their salaries to purchase Ordinary shares. The purchase plan will be implemented by effecting an offering every six months. The price of an Ordinary share purchased under the purchase plan is 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.

d. Stock options:

Under the Company's Stock Option Plan ("the Plan"), options are granted to employees at an exercise price equal to the fair market value at the date of grant and are granted for periods not to exceed 7 years. Options granted under the Plan, generally vest over a period of four to five years.

The Company's 1996 Incentive Employee Stock Option Plan authorized the grant of options to employees for up to 56,760,000 Ordinary shares under the Israeli Plan and 78,240,000 Ordinary shares under the U.S. Plan.

As of December 31, 2000, an aggregate of 66,421,500 Ordinary shares of the Company are available for future grant.

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

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	OPTIONS (IN THOUSANDS)			WEIGHTED AVERA
	1998	1999	2000	1998
Outstanding at beginning of year	30,576	35,723	38,748	$ 1.69
Granted	21,840	19,230	3,305	3.19
Exercised	(8,823)	(10,243)	(7,552)	0.54
Forfeited or cancelled	(7,870)	(5,962)	(1,073)	4.37

Outstanding at end of year	35,723	38,748	33,428	$ 2.3
Exercisable at end of year	5,376	5,139	8,258	$ 1.35

The options outstanding as of December 31, 2000, have been separated into ranges of exercise price, as follows:

EXERCISE PRICE	OPTIONS OUTSTANDING AT DECEMBER 31, 2000 (IN THOUSANDS)	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE DECEMBER 31, (IN THOUSAND
$ 0.002- 0.89	1,093	1.8	$ 0.32	1,024
1.56-3.19	10,796	4.5	2.80	2,992
3.78-5.92	6,392	4.9	4.49	1,125
6.93-9.38	1,014	5.5	8.29	79
9.83-11.66	7,190	5.7	9.90	2,670
12.58-17	3,188	5.5	15.55	170
20.36-23.6	435	5.9	21.79	53
27.22-30.54	537	6	29.79	29
31.75-36.74	296	6	34.56	1
42.33-51.21	934	6.3	46.73	-
65.58	29	6.4	65.58	-
68.42-70.02	576	6.8	68.91	-
70.2-75.08	243	6.5	71.40	-
79.8-86.54	705	7.1	85.36	116
$0.002-$86.54	33,428	5.1	$ 11.57	8,258

The weighted average fair values at grant date of options granted for the years ended December 31, 1998, 1999 and 2000 were $ 5.78, $ 19.68 and $ 61.29, respectively.

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 1998, 1999 and 2000: risk-free interest rates of 6% for 1998, 1999 and 2000; dividend yields of 0% for 1998, 1999 and 2000; volatility factors of the expected market price of the Company's Ordinary shares of 0.89 for 1998, 1.04 for 1999 and 1.09 for 2000; and an expected life of the option of 6 months after the option is vested for 1998, 1999 and 2000.

Pro forma information under SFAS 123:

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	DECEMBER 31,	
	1998	1999
Net income as reported	$ 69,877	$ 95,781
Pro forma net income	$ 61,697	$ 71,412
Pro forma basic earnings per share	$ 0.87	$ 0.32
Pro forma diluted earnings per share	$ 0.80	$ 0.29

e. Dividends:

Dividends declared on the Ordinary shares 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.

NOTE 10:- EARNINGS PER SHARE

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

	YEAR ENDE
	1998
Numerator:	
Net income	$ 69,877
Numerator for basic net earnings per net - income available to Ordinary shareholders	$ 69,877
Numerator for diluted net earnings per share - net income available to Ordinary shareholders after assumed conversions	$ 69,877
Denominator:	
Weighted average Ordinary shares outstanding	212,610

Denominator for basic net earnings per share - weighted - average shares	212,610
Effect of dilutive securities:	
Employee stock options	19,560
Denominator for diluted net earnings per share	232,170

NOTE 11:- GEOGRAPHIC INFORMATION AND SELECTED STATEMENTS OF INCOME DATA

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a. Summary information about geographical areas:

The Company operates in one operating segment, the development, selling and marketing of performance software products. The Company follows the requirements of SFAS No. 131 "Disclosures About Segments of an Enterprise and Relation Information".

1. Revenues based on the end customers' location:

	YEAR ENDED DECEMBER 31,	
	1998	1999
Israel	$ 1,435	$ 3,211
Americas	81,010	117,276
Great Britain	12,823	20,156
Europe (excluding Great Britain)	24,464	42,928
Japan	10,617	24,154
Other	11,592	11,842
	$ 141,941	$ 219,567

2. Long-lived assets:

	YEAR ENDED DECEMBER 31,	
	1998	1999
Israel	$ 2,126	$ 4,721
Americas	4,682	4,351
Great Britain	101	149
Europe (excluding Great Britain)	113	303
Japan	61	100
Other	98	70
	$ 7,181	$ 9,694

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b. Financial income, net:

	YEAR ENDED DEC	
	1998	1999
Financial income:		
Interest income	$ 9,351	$ 12,9
Foreign currency translation adjustments	-	1
	9,351	13,0
Financial expenses:		
Foreign currency translation adjustments	(4,619)	
Interest expenses	(326)	(3
	(4,945)	(3
Financial income, net	$ 4,406	$ 12,7