

Dain Rauscher Wessels
a division of Dain Rauscher Incorporated

* Revenues and EPS were \$118 million and \$0.29, vs. our estimates of \$117.5 million and \$0.29, respectively.

* While gross margins remained unchanged at 95.5%, operating margins increased to 65%, vs. 64.5% in June quarter.

* Our revised estimates for CY2001 and CY2002 are \$529 million and \$1.23, and \$620 million and \$1.40, respectively.

* We reiterate our Strong Buy-Aggressive rating on CHKP shares and maintain our 12-month price target of \$45.

Check Point Software Technologies

Nasdaq: **CHKP**
Rating: **Strong Buy**
Risk: **Aggressive**
Price Target: **\$ 45**

Price:	\$29.12	Fiscal Yr	Prev	EPS	P/E
52-Wk Range:	\$119-\$20	Dec/2001E		\$1.23	23.7x
Tr. 12 ROE:	NM	Dec/2002E		\$1.40	20.8x
3 Yr EPS Gr:	30.00%	2001 Q3		\$0.29	
Shares Out:	259.12 million				
Book Value:	\$4.33				
Market Cap:	\$7.55 billion				

Fiscal Yr	Prev	Revenue*	MC/Rev
Dec/2001E	531.481	\$529.05	NM
Dec/2002E	636.619	\$620.21	NM

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CHKP:SB-Aggr ;SEPTEMBER-QUARTER RESULTS MARGINS DEFY GRAVITY AGAIN

September Quarter Results--Margins Defy Gravity Again: Check Point reported September-quarter revenues of \$118 million and EPS of \$0.29, in line with preannounced results. Once again, Check Point's margins defied gravity; the company delivered a gross margin of 95.5% (flat with last quarter), operating margin of 65% (up from 64.5%), and a net margin of 63% (up from 61.1%). Operating expenses declined a remarkable \$9.1 million sequentially(19%) to \$35.9 million. Management attributed the decline to stock option taxes (\$2.3 million), variable compensation (\$2.2 million), and reductions in discretionary spending and bad debt allowance (\$4.6 million).

While some investors will no doubt assume the worst (that the company is starving investment, driving short-term profitability at the expense of long-term growth), we are not alarmed because: 1) overall head count actually increased by eight people to 1,170, and sales and support head count increased by 25; 2) Check Point's business model has always relied heavily on third-party partnerships and channel leverage; and 3) we do not believe the company's R&D effort (300 people) has been sacrificed, and we expect numerous new NG-based products to be released during the next several quarters. We are particularly encouraged that gross margin stayed flat, which we believe further validates what we have consistently heard from our channel checks--that Check Point is experiencing little or no pricing pressure from Cisco (Nasdaq: CSCO; B-Agg; \$15.60) and other competitors. We do expect operating margin to decline gradually during the next several quarters to a sustainable level in the mid- to high-50s, but not to plummet. In our opinion, the fact that Check Point sustained its amazing profitability in its worst-ever growth quarter is testament to the robustness of its model.

On the balance sheet, deferred revenue declined by \$9.3 million, or 9%, to \$100.3 million, reflecting a difficult bookings environment. Management stated that \$15-\$20 million of revenue was lost due to the September 11 terrorist attacks. DSO stood at a very healthy 59 days, up from 55 days last quarter, and the company generated \$78.2 million in cash, ending the quarter at \$944.2 million.

Customer Base Continues To Grow: Firewall/VPN deployments grew to 232,000/108,000, up sequentially from 220,000/100,000, respectively. Check Point now has more than 86,000 customers. The revenue mix between new and existing customers remained steady at 50/50. Geographically, NA/Europe/Asia accounted for 46%/35%/19% of revenues, respectively. Revenues from service providers remained steady at approximately 15% of total revenues. Approximately 5%/10%/15% of the products shipped in July/August/September, respectively, were NG enabled. We believe that a growing customer base and adoption of NG enabled products will be key revenue catalysts going forward, especially for NG based software-modules, which are expected to be priced from \$3,000-\$7,000 each.

The Big Question Now Is Top-Line Growth: Management's guidance for the December quarter was \$120-\$125 million in revenues (1%-6% sequential revenue growth) and EPS of \$0.28-\$0.30. While the company did not provide any detailed guidance for 2002, we believe a top-line growth rate in the high teens is a realistically conservative assumption given the current spending climate. We note that IDC has estimated 19% market growth from CY2001-CY2002 for firewall software (June 2001), and Infonetics has estimated 77% market growth for VPN software (August 2001) over the same period. Irrespective of overall market conditions, we think Check Point can maintain or increase its market share going forward because of NG.

Stock Opinion

We reiterate our Strong Buy-Aggressive rating on CHKP shares. We are keeping our CY2001 and CY2002 EPS estimates at \$1.23 and \$1.40, and revising our revenue estimates to \$529 million and \$620 million, respectively. Our 12-month price target of \$45 remains unchanged and is based on an EPS growth rate of 30%, implied 2002 P/E of 32x (which is in line with the peer group), and an implied 2002 PEG of 1.1x.

Company Description

Check Point Software Technologies, Ltd. is the leading provider of enterprise network security solutions for intranets, extranets, and the Internet.

Dain Rauscher Incorporated makes a market in Check Point Software Technologies and may act as principal with regard to sales or purchases of this security.

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST.

Our Research Ratings Legend can be viewed at www.rbcdrw.com/researchratings. The information contained in this report has been prepared from sources that

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Check Point Software Technologies, Ltd.

Income Statement (includes MetaInfo)

(data in thousands, except per share)

	2000 by Quarter				2001 by Quarter				2002 by Quarter				Calendar Year		
	Mar Q1/00	Jun Q2/00	Sep Q3/00	Dec Q4/00	Mar Q1/01	Jun Q2/01	Sep Q3/01	Dec Q4/01	Mar Q1/02	Jun Q2/02	Sep Q3/02	Dec Q4/02	2000	2001	2002
Revenues	\$76,166	\$90,868	\$116,014	\$140,435	\$145,010	\$142,071	\$118,032	\$123,934	\$130,130	\$147,047	\$158,811	\$184,221	\$425,283	\$529,047	\$620,209
Cost of Revenues	7,644	8,006	9,407	10,208	10,078	6,464	5,368	6,197	6,507	7,352	7,941	9,211	35,265	28,107	31,010
Gross Profit	70,522	82,862	106,607	130,227	134,932	135,607	112,664	117,737	123,624	139,695	150,870	175,010	390,018	500,940	589,199
Operating Expenses:															
Research and Development	6,175	6,659	8,344	9,131	9,320	9,049	7,511	8,056	8,458	9,558	10,323	11,974	30,309	33,936	40,314
Sales and Marketing	24,218	27,733	28,467	29,585	30,382	28,714	23,500	25,406	26,677	30,880	34,938	45,134	110,003	108,002	137,629
General and Administrative	5,199	4,502	5,094	5,614	6,838	6,145	4,877	4,957	5,205	5,882	6,352	8,290	20,409	22,517	25,729
Operating Income (loss)	34,930	43,768	64,702	85,897	88,692	91,699	76,776	79,318	83,283	93,375	99,257	109,611	229,297	336,485	385,527
Interest Income, net	5,494	6,411	7,800	9,442	10,101	11,574	11,440	11,800	12,200	12,600	13,000	13,600	29,147	44,915	51,400
Pretax Income (loss)	40,424	50,179	72,502	95,339	98,793	103,273	88,216	91,118	95,483	105,975	112,257	123,211	258,444	381,400	436,927
Reported Income Taxes (benefit)	5,545	6,508	10,858	14,320	15,115	16,472	13,911	14,579	15,277	16,956	17,961	19,714	37,231	60,077	69,908
Net Income (loss)	34,879	43,671	61,644	81,019	83,678	86,801	74,305	76,539	80,206	89,019	94,296	103,498	221,213	321,323	367,019
Earnings Per Share	\$0.13	\$0.17	\$0.23	\$0.31	\$0.32	\$0.33	\$0.29	\$0.29	\$0.31	\$0.34	\$0.36	\$0.39	\$0.84	\$1.23	\$1.40
Fully Diluted Shares Outstanding	258,504	263,637	264,281	263,982	261,779	260,440	259,124	260,124	261,124	262,124	263,624	265,124	262,601	260,367	262,909
Days Sales Outstanding	66	64	61	54	54	55	50								
Deferred Revenue	\$72,421	\$93,161	\$105,381	\$121,202	\$123,375	\$109,647	\$100,316								
Margins on Revenue															
Gross Margin	90.2%	91.2%	91.9%	92.7%	93.1%	95.5%	95.5%	95.0%	95.0%	95.0%	95.0%	95.0%	91.7%	94.7%	95.0%
Research and Development	7.9%	7.3%	7.2%	6.5%	6.4%	6.4%	6.4%	6.5%	6.5%	6.5%	6.5%	6.5%	7.1%	6.4%	6.5%
Sales and Marketing	31.0%	30.6%	24.5%	21.1%	21.0%	20.2%	19.9%	20.5%	20.5%	21.0%	22.0%	24.5%	25.9%	20.4%	22.2%
General and Administrative	6.7%	5.0%	4.4%	4.0%	4.5%	4.3%	4.1%	4.0%	4.0%	4.0%	4.0%	4.5%	4.8%	4.3%	4.1%
Operating Margin	44.7%	48.3%	55.8%	61.2%	61.2%	64.5%	65.0%	64.0%	64.0%	63.5%	62.5%	59.5%	53.9%	63.6%	62.2%
Interest Income, net	7.0%	7.1%	6.7%	6.7%	7.0%	8.1%	9.7%	9.5%	9.4%	8.6%	8.2%	7.4%	6.9%	8.5%	8.3%
Pretax Income (loss)	51.7%	55.3%	62.5%	67.9%	68.1%	72.7%	74.7%	73.5%	73.4%	72.1%	70.7%	66.9%	60.8%	72.1%	70.4%
Tax Rate	13.7%	13.0%	15.0%	15.0%	15.3%	15.9%	15.8%	16.0%	16.0%	16.0%	16.0%	16.0%	14.4%	15.8%	16.0%
Net Income (loss)	44.6%	48.2%	53.1%	57.7%	57.7%	61.1%	63.0%	61.8%	61.6%	60.5%	59.4%	56.2%	52.0%	60.7%	59.2%
% Changes Quarter/Quarter															
Revenues	15.0%	16.0%	28.0%	21.1%	3.3%	-2.0%	-16.9%	5.0%	5.0%	13.0%	8.0%	16.0%	94%	24%	17%
Revenues (Y/Y)	78.6%	81.2%	100.7%	106.7%	85.5%	56.7%	1.7%	-11.8%	-10.3%	3.5%	34.5%	48.6%			
Gross Profit	14.9%	17.2%	29.0%	22.2%	3.6%	0.5%	-16.9%	4.5%	5.0%	13.0%	8.0%	16.0%	98%	26%	18%
Research and Development	9.6%	7.6%	25.3%	9.4%	2.1%	-2.9%	-17.0%	7.3%	5.0%	13.0%	8.0%	16.0%	60%	12%	19%
Sales and Marketing	12.6%	14.5%	2.6%	3.9%	2.7%	-5.5%	-18.2%	8.1%	5.0%	15.8%	13.1%	29.2%	61%	-3%	27%
General and Administrative	44.3%	-13.4%	13.1%	10.2%	16.5%	-6.0%	-20.6%	1.6%	5.0%	13.0%	8.0%	30.5%	56%	10%	14%
Operating Income (loss)	14.0%	25.3%	47.8%	32.8%	3.3%	3.4%	-16.3%	3.3%	5.0%	12.1%	6.3%	10.4%	137%	47%	15%
Reported EPS	16.1%	22.6%	40.8%	31.6%	4.2%	4.3%	-14.0%	2.6%	4.4%	10.6%	5.3%	9.1%	118%	47%	13%

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