CHECK POINT SOFTWARE TECHNOLOGIES LTD
Form 20-F
April 01, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ **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, 2010**

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number 000-28584

CHECK POINT SOFTWARE TECHNOLOGIES LTD.

(Exact name of Registrant as specified in its charter)

ISRAEL

(Jurisdiction of incorporation or organization)

5 Ha Solelim Street, Tel Aviv 67897, Israel

(Address of principal executive offices)

John Slavitt, Esq.

General Counsel

Check Point Software Technologies, Inc.

800 Bridge Parkway

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Tel: (650) 628-2110

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of exchange on which registered
Ordinary shares, NIS 0.01 nominal value	NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act. None

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

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of December 31, 2010. 208,414,687 ordinary shares, NIS 0.01 nominal value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes ¨ No x

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

x U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

Table of Contents

TABLE OF CONTENTS

Table of Contents

Currency of Presentation and Certain Defined Terms

In this Annual Report on Form 20-F, references to U.S. or United States are to the United States of America, its territories and possessions; and references to Israel are to the State of Israel. References to $, dollar or U.S. dollar are to the legal currency of the United States of America; references to NIS or Israeli shekel are to the legal currency of Israel; references to Euro are to the legal currency of the European Union; and references to Swedish Krona are to the legal currency of the Kingdom of Sweden. Our financial statements are presented in U.S. dollars and are prepared in conformity with accounting principles generally accepted in the United States of America, or U.S. GAAP.

All references to we, us, our or Check Point shall mean Check Point Software Technologies Ltd., and, unless specifically indicated otherwise or the context indicates otherwise, our consolidated subsidiaries.

Forward-Looking Statements

Some of the statements contained in this Annual Report on Form 20-F are forward-looking statements that involve risks and uncertainties. The statements contained in this Annual Report on Form 20-F that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding trends related to our business and our expectations, beliefs, intentions or strategies regarding the future. These statements are subject to known and unknown risks, uncertainties and other factors, which may cause our actual results to differ materially from those implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terminology, such as may, will, could, should, expects, plans, anticipates, believes, intends, estimates, predicts, potential, or continue or the negative of these terms or other comparable terminology. Forward-looking statements also include, but are not limited to, statements in (i) Item 4 Information on Check Point regarding our belief as to increased use of Internet technologies, continued expansion of connectivity services, increased threats to the Internet and to data and network security, acceleration of the use of networks, the need and demand for network, gateway and virtual security, the need and demand for flexible and extensible security, the demand for our new blade architecture and adoption of new licensing offerings, increasing demands on enterprise security systems, the impact of our relationship with our technology partners on our sales goals, the contribution of our products to our future revenue, our development of future products, and our ability to integrate, market and sell acquired products and technologies; and (ii) Item 5 Operating and Financial Review and Prospects regarding, among other things, our expectations regarding our business and the markets in which we operate and into which we sell products, future amounts and sources of our revenue, our ongoing relationships with our current and future customers and channel partners, our future costs and expenses, the adequacy of our capital resources, share repurchases by us, and dividend payments by us.

Forward-looking statements involve risks, uncertainties and assumptions, and our actual results may differ materially from those predicted. Many of these risks, uncertainties and assumptions are described in the risk factors set forth in Item 3 Key Information Risk Factors and elsewhere in this Annual Report on Form 20-F. All forward-looking statements included in this Annual Report on Form 20-F are based on information available to us on the date of the filing and reasonable assumptions. We undertake no obligation to update or revise any of the forward-looking statements after the date of the filing, except as required by applicable law.

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

We prepare our historical consolidated financial statements in accordance with United States generally accepted accounting principles (U.S. GAAP). The selected financial data, set forth in the table below, have been derived from our audited historical financial statements for each of the years from 2006 to 2010. The selected consolidated statement of income data for the years 2008, 2009 and 2010, and the selected consolidated balance sheet data at December 31, 2009 and 2010, have been derived from our audited consolidated financial statements set forth in Item 18 Financial Statements. The selected consolidated statement of income data for the years 2006 and 2007, and the selected consolidated balance sheet data at December 31, 2006, 2007 and 2008, have been derived from our previously published audited consolidated financial statements, which are not included in this Annual Report on Form 20-F. These selected financial data should be read in conjunction with our consolidated financial statements, and are qualified entirely by reference to such consolidated financial statements.

	Year Ended December 31,				
	2006	2007	2008	2009	2010
	(in thousands, except per share data)				
Consolidated Statement of Income Data:					
Revenues	$ 575,141	$ 730,877	$ 808,490	$ 924,417	$ 1,097,868
Operating expenses (*):					
Cost of revenues	36,431	82,301	92,609	133,270	163,973
Research and development	62,210	80,982	91,629	89,743	105,748
Selling and marketing	157,114	217,491	214,439	220,877	235,301
General and administrative	43,503	53,527	53,313	56,409	57,244
Restructuring and other acquisition related costs				9,101	588
Acquired in-process R&D	1,060	17,000			
Total operating expenses	300,318	451,301	451,990	509,400	562,854
Operating income	274,823	279,576	356,500	415,017	535,014
Financial income, net	63,647	49,725	40,876	32,058	30,164
Other-than-temporary impairment, net of gain on sale of marketable securities previously impaired (**)			(11,221)	(1,277)	(785)
Income before taxes on income	338,470	329,301	386,155	445,798	564,393
Taxes on income	60,443	48,237	62,189	88,275	111,567
Net income	$ 278,027	$ 281,064	$ 323,966	$ 357,523	$ 452,826
Basic earnings per share	$ 1.18	$ 1.26	$ 1.51	$ 1.71	$ 2.18
Shares used in computing basic earnings	235,519	222,548	214,361	209,371	208,106

per share					
Diluted earnings per share	$ 1.17	$ 1.25	$ 1.50	$ 1.68	$ 2.13
Shares used in computing diluted earnings per share	236,769	225,442	216,668	212,208	212,933

Table of Contents

(*) Including pre-tax charges for amortization of intangible assets, acquisition related expenses and stock-based compensation in the following items:

Amortization of intangible assets and acquisition related expenses					
Cost of products and licenses	$ 5,414	$ 27,724	$ 24,554	$ 28,224	$ 32,826
Selling and marketing	604	12,260	12,428	22,429	16,309
Research and Development					2,741
General and administrative	927				

Stock-based compensation					
Cost of products and licenses	$ 39	$ 65	$ 48	$ 47	$ 49
Cost of software updates, maintenance and services	470	668	684	641	984
Research and development	9,371	4,309	5,037	6,649	7,325
Selling and marketing	7,997	8,780	6,855	5,032	7,279
General and administrative	18,515	20,230	19,703	18,538	19,543

(**) The year ended December 31, 2008 includes a write down of $11.2 million of marketable securities. The year ended December 31, 2009 includes a write down of $3.1 million related to auction rates securities, net of a $1.8 million gain on the sale of marketable securities that were written down in 2008. The year ended December 31, 2010 includes a write down of $0.8 million of marketable securities.

	December 31,				
	2006	**2007**	**2008**	**2009**	**2010**
			(in thousands)		
Consolidated Balance Sheet Data:					
Working capital	$ 967,805	$ 692,316	$ 791,976	$ 648,944	$ 753,672
Total assets	2,080,793	2,368,575	2,593,616	3,069,594	3,605,302
Shareholders equity	1,711,533	1,856,955	2,015,865	2,319,718	2,719,331
Capital stock	423,155	465,104	504,182	528,648	581,050

Risk Factors

If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the market price of our ordinary shares could decline and you could lose part or all of your investment.

Risks Related to Our Business and Our Market

If the market for information and network security solutions does not continue to grow, our business will be adversely affected

The market for information and network security solutions may not continue to grow. 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;
- the ability of their respective infrastructures to support an increasing number of users and services;
- the continued development of new and improved services for implementation across the Internet and between the Internet and intranets;

the adoption of data security measures as it pertains to data encryption and data loss prevention technologies;

5

government regulation of the Internet and governmental and non-governmental requirements and standards with respect to data security and privacy; and

general economic conditions in the markets in which we, our customers and our suppliers operate.

In 2010, economies around the world and financial markets improved but concern continued caused by a multitude of factors, including adverse credit conditions, intermittent slower economic activity, concerns about inflation and deflation, fluctuating energy costs, decreased consumer confidence, reduced capital spending, adverse business conditions and liquidity concerns and other factors. During this period, many companies reduced expenditures, and a significant proportion of such companies have remained reluctant to increase expenditures as the economy has improved. If adverse economic conditions return, it may cause our customers to again reduce or postpone their technology spending significantly, which could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition.

Further, if the necessary infrastructure or complementary products and services are not developed in a timely manner and, consequently, the enterprise security, data security, Internet, or intranet markets fail to grow or grow more slowly than we currently anticipate, our business, operating results, and financial condition may be materially adversely affected. Additional details are provided in Item 4 Information on Check Point.

We may not be able to successfully compete which could adversely affect our business and results of operations

The market for information and network security solutions is intensely competitive and we expect that competition will continue to increase in the future. Our competitors include Cisco Systems, Inc., Juniper Networks, Inc., Fortinet Inc., SonicWall Inc., WatchGuard Technologies, Inc., McAfee, Inc. (which was recently acquired by Intel Corporation) and other companies in the network security space. We also compete with several other companies, including Microsoft Corporation, Symantec Corporation and IBM Corporation with respect to specific products that we offer. There are hundreds of small and large companies that offer security products and services that we may compete with from time to time.

Some of our current and potential competitors have various advantages over us, including longer operating histories; access to larger customer bases; significantly greater financial, technical and marketing resources; a broader portfolio of products, applications and services; and larger patent and intellectual property portfolios. As a result, they may be able to adapt better than we can to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products. Furthermore, some of our competitors with more diversified product portfolios and larger customer bases may be better able to withstand a reduction in spending on information and network security solutions, as well as a general slowdown or recession in economic conditions in the markets in which they operate. In addition, some of our competitors have greater financial resources than we do, and they have offered, and in the future may offer, their products at lower prices than we do, particularly when economic conditions are weak, which may cause us to lose sales or to reduce our prices in response to competition.

In addition, consolidation in the markets in which we compete may affect our competitive position. This is particularly true in circumstances where customers are seeking to obtain a broader set of products and services than we are able to provide.

The markets in which we compete also include many niche competitors, generally smaller companies at a relatively early stage of operations, which are focused on specific Internet and data security needs. These companies specialized focus may enable them to adapt better than we can to new or emerging technologies and changes in customer requirements in their specific areas of focus. In addition, some of these companies can invest relatively large resources on very specific technologies or customer segments. The effect of these companies activities in the market may result in price reductions, reduced gross margins and loss of market share, any of which will materially adversely affect our business, operating results, and financial condition.

Table of Contents

Further, vendors of operating system software, networking hardware or central processing units, or CPUs, may enhance their products to include functionality that is currently provided by our products. The widespread inclusion of similar functionality to that which is offered by our solutions, as standard features of operating system software and networking hardware could significantly reduce the demand for our products, particularly if the quality of such functionality were comparable to that of our products. Furthermore, even if the network or application security functionality provided as standard features by operating systems software and networking hardware is more limited than that of our solutions, a significant number of customers may elect to accept more limited functionality in lieu of purchasing additional products.

We may not be able to continue competing successfully against our current and future competitors, and increased competition may result in price reductions, reduced gross margins and operating margins, reduced net income, and loss of market share, any of which will materially adversely affect our business, operating results, and financial condition. If any of the events described above occur, our business, operating results and financial condition could be materially adversely affected. Additional details are provided in Item 4 Information on Check Point.

If we fail to enhance our existing products, develop or acquire new and more technologically advanced products, or fail to successfully commercialize these products, our business and results of operations will suffer

The information and network 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. In particular, the markets for data security, Internet, and intranet applications are rapidly evolving. As a result, we must continually change and improve our products in response to changes in operating systems, application software, computer and communications hardware, networking software, programming tools, and computer language technology. Further, we must continuously improve our products to protect our customers data and networks from evolving security threats.

Our future operating results will depend upon our ability to enhance our current products and to develop and introduce new products on a timely basis; to address the increasingly sophisticated needs of our customers; and to keep pace with technological developments, new competitive product offerings, and emerging industry standards. Our competitors introduction of products embodying new technologies and the emergence of new industry standards may render our existing products obsolete or unmarketable. While we have historically been successful in developing, acquiring, and marketing new products and product enhancements that respond to technological change and evolving industry standards, we may not be able to continue to do so. In addition, we may experience difficulties that could delay or prevent the successful development, introduction, and marketing of these products, as well as the integration of acquired products. Furthermore, our new products or product enhancements may not adequately meet the requirements of the marketplace or achieve market acceptance. In some cases, a new product or product enhancements may negatively affect sales of our existing products. If we do 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, our business, operating results and financial condition may be materially adversely affected. Additional details are provided in Item 4 Information on Check Point and under the caption We may not be able to successfully compete in this Item 3 Key Information Risk Factors.

Product defects may increase our costs and impair the market acceptance of our products and technology

Our products are complex and must meet stringent quality requirements. They may contain undetected hardware or software errors or defects, especially when new or acquired products are 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. We may need to divert the attention of our engineering personnel from our research and development efforts to address instances of errors or defects. In addition, we may in the future incur costs associated with warranty claims.

Table of Contents

Our products are used to deploy and manage Internet security and protect information, which may be critical to organizations. As a result, the sale and support of our products entails the risk of product liability and related claims. We do not know whether, in the future, we will be subject to liability claims or litigation for damages related to product errors, or will experience delays as a result of these errors. Our sales agreements and product licenses typically contain provisions designed to limit our exposure to potential product liability or related claims. In selling our products, we rely primarily on shrink wrap licenses that are not signed by the end user, and for this and other reasons, these licenses may be unenforceable under the laws of some jurisdictions. As a result, the limitation of liability provisions contained in these licenses may not be effective. Although we maintain product liability insurance for most of our products, the coverage limits of these policies may not provide sufficient protection against an asserted claim. If litigation were to arise, it could, regardless of its outcome, result in substantial expense to us, significantly divert the efforts of our technical and management personnel, and disrupt or otherwise severely impact our relationships with current and potential customers. In addition, if any of our products fail to meet specifications or have reliability, quality or compatibility problems, our reputation could be damaged significantly and customers might be reluctant to buy our products, which could result in a decline in revenues, a loss of existing customers, and difficulty attracting new customers.

We are subject to risks relating to acquisitions

We have made acquisitions in the past and we may make additional acquisitions in the future. The pursuit of acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated.

Competition within our industry for acquisitions of businesses, technologies, assets and product lines has been, and may in the future continue to be, intense. As such, even if we are able to identify an acquisition that we would like to consummate, we may not be able to complete the acquisition on commercially reasonable terms or because the target is acquired by another company. Furthermore, in the event that we are able to identify and consummate any future acquisitions, we could:

- issue equity securities which would dilute current shareholders percentage ownership;
- incur substantial debt;
- assume contingent liabilities; or
- expend significant cash.

These financing activities or expenditures could harm our business, operating results and financial condition or the price of our ordinary shares. Alternatively, due to difficulties in the capital and credit markets, we may be unable to secure capital on acceptable terms, or at all, to complete acquisitions.

In addition, if we acquire additional businesses, we may not be able to integrate the acquired personnel, operations, and technologies successfully or effectively manage the combined business following the completion of the acquisition. We may also not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- unanticipated costs or liabilities associated with the acquisition;
- incurrence of acquisition-related costs;
- diversion of management s attention from other business concerns;

harm to our existing business relationships with manufacturers, distributors and customers as a result of the acquisition;

the potential loss of key employees;

use of resources that are needed in other parts of our business;

Table of Contents

use of substantial portions of our available cash to consummate the acquisition; or

unrealistic goals or projections for the acquisition.

Moreover, even if we do obtain benefits from acquisitions in the form of increased sales and earnings, there may be a delay between the time when the expenses associated with an acquisition are incurred and the time when we recognize such benefits.

We are dependent on a small number of distributors

We derive our sales primarily through indirect channels. During 2010, we derived approximately 59% of our sales from our 10 largest distributors, with the largest distributor accounting for approximately 18% of our sales, and the second largest distributor accounting for approximately 17% of our sales. In each of 2009 and 2010, these two distributors accounted for approximately 35% of our sales in the aggregate. We expect that a small number of distributors will continue to generate a significant portion of our sales. Furthermore, there has been an industry trend toward consolidation among distributors, and we expect this trend to continue in the near future which could further increase our reliance on a small number of distributors for a significant portion of our sales. If these distributors reduce the amount of their purchases from us for any reason, including because they choose to focus their efforts on the sales of the products of our competitors, our business, operating results and financial condition could be materially adversely affected.

Our future success is highly dependent upon our ability to establish and maintain successful relationships with our distributors. In addition, we rely on these entities to provide many of the training and support services for our products and equipment. Accordingly, our success depends in large part on the effective performance of these distributors. Recruiting and retaining qualified distributors and training them in our technology and products requires significant time and resources. Further, we have no long-term contracts or minimum purchase commitments with any of our distributors, and our contracts with these distributors do not prohibit them from offering products or services that compete with ours. Our competitors may be effective in providing incentives to existing and potential distributors to favor their products or to prevent or reduce sales of our products. Our distributors may choose not to offer our products exclusively or at all. Our failure to establish and maintain successful relationships with distributors would likely materially adversely affect our business, operating results and financial condition.

We purchase several key components and finished products from sole or limited sources, and we are increasingly dependent on contract manufacturers for our hardware products.

Many components, subassemblies and modules necessary for the manufacture or integration of our hardware products are obtained from a sole supplier or a limited group of suppliers. Our reliance on sole or limited suppliers, particularly foreign suppliers, and our reliance on subcontractors involves several risks, including a potential inability to obtain an adequate supply of required components, subassemblies or modules and limited control over pricing, quality and timely delivery of components, subassemblies or modules. Replacing suppliers may be difficult and could result in an inability or delay in producing designated hardware products. Substantial delays would have a material adverse impact on our business.

Managing our supplier and contractor relationships is particularly difficult during time periods in which we introduce new products and during time periods in which demand for our products is increasing, especially if demand increases more quickly than we expect.

We are dependent on a limited number of product families

Currently, we derive the majority of our revenues from sales of integrated appliances and Internet security products primarily under our UTM-1, Power-1, IP Series and related brands, as well as related revenues from software updates, maintenance and other services. We expect that this concentration of revenues from a small number of product families will continue for the foreseeable future. Endpoint security products and associated software updates, maintenance and support services represent an additional revenue source. Our future growth depends heavily on our ability to effectively develop and sell new and acquired products as well as add new features to existing products. For more details, see Item 4 Information on Check Point and Item 5 Operating and Financial Review and Prospects.

We incorporate third party technology in our products, which may make us dependent on the providers of these technologies and expose us to potential intellectual property claims

Our products contain certain technology that we license from other companies. Third party developers or owners of technologies may not be willing to enter into, or renew, license agreements with us regarding technologies that we may wish to incorporate in our products, either on acceptable terms or at all. If we cannot obtain licenses to these technologies, we may be at a disadvantage compared with our competitors who are able to license these technologies. In addition, when we do obtain licenses to third party technologies that we did not develop, we may have little or no ability to determine in advance whether the technology infringes the intellectual property rights of others. Our suppliers and licensors may not be required or may not be able to indemnify us in the event that a claim of infringement is asserted against us, or they may be required to indemnify us only up to a maximum amount, above which we would be responsible for any further costs or damages. Any failure to obtain licenses to intellectual property or any exposure to liability as a result of incorporating third party technology into our products could materially and adversely affect our business, operating results and financing condition.

We incorporate open source technology in our products which may expose us to liability and have a material impact on our product development and sales

Some of our products utilize open source technologies. These technologies are licensed to us under varying license structures, including the General Public License. If we have improperly integrated, or in the future improperly integrate software that is subject to such licenses into our products, in such a way that our software becomes subject to the General Public License, we may be required to disclose our own source code to the public. This could enable our competitors to eliminate any technological advantage that our products may have over theirs. Any such requirement to disclose our source code or other confidential information related to our products could materially and adversely affect our competitive position and impact our business, results of operations and financial condition.

We are the defendants in various lawsuits and are also subject to certain tax disputes and governmental proceedings, which could adversely affect our business, results of operations and financial condition

We operate our business in various countries, and accordingly attempt to utilize an efficient operating model to structure our tax payments based on the laws in the countries in which we operate. This can cause disputes between us and various tax authorities in different parts of the world.

In particular, following audits of our 2002 through 2005 corporate tax returns, the Israeli Tax Authority (the ITA) issued orders challenging our positions on several issues, including matters such as the usage of funds earned by our approved enterprise for investments outside of Israel, deductibility of employee stock options expenses, withholding on buy-back percentage of foreign ownership of our shares, taxation of interest earned outside of Israel and deductibility of research and development expenses. The largest amount in dispute relates to the treatment of financial income on cash that is held and managed by our wholly-owned Singapore subsidiary, which the ITA is seeking to tax in Israel. In an additional challenge to this amount, the ITA reclassified the transfer of funds from Check Point to our subsidiary in Singapore as a dividend for purposes of the Law for the Encouragement of Capital Investments, which would result in tax on the funds transferred. The ITA orders also contest our positions on various other issues. The ITA therefore demanded the payment of additional taxes in the aggregate amount of NIS 1,412 million with respect to these four years (this amount includes interest through the

Table of Contents

respective assessment dates). We have appealed the orders relating to all four years with the Tel Aviv District Court, and these appeals are pending. There can be no assurance that the court will accept our positions on these matters or others and, in such an event, we may record additional tax expenses if these matters are settled for amounts in excess of our current provisions. In addition, the ITA has issued preliminary assessments for 2006 and 2007 in which it demanded the payment of additional taxes in the aggregate amount of NIS 410 million with respect to these two years, including interest through the assessment date of August 2, 2009. We have filed objections to these assessments and the ITA is currently conducting a re-examination. There can be no assurance that the ITA will accept our positions on matters raised and, if it does not, an order will be issued.

We are currently named as a defendant in four patent related lawsuits. All of the lawsuits were filed against multiple security vendors and all of the plaintiffs are non-practicing entities. They are businesses established to hold the patents and they are seeking monetary damages by alleging that a product feature infringes a patent. We currently intend to vigorously defend these claims. However, as with most litigation, the outcome is difficult to determine.

In the first quarter of 2011, we settled all litigation relating to our SofaWare subsidiary. As part of the settlement we acquired the SofaWare shares held by its co-founders, bringing our total SofaWare holdings to almost 90% of the outstanding shares. We are currently in the process of acquiring the remaining shares, and we expect that SofaWare will become a wholly-owned subsidiary.

Further, we are the defendant in various other lawsuits, including employment-related litigation claims, lease termination claims and other legal proceedings in the normal course of our business. Litigation and governmental proceedings can be expensive, lengthy and disruptive to normal business operations, and can require extensive management attention and resources, regardless of their merit. While we currently intend to defend the aforementioned matters vigorously, we cannot predict the results of complex legal proceedings, and an unfavorable resolution of a lawsuit or proceeding could materially adversely affect our business, results of operations and financial condition. See also Item 8 Financial Information under the caption Legal Proceedings.

Class action litigation due to stock price volatility or other factors could cause us to incur substantial costs and divert our management s attention and resources

In the past, following periods of volatility in the market price of a public company s securities, securities class action litigation has often been instituted against that company. Companies such as ours in the technology industry are particularly vulnerable to this kind of litigation as a result of the volatility of their stock prices. We have been named as a defendant in this type of litigation in the past. Any litigation of this sort could result in substantial costs and a diversion of management s attention and resources.

We may not be able to successfully protect our intellectual property rights

We seek to protect our proprietary technology by relying on a combination of statutory as well as common law copyright and trademark laws, trade secrets, confidentiality procedures, and contractual provisions as indicated below in the section entitled Proprietary Rights in Item 4 Information on Check Point. We have certain patents in the United States and in several other countries, as well as pending patent applications. We cannot assure you that pending patent applications will be issued, either at all or within the scope of the patent claims that we have submitted. In addition, someone else may challenge our patents and these patents may be found invalid. Furthermore, others may develop technologies that are similar to or better than ours, or may work around any patents issued to us. Despite our efforts to protect our proprietary rights, others may copy aspects of our products or obtain and use information that we consider proprietary. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States, Israel or Sweden. Our efforts to protect our proprietary rights may not be adequate and our competitors may independently develop technology that is similar to our technology. If we are unable to secure, protect, and enforce our intellectual property rights, such failure could harm our brand and adversely impact our business, financial condition, and results of operations.

Table of Contents

If a third-party asserts that we are infringing its intellectual property, whether successful or not, it could subject us to costly and time-consuming litigation or expensive licenses, which could harm our business

There is considerable patent and other intellectual property development activity in our industry. Our success depends, in part, upon our ability not to infringe upon the intellectual property rights of others. Our competitors, as well as a number of other entities and individuals, own or claim to own intellectual property relating to our industry. From time to time, third parties may claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. As noted above, we are currently named in four patent-related intellectual property lawsuits. In addition, third-parties have in the past sent us correspondence regarding their intellectual property and in the future we may receive claims that our products infringe or violate their intellectual property rights. Furthermore, we may be unaware of the intellectual property rights of others that may cover some or all of our technology or products. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or royalty payments, prevent us from selling our products, or require that we comply with other unfavorable terms. In addition, we may decide to pay substantial settlement costs and/or licensing fees in connection with any claim or litigation, whether or not successfully asserted against us. Even if we were to prevail, any litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations. As such, third-party claims with respect to intellectual property may increase our cost of goods sold or reduce the sales of our products, and may have a material and adverse effect on our business.

We are exposed to various legal, business, political and economic risks associated with international operations; these risks could increase our costs, reduce future growth opportunities and affect our results of operations

We sell our products worldwide, and we generate a significant portion of our revenue outside the United States. We intend to continue to expand our international operations, which will require significant management attention and financial resources. In order to continue to expand worldwide, we will need to establish additional operations, hire additional personnel and recruit additional channel partners, internationally. To the extent that we are unable to do so effectively, our growth is likely to be limited and our business, operating results and financial condition may be materially adversely affected.

Our international revenues and operations subject us to many potential risks inherent in international business activities, including, but not limited to:

- technology import and export license requirements;
- costs of localizing our products for foreign countries, and the lack of acceptance of localized products in foreign countries;
- trade restrictions;
- imposition of or increases in tariffs or other payments on our revenues in these markets;
- changes in regulatory requirements;
- greater difficulty in protecting intellectual property;
- difficulties in managing our overseas subsidiaries and our international operations;
- declines in general economic conditions;

political instability and civil unrest which could discourage investment and complicate our dealings with governments;

difficulties in complying with a variety of foreign laws and legal standards;

expropriation and confiscation of assets and facilities;

difficulties in collecting receivables from foreign entities or delayed revenue recognition;

differing labor standards;

potentially adverse tax consequences, including taxation of a portion of our revenues at higher rates than the tax rate that applies to us in Israel;

fluctuations in currency exchange rates and the impact of such fluctuations on our results of operations and financial position; and

the introduction of exchange controls and other restrictions by foreign governments.

These difficulties could cause our revenues to decline, increase our costs or both. This is also specifically tied to currency exchange rates which has an impact on our financial statements based on currency rate fluctuations.

Compliance with new and changing corporate governance and public disclosure requirements adds uncertainty to our compliance policies and increases our costs of compliance

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, new SEC regulations and NASDAQ Global Select Market rules are creating uncertainty for companies like ours. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. For example, many provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act are currently in the process of being implemented through regulatory action. The implementation of these laws and their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

In particular, continuing compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal control over financial reporting requires the commitment of significant financial and managerial resources and external auditor s independent attestation on management s assessment of the internal control over financial reporting.

In connection with our Annual Report on Form 20-F for fiscal 2010, our management assessed our internal control over financial reporting, and determined that our internal control over financial reporting was effective as of December 31, 2010, and our independent auditors have expressed an unqualified opinion over the effectiveness of our internal control over financial reporting as of the end of such period. However, we will undertake management assessments of our internal control over financial reporting in connection with each annual report, and any deficiencies uncovered by these assessments or any inability of our auditors to issue an unqualified report could harm our reputation and the price of our ordinary shares.

If we fail to comply with new or changed laws or regulations, our business and reputation may be harmed.

A small number of shareholders own a substantial portion of our ordinary shares, and they may make decisions with which you or others may disagree

As of January 31, 2011, our directors and executive officers owned approximately 21.8% of the voting power of our outstanding ordinary shares, or 24.8% of our outstanding ordinary shares if the percentage includes options currently exercisable or exercisable within 60 days of January 31, 2011. The interests of these shareholders may differ from your interests and present a conflict. If these shareholders act together, they could exercise significant influence over our operations and business strategy. For example, although these shareholders hold considerably less than a majority of our outstanding ordinary shares, they may have sufficient voting power to influence matters requiring approval by our shareholders, including the election and removal of directors and the approval or rejection of mergers or other business combination transactions. In addition, this concentration of ownership may delay, prevent or deter a change in control, or deprive a shareholder of a possible premium for its ordinary shares as part of a sale of our company.

Table of Contents

We may be required to indemnify our directors and officers in certain circumstances

We have entered into agreements with each of our directors and senior officers to insure, indemnify and exculpate them against some types of claims, subject to dollar limits and other limitations. Subject to Israeli law, these agreements provide that we will indemnify each of these directors and senior officers for any of the following liabilities or expenses that they may incur due to an act performed or failure to act in their capacity as our director or senior officer:

- Monetary liability imposed on the director or senior officer in favor of a third party in a judgment, including a settlement or an arbitral award confirmed by a court.

- Reasonable legal costs, including attorneys fees, expended by a director or senior officer as a result of an investigation or proceeding instituted against the director or senior officer by a competent authority; provided, however, that such investigation or proceeding concludes without the filing of an indictment against the director or senior officer and either:

  - No financial liability was imposed on the director or senior officer in lieu of criminal proceedings, or

  - Financial liability was imposed on the director or senior officer in lieu of criminal proceedings, but the alleged criminal offense does not require proof of criminal intent.

- Reasonable legal costs, including attorneys fees, expended by the director or senior officer or for which the director or senior officer is charged by a court:

  - In an action brought against the director or senior officer by us, on our behalf or on behalf of a third party,

  - In a criminal action in which the director or senior officer is found innocent, or

  - In a criminal action in which the director or senior officer is convicted, but in which proof of criminal intent is not required.

Our cash balances and investment portfolio have been, and may continue to be, adversely affected by market conditions and interest rates

We maintain substantial balances of cash and liquid investments, for purposes of acquisitions and general corporate purposes. Our cash, cash equivalents and marketable securities totaled $2,415 million as of December 31, 2010. The performance of the capital markets affects the values of funds that are held in marketable securities. These assets are subject to market fluctuations and various developments, including, without limitation, rating agency downgrades that may impair their value. During 2009 and 2010, we recorded an other-than-temporary impairment of marketable securities in the amount of $3.1 million and $0.8 million respectively. We expect that market conditions will continue to fluctuate and that the fair value of our investments may be affected accordingly.

Financial income is an important component of our net income. The outlook for our financial income is dependent on many factors, some of which are beyond our control, and they include the future direction of interest rates, the amount of any share repurchases or acquisitions that we effect and the amount of cash flows from operations that are available for investment. We rely on third-party money managers to manage the majority of our investment portfolio in a risk-controlled framework. Our investment portfolio throughout the world is invested primarily in fixed-income securities and is affected by changes in interest rates which have declined considerably. Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. In a declining interest rate environment, borrowers may seek to refinance their borrowings at lower rates and, accordingly, prepay or redeem securities we hold more quickly than we initially expected. This action may cause us to reinvest the redeemed proceeds in lower yielding investments. Any significant decline in our financial income or the value of

our investments as a result of falling interest rates, deterioration in the credit of the securities in which we have invested, or general market conditions, could have an adverse effect on our results of operations and financial condition.

We generally buy and hold our portfolio positions, while minimizing credit risk by setting maximum concentration limit per issuer and credit rating. Our investments consist primarily of government and corporate debentures. Although we believe that we generally adhere to conservative investment guidelines, the continuing turmoil in the financial markets may result in impairments of the carrying value of our investment assets. We classify our investments as available-for-sale. Changes in the fair value of investments classified as available-for-sale are not recognized to income during the period, but rather are recognized as a separate component of equity until realized. Realized losses in our investments portfolio may adversely affect our financial position and results. Had we reported all the changes in the fair values of our investments into income, our reported net income for the year ended December 31, 2010, would have increased by $15.6 million.

Currency fluctuations may affect the results or our of operations or financial condition

Our functional and reporting currency is the U.S. Dollar. We generate a majority of our revenues in U.S. Dollars, and in 2010, we incurred approximately 35% of our expenses in foreign currencies, primarily Israeli Shekels, Euros and Swedish Krona. Accordingly, changes in exchange rates may have a material adverse effect on our business, operating results and financial condition. The exchange rate between the U.S. Dollar and foreign currencies has fluctuated substantially in recent years and may continue to fluctuate substantially in the future. We expect that a majority of our revenues will continue to be generated in U.S. Dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs, as well as capital and operating expenditures, will continue to be denominated in the above currencies. The results of our operations may be adversely affected in relation to foreign exchange fluctuations. During 2010, we entered into forward contracts to hedge against the risk of overall changes in future cash flow from payments of payroll and related expenses denominated in Israeli Shekels, Euros, British Pounds and Swedish Krona.

We entered into forward contracts to hedge the fair value of assets and liabilities denominated in Israeli Shekels and other currencies. As of December 31, 2010, we had outstanding forward contracts that did not meet the requirement for hedge accounting, in the amount of $187.7 million. We use derivative financial instruments, such as foreign exchange forward and option contracts, to mitigate the risk of changes in foreign exchange rates on accounts receivable and forecast cash flows denominated in certain foreign currencies. We may not be able to purchase derivative instruments adequate to fully insulate ourselves from foreign currency exchange risks, and over the past year, we have incurred losses as a result of exchange rate fluctuations that have not been offset in full by our hedging strategy.

Additionally, our hedging activities may also contribute to increased losses as a result of volatility in foreign currency markets. If foreign exchange currency markets continue to be volatile, such fluctuations in foreign currency exchange rates could materially and adversely affect our profit margins and results of operations in future periods. Also, the volatility in the foreign currency markets may make it difficult to hedge our foreign currency exposures effectively.

The imposition of exchange or price controls or other restrictions on the conversion of foreign currencies could also have a material adverse effect on our business, results of operations and financial condition.

Foreign currency fluctuations, and our attempts to mitigate the risks caused by such fluctuations, could have a material and adverse effect on our results of operations and financial condition.

Table of Contents

Our business and operations are subject to the risks of earthquakes, fire, floods and other natural catastrophic events, as well as manmade problems such as power disruptions or terrorism

Our headquarters in the United States, as well as certain of our research and development operations, are located in the Silicon Valley area of Northern California, a region known for seismic activity. We also have significant operations in other regions that have experienced natural disasters. A significant natural disaster occurring at our facilities in Israel or the U.S. or elsewhere, or where our channel partners are located, could have a material adverse impact on our business, operating results and financial condition. In addition, acts of terrorism could cause disruptions in our or our customers businesses or the economy as a whole. Further, we rely on information technology systems to communicate among our workforce located worldwide. Any disruption to our internal communications, whether caused by a natural disaster or by manmade problems, such as power disruptions or terrorism, could delay our research and development efforts. To the extent that such disruptions result in delays or cancellations of customer orders, our research and development efforts or the deployment of our products, our business and operating results would be materially and adversely affected.

Specifically, on March 11, 2011, a massive earthquake off the eastern coast of Japan triggered a devastating tsunami tidal wave, causing damage and destruction. It is too early to predict the long-term impact of this disaster on the economy of Japan and elsewhere.

Risks Related to Our Operations in Israel

Potential political, economic and military instability in Israel, where our principal executive offices and our principal research and development facilities are located, may adversely affect our results of operations

We are incorporated under the laws of the State of Israel, and our principal executive offices and principal research and development facilities are located in Israel. Accordingly, political, economic and military conditions in and surrounding Israel may directly affect our business. Since the State of Israel was established in 1948, a number of armed conflicts have occurred between Israel and its Arab neighbors, and recent years have witnessed increased terrorist activity within Israel. Terrorist attacks and hostilities within Israel, the hostilities between Israel and Hezbollah, and Israel and Hamas, the conflict between Hamas and Fatah, as well as tensions between Israel and Iran, have also heightened these risks. Any hostilities involving Israel, a significant increase in terrorism or the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel, could materially adversely affect our operations. Ongoing and revived hostilities or other Israeli political or economic factors could materially adversely affect our business, operating results and financial condition.

Recent uprisings in various countries in the Middle East and North Africa are affecting the political stability of those countries. This instability may lead to deterioration of the political and trade relationships that exist between the State of Israel and these countries. In addition, this instability may affect the global economy and marketplace, including as a result of changes in oil and gas prices. Our headquarters and research and development facilities are located in the State of Israel. Any events that affect the State of Israel may impact us in unpredictable ways, and may adversely affect our business and results of operations.

Our operations may be disrupted by the obligations of our personnel to perform military service

Many of our officers and employees in Israel are obligated to perform annual military reserve duty in the Israel Defense Forces, in the event of a military conflict, could be called to active duty. Our operations could be disrupted by the absence of a significant number of our employees related to military service or the absence for extended periods of military service of one or more of our key employees. Military service requirements for our employees could materially adversely affect our business, operating results and financial condition.

Table of Contents

The tax benefits available to us require us to meet several conditions, and may be terminated or reduced in the future, which would increase our taxes.

For the year ended December 31, 2010, our effective tax rate was 20%. There can be no assurance that our effective tax rate will not change over time as a result of changes in corporate income tax rates, changes in the tax laws of the various countries in which we operate and fluctuations in the growth rate of our business. We have benefited or currently benefit from a variety of government programs and tax benefits that generally carry conditions that we must meet in order to be eligible to obtain any benefit.

If we fail to meet the conditions upon which certain favorable tax treatment is based, we would not be able to claim future tax benefits and could be required to refund tax benefits already received. Additionally, some of these programs and the related tax benefits are available to us for a limited number of years, and these benefits expire from time to time.

Any of the following could have a material effect on our overall effective tax rate:

Some programs may be discontinued,

We may be unable to meet the requirements for continuing to qualify for some programs,

These programs and tax benefits may be unavailable at their current levels,

Upon expiration of a particular benefit, we may not be eligible to participate in a new program or qualify for a new tax benefit that would offset the loss of the expiring tax benefit, or

We may be required to refund previously recognized tax benefits if we are found to be in violation of the stipulated conditions.

Additional details are provided in Item 5 Operating and Financial Review and Products under the caption Taxes on income , in Item 10 Additional Information under the caption Israeli taxation, foreign exchange regulation and investment programs and in notes 10b and 11 to our consolidated financial statements.

Provisions of Israeli law and our articles of association may delay, prevent or make difficult an acquisition of us, prevent a change of control, and negatively impact our share price

Israeli corporate law regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving directors, officers or significant shareholders, and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential acquisition transactions unappealing to us or to some of our shareholders. For example, Israeli tax law may subject a shareholder who exchanges his or her ordinary shares for shares in a foreign corporation, to taxation before disposition of the investment in the foreign corporation. These provisions of Israeli law may delay, prevent or make difficult an acquisition of our company, which could prevent a change of control and, therefore, depress the price of our shares.

In addition, our articles of association contain certain provisions that may make it more difficult to acquire us, such as the provision which provides that our board of directors may issue preferred shares. These provisions may have the effect of delaying or deterring a change in control of us, thereby limiting the opportunity for shareholders to receive a premium for their shares and possibly affecting the price that some investors are willing to pay for our securities.

Additional details are provided in Item 10 Additional Information under the caption Articles of Association and Israeli Companies Law Anti-takeover measures.

Table of Contents

ITEM 4. INFORMATION ON CHECK POINT SOFTWARE TECHNOLOGIES

Overview

Check Point s mission is to secure the Internet. Check Point was founded in 1993, and has since developed technologies to secure communications and transactions over the Internet by enterprises and consumers. Eighteen years ago, risks and threats were limited and securing the Internet was relatively simple. A firewall and an antivirus solution generally provided adequate security for business transactions and communications over the Internet. Today, enterprises require many (in some cases 15 or more) point solutions to secure their information technology (IT) networks from the multitude of threats and potential attacks and are facing an increasingly complex IT security infrastructure.

Check Point s core competencies are developing security solutions to protect business and consumer transactions and communications over the Internet, and reducing the complexity in Internet security. We strive to solve the security maze by bringing more, better and simpler security solutions to our customers.

Check Point develops, markets and supports a wide range of software, as well as combined hardware and software products and services for IT security. We offer our customers an extensive portfolio of network and gateway security solutions, data and endpoint security solutions and management solutions. Our solutions operate under a unified security architecture that enables end-to-end security with a single line of unified security gateways, and allow a single agent for all endpoint security that can be managed from a single unified management console. This unified management allows for ease of deployment and centralized control and is supported by, and reinforced with, real-time security updates.

Check Point was an industry pioneer with our FireWall-1 and our patented Stateful Inspection technology. Check Point has recently extended its IT security innovation with the development of our Software Blade architecture. The dynamic Software Blade architecture delivers secure, flexible and simple solutions that can be customized to meet the security needs of any organization or environment.

Our products and services are sold to enterprises, service providers, small and medium sized businesses and consumers. Our Open Platform for Security (OPSEC) framework allows customers to extend the capabilities of our products and services with third-party hardware and security software applications. Our products are sold, integrated and serviced by a network of partners worldwide. Check Point customers include tens of thousands of businesses and organizations of all sizes including all Fortune 100 companies. Check Point s award-winning ZoneAlarm solutions protect millions of consumers from hackers, spyware and identity theft.

Business Highlights

Details regarding the important events in the development of our business since the beginning of 2010 are provided in Item 5 Operating and Financial Review and Prospects under the caption Overview.

We were incorporated as a company under the laws of the State of Israel in 1993 under the name of Check Point Software Technologies Ltd. Our registered office and principal place of business is located at 5 Ha Solelim Street, Tel Aviv 67897 Israel. The telephone number of our registered office is 972-3-753-4555. Our company s web site is www.checkpoint.com. The contents of our web site are not incorporated by reference into this Annual Report on Form 20-F.

This Annual Report on Form 20-F is available on our web site. If you would like to receive a printed copy via mail, please contact our Investor Relations department at 800 Bridge Parkway, Redwood City, CA 94065, U.S.A., Tel.: 650-628-2050, email: ir@us.checkpoint.com.

Our agent for service of process in the United States is CT Corporation System, 818 West Seventh Street, Los Angeles, CA 90017 U.S.A., Tel.: 213-627-8252.

Table of Contents

Industry Background

Several key factors and trends affect enterprise security. These factors and trends include:

Continuing Evolution of Threats and Attacks. The continuing evolution of threats and attacks is a major factor driving the need for enterprise security. Over the years, these threats and attacks on IT systems have become more sophisticated and targeted. Hackers use technology, the Internet and deception to acquire sensitive information. After new threats, such as drive-by downloads, polluted the Internet in 2009, 2010 saw a number of targeted threats with devastating consequences. Operation Aurora, launched on January 14, 2010, targeted Google and approximately 20 other companies through a vulnerability in Microsoft Internet Explorer. Stuxnet, a Windows-specific computer worm was discovered in July 2010, as the first worm that spies on and reprograms industrial systems, and the first to include a programmable logic controller (PLC) rootkit. Stuxnet was reported to have targeted and damaged certain of Iran s nuclear facilities in Natanz.

Increased Data Privacy and Compliance Regulation. The mounting number of governmental regulations around the world on data privacy and compliance is also impacting enterprise security. Enterprises need to put in place data security technologies to protect themselves from violating applicable laws regarding data privacy and protection, and to avoid experiencing data loss or data theft which could cause them to suffer reputational harm and governmental sanctions, fines and penalties.

Growth in Remote Connectivity. Another factor driving the need for enterprise security is the growing number of people who work remotely or who conduct their activities over mobile devices. Whether remote or mobile, workers need constant connectivity to the enterprise network. The need for increased connectivity has, in turn, expanded the need to safeguard and manage the access to information available over IT networks and to secure sensitive information contained on connected systems. In addition, remote and mobile users are seeking to access private enterprise networks and information from a growing spectrum of endpoint devices, including laptops, PDAs, smartphones, portable media players and removable media storage devices.

Rise of Cloud Computing. The rising adoption of cloud computing, or Internet-based computing, whereby shared servers provide resources, software and data to computers and other devices on demand, is another trend that is driving the need for enterprise security. The most common form of cloud computing, known as virtualization, appeals to enterprises as a way to streamline and consolidate their IT infrastructure while reducing costs. New virtual environments and public and private clouds jeopardize enterprises overall security posture if they are not deployed within the appropriate security infrastructure.

Growing Complexity in the IT Network. Another key trend affecting IT security is the complexity of deploying, managing and monitoring the many technologies needed to fully secure the enterprise IT network. Each security solution comes with its own management console and requires specific training, stretching IT department resources. Integrated security solutions are sought in an effort to keep the security infrastructure simple to manage yet flexible enough to make changes.

Check Point s Vision for Security

In responses to these various trends and challenges, enterprises have been seeking to add layers of security to their existing infrastructure, multiplying the number of disparate point solutions that they deploy in an attempt to achieve a higher level of protection. Unfortunately, while adding new solutions, enterprises also create more IT infrastructure complexity, leaving them with a nearly unmanageable environment. In February 2011, Check Point announced its new vision, which seeks to redefine security and enable enterprises to address major security challenges with a strong security platform that elevates simplicity as a top priority. Check Point s vision, known as 3D Security, redefines security as a business process that will allow enterprises to achieve the required level of security while streamlining operations. Check Point 3D Security combines policy, people and enforcement for stronger protection across all layers of security network, endpoint, applications and data. With 3D Security, enterprises will be able to implement a blueprint for security that goes beyond technology to ensure the integrity of all information security within the network.

The three dimensions of Check Point s vision are:

Policy: Security starts with a well-defined and widely-understood policy that outlines the enterprise s needs and strategies. Many enterprises today do not have such a policy; and instead, they rely on lists of system-level checks and on a collection of disparate technologies that do not always deliver the desired level of security.

People: Users of IT systems are a critical part of the security process. It is often users who make mistakes that result in malware infections and information leakage. Most enterprises do not pay sufficient attention to the involvement of users in the security process, when, in fact, employees need to be informed and educated on the security policy and their expected behavior when accessing the enterprise network and data. At the same time, security should be as seamless and transparent as possible and should not change the way users work.

Enforcement: One of main requirements of security is gaining better control over the many layers of protection. Unfortunately, enterprises often find themselves losing control over the disparate policies from various point products. In many cases security systems generate violation reports but do not enforce the policy. Enterprises should and can achieve a higher level of visibility and control by consolidating their security infrastructure, and by using systems that prevent security incidents rather than just detecting them.

Product Offerings

In an effort to simultaneously address the need for scalable security solutions and the retention of initial investments, Check Point introduced the Software Blade architecture in February 2009. The architecture provides customers with the ability to tailor their security gateways based on their specific needs at any time. It offers enterprises a common platform to deploy independent, modular and interoperable security applications or software blades, such as firewall, virtual private network (VPN), intrusion prevention system (IPS), anti-virus, policy management or event analysis. The new architecture allows customers to select the exact security they need from a library of over 30 software blades, and to combine these blades into a single, centrally-managed solution. Customers can easily extend their security solutions by adding new software blades without the need to purchase additional hardware. This allows our customers to deploy security dynamically, when needed, with lower total cost of ownership, full integration, and on a single management console.

The Software Blade architecture is the foundation of our network, endpoint and security management offerings. In 2010, we introduced new software blades such as Data Loss Prevention (DLP), Application Control, Security Gateway Virtual Edition and Multi-domain software blades to provide a comprehensive set of protections to our customers in the midst of evolving threats and IT trends.

1. Network security gateway software blades and appliances

Our wide range of network security gateways allows our customers to implement their security policies on network traffic between internal networks and the Internet, as well as between internal networks and private networks that are shared with partners. These gateways are available as either appliances or software solutions, providing customers with a broad range of deployment options, including the ability to customize the configuration to best meet their security needs.

Table of Contents

Our security gateway product line includes the following offerings to secure traffic and optimize performance:

Software Blades:

Firewall software blade Inspects traffic as it passes through security gateways, classifying it based on various criteria, such as source and destination of connection, protocol, services and application used. This provides a means to allow, block and log each connection based on the enterprise s security policy. Our firewall technology is based on several key differentiated technologies, including the patented Stateful Inspection technology that allows flexible and programmable classification of network traffic.

Intrusion Prevention System (IPS) software blade Monitors the network for malicious or unwanted traffic and is designed to be able to detect and block known and unknown attacks on the network or system. Our IPS software blade is supported by online security update services that provide the latest defense mechanisms, including signatures for the most recent attacks.

Virtual Private Networks (VPNs) software blade Provides the means to enable private communication over a network by encrypting traffic between various sub-networks (site-to-site) or individual computers (such as laptops and other mobile devices) and the enterprise network.

Antivirus and Anti-Malware software blade Stops viruses and other malware at the gateway before they affect users. Enables screening of specific application protocols such as Web traffic to allow/block access to specific Web addresses based on their content. It also includes screening for viruses to detect downloads of malicious applications.

Anti-Spam and Email Security software blade Provides comprehensive protection for an enterprise s messaging infrastructure. A multi-dimensional approach protects the email infrastructure, provides highly accurate spam protection, and defends organizations from a wide variety of virus and malware threats delivered within email. Continual updates though a Check Point software update service help to intercept threats before they spread.

Web Security software blade Protects users and enterprises by restricting access to an array of potentially dangerous sites and content, blocking inappropriate Web surfing to over 20 million URLs. Content profiles are updated continually through a Check Point software update service.

Acceleration & Clustering software blade Delivers a set of patented security acceleration technologies, SecureXL and ClusterXL, that work together to optimize performance and increase security in high-performance environments. These technologies improve overall throughput and reduce latency through several different techniques, such as load balancing and sharing.

Advanced Networking software blade Adds dynamic routing, multicast support and Quality of Service (QOS) to security gateways. This software blade makes it easier for administrators to deploy security within complex and highly utilized network environments where performance and availability are critical.

Data Loss Prevention software blade Introduced in 2010, it combines technology and processes to pre-emptively protect sensitive information regulatory, confidential and proprietary from unintentional loss. Its unique UserCheck technology brings a human factor to DLP by empowering users to remediate incidents in real-time while educating them on DLP policies. The included MultiSpect technology creates a data classification engine to assist in preventing inadvertent data loss.

Application Control software blade Introduced in 2010, it enables enterprises to identify, allow, block or limit usage of thousands of Web 2.0 applications and leverages Check Point AppWiki, one of the world s largest application libraries with over 90,000 Web 2.0 widgets and more than 4,500 Internet applications, including social networking, instant messaging and media streaming. Enterprises benefit from a unique combination of technology, user awareness with UserCheck and broad application control.

Table of Contents

Mobile Access software blade Launched in 2010 as a safe and easy solution to connect to corporate applications over the internet with smartphones, iPhones, tablets, iPads or PC. It provides enterprise-grade remote access via SSL VPN, allowing a simple, safe and secure connectivity to email, calendar, contacts and corporate applications. Users can easily download the Check Point Mobile App on their smartphone free of charge, get an activation code from their administrator and start to access their corporate resource safely.

Most of our products are sold as predefined bundles of software blades. These systems are offered as software only which run on a variety of operating systems or as appliances that include hardware and software directly from Check Point. Security Software blades that are sold as a service, including the IPS, antivirus and anti-malware, anti-spam and email security, Web security, DLP and Application control are recognized as part of our software updates, maintenance and services revenues.

Appliances:

Power-1 appliances Enable enterprises to increase security in high-performance environments, such as large campuses or data centers. Our appliances include Firewall, IPsec VPN, IPS, Acceleration and Clustering, and Advanced Networking, to deliver a high-performance security platform for multi-Gbps environments.

IP appliances Proven for years in complex networking and high-performance environments, Check Point IP Appliances, formerly Nokia IP appliances, offer customers turnkey security functionality, such as firewall, VPN and Intrusion Prevention (IPS) across a wide range of models.

UTM-1 appliances Offer comprehensive all-in-one security designed to deliver out-of-box simplicity that is ideal for small and mid-sized businesses. Built-in security software including firewall, VPN, IPS, antivirus, anti-malware, anti-spam, email security and URL filtering across a wide range of models.

Series 80 appliances Introduced in 2010 provides office security by extending Software Blades to offices outside of the network, delivering enterprise-grade security in the industry-leading smallest desktop form factor.

Safe@office and UTM-1 Edge N series appliances Targeted at small and medium-sized business, these new appliances include tightly integrated security and networking features, such as Gigabit Ethernet supporting high-performance networking capabilities and seamless 3G and wireless connectivity supporting the latest IEEE 802.11n Wi-Fi standards.

Virtualization and Cloud Computing:

Consolidating multiple systems into a single hardware platform is a recent trend in the IT industry, including through virtualization. Another related trend is the use of shared computing services to outsource certain IT functions, including through cloud computing. Check Point has multiple offerings for these environments, enabling consolidating up to 250 physical Check Point gateways into a single high performance hardware platform.

VSX Check Point gateways are available on a virtual security operations platform, enabling enterprises to consolidate multiple security gateways in a single hardware system and to secure virtual server environments. The VSX products that provide this capability are available on certain Check Point appliances, primarily Power-1 and IP Appliances, and are also offered as software which can run on open servers. VSX has been available since 2002.

Security Gateway Virtual Edition (VE) VE enables the deployment of a Check Point security gateway within a virtualized server running the VMWare environment and provides security between the various virtual systems on that server as well as through the gateway to other parts of the network. VE was released in late 2008 and updated in August 2010.

22

Table of Contents

2. Endpoint security

Our endpoint security offerings provide multiple software blades that run on individual computers connected to the network, such as desktop computers, laptop computers and other mobile devices. These offerings include:

- *Firewall & Security Compliance software blade* Prevents network attacks on individual computers by blocking internal attacks and the proliferation of network worms within the enterprise IT network, as well as attacks on desktop and laptop computers that are connected to public networks. It also provides information on the compliance of individual computers to the enterprise s security policy and allows selective connectivity of devices to the network based on their compliance.

- *Full Disk Encryption (FDE) software blade* Fully-encrypts all data stored on a PC, so that unauthorized parties cannot read any data even if they get physical access to the disk drive.

- *Media Encryption (ME) and Port Protection software blade* Enables encryption of data stored on mobile devices, such as CDs and DVDs and other external removable media, and allows an organization to control the transfer of information from individual computers to external devices, such as USB memory devices and external hard drives.

- *Remote Access VPN software blade* Enables mobile devices to securely access the enterprise IT network by encrypting all traffic and ensuring mobile devices and users are properly authenticated.

- *WebCheck Secure Browsing software blade* Segregates corporate data from the Internet with browser virtualization technology and provides advanced heuristics to stop users from accessing dangerous websites.

- *Anti-Malware and Program Control software blade* Detects viruses and other malware that try to run on any device and/or circumvent its operation. Program control ensures that only legitimate and approved programs are allowed to run on the endpoint.

The endpoint security software blades are integrated into a single endpoint security agent with a single client, single interface, single login and single scan. This solution provides security, ease of use and ease of management.

In March of 2010, to respond to the growing number of remote workers, Check Point introduced Check Point Abra. Check Point Abra turns any PC into a secure enterprise desktop, providing the user with access to company emails, files, and applications anywhere, whether offline or online through integrated virtual private network (VPN) connectivity. To safeguard sensitive data stored on Abra, the device utilizes several advanced security measures. Hardware and software encryption protects data at rest and when in use. Program Control regulates the types of applications used by Abra to protect the enterprise network from malware associated with unauthorized applications. Finally, virtualization technology isolates an Abra work session from the host PC, ensuring sensitive data remains on Abra and preventing data loss.

3. Security management

A key element in implementing our security technologies is the ability to effectively manage their deployment while ensuring consistent operations in accordance with an enterprise s security policy. Our vision is to provide a single console for security management. This single console simplifies security management and reduces the need for multiple, sometimes conflicting, management systems that require a high degree of specialization and training. The key software blades included in our management offerings are:

- *Network Policy Management software blade* Provides comprehensive network security policy management via SmartDashboard, a single, unified console.

Endpoint Policy Management software blade Enables central deployment, management, monitoring and enforcement of security policy for all endpoint devices across any sized organization.

23

Logging & Status software blade Delivers comprehensive information in the form of logs and a complete visual picture of changes to gateways, tunnels, and users.

Monitoring software blade Provides a complete view of network and security performance, enabling fast response to changes in traffic patterns and security events.

Management Portal software blade Extends a browser-based view of security policies to outside groups, such as support staff, while maintaining central policy control.

User Directory software blade Enables Check Point gateways to leverage directory servers (LDAP) based user information stores, eliminating the risks associated with manually maintaining and synchronizing redundant data stores.

IPS Event Analysis software blade Provides a complete IPS event management system providing situational visibility, easy to use forensic tools, and reporting.

SmartProvisioning software blade Provides centralized administration and provisioning of Check Point security devices via a single management console.

SmartWorkflow software blade Delivers a formal process of policy change management that helps administrators reduce errors and enhance compliance.

Reporting software blade Presents vast amounts of security and network data in graphical, easy-to-understand reports.

SmartEvent software blade Turns security information into action with centralized, real-time security event correlation and management for Check Point security gateways and third-party devices.

Multi-domain software blades The new software blades announced in August 2010 enable enterprises to segment their security management into virtual domains while consolidating their hardware infrastructure. In addition, the new software blades allow for stronger and better security with the deployment of consistent global policies across all domains.

We also offer our SMART-1 security management appliances that combine functionality, storage and turn-key deployment into a single device.

Our software blades run in a variety of deployment environments and on platforms that include standard workstations, servers and dedicated appliances. Check Point has both software and dedicated appliance solutions for gateway and management offerings. Check Point offers integrated solutions that are sold and serviced jointly with key partners including Crossbeam Systems Inc. and International Business Machines Corporation (IBM). Different client products run on different client Operating Systems (OS), such as Microsoft Windows, Mac OS, Microsoft Windows Mobile, Symbian, iOS and Android.

Technologies

We have developed and acquired a variety of technologies that secure networks, endpoints and information.

Stateful Inspection technology Our patented Stateful Inspection technology is a premier network security technology. In order to provide accurate and highly efficient traffic inspection, Stateful Inspection extracts and maintains extensive state information, i.e., data that provide context for future screening decisions, from all relevant communication layers. Stateful Inspection runs on a network gateway or an endpoint, such as a PC, and enables our products to inspect network traffic at high speed. Our Stateful Inspection technology can be adapted to new protocols, software applications and security threats. It can be run on a wide range of operating systems.

Application Intelligence Provides a set of advanced capabilities that prevents the exploitation of vulnerabilities in business applications, including vulnerabilities in the application code, communication protocols and the underlying operating system.

Security Management Architecture (SMART) A core component of our unified security architecture, SMART enables our customers to configure and manage security policies from a central administrative point. This technology enables the definition and ongoing management of security policies for enterprises of all sizes. This object-oriented architecture maps real-world entities, such as networks and users, to graphical representations that can be manipulated in a database. Integrated monitoring and reporting tools improve the manageability of the system by providing administrators with real-time information on the state of network and security systems. These tools also provide longer term trending information that is useful for periodic security management tasks, such as security audits.

Security and Network Traffic Enforcement Based on our Stateful Inspection technology, the INSPECT engine scans all incoming and outgoing traffic at security enforcement points. These are typically located at the network perimeter as security gateways, on critical servers, or inside the network, dividing the network into separate segments. We have developed a broad range of technologies that can be implemented by our INSPECT engine. In addition, third party technologies can be implemented through our Open Platform for Security (OPSEC) framework.

SecurePlatform Bundles the Check Point security solutions together with an operating system (OS) in a single package that is easy to deploy. It optimizes the performance of security and operating systems and includes a set of tools that ease setup and network configuration, thus reducing the total cost of ownership. SecurePlatform runs on a variety of open systems, i.e., systems whose key interfaces are based on widely supported standards.

ClusterXL Provides high availability and load sharing to keep businesses running. It distributes traffic between clusters of redundant gateways so that the computing capacity of multiple machines may be combined to increase total throughput. If an individual gateway becomes unreachable, all connections are redirected to a designated backup without interruption.

CoreXL Enables the intelligent balancing of security traffic loads between multiple cores on multi-core processors. It results in a higher level of performance for integrated intrusion prevention.

SecureXL SecureXL is a framework of software and hardware technologies, including third-party technologies, that is designed to increase performance. By using SecureXL, hardware vendors can accelerate the performance of appliances on which our software is installed. With SecureXL, our products can be integrated into high-performance networks typically found in large enterprises and service providers.

TrueVector A patented, flexible and efficient software technology for enabling high-performance, scalable and robust Internet security of PCs. TrueVector stops attempts to send confidential data to unauthorized parties by malicious software, such as keystroke loggers and Trojan horses. It monitors all applications running on protected computers, allowing trusted applications to engage in network communications, while blocking network connections by untrusted applications.

Full Disk Encryption Secure Pre-Boot Environment Full Disk Encryption (FDE) Secure Pre-Boot Environment (PBE) is a secure, proprietary operating program. PBE, along with FDE s access control and authentication architecture and Multi-Factor Authentication Engine (MFAE), encrypts all information stored on a PC s hard disk, i.e., delivers full-disk encryption. The full-disk encryption technology protects every sector of the computer s hard drive, including the operating system files. This prevents successful attacks on the OS and attacks to gain access to sensitive data on the drive.

Hybrid Detection Engine (HDE) At the heart of the IPS software blade, the HDE utilizes multiple detection and analysis techniques to detect hostile or suspicious traffic. These techniques include the following: signature-based methods to detect known patterns of attacks targeted at the network and at vulnerabilities within the network; protocol analysis to validate that the traffic construct meets the expected standards; anomaly detection to identify instances where network traffic exhibits abnormal characteristics; OS fingerprinting to determine the OS type of the traffic destination, which ensures

Table of Contents

proper receipt and processing; multi-element correlation to detect widespread illicit activity launched from the same source address; dynamic worm mitigation whereby rapidly proliferating worms are detected and automatically blocked from spreading within the network; as well as other techniques to deliver comprehensive network protection.

Intrusion Prevention with Confidence Indexing Based on several analysis data points for every network traffic flow, the IPS software blade determines a level of confidence that a certain traffic flow is an attack. This function reduces the occurrence of false positives by enabling a more granular prevention policy, which allows exploits to be blocked, without the concern of blocking critical business traffic.

Precision Virtualization Virtualizing or emulating a limited set of processes creates a secure segment of the network without the overhead of a full OS virtual machine. This allows powerful but lightweight security just for a targeted area that might otherwise be vulnerable to attacks. WebCheck Secure Browsing software blade utilizes this to provide powerful security for Web-browsing activities.

Open Platform for Security (OPSEC) Our OPSEC framework provides a single platform that enables the integration and interoperability of multi-vendor information security products and technologies. The OPSEC framework allows certified third-party security applications to plug into our solutions through our published application programming interfaces. Products that carry the OPSEC Certified seal have been tested and certified for integration and interoperability within the OPSEC framework.

Revenues by Category of Activity

The following table presents our revenues for the last three fiscal years by category of activity:

	Year Ended December 31,		
	2008	**2009**	**2010**
Category of Activity:		**(in thousands)**	
Products and licenses	$ 338,317	$ 361,633	$ 444,400
Software updates, maintenance and services	470,173	562,784	653,468
Total revenues	$ 808,490	$ 924,417	$ 1,097,868

Our revenues for the last three fiscal years by geographic area are set out in Item 5 Operating and Financial Review and Prospects under the caption Overview.

Sales and Marketing

We sell through a wide network of channel partners, including distributors, resellers, value-added resellers, system integrators and managed services providers. Our agreements with these channel partners are non-exclusive. Almost all of our enterprise sales are to our channel partners and not directly to our end users. Most of our sales to the consumer market are either direct, via our Web sites or through retail stores.

We use various marketing activities and tools to increase awareness and knowledge of our products and to promote sales. These include our corporate Web sites, seminars and tradeshows that we organize and participate in, print media and online advertising, online search optimization and telemarketing campaigns. In addition, in order to encourage trials of our products, we provide current and prospective customers with limited-in-time software evaluation licenses. We have strategic relationships with various hardware partners, including vendors providing server, workstation, appliance and networking products. These include Crossbeam Systems Inc., Dell Inc., Hewlett-Packard Co., IBM, Microsoft Corporation, Siemens AG and SanDisk.

As of December 31, 2010, we had 1,160 employees dedicated to sales and marketing, customer service and support.

26

Support and Services

We operate a worldwide technical services organization which provides a wide range of services including the following: (i) technical customer support programs and plans, such as Enterprise Based Support (EBS) and Collaborative Enterprise Support (CES), which provide support for a customer s entire Check Point product installed base; (ii) certification and educational training on Check Point products; and (iii) professional services in implementing, upgrading and optimizing Check Point products, such as design planning, security implementation and project management.

Our technical assistance centers in the United States, Israel, Canada and Japan offer support worldwide, 24-hour service, seven days per week. There are employees in additional locations supporting our call centers, as well as call centers operated by third parties (for consumer support only). As of December 31, 2010, we had 296 employees dedicated to customer service and support.

Our channel partners generally provide their customers with installation, training, maintenance and support, while we provide our high-level technical support to our channel partners. Alternatively, our customers may elect to receive support directly from us. As part of our pre-sale support to our channel partners, we employ technical consultants and systems engineers who work closely with our channel partners to assist them with pre-sale configuration, use and application support. In addition, because of the increased demand for our integrated appliance solutions we have expanded our technical support offerings around the world. This includes same and next business day replacements and on-site support availability.

Research and Product Development

We believe that our future success will depend upon our ability to enhance our existing products, and to develop, acquire and introduce new products to address the increasingly sophisticated needs of our customers. We work closely with existing and potential customers, distribution channels and major resellers, who provide significant feedback for product development and innovation. Our product development efforts are focused on providing a unified security architecture that functions throughout all layers of the network and devices that carry data. This includes enhancements to our current family of products and the continued development of new products to address network and data security covering perimeter, internal, Web and endpoint security needs, as well as the integrated management of these solutions. We expect to develop most of our new products internally and also expect to leverage the products and technologies recently acquired upon the acquisition of Nokia Corporation s security appliance business and the acquisition of Liquid Machines. We may decide, based upon timing and cost considerations that it would be more efficient to acquire or license certain technologies or products from third parties, or to make acquisitions of other businesses. Research and development expenses were $91.6 million in 2008, $89.7 million in 2009 and $105.7 million in 2010. These amounts include stock-based compensation in the amount of $5.0 million in 2008, $6.6 million in 2009 and $7.3 million in 2010. As of December 31, 2010, we had 802 employees dedicated to research and development activities and quality assurance.

Competition

Information concerning competition is provided in Item 3 Key Information under the caption Risk Factors Risks Relating to Our Business and Our Market We may not be able to successfully compete.

Proprietary Rights

We rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights. We rely on trade secret and copyright laws to protect our software, documentation, and other written materials. These laws provide only limited protection. Further, we generally enter into confidentiality agreements with employees, consultants, customers and potential customers, and limit access and distribution of materials and information that we consider proprietary.

Table of Contents

We have 18 U.S. patents, over 30 U.S. patents pending, and additional patents issued and patent applications pending worldwide. Our efforts to protect our proprietary rights may not be adequate and/or our competitors may independently develop technology that is similar but is based on our technology. Additional details are provided in Item 3 Key Information under the caption Risk Factors Risks Relating to Our Business and Our Market We may not be able to successfully protect our intellectual property rights.

Effect of Government Regulation on our Business

Information concerning regulation is provided in Item 5 Operating and Financial Review and Products under the caption Taxes on income and in Item 10 Additional Information under the caption Israeli taxation, foreign exchange regulation and investment programs.

Organizational Structure

We are organized under the laws of the State of Israel. We wholly own the subsidiaries listed below, directly or through other subsidiaries, unless otherwise specified in the footnotes below:

NAME OF SUBSIDIARY	COUNTRY OF INCORPORATION
Check Point Software Technologies, Inc.	United States of America (Delaware)
Check Point Software (Canada) Technologies Inc.	Canada
Check Point Software Technologies (Japan) Ltd.	Japan
Check Point Software Technologies (Netherlands) B.V.	Netherlands
Check Point Holding (Singapore) PTE Ltd.	Singapore
Check Point Holding (Singapore) PTE Ltd. US Branch (1)	United States of America (New York)
Israel Check Point Software Technologies Ltd. China (2)	China
Check Point Holding AB (3)	Sweden
SofaWare Technologies Ltd. (4)	Israel

(1) Branch of Check Point Holding (Singapore) PTE Ltd.

(2) Representative office of Check Point Software Technologies Ltd.

(3) Subsidiary of Check Point Holding (Singapore) PTE Ltd. (former name: Protect Data AB)

(4) In the first quarter of 2011, we acquired the SofaWare shares held by its co-founders, bringing our total SofaWare holdings to almost 90% of the outstanding shares. We are currently in the process of acquiring the remaining shares, and we expect that SofaWare will become a wholly-owned subsidiary.

Table of Contents

Check Point Software Technologies (Netherlands) B.V. acts as a holding company. It wholly owns the principal operating subsidiaries listed below, unless otherwise indicated in the footnotes below:

NAME OF SUBSIDIARY	COUNTRY OF INCORPORATION
Check Point Software Technologies S.A.	Argentina
Check Point Software Technologies (Australia) PTY Ltd.	Australia
Check Point Software Technologies (Austria) GmbH	Austria
Check Point Software Technologies (Belrus) LLC	Belarus
Check Point Software Technologies (Belgium) S.A.	Belgium
Check Point Software Technologies (Brazil) LTDA	Brazil
Check Point Software Technologies (Hong Kong) Ltd. (Guangzhou office) (1)	China
Check Point Software Technologies (Hong Kong) Ltd. (Shanghai office) (1)	China
Check Point Software Technologies (Czech Republic) s.r.o.	Czech Republic
Check Point Software Technologies (Denmark) ApS	Denmark
Check Point Software Technologies (Finland) Oy	Finland
Check Point Software Technologies SARL	France
Check Point Software Technologies GmbH	Germany
Check Point Software Technologies (Greece) SA	Greece
Check Point Software Technologies (Hungary) Ltd.	Hungary
Check Point Software Technologies (Hong Kong) Ltd.	Hong Kong
Check Point Software Technologies (India) Private Limited	India
Check Point Software Technologies (Italia) Srl (2)	Italy
Check Point Software Technologies Mexico S.A. de C.V.	Mexico
Check Point Software Technologies B.V.	Netherlands
Check Point Software Technologies Norway A.S.	Norway
Check Point Software Technologies (Poland) Sp.z.o.o.	Poland
CPST (Portugal), Sociedade Unipessoal Lda.	Portugal
Check Point Software Technologies (RMN) SRL.	Romania
Check Point Software Technologies (Russia) OOO	Russia
Check Point Software Technologies (Korea) Ltd.	S. Korea
Check Point Software Technologies (Spain) S.A.	Spain
Check Point Software Technologies (Switzerland) A.G.	Switzerland
Check Point Software Technologies (Taiwan) Ltd.	Taiwan
Check Point Yazilim Teknolojileri Pazarlama A.S. (3)	Turkey
Check Point Software Technologies (UK) Ltd.	United Kingdom

(1) Representative office of Check Point Software Technologies (Hong Kong) Ltd.
(2) 97% owned by Check Point Software Technologies (Netherlands) B.V. and 3% owned by Check Point Software Technologies Ltd.
(3) 96% owned by Check Point Software Technologies (Netherlands) B.V., 1% owned by Check Point Software Technologies Ltd., and 3% owned in trust by the directors of Check Point Yazilim Teknolojileri Pazarlama A.S. on behalf of Check Point Software Technologies (Netherlands) B.V.

Protect Data AB wholly owns the subsidiaries listed below, directly or through other subsidiaries:

NAME OF SUBSIDIARY	COUNTRY OF INCORPORATION
Check Point Software Technologies (Sweden) AB	Sweden
Pointsec Norway AS	Norway
Oy Pointsec Finland AB (1)	Finland
Reflex Software Ltd. (Jersey)	Jersey
Reflex Magnetics Ltd. (2)	United Kingdom
Reflex Software Luxembourg SARL (2)	Luxembourg

(1) The company is undergoing a liquidation process.
(2) The company is dormant.

Check Point Software Technologies Inc. wholly owns the subsidiaries listed below:

NAME OF SUBSIDIARY	COUNTRY OF INCORPORATION
Pointsec Mobile Technologies, LLC.	United States of America (California)
NFR Security, Inc.	United States of America (Delaware)
Zone Labs, L.L.C.	United States of America (California)

Property, Plants and Equipment

Our international headquarters are located in Tel Aviv, Israel. We occupy our headquarters pursuant to a long-term lease with the City of Tel Aviv Jaffa, which expires in August 2059. We made a prepayment for the entire term upon entering into this lease and we are not required to make any additional payments under the lease.

Our international headquarters building contains approximately 150,000 square feet of office space. Our international headquarters building is used for administration of our business, as well as sales and research and development. We also acquired the rights to construct an additional building with approximately 130,000 square feet.

In addition, we lease offices in various locations around the world. Our principal office locations in the U.S. are as follows:

Location	Primary Usage	Space (square feet)
Redwood City, California	U.S. Headquarters	73,127
Irving, Texas	Technical support, education and professional services	26,725

30

Table of Contents

In addition to the above, we lease the following office spaces outside of Israel and the U.S.:

Location	Primary Usage	Space (square feet)
EMEA	Sales, research and development	42,982
Americas	Sales	29,874
Asia Pacific and Japan	Sales	14,586
Canada	Sales and technical services	11,556

Principal Capital Expenditures and Divestitures

For more information regarding our principal capital expenditures currently in progress, see Item 5 Operating and Financial Review and Prospects under the caption Liquidity and Capital Resources.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

31

Table of Contents

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis is based on our consolidated financial statements including the related notes, and should be read in conjunction with them. Our consolidated financial statements are provided in Item 18 Financial Statements .

Overview

We develop, market and support a wide range of software and combined hardware and software products and services for IT security and offer our customers an extensive portfolio of network and gateway security solutions, data and endpoint security solutions and management solutions. Our solutions operate under a unified security architecture that enables end-to-end security with a single line of unified security gateways and allow a single agent for all endpoint security. We also provide unified management which allows for ease of deployment and centralized control and is supported by and reinforced with real-time security updates. Our products and services are sold to enterprises, service providers, small and medium sized businesses and consumers. Our Open Platform for Security (OPSEC) framework allows customers to extend the capabilities of our products and services with third-party hardware and security software applications. Our products are sold, integrated and serviced by a network of channel partners worldwide.

On April 13, 2009, we completed the acquisition of the security appliance business of Nokia Corporation (Nokia) pursuant to the terms of an Asset Purchase Agreement entered into on December 22, 2008. Prior to the completion of the acquisition, Check Point had collaborated with Nokia s security appliance business over the past decade to deliver industry-leading enterprise security solutions. Since completing the acquisition, we have been building upon this collaboration to provide an extended security appliance portfolio that is developed, and supported by Check Point.

On November 23, 2009, we completed the acquisition of the FaceTime application and signature database from FaceTime Communications, Inc. We plan to utilize the database to bring greater detail on application use to the security of the gateway.

On June 9, 2010, we completed the acquisition of Liquid Machines, Inc., a US-based company headquartered in Waltham, Massachusetts, and a market leader in the field of enterprise rights management. Liquid Machine extended our data security portfolio and is expected to further our vision of enterprise security.

As a result of these acquisitions, our expenses in several categories increased commensurate with the costs of operating and integrating the acquired businesses. These increases were primarily attributable to increases in personnel expenses and related costs correlating to increases in cost of revenues, research and development, selling and marketing and general and administrative expenses.

Our business is subject to the effects of general global economic conditions and, in particular, market conditions in the IT, Internet security, and data security industries. If general economic and industry conditions deteriorate, demand for our products could be adversely affected.

We derive most of our product revenues from sales of integrated appliances Internet security products primarily under our VPN-1 and related brands, as well as related revenues from software updates, maintenance and other services. Following the acquisition of the Nokia security appliances business, we expanded our appliances portfolio with the IP Series, which generated a large portion of our products sales in 2010. We expect that our integrated appliances will continue to generate a substantial portion of our product sales for the foreseeable future.

Table of Contents

We derive our sales primarily through indirect channels. During 2010, we derived approximately 59% of our sales from our ten largest distributors, compared to 58% in 2009 and 50% in 2008. In 2010, the largest distributor accounted for approximately 18% of our sales, and the second largest distributor accounted for approximately 17%, same as 2009. In 2008, our largest distributor accounted for approximately 16% of our sales, and the second largest distributor accounted for 14% of our sales.

The following table presents the percentage of total consolidated revenues that we derive from sales in each of the regions shown:

	Year Ended December 31,		
Region:	**2008**	**2009**	**2010**
Americas, principally U.S.	43%	43%	44%
Europe, Middle East and Africa	45%	44%	40%
Asia Pacific and Japan	12%	13%	16%

The percentage of total consolidated revenues that we derive from Asia Pacific and Japan has increased significantly from 2008 to 2010 because sales in that region have been growing faster than sales in other regions; and the percentage of total consolidated revenues that we derive from Europe, Middle East and Africa has declined from 2008 to 2010 as a result of sales in other regions growing faster than sales to that region. Revenues in all regions have increased significantly in absolute dollars from 2008 to 2010.

For information on the impact of foreign currency fluctuations, please refer to Item 11 Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely, are reasonably based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our consolidated financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results, include the following:

- Revenue recognition (including sales reserves),
- Business combinations,
- Goodwill,
- Realizability of long-lived assets,
- Accounting for income taxes,
- Equity-based compensation expense,

Allowances for doubtful accounts,

Derivative and hedge accounting, and

Impairment of marketable securities.

33

Table of Contents

In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP and does not require management s judgment in its application. There are also areas in which management s judgment in selecting among available alternatives would not produce a materially different result. Our senior management has reviewed these critical accounting policies and related disclosures with the Audit Committee of our Board of Directors. You can see a summary of our significant accounting policies in Note 2 to our consolidated financial statements.

Revenue recognition

We generally derive our revenues from two primary sources:

- Software products and combined hardware and software products; and
- Software updates, maintenance and services.

We apply software revenue recognition guidance, ASC 985-605, Software Revenue Recognition, to all transactions involving the sale of software products and hardware products that include software. We recognize product and license revenue when persuasive evidence of an arrangement exists, the product has been delivered, there are no uncertainties surrounding product acceptance, there are no significant future performance obligations, the license fees are fixed or determinable, and collection of the license fee is considered probable. Amounts received in advance of meeting these criteria are deferred. Fees for arrangements with payment terms extending beyond customary payment terms are considered not to be fixed or determinable, in which case revenue is deferred and recognized when payments become due from the customer or are actually collected, provided that all other revenue recognition criteria have been met. As required by ASC 985-605, we determine the value of the product component of our multiple-element arrangements using the residual method when vendor specific objective evidence (VSOE) of fair value exists for the undelivered elements of the support and maintenance agreements. VSOE of fair value is based on the price charged when an element is sold separately or renewed. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Our software updates, maintenance and services include customers rights to unspecified software product upgrades released during the term of the agreement, Security Software blades that are sold as a service, including the IPS, antivirus and anti-malware, anti-spam and email security, Web security, DLP and Application control, and other security solutions. Our support offerings include multiple services to our customers primarily telephone access to technical support personnel and hardware support services. We recognize revenues from software updates, maintenance and services ratably over the term of the agreement.

We determine the fair value for our software updates, maintenance and support services based upon the prices we charge customers for renewal. We offer several levels of services, classified by services offered, response time and availability. We have defined classes of customers, based on the total gross value of licensed software products the customer purchased from us. We price renewals for each service level and each class of customer as a fixed percentage of the total gross value of software products the customer licensed from us.

We recognize revenues net of estimated amounts that may be refunded for sales returns and rebate arrangements with customers. Additionally, distributers may rotate our products, subject to varying limitations. We estimate and record these reductions based on our historical experience analysis of credit memo data, stock rotation and other known factors. In each accounting period, we use judgments and estimates of potential future sales credits, returns, and stock rotation, related to current period revenue. These estimates affect our net revenue line item on our consolidated statements of income and comprehensive income and affect our accounts receivable, net on our consolidated balance sheets.

Table of Contents

Business combinations

In accordance with the revised business combination accounting, adopted on January 1, 2009, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, as well as to in-process research and development based on their estimated fair values. In addition, in accordance with the revised guidance, we expense acquisition-related expenses and restructuring costs as they are incurred. We engage third-party appraisal firms to assist management in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

Management makes estimates of fair value based upon assumptions it believes to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and relevant market and industry data and are, inherently, uncertain. Critical estimates made in valuing certain of the intangible assets include, but are not limited to, the following: (i) future expected cash flows from license sales, maintenance agreements, customer contracts and acquired developed technologies and patents; (ii) expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed; (iii) the acquired company s brand and market position as well as assumptions about the period of time the acquired brand will continue to be used in the combined company s product portfolio; and (iv) discount rates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results. Changes to these estimates, relating to circumstances that existed at the acquisition date, are recorded as an adjustment to goodwill during the purchase price allocation period (generally within one year of the acquisition date) and as operating expenses, if otherwise.

In connection with purchase price allocations, we estimate the fair value of the support obligations assumed in connection with acquisitions. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligation. See Note 3 to our consolidated financial statements for additional information on accounting for our recent acquisitions.

Goodwill

Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. We review goodwill for impairment annually on December 31st and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with ASC 350 Intangibles Goodwill and other . Goodwill impairment is deemed to exist if the carrying value of a reporting unit exceeds its fair value. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

We operate in one operating segment, and this segment comprises our only reporting unit. In calculating the fair value of the reporting unit, we used our market equity capitalization.

If the carrying value of a reporting unit exceeds its fair value, we then calculate the goodwill s implied fair value by performing a hypothetical allocation of the reporting unit s fair value to the underlying assets and liabilities, with the residual being the implied fair value of goodwill. This allocation process involves using significant estimates; include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and assumptions about the future deployment of the long-lived assets of the reporting unit. Other factors we consider are the brand awareness and the market position of the reporting unit and assumptions about the period of time we will continue to use the brand in our product portfolio. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our goodwill.

Our most recent annual goodwill impairment analysis, which was performed during the fourth quarter of 2010, did not result in impairment. As of December 31, 2010, the market capitalization of the Company was significantly higher than the equity book value.

Realizability of long-lived assets

We are required to assess the impairment of tangible and intangible long-lived assets subject to amortization, under ASC 360 Property, Plant and Equipment , on a periodic basis, when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment indicators include any significant changes in the manner of our use of the assets or the strategy of our overall business, significant negative industry or economic trends and significant decline in our share price for a sustained period.

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flows from the use of the asset or asset group to the carrying amount of the asset, an impairment charge is recorded for the excess of carrying amount over the fair value. We measure fair value using discounted projected future cash flows. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our tangible and intangible long-lived assets subject to amortization. No impairment charges were recognized during 2008, 2009 and 2010.

Accounting for income tax

We are subject to income taxes in Israel, the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Based on the guidance in ASC 740 Income Taxes , we use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, the refinement of an estimate or changes in tax laws. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related interest and penalty.

Accounting for tax positions requires judgments, including estimating reserves for potential uncertainties. We also assess our ability to utilize tax attributes, including those in the form of carry forwards for which the benefits have already been reflected in the financial statements. We do not record valuation allowances for deferred tax assets that we believe are more likely than not to be realized in future periods. While we believe the resulting tax balances as of December 31, 2010 and 2009 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 11 to our Consolidated Financial Statements for further information regarding income taxes. We have filed or are in the process of filing local and foreign tax returns that are subject to audit by the respective tax authorities. The amount of income tax we pay is subject to ongoing audits by the tax authorities, which often result in proposed assessments. We believe that we adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statutes of limitation on potential assessments expire.

Table of Contents

Equity-based compensation expense

We account for equity-based compensation in accordance with ASC 718 Compensation Stock Compensation. Under the fair value based measurement approach of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service periods. Determining the fair value of stock-based awards at the grant date requires the exercise of judgment, as well as the determination of the amount of stock-based awards that are expected to be forfeited. If actual forfeitures differ from our estimates, equity-based compensation expense and our results of operations would be impacted.

We estimate the fair value of employee stock options using a Black-Scholes-Merton valuation model. The fair value of an award is affected by our stock price on the date of grant as well as other assumptions, including the estimated volatility of our stock price over the expected term of the awards, and the estimated period of time that we expect employees to hold their stock options. The risk-free interest rate assumption is based upon United States treasury interest rates appropriate for the expected life of the awards. We use the historical volatility of our publicly traded stock options in order to estimate future stock price trends. In order to determine the estimated period of time that we expect employees to hold their stock options, we use historical behavioral patterns rates of employee groups by job classification. Our expected dividend rate is zero since we do not currently pay cash dividends on our common stock and do not anticipate doing so in the foreseeable future.

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts for losses that may result from the failure of our channel partners to make required payments. We estimate this allowance based on our judgment as to our ability to collect outstanding receivables. We form this judgment based on an analysis of significant outstanding invoices, the age of the receivables, our historical collection experience and current economic trends. If the financial condition of our channel partners were to deteriorate, resulting in their inability to make payments, we would need to increase the allowance for doubtful accounts.

Derivative and Hedge Accounting

Approximately 64% to 67% of our operating expenses are denominated in U.S. dollars or linked to the U.S. dollar. In 2010, we entered into foreign exchange forward contracts and options to hedge a significant portion of our foreign currency net exposure resulting from expenses in major foreign currencies in which we operate, in order to reduce the impact of foreign currency on our results. We also entered into foreign exchange forward contracts and options to reduce the impact of foreign currency fluctuations on balance sheet items, specifically for the Israeli Shekel.

The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. If the derivatives meet the definition of a hedge and are so designated, depending on the nature of the hedge, changes in the fair value of such derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative s change in fair value is recognized in earnings. We estimate the fair value of such derivative contracts by reference to forward and spot rates quoted in active markets.

Establishing and accounting for foreign exchange contracts involve judgments, such as determining the fair value of the contracts, determining the nature of the exposure, assessing its amount and timing, and evaluating the effectiveness of the hedging arrangement.

Table of Contents

Although we believe that our estimates are accurate and meet the requirement of hedge accounting, actual results could differ from these estimates, and such difference could cause fluctuation in our recorded operating expenses.

Impairment of Marketable Securities

All marketable securities are classified as available-for-sale securities. We assess our available-for-sale marketable securities on a regular basis for other-than-temporary impairment. Pursuant to accounting guidance effective April 1, 2009, if we have a security with a fair value less than its amortized cost and we intend to sell the security or it is more likely than not we will be required to sell the security before it recovers, other-than temporary impairment has occurred and we must record the entire amount of the impairment in earnings. If we do not intend to sell the security or it is not more likely than not we will be required to sell the security before it recovers in value, we must estimate the net present value of cash flows expected to be collected. If the amortized cost exceeds the net present value of cash flows, such excess is considered a credit loss and other-than-temporary impairment has occurred. The credit loss component is recognized in earnings and the residual portion of the other-than-temporary impairment is recorded in other comprehensive income. The determination of credit losses requires significant judgment and actual results may be materially different than our estimate. We consider the likely reason for the decline in value, the period of time the fair value was below amortized cost, changes in and performance of the underlying collateral, the ability of the issuer to meet payment obligations, changes in ratings and market trends and conditions. Prior to April 1, 2009, other-than-temporary impairment was recorded based on similar factors, as well as our intent and ability to hold until recovery of loss. Any decline deemed other-than-temporary was recognized in earnings.

Securities which are not valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs are valued based on an externally developed valuation. This is using discounted cash flow model, whose inputs include interest rate curves, credit spreads, bond prices, volatilities and illiquidity considerations. Unobservable inputs used in these models are significant to the fair value of the investments.

During 2008, 2009 and 2010, we recorded other-than-temporary impairment on our marketable securities net of gain of the sales of marketable securities that were previously impaired in the amount of $11.2 million and $1.3 million and $0.8 million pre-tax, respectively.

Table of Contents

Results of Operations

The following table presents information concerning our results of operations in 2008, 2009 and 2010:

	Year Ended December 31,		
	2008	2009 (in thousands)	2010
Revenues:			
Products and licenses	$ 338,317	$ 361,633	$ 444,400
Software updates, maintenance and services	470,173	562,784	653,468
Total revenues	808,490	924,417	1,097,868
Operating expenses(*):			
Cost of products and licenses	34,648	61,495	75,426
Cost of software updates, maintenance and services	33,407	43,551	55,721
Amortization of technology	24,554	28,224	32,826
Total cost of revenues	92,609	133,270	163,973
Research and development	91,629	89,743	105,748
Selling and marketing	214,439	220,877	235,301
General and administrative	53,313	56,409	57,244
Restructuring and other acquisition related costs		9,101	588
Total operating expenses	451,990	509,400	562,854
Operating income	356,500	415,017	535,014
Financial income, net	40,876	32,058	30,164
Other than temporary impairment net of gain on sale of marketable securities previously impaired(**)	(11,221)	(1,277)	(785)
Income before taxes on income	386,155	445,798	564,393
Taxes on income	62,189	88,275	111,567
Net income	$ 323,966	$ 357,523	$ 452,826

(*) Including pre-tax charges for amortization of intangible assets and stock-based compensation in the following items:

Amortization of intangible assets			
Research and development	$	$	$ 2,741
Selling and marketing	$ 12,428	$ 22,429	$ 16,309
Total	$ 12,428	$ 22,429	$ 19,050
Stock-based compensation			
Cost of products and licenses	$ 48	$ 47	$ 49
Cost of software updates, maintenance and services	684	641	984
Research and development	5,037	6,649	7,325

Selling and marketing	6,855	5,032	7,279
General and administrative	19,703	18,538	19,543
Total	$ 32,327	$ 30,907	$ 35,180

(**) Year ended December 31, 2008 includes write down of $ 11.2 million, of our marketable securities. Year ended December 31, 2009 includes write down of $3.1 million related to our marketable securities net of $1.8 million gain on sale of marketable securities that were written down in 2008. Year ended December 31, 2010 includes a write down of $0.8 million, of our marketable securities.

Table of Contents

The following table presents information concerning our results of operations as a percentage of revenues for the periods indicated:

	Year Ended December 31, 2008	2009	2010
Revenues:			
Products and licenses	42%	39%	40%
Software updates, maintenance and services	58	61	60
Total revenues	100%	100%	100%
Operating expenses:			
Cost of products and licenses	4	6	7
Cost of software updates, maintenance and services	4	5	5
Amortization of technology	3	3	3
Cost of revenues	11	14	15
Research and development	11	10	10
Selling and marketing	27	24	21
General and administrative	7	6	5
Restructuring and other acquisition related costs		1	
Total operating expenses	56	55	51
Operating income	44	45	49
Financial income, net	5	3	2
Other than temporary impairment net of gain on sale of marketable securities previously written down	(1)		
Income before taxes on income	48	48	51
Taxes on income	8	9	10
Net income	40%	39%	41%

Revenues

We derive our revenues mainly from the sale of products and licenses of software, and related software updates, maintenance and other services. Our revenues were $808.5 million in 2008, $924.4 million in 2009, and $1,097.9 million in 2010.

Total revenues in 2010 grew by 19% compared to 2009. Product and license revenues increased by $82.8 million, or 23%, from $361.6 million in 2009 to $444.4 million in 2010, which was attributable primarily to growth in sales of our integrated appliances. In 2010, product and license revenues as a percentage of total revenues was 40%, compared with 39% in 2009. Software updates, maintenance and services revenues increased by $90.7 million, or 16%, from $562.8 million in 2009 to $653.5 million in 2010, primarily as a result of renewals and new sales of maintenance contracts and increasing sales of IPS security services and the aggregation of the full year for the Nokia integration.

Total revenues in 2009 grew by 14% compared to 2008. Product and license revenues increased by $23.3 million, or 7%, from $338.3 million in 2008 to $361.6 million in 2009, which was attributable mostly to growth in sales of integrated appliances and the revenues related to the security appliance business that we acquired from Nokia. In 2009, product and license revenues as a percentage of total revenues was 39%, compared with 42% in 2008. This decrease was due primarily to our increase in service offerings. Software updates, maintenance and services revenues increased by $92.6 million, or 20%, from $470.2 million in 2008 to $562.8 million in 2009, primarily as a result of renewals and new sales of maintenance contracts, increasing sales of software security services and the revenues related to sales of services that we purchased when we acquired the Nokia security appliance business.

Table of Contents

Cost of Revenues

Total cost of revenues was $92.6 million in 2008, $133.3 million in 2009 and $164.0 million in 2010. Cost of revenues includes cost of product and licenses, cost of software updates, maintenance and services and amortization of technology. Our cost of products and licenses is comprised of the cost of software and hardware production, manuals, packaging and license fees paid to third parties. Our cost of software updates, maintenance and services includes the cost of post-sale customer support, training, consulting and license fees paid to third parties.

Cost of products and licenses was $34.6 million in 2008, $61.5 million in 2009 and $75.4 million in 2010, and represented 4% of revenues in 2008, and 7% of revenues in each of 2009 and 2010. The increase of $13.9 million in 2010 cost of products and licenses was mainly due to the increase in security appliance products, which have higher products and licenses costs than our other products. In 2009, the increase was due primarily to the sale of security appliance products that we acquired from Nokia, which accounted for approximately $22.9 million of the cost of products and licenses, and to a lesser extent to continued increases in sales of hardware-based products.

Cost of software updates, maintenance and services was $33.4 million in 2008, $43.6 million in 2009, and $55.7 million in 2010, and represented 4% of revenues in 2008 and 5% of revenues in each of 2009 and 2010. In 2010, the $12.1 million increase in the cost of software updates, maintenance and services was primarily the result of an increase in headcount, support services provided and the full year aggregation of the Nokia acquisition. In 2009, the $10.2 million increase in the cost of software updates, maintenance and services was primarily the result of cost of support for the Nokia security appliance business hardware-based products.

In 2008, amortization of technology was $24.6 million, primarily due to Zone Labs intangible assets being fully amortized at the beginning of 2008. In 2009, amortization of technology increased by $3.6 million, to $28.2 million, mainly due to the inclusion of Nokia security appliance business. In 2010, amortization of technology increased by $4.6 million, to $32.8 million, mainly due to the inclusion of the Liquid Machines and Facetime businesses and a full year of amortization of intangible assets from the acquisition of assets from Nokia.

Research and Development

Research and development expenses consist primarily of salaries and other related expenses for personnel, as well as the cost of facilities and depreciation of capital equipment. Research and development expenses were $91.6 million in 2008, $89.7 million in 2009, and $105.7 million in 2010, and represented 11% of revenues in 2008, and 10% of revenues in each of 2009 and 2010. In 2010, we experienced an increase of $16.0 million in research and development expenses compared to 2009, primarily as a result of an increase in compensation expenses. Of this increase, $9.4 million of which was related to an increase in headcount committed to research and development, from 740 at the end of 2009 to 802 at the end of 2010, and $2.5 million of which was caused by the impact of currency fluctuations on compensation expenses. This increase in compensation expenses also reflects a full year of expenses related to the headcount acquired in connection with the purchase of the Nokia security appliance business. The majority of our personnel engaged in research and development are located in Israel, where compensation-related expenses are paid in Israeli Shekels, and in Sweden, where compensation-related expenses are paid in Swedish Krona, while our research and development expenses are reported in U.S. dollars. Therefore, changes to the exchange rate between the Israeli Shekel, the Swedish Krona and the U.S. dollar, have affected and may in the future affect our research and development expenses. Beginning in 2009, Check Point established forward contracts to hedge against a certain portion of the exposure mentioned above. In 2010, we also fully amortized the in-process research and development related to the acquisition of the Nokia security appliance business.

In 2009, we had a decrease of $1.9 million in research and development expenses compared to 2008. Currency fluctuations decreased compensation expenses by $5.4 million, partially offset by an increase in headcount committed to research and development, from 679 at the end of 2008 to 740 at the end of 2009, which added $3.9 million in compensation expenses.

Selling and Marketing

Selling and marketing expenses consist primarily of salaries, commissions, advertising, trade shows, seminars, public relations, travel and other related expenses. Selling and marketing expenses were $214.4 million in 2008, $220.9 million in 2009, and $235.3 million in 2010, which represented 27% of revenues in 2008, 24% of revenues in 2009, and 21% of revenues in 2010. In 2010, there was an increase of $17.3 million in selling and marketing expenses due to an increase in headcount committed to sales and marketing, from 804 at the end of 2009 to 864 at the end of 2010, and the associated increase in travel, entertainment and facilities expenses, and an increase of $2.2 million in stock-based compensation in sales and marketing expenses for employees, partially offset by a decrease of $6.1 million in the amortization of intangible assets in selling and marketing expenses. The increase in compensation expenses also reflects a full year of expenses related to the headcount acquired in connection with the purchase of the Nokia security appliance business.

In 2009, there was an increase of $12.1 million in selling and marketing expenses due to an increase in our sales and marketing headcount, from 701 at the end of 2008 to 804 at the end of 2009, and the associated increase in travel, entertainment and facilities expenses, primarily from the acquisition of the Nokia security appliance business. In addition, the amortization of intangible assets related to the Nokia security appliance business increased selling and marketing expenses in 2009 by $10.0 million. These increases were partially offset by a decrease in selling and marketing expenses of $15.6 million, primarily from beneficial currency fluctuations and expense reductions.

In 2008, the strengthening of the Euro compared to the U.S. dollar contributed approximately $0.3 million to compensation expenses. In 2009, the weakening of the Israeli Shekel, the Euro, and the Swedish Krona compared to the U.S. dollar contributed $6.3 million to the decrease in compensation expenses. In 2010, the strengthening of the Australian Dollar, Canadian Dollar and the Israeli Shekel overcame the weakening of the Euro compared to U.S. Dollar, which overall contributed approximately $0.7 million to compensation expenses. Our expenses in Israel, Europe, Canada and Australia, which primarily relate to compensation, travel, facilities and marketing, are paid in local currencies but are reported in U.S. dollars. Therefore, changes to the exchange rates between the local currencies and the U.S. dollar have affected, and may in the future affect, our expense level.

General and Administrative

General and administrative expenses consist primarily of salaries and other related expenses for personnel, professional fees, insurance costs and other expenses. General and administrative expenses were $53.3 million in 2008, $56.4 million in 2009, and $57.2 million in 2010, and represented 7% of revenues in 2008, 6% of revenues in 2009, and 5% of revenues in 2010. In 2010, there was an increase of $0.8 million in general and administrative expenses, primarily due to an increase in stock-based compensation to employees. In 2009, there was an increase of $3.1 million in general and administrative expenses, primarily due to an increase in legal expenses of $2.9 million and an increase in charitable donations of $1.9 million, partially offset by a decrease in stock-based compensation expenses of $1.2 million.

Restructuring and other acquisition related costs

The decrease of $8.5 million in restructuring and other acquisition costs in 2010 related expenses were due to the fact that the acquisition of the Nokia security appliance business took place in 2009, which resulted in certain restructuring and other acquisition-related costs, whereas in 2010 there were only severance payments paid to former Nokia security appliance business employees and other associated costs.

Operating Margin

We had operating margins of 44% in 2008, 45% in 2009, and 49% in 2010.

The increase of 1% in operating margin from 2008 to 2009 was attributable primarily to the realization of synergies from the integration of Nokia security appliance business into our business.

The increase of 4% in operating margin from 2009 to 2010 was attributable primarily to the significant increase in revenues, while minimizing the growth in expenses, as well as realizing the synergies from the integration of Nokia security appliance business into our business. We may experience future fluctuations or declines in operating margins from historical levels due to several factors, as described above in Item 3 Key Information under the caption Risk Factors Risks Relating to Our Business and Our Market Our operating margins may decline.

Financial Income, Net

Net financial income consists primarily of interest earned on cash equivalents and marketable securities. Net financial income was $40.9 million in 2008, $32.1 million in 2009, and $30.2 million in 2010. Because we generally hold debt securities until maturity, our current portfolio s yield is derived primarily from market interest rates and the yield of securities on the date of the investment. Since most of our investments are in U.S. dollars, our net financial income is heavily dependent on prevailing U.S. interest rates. The decrease in net financial income in 2009 and 2010 was primarily due to the decrease in interest rates in the U.S as well as foreign currency fluctuations against the U.S. dollar.

We review various factors in determining whether we should recognize an impairment charge for our marketable securities, including whether the Company intends to sell, or if it is more likely than not that the Company will be required to sell before recovery of the amortized cost basis of, such marketable securities, the length of time and extent to which the fair value has been less than its cost basis in such marketable securities, the credit ratings of such marketable securities, the nature of underlying collateral as applicable and the financial condition, expected cash flow and near-term prospects of the issuer. Based on our consideration of these factors, in 2008 we recognized an other-than-temporary impairment on marketable securities in the total amount of $11.2 million, pretax, out of which $6.3 million, pretax, was related to Auction Rate Securities. The remaining impairment of $4.9 million related to obligations of U.S. corporate issuers with the original principal amounting to $8.0 million. In 2009, we recognized an other-than-temporary impairment on marketable securities in the total amount of $3.1 million, pretax, related to Auction Rate Securities which was offset by a gain of $1.8 million, pretax, related to the sale of marketable securities previously impaired in 2008. In 2010, we recognized an other-than-temporary impairment on marketable securities in the total amount of $0.8 million, pretax, all of which was related to Auction Rate Securities. In evaluating when declines in fair value are other-than-temporary, we considered all available evidence, including market declines subsequent to the end of the period. We may recognize additional losses in the future should the prospects of the issuers of these securities continue deteriorate.

Because interest rates in the U.S. remained low in the first quarter of 2011 and are not expected to significantly increase during 2011, we believe that this will result in a lower portfolio yield in the near term. See also Item 3, Risk Factors Risks Related to Our Business and Our Market We Face the Risk of a Decrease in Our Cash Balances and Losses in Our Investment Portfolio.

Taxes on Income

Our effective tax rate was 16% in 2008 and 20% in each of 2009 and 2010. Our effective tax rate increased in 2009 and 2010 as a result of an increase in taxable income of certain of our foreign subsidiaries and an increase in tax positions despite the decrease in the statutory tax rate in Israel from 27% in 2008 to 26% in 2009 and to 25% in 2010. See Note 11 to our consolidated financial statements for further information.

Additional details are provided in Item 10 Additional Information under the caption Israeli taxation, foreign exchange regulation and investment programs and Item 3 Key Information under the caption The tax benefits available to us under Israeli law require us to meet several conditions, and may be terminated or reduced in the future, which would increase our taxes.

Table of Contents

Quarterly Results of Operations

The following tables set forth certain unaudited quarterly consolidated statements of income data from the reports on Form 6-K that we furnished to the Securities and Exchange Commission, as well as the percentage of our revenues represented by each item. We prepare our unaudited quarterly consolidated financial statements on the same basis as our audited annual consolidated financial statements and include all adjustments (consisting only of normal recurring adjustments) that we consider necessary for a fair presentation of such information. You should read this information in conjunction with our consolidated financial statements, including the related notes, appearing in Item 18 Financial Statements.

	Year Ended December 31, 2009				Year Ended December 31, 2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Unaudited (in thousands, except per share amounts)							
Revenues:								
Products and licenses	$ 71,744	$ 82,801	$ 86,883	$ 120,205	$ 91,038	$ 103,904	$ 106,399	$ 143,059
Software updates, maintenance and services	123,268	140,840	146,759	151,917	154,039	157,187	166,795	175,447
Total revenues	195,012	223,641	233,642	272,122	245,077	261,091	273,194	318,506
Operating expenses:								
Cost of products and licenses	7,686	15,045	17,848	20,916	16,505	16,287	18,798	23,836
Cost of software updates, maintenance and services	7,769	12,567	10,783	12,432	12,245	13,547	14,912	15,017
Amortization of technology	5,800	7,230	7,471	7,723	8,066	8,150	8,311	8,299
Total cost of revenues	21,255	34,842	36,102	41,071	36,816	37,984		