

CHECK POINT SOFTWARE TECHNOLOGIES LTD

Form 20-F

March 28, 2014

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, 2013**

**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 6789705, Israel**

**(Address of principal executive offices)**

**John Slavitt, Esq.**

**General Counsel**

**Check Point Software Technologies, Inc.**

**959 Skyway Road, Suite 300**

**San Carlos, CA 94070 U.S.A.**

**Tel: (650) 628-2110**

**Fax: (650) 649-1975**

**(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.**

<b>Title of each class</b>	<b>Name of exchange on which registered</b>
<b>Ordinary shares, NIS 0.01 nominal value</b>	<b>NASDAQ Global Select Market</b>
<b>Securities registered or to be registered pursuant to Section 12(g) of the Act. None</b>	

**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, 2013. 192,262,757 Ordinary Shares, nominal value NIS 0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes  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

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  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  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  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:

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

**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: our expectations for our business, trends related to our business and the markets in which we operate and into which we sell products; future amounts and sources of our revenue; our future costs and expenses; the adequacy of our capital resources; our expectations with respect to share repurchases by us and dividend payments by us; our ongoing relationships with our current and future customers and channel partners; and our other expectations, beliefs, intentions and strategies. 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, negative of these terms or other comparable terminology. 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. 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. 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**

**TABLE OF CONTENTS**

**PART I**

Item 1.	<u>Identity of Directors, Senior Management and Advisers</u>	4
Item 2.	<u>Offer Statistics and Expected Timetable</u>	4
Item 3.	<u>Key Information</u>	4
Item 4.	<u>Information on Check Point</u>	20
Item 4A.	<u>Unresolved Staff Comments</u>	39
Item 5.	<u>Operating and Financial Review and Prospects</u>	39
Item 6.	<u>Directors, Senior Management and Employees</u>	57
Item 7.	<u>Major Shareholders and Related Party Transactions</u>	70
Item 8.	<u>Financial Information</u>	71
Item 9.	<u>The Offer and Listing</u>	72
Item 10.	<u>Additional Information</u>	72
Item 11.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	90
Item 12.	<u>Description of Securities Other than Equity Securities</u>	92

**PART II**

Item 13.	<u>Defaults, Dividend Arrearages and Delinquencies</u>	93
Item 14.	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	93
Item 15.	<u>Controls and Procedures</u>	93
Item 16.	<u>Reserved</u>	94
Item 16A.	<u>Audit Committee Financial Expert</u>	94
Item 16B.	<u>Code of Ethics</u>	94
Item 16C.	<u>Principal Accountant Fees and Services</u>	95
Item 16D.	<u>Exemptions from the Listing Standards for Audit Committees</u>	96
Item 16E.	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	96
Item 16F.	<u>Change in Registrant's Certifying Accountant</u>	96
Item 16G.	<u>Corporate Governance</u>	97

**PART III**

Item 17.	<u>Financial Statements</u>	98
Item 18.	<u>Financial Statements</u>	98
Item 19.	<u>Exhibits</u>	99



**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 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 2009 to 2013. The selected consolidated statement of income data for the years 2011, 2012 and 2013, and the selected consolidated balance sheet data at December 31, 2012 and 2013, 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 2009 and 2010, and the selected consolidated balance sheet data at December 31, 2009, 2010 and 2011, 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, as set forth in Item 18, and are qualified entirely by reference to such consolidated financial statements.

**Table of Contents**

	Year ended December 31,				
	2009	2010	2011	2012	2013
	(in thousands)				
<b>Consolidated Statements of Income Data:</b>					
Revenues	\$ 924,417	\$ 1,097,868	\$ 1,246,986	\$ 1,342,695	\$ 1,394,105
Operating expenses (*):					
Cost of revenues	133,270	163,973	175,683	159,161	162,634
Research and development	89,743	105,748	110,147	111,911	121,764
Selling and marketing	220,877	235,301	253,800	255,345	276,067
General and administrative	56,409	57,244	65,182	69,743	72,735
Restructuring and other acquisition related costs	9,101	588			
Total operating expenses	509,400	562,854	604,812	596,160	633,200
Operating income	415,017	535,014	642,174	746,535	760,905
Financial income, net	32,058	30,164	39,023	40,332	34,003
Net gain (impairment net of gains) on sale of marketable securities previously impaired	(1,277)	(785)	2,017		928
Income before taxes on income	445,798	564,393	683,214	786,867	795,836
Taxes on income	88,275	111,567	139,248	166,867	143,036
Net income	\$ 357,523	\$ 452,826	\$ 543,966	\$ 620,000	\$ 652,800
Basic earnings per ordinary share	\$ 1.71	\$ 2.18	\$ 2.63	\$ 3.04	\$ 3.34
Shares used in computing basic earnings per ordinary share	209,371	208,106	206,917	203,918	195,647
Diluted earnings per ordinary share	\$ 1.68	\$ 2.13	\$ 2.54	\$ 2.96	\$ 3.27
Shares used in computing diluted earnings per ordinary share	212,208	212,933	213,922	209,170	199,487

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

<b>Amortization of intangible assets</b>					
Cost of revenues	\$ 28,224	\$ 32,826	\$ 31,171	\$ 3,982	\$ 612
Selling and marketing	22,429	16,309	12,754	3,046	2,408
Research and development		2,741			
<b>Stock-based compensation</b>					
Cost of revenues	\$ 688	\$ 1,033	\$ 967	\$ 829	\$ 1,048
Research and development	6,649	7,325	7,471	8,594	9,001
Selling and marketing	5,032	7,279	7,888	9,677	11,193
General and administrative	18,538	19,543	23,509	26,187	29,870



**Table of Contents**

	2009	2010	December 31, 2011 (in thousands)	2012	2013
<b>Consolidated Balance Sheet Data:</b>					
Working capital	\$ 648,944	\$ 753,672	\$ 1,007,533	\$ 1,061,143	\$ 613,464
Total assets	3,069,594	3,605,302	4,128,063	4,544,885	4,886,437
Shareholders' equity	2,319,718	2,719,331	3,073,091	3,346,309	3,602,097
Capital stock	528,648	581,050	631,282	693,986	775,691

**Risk Factors**

*An investment in our ordinary shares involves a high degree of risk. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. If any of the following risks materialize, our business, financial condition, results of operations and prospects could be materially harmed. 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 continued adoption of cloud infrastructure by organizations;

the ability customer's 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;

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 2013, global and regional economies around the world and financial markets, remained volatile as a result of a multitude of factors, including adverse credit conditions, changes in economic activity, concerns about inflation and deflation, fluctuating energy costs, decreased consumer confidence, reduced capital

## **Table of Contents**

spending, adverse business conditions and liquidity concerns and other factors. During this period, many organizations limited their expenditures and a significant portion of such organizations have remained reluctant to increase expenditures. If challenging economic conditions continue or worsen, it may cause our customers to 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. (acquired by Dell Inc.), Palo Alto Networks, Inc., WatchGuard Technologies, Inc., McAfee, Inc. (acquired by Intel Corporation), Sourcefire, Inc. (acquired by Cisco Systems Inc.), and other companies in the network security space. We also compete with several other companies, including Microsoft Corporation, Symantec Corporation, International Business Machines Corporation, Hewlett-Packard, FireEye, Inc. and Websense Inc. 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, or may bundle security products with their other offerings, 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. For additional information, see 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. We must also continually change our products in response to changes in network infrastructure requirements, including the expanding use of cloud computing. 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. For additional information, see Item 4 Information on Check Point and under the caption We may not be able to successfully compete, which could adversely affect our business and results of operations in this Item 3 Key Information Risk Factors.

## **Table of Contents**

*If our products fail to protect against attacks and our customers experience security breaches, our reputation and business could be harmed*

Hackers and other malevolent actors are increasingly sophisticated, often affiliated with organized crime and operate large scale and complex attacks. In addition, their techniques change frequently and generally are not recognized until launched against a target. If we fail to identify and respond to new and increasingly complex methods of attack and to update our products to detect or prevent such threats in time to protect our customers' high-value business data, our business and reputation will suffer.

In addition, an actual or perceived security breach or theft of the sensitive data of one of our customers, regardless of whether the breach is attributable to the failure of our products, could adversely affect the market's perception of our security products. Despite our best efforts, there is no guarantee that our products will be free of flaws or vulnerabilities, and even if we discover these weaknesses we may not be able to correct them promptly, if at all. Our customers may also misuse our products, which could result in a breach or theft of business data.

*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.

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.



**Table of Contents**

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;



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 2011, 2012 and 2013, we derived approximately 58%, 55% and 56%, respectively, of our sales from our ten largest distributors. In 2011, 2012 and 2013, each of our two distributors accounted for approximately 17%, 16% and 15% of our sales, respectively. 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 minimum

## Table of Contents

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 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 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. Although we have been successful in the past, replacing suppliers may be difficult and it is possible it could result in an inability or delay in producing designated hardware products. Substantial delays could 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 also have extended support contracts with these suppliers and are dependent on their ability to perform over a period of years.

*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, as well as related revenues from subscriptions and from software updates and maintenance. 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 subscriptions 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.



## **Table of Contents**

*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 used, or in the future improperly use software that is subject to such licenses with 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 have been subject to 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 November 2013, we reached a settlement agreement (the Settlement Agreement), with the Israeli Tax Authorities (ITA) for years 2002 through 2011 and accordingly, the Company and the ITA notified the court that they have reached an agreement outside of the court and obtained the court's approval. See also Note 11 to our Consolidated Financial Statements for further information.

We have filed for a declaratory judgment in a patent related case. The adversary is a non-practicing entity. At this time, we do not expect the ultimate resolution of these litigation matters to be material to our business, results of operations and financial condition.

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. We will continue to vigorously assert and protect their interests in these lawsuits. 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

## Table of Contents

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.

*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. In addition, third-parties have in the past sent us correspondence claiming that we infringe upon 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 disputes or litigation regarding intellectual property matters 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 operating results*

We operate our business primarily from Israel, 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 sales and operations subject us to many potential risks inherent in international business activities, including, but not limited to:

technology import and export license requirements;



**Table of Contents**

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;

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 and changes in regulatory requirements;

expropriation and confiscation of assets and facilities;

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

recruiting and retaining talented and capable employees;

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 of 2010 ( Dodd-Frank ), new SEC regulations, new amendments to the Israeli Companies Law and NASDAQ Global Select Market rules are creating increased compliance costs and uncertainty for companies like ours. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. For example, certain provisions of Dodd-Frank are currently in the process of being implemented through regulatory action, and recently implemented provisions of Dodd-Frank remain subject to evolving application and interpretation by regulatory authorities. 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.

**Table of Contents**

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 the report of an independent registered public accounting firm on the Company's internal control over financial reporting.

In connection with our Annual Report on Form 20-F for fiscal 2013, our management assessed our internal control over financial reporting, and determined that our internal control over financial reporting was effective as of December 31, 2013, and our independent auditors have expressed an unqualified opinion over the effectiveness of our internal control over financial reporting as of December 31, 2013. 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.

Recently, the SEC adopted new rules pursuant to Dodd-Frank setting forth new disclosure requirements concerning the use of certain minerals that are mined from the Democratic Republic of Congo and adjoining countries. These new requirements have required due diligence efforts by us in 2013, with initial disclosure requirements beginning in 2014. We have incurred and expect to continue to incur costs associated with complying with these disclosure requirements, including for conducting diligence procedures to determine the sources of certain minerals that may be used or necessary to the production of our products and, if applicable, potential changes to products, processes or sources of supply as a consequence of such verification activities. In addition, these rules could adversely affect the sourcing, supply and pricing of materials used in our products, particularly if the number of suppliers offering the minerals identified as conflict minerals sourced from locations other than the Democratic Republic of Congo and adjoining countries is limited. It is also possible that we may face reputational harm if we determine that certain of our products contain minerals not determined to be conflict free and/or we are unable to alter our products, processes or sources of supply to avoid such materials.

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, 2014, our directors and executive officers owned approximately 24.0% of the voting power of our outstanding ordinary shares, or 26.7% of our outstanding ordinary shares if the percentage includes options currently exercisable or exercisable within 60 days of January 31, 2014. 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 \$3,629.9 million as of December 31, 2013. 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. 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 continue to be low. Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. In a low or 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 the low interest rate environment, falling interest rates, deterioration in the credit rating 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

## Table of Contents

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 accumulated changes in the fair values of our investments into income, our reported net income for the year ended December 31, 2013, would have increased by \$1.8 million.

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

Our functional and reporting currency is the U.S. dollar. We generate a majority of our revenues and expenses in U.S. dollars. In 2013, we incurred approximately 40% of our expenses in foreign currencies, primarily Israeli Shekels and Euros. 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 currencies referred to above. The results of our operations may be adversely affected in relation to foreign exchange fluctuations. During 2013, we entered into forward contracts to hedge against some of the risk of changes in future cash flow from payments of payroll and related expenses denominated in Israeli Shekels.

We entered into forward contracts to hedge the exchange impacts on assets and liabilities denominated in Israeli Shekels and other currencies. As of December 31, 2013, we had outstanding forward contracts that did not meet the requirement for hedge accounting, in the amount of \$236.4 million. We use derivative financial instruments, such as foreign exchange forward 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 effect 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.

*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



## **Table of Contents**

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.

### **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. Terrorist attacks and hostilities within Israel; the hostilities between Israel and Hezbollah and between Israel and Hamas; the conflict between Hamas and Fatah; as well as tensions between Israel and Iran, have also heightened these risks, including extensive hostilities in November 2012 along Israel's border with the Gaza Strip, which resulted in missiles being fired from the Gaza Strip into Israel. Our principal place of business is located in Tel Aviv, Israel, which is approximately 40 miles from the nearest point of the border with the Gaza Strip. There can be no assurance that attacks launched from the Gaza Strip will not reach our facilities, which could result in a significant disruption of our business. 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 operations may be disrupted by the obligations of our personnel to perform military service*

Many of our 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.

*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, 2013, our effective tax rate was 18%. 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. Our tax expenses and the resulting effective tax rate reflected in our financial statements may increase over time as a result of changes in corporate income tax rates, other changes in the tax laws of the countries in which we operate or changes in the mix of countries where we generate profit.





**Table of Contents**

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 Note 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.

*As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements.*

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Stock Market Rules. For example, we follow our home country law, instead of the NASDAQ

## **Table of Contents**

Stock Market Rules, which require that we obtain shareholder approval for the establishment or amendment of certain equity based compensation plans and arrangements. Under Israeli law and practice, in general, the approval of the board of directors is required for the establishment or amendment of equity based compensation plans and arrangements, unless the arrangement is for the benefit of a director or a controlling shareholder, in which case compensation committee or audit committee and shareholder approval are also required. A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

## **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. Two decades 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 products and services for IT security. We offer our customers an extensive portfolio of network security, endpoint security, data security 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 extended its IT security innovation with the development of our Software Blade architecture. Our 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 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.



## **Table of Contents**

### **Business Highlights**

Details regarding the important events in the development of our business since the beginning of 2013 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 6789705 Israel. The telephone number of our registered office is 972-3-753-4555. Our company's web site is [www.checkpoint.com](http://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 959 Skyway Road, Suite 300, San Carlos, CA 94070, U.S.A., Tel.: 650-628-2050, email: [ir@us.checkpoint.com](mailto: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.

### **Industry Background**

Several key factors and trends affect enterprise security. These factors and trends are set forth below.

*Continuing Evolution of Threats and Attacks.* The continuing evolution of threats and attacks on IT systems is a major factor driving the need for enterprise security. These threats use technology, the Internet and deception to acquire sensitive information and to disrupt business operations. Some of these threats are unknown when they reach their targets, they are called zero-day threats and make it challenging for enterprises to proactively fight them. For example, in 2013, Check Point detected a crypted and previously unknown malware variant designed to deliver the DarkComet remote administration tool (RAT). These crypters disguise executables through the use of various encryption and encoding schemes, cleverly combined and recombined more than once to evade most AntiVirus solutions. These threats highlight the inner working of the family of advanced malware that are changing both the threat landscape and the range of solutions needed to defend networks and data.

*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 prevent violations of applicable laws regarding data privacy and protection and to avoid experiencing data loss or data theft, which could cause enterprises to suffer reputational harm and governmental sanctions, fines and penalties. Unfortunately loss of sensitive data did not slowdown in 2013 and if anything made a big comeback. Adobe Systems, Target, Neiman Marcus and other high-profile organizations suffered large breaches involving millions of consumers. Data has long been a prime target for hackers, including financial information, intellectual property, and insider business information and authentication credentials.

*Growth in Remote Connectivity.* Another factor driving the need for enterprise security is the proliferation of smartphones and the growing number of people who work remotely and 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



## **Table of Contents**

and information. With the mobile world being one of the fastest-growing IT focus in the last couple years, it is no surprise that hackers and criminals are accelerating the development of mobile platform exploits and developing at great speed malware targeting them.

*From Cloud Computing to Network Virtualization.* Cloud computing, or Internet-based computing, whereby shared servers provide resources, software and data storage to computers and other devices on demand, is another trend that is driving the need for enterprise security across on-premise and in-the-cloud infrastructure. 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. In addition, 2013 saw the coming of age of network virtualization, yet another emerging technology to consolidate and scale network usage. Software-defined Network technologies are making their way into corporate infrastructure in 2013 and the need to secure such new environment while keeping up with existing ones add to the complexity of IT infrastructures.

*The Threat of Social Engineering.* As security solutions get better and are more thoroughly deployed throughout enterprises, attackers try to bypass security mitigations and restrictions by just hacking the human mind and by deceiving employees into providing credentials or clicking on an infected link. Many of the Advanced Persistent Threats (APTs) mentioned above have taken root within their target with social engineering providing attackers with the first entry door.

*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**

As the Internet has evolved and advanced, it has created increased functionality for Internet users and simultaneously provided opportunities for more sophisticated and varied methods of attack. This evolution has driven the need for more comprehensive computer security. In response, organizations have added 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. Check Point's answer to this challenge is to redefine security and enable enterprises to address major security challenges with a strong security platform that elevates simplicity as a top priority and helps organizations align security with their business goals.

Check Point recently introduced the Software-defined Protection (SDP), a revolutionary security architecture that aims to protect organizations in today's fast-evolving IT and threat landscape. Software-defined Protection offers modern security today that can effectively protect against unknown threats, through a design that is modular, agile and most importantly, secure. SDP is a three-layer security architecture comprised of enforcement, control and management layers. This framework decouples the control layer from the enforcement layer, enabling robust and highly-reliable enforcement points that obtain real-time protection updates from a software-based control layer. SDP converts threat intelligence into immediate protections and is managed by a modular and open management structure.

---

## **Table of Contents**

SDP combined with Check Point Next Generation Threat Prevention and Next Generation Firewall solutions, fed by the industry largest threat knowledge-base ThreatCloud provides the most robust and agile enterprise security to fight modern malware.

### **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), Application Control, Anti-Bot, antivirus, data loss prevention (DLP), policy management, event analysis, or multi-domain management. The new architecture allows customers to select the exact security they need from a library of over 20 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. Check Point also offers these software blades grouped into functional packages to address specific security issues. The four packages offered are: Next Generation Firewall, Next Generation Threat Prevention, Next Generation Secure Gateway and Next Generation Data Protection.

Many of the software blades that relate to Threat Prevention are fed by a cloud based threat intelligence knowledge base, introduced in 2012 ThreatCloud . Check Point ThreatCloud , the first collaborative network to fight cybercrime, gathers threat data from an innovative worldwide network of threat sensors and distributes threat intelligence to security gateways around the globe. Towards the end of 2013, ThreatCloud contained over 11 million malware signatures, 2.7 million malware-infested sites and over 5,500 different botnet communication patterns. Check Point ThreatCloud powers the Threat Prevention software blades by feeding threat updates directly to customers gateways, enabling them to enforce pre-emptive protection against advanced threats, such as bots, Advanced Persistent Threats (APTs) and other forms of sophisticated malware.

In 2013, Check Point released the latest version of the software blades, R77. The new release includes Check Point new ThreatCloud Emulation Service and Compliance Software Blade as well as over 50 product enhancements, including Check Point HyperSpect performance enhancing technology, a new Central Device Management, improved user identity awareness with RADIUS and IF-MAP integration and enhancements to Check Point s GAiA Unified Operating System.

*ThreatCloud Emulation Service* Check Point s ThreatCloud Emulation Service prevents infections from undiscovered (zero-day) exploits, new variants of malware, and targeted attacks and advanced persistent threats (APT). Part of Check Point s leading multi-layered Threat Prevention solution, ThreatCloud Emulation Service quickly inspects suspicious files, emulates how they run to discover malicious behavior, and instantly blocks newly identified malware in email attachments, file downloads, and direct web content. Attack information is then shared with Check Point ThreatCloud for automatic protection.

*Compliance Software Blade* The Compliance Software Blade is the first next-generation firewall-integrated and fully-automated compliance monitoring solution that leverages an extensive knowledge of regulatory requirements and over 300 security best practices. It aims at reducing the complexity of external compliance



requirements and internal security mandates by providing instant notification of policy changes, by continuously assessing security posture across all Check Point Software Blades and by offering actionable recommendations to improve compliance and security.

**Table of Contents**

In 2013, Check Point also introduced two new high end appliances: the 21700 and the 13500 appliances.

*21700 Appliance* The new 21700 Appliance provides market leading security and the fastest performance in a compact 2U chassis. It offers maximum security performance straight out of the box with 78 Gbps of firewall throughput, 25 Gbps of IPS throughput and a 2,922 SecurityPower unit (SPU) rating.

*13500 Appliance* The 13500 Appliance is the first in a new line of 13000 appliances designed specifically to expand the company's data center network security offerings. It delivers fast security performance with 23.6 Gbps of real-life firewall throughput, 5.7 Gbps of real-life IPS throughput and 3,200 SecurityPower unit (SPU) rating.

In 2013, Check Point also focused on small enterprise branches and small and medium businesses by introducing the 1100 and 600 appliances. The new 1100 appliances provide enterprise-class security in a compact desktop package designed for branch and remote offices. They offer unparalleled performance with 1.5 Gbps of max firewall throughput, 220 Mbps of max VPN throughput and a 37 SecurityPower unit (SPU) rating. The new 600 appliances offer big security to small businesses, delivering powerful security to protect small businesses against the latest cyber-attacks. They provide an affordable, all-in-one security solution with market leading performance of 1.5 Gbps of firewall throughput and 37 SecurityPower units. Shortly after being released, the 600 appliances won the **Network World** Clear Choice Test Shootout that recognized Check Point for having the number one Unified Threat Management (UTM) product for small businesses.

Finally, in late 2013, Check Point and Blue Coat Systems announced that they are extending their successful, longstanding partnership. To drive market growth and continued success, Check Point will be the primary distributor for the X-Series platform in the network security firewall market and will deliver frontline support for the product.

**Table of Contents**

Early this year, Check Point introduced the Software-defined Architecture, a modern security architecture powered by collaborative intelligence. This new architectural design allows our products to respond to the changing needs of high-demanding IT infrastructures and networks, and a fast-evolving landscape where threats grow more intelligent every day. **Software-defined Protection (SDP)** is a new, pragmatic security architecture and methodology that offers a modular, agile and most importantly, SECURE infrastructure.

*Software-defined Protection* partitions the security infrastructure into three interconnected layers:

An Enforcement Layer that is based on physical, virtual and host-based security enforcement points and that segments the network as well as executes the protection logic in high-demand environments.

A Control Layer that analyzes different sources of threat information and generates protections and policies to be executed by the Enforcement Layer.

A Management Layer that orchestrates the infrastructure and brings the highest degree of agility to the entire architecture.

Designed to be forward-looking, the SDP architecture supports traditional network security and access control policies requirements as well as the threat prevention needed by modern enterprises that embrace new technologies such as mobile computing and Software-defined Networks (SDN).

## **Table of Contents**

### *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 as software solutions, providing customers with a broad range of deployment options and the ability to customize the configuration to best meet their security needs.

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, which 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.

*Data Loss Prevention Software Blade* Preemptively protects sensitive information regulatory, confidential and proprietary from unintentional loss by combining technology and processes. Introduced in 2010, 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* 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 200,000 social network widgets and 5,700 Internet applications, including social networking, instant messaging and media streaming. Introduced in 2010, it allows enterprises to benefit from a unique combination of technology, user awareness with UserCheck and broad application control.

*Identity Awareness Software Blade* Provides granular visibility of users, groups and machines, providing unmatched application and access control through the creation of accurate, identity-based policies.

*Mobile Access Software Blade* Allows corporate applications to safely and easily connect to the Internet with smartphones, iPhones, tablets, iPads or PCs. 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. We launched the Check Point Mobile Access Software Blade in 2010.

## **Table of Contents**

*Anti-Bot Software Blade* Helps businesses discover, stop and prevent bot damage. The Anti-Bot Software Blade features Check Point's Multi-tier ThreatSpect, a unique bot detection engine that analyzes traffic on every gateway and discovers bots by correlating multiple risk factors, such as botnet patterns, remote operator hide-outs and attack behaviors. When a bot is identified, the solution prevents damage by immediately blocking communication between infected hosts and remote operators. The Anti-Bot Software Blade is powered by ThreatCloud.

*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 Software Blade* Enables customers to restrict access to malware-infested websites and prevents unknown virus infections from invading a customer's network through the use of real-time virus signatures and anomaly-based protections from ThreatCloud. This version delivers over 300 times more signatures than previous versions.

*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 through a Check Point software update service help to intercept threats before they spread.

*Web Security Software Blade* Provides a set of advanced capabilities that detect and prevent attacks launched against the Web infrastructure. The Web Security Software Blade delivers comprehensive protection when using the Web for business and communication.

*Advanced Networking & Clustering Software Blade* Simplifies network security deployment and management within complex and highly utilized networks, while maximizing network performance and security in multi-Gbps environments. Built on top of the Software blades architecture, the Advanced Networking & Clustering blade provides advanced routing, multicast support, QOS, ISP redundancy, Load Balancing and Security Acceleration technologies.

*URL Filtering Software Blade* Integrates with Application Control to allow unified enforcement and management of all aspects of web security. URL Filtering provides optimized web control through full integration in the gateway to prevent bypass through external proxies, an integration of policy enforcement with Application Control for full Web and Web 2.0 protection, and empowers and educates users on web usage policy in real time with embedded Check Point UserCheck technology. We launched a new version of the Check Point URL Filtering Software Blade in 2011.

Most of our products are sold as predefined bundles of Software Blades. These systems are offered as appliances that include hardware and software directly from Check Point or software only which runs on Check Point-provided operating systems or open servers.



**Table of Contents**

**Check Point Appliances:**

**600 Appliances** With three models (620, 640 and 680) for small businesses, the 600 Appliances were announced in 2013. The 600 Appliances deliver enterprise-grade security in a simple, all-in-one security solution to protect small business from modern cyber-threats. Leveraging the flexible Software Blade Architecture, the 600 Appliances deliver multi-layered security to the small-office environment.

**1100 Appliances** With three models (1120, 1140 and 1180) for small branches and offices, the 1100 Appliances were also announced in 2013. The 1100 Appliances offer best-in-class enterprise security to the branch office. Leveraging the extensible Software Blade Architecture, these all-in-one appliances offer robust multi-layered protection with flexible network interfaces in a compact desktop form factor. The 1100 Appliances offer big security for small branch offices.

**2200 Appliance** The 2200 Appliance offers enterprise-grade security with leading performance in a compact desktop form factor. With its multi-core technology and six 1-gigabit Ethernet ports, the 2200 Appliance is capable of securing any branch office or small office.

**4000 Appliances** With four models (4200, 4400, 4600 and 4800), the 4000 Appliances offer complete and integrated security solutions in a compact 1U form factor. Delivering firewall throughput up to 11 Gbps and IPS throughput up to 6 Gbps, these enterprise-grade appliances deliver superior performance for their class.

**12000 Appliances** With three models (12200, 12400 and 12600), the 12000 Appliances feature multi-core security technology and high port density, are ideally suited for perimeter security of large network environments as well as business-critical internal network segments. High business continuity and serviceability are delivered through features such as hot-swappable redundant power supplies/disk drives, a lights-out-management remote management card and High-Availability features such as Check Point ClusterXL and Load-Sharing.

**13500 Appliance** Announced in 2013, the 13500 Appliance is a platform for data center cyber-security delivering blazing-fast multi-layer security and industry-leading performance. The 13500 Appliance is fully-featured, scalable, and easy to operate, enabling data centers to more effectively stop growing sophisticated attacks.

**21000 Appliances** With three models (21400, 21600 and 21700), the 21000 Appliances offer superior scalability, availability and serviceability with high performance and high port density. Optimized for the Check Point Software Blade Architecture, the 21000 Appliances improve security performance, protect business continuity and reduce operational costs in complex, mission-critical security environments such as large campuses, data centers or managed service providers.



**61000 Security System** The Check Point 61000 Security System is an industry-leading security appliance, offering scalable performance for data centers and telecommunication companies. This appliance is based on a multi-bladed hardware platform that is capable of delivering an industry-leading firewall throughput of 400 Gbps in a single gateway. Even more, the ability to support 210 million concurrent connections and 600,000 sessions per second brings high performance to multi-transaction environments.

**Virtualization and Cloud Computing:**

Virtualization and Cloud Computing are the most prominent trends in the datacenter and IT industry. Another related trend is the use of shared computing services to outsource certain IT functions, including through cloud computing. Check Point has multiple offerings to address the new security challenges for these environments. Check Point Security solutions also adopt virtualization to consolidate up to 250 physical Check Point gateways into a single high performance hardware platform.

## Table of Contents

*Virtual Systems and VSX* Check Point Virtual Systems and VSX deliver virtualized security gateways for network security, enabling enterprises to consolidate multiple security gateways in a single hardware system and to secure multiple environments and deliver infrastructure consolidation. The Check Point Virtual Systems solution is supported on any Check Point Appliance as well as open servers. This virtualized gateway solution has been available since the introduction of VSX in 2002. Check Point Virtual Systems release was introduced in 2012.

*Security Gateway Virtual Edition (VE)* Check Point Security Gateway VE protects dynamic virtualized environments from both internal and external threats by securing virtual machines and applications. Security Gateway Virtual Edition provides hypervisor-level security for traffic between guests on a shared server and enables the deployment of a Check Point security gateway within the VMware virtualized deployments. It provides comprehensive security based on Software Blade architecture fully integrated in the dynamic virtualized environment. VE was released in late 2008.

*Virtual Appliance for Amazon Web Services* Check Point Virtual Appliance for Amazon Web Services enables customers to extend their security in the Amazon cloud with the full range of protections using Check Point Software Blades. This security gateway for virtual environments in the Amazon Cloud is easy to deploy through Amazon marketplace and prevents network attacks and data breaches while enabling secure connectivity in dynamic cloud computing environments. Check Point Virtual Appliance for Amazon Web Services was released and launched in early January 2012.

## 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.



## **Table of Contents**

*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.

### *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 Smart Dashboard, 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.

*Logging & Status Software Blade with Smart Log* Delivers comprehensive and usable information in the form of logs for searching, accessing and sorting big data collections.

*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.

*Smart Provisioning Software Blade* Provides centralized administration and provisioning of Check Point security devices via a single management console.

*Smart Workflow Software Blade* Delivers a formal process of policy change management that helps administrators reduce errors and enhance compliance.

*Smart Reporter Software Blade* Presents vast amounts of security and network data in graphical, easy-to-understand reports.

*Smart Event 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.

## **Table of Contents**

*Multi-domain Software Blades* Enables 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 Hewlett-Packard Company, 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, Apple iOS, Microsoft Windows Mobile, Linux 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* 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)* SMART is a core component of our unified security architecture. It 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* Our Security and Network Traffic Enforcement is based on our Stateful Inspection technology, which allows for dynamic packet-filtering by using our INSPECT Engine to extract state-related information from all applications and evaluate subsequent network connection based on this extracted information to enable better security decisions. To extract the state-related information, our 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.

## Table of Contents

For example, Stateful Inspection firewalls provide a security measure against port scanning, by closing all ports until the specific port is requested. In addition, third party technologies can be implemented through our Open Platform for Security (OPSEC) framework.

*Check Point ThreatCloud* ThreatCloud provides a dynamic, innovative global network of threat sensors, which invites organizations to share threat data and collaborate in the fight against modern malware. Customers can choose to collaborate by feeding ThreatCloud their own threat data and can receive incoming protection updates through their security gateways with enriched threat intelligence. When new bots or malware threats are identified on an organization's network, the malware identifier—such as the IP address, URL or DNS—is sent to the ThreatCloud and an update is distributed to their peers and customers around the world in a matter of seconds. ThreatCloud also includes other sources of threat data from the company's install base of security gateways, Check Point research, and industry malware feeds.

*Secure Platform GAIa* Check Point GAIa™ is the unified cutting-edge secure operating system for all Check Point Appliances, open servers and virtualized gateways. GAIa combines the best features from IPSO and Secure Platform into a single unified OS providing greater efficiency and robust performance. With the support of the full suite of Software Blades, customers will benefit from improved connection capacity and the full breadth and power of Check Point security technologies by adopting GAIa.

*Check Point HyperSpect* Introduced in 2013 with R77, HyperSpect is an intelligent, adaptive content inspection engine maximizes hardware utilization through a wide spectrum of optimizations and accelerations, including hyper threading technologies. Through HyperSpect, organizations will experience significantly higher performance, including up to 50% real-world performance boost on all high-end platforms.

*ClusterXL* 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* 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* TrueVector is 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

## Table of Contents

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)* HDE utilizes multiple detection and analysis techniques to detect hostile or suspicious traffic and is a key component of the IPS Software Blade. 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 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* Confidence Indexing 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. To accomplish this task, the IPS Software Blade determines a level of confidence that a certain traffic flow is an attack. This analysis uses several data points for every network traffic flow.

*SSL Inspection* SSL Inspection scans and secures SSL encrypted traffic passing through the gateway. When traffic is passed through, the gateway decrypts the traffic with the sender's public key, inspects and protects, then re-encrypts, sending the newly encrypted content to the receiver.

*Mobile Access Technologies* Our Mobile Access Technologies are a set of technologies that include a Web Portal, endpoint compliance checks, a Secure Workspace, DynamicID™ SMS authentication and client applications that provide enterprise-grade remote access via both Layer-3 VPN and SSL VPN to email, calendar, contacts and corporate applications over the Internet with Smartphones, tablets or PCs.

*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.

**Table of Contents****Revenues by Category of Activity**

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

<b>Category of Activity:</b>	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>(in thousands)</b>		
Products and licenses	\$ 503,475	\$ 505,280	\$ 504,576
Subscriptions	105,790	162,931	209,442
Software updates and maintenance	637,721	674,484	680,087
<b>Total revenues</b>	<b>\$ 1,246,986</b>	<b>\$ 1,342,695</b>	<b>\$ 1,394,105</b>

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. Although we work directly with our customers in pre-sales, 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 and software 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 Fujitsu.

As of December 31, 2013, we had 1,158 employees dedicated to sales and marketing.

**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, as well as (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 and security implementation.

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, 2013, we had 436 employees dedicated to customer service and support.



## **Table of Contents**

Our support solutions include both indirect and direct offerings. Channel partners provide 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 portfolio of security gateway appliances, from small office locations to telco grade and capacity infrastructure platforms, we have expanded our technical support offerings around the world. This includes same and next business day replacements, on-site support availability and device pre-configuration. We have also added new ThreatCloud Managed Security Services and Incident Response. These new services are focused on helping our partners and customers maximize the effectiveness of advanced protections and mitigate and remediate critical security events quickly.

## **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, named the Check Point Software Blade 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 respond to the rapidly changing threat landscape through the provision of services, such as network perimeter protections, protection against cyber-threats, data protection for today's mobile environments, web security and security for managed enterprise endpoints. Our technology also centrally manages all of these layers and solutions. We develop most of our new products internally and also expect to leverage the products and technologies we have acquired. 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 \$110.1 million in 2011, \$111.9 million in 2012 and \$121.8 million in 2013. These amounts include stock-based compensation in the amount of \$7.5 million in 2011, \$8.6 million in 2012 and \$9.0 million in 2013. As of December 31, 2013, we had 1,055 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, patents, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights. We rely on trade secret, copyright laws and patents 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.

We have over 34 U.S. patents, over 19 U.S. patents pending, and additional patents issued and patent applications pending worldwide. Our efforts to protect our patent rights and other proprietary rights may not be adequate and our competitors may independently develop technology that is similar. 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.

**Table of Contents**

**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:

<b>NAME OF SUBSIDIARY</b>	<b><u>COUNTRY OF INCORPORATION</u></b>
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. (Representative Office)	Indonesia
Check Point Holding (Singapore) PTE Ltd. U.S. 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.	Israel
Dynasec Ltd.	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)

**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:

<b>NAME OF SUBSIDIARY</b>	<b>COUNTRY OF INCORPORATION</b>
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 (Belarus) 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.





**Table of Contents**

Check Point Holding AB wholly owns the subsidiaries listed below, directly or through other subsidiaries:

<b>NAME OF SUBSIDIARY</b>	<b>COUNTRY OF INCORPORATION</b>
Check Point Software Technologies (Sweden) AB	Sweden
Pointsec Norway AS	Norway
Reflex Software Ltd. (Jersey)	Jersey
Reflex Magnetics Ltd. (1)	United Kingdom
Reflex Software Luxembourg SARL (1)	Luxembourg

(1) The company is dormant.

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

<b>NAME OF SUBSIDIARY</b>	<b>COUNTRY OF INCORPORATION</b>
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)
Liquid Machines Inc.	United States of America (Delaware)

**Property 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 currently contains approximately 150,000 square feet of office space and we leased approximately 52,000 square feet of additional space. Our international headquarters building is used mainly for research and development as well as all other supporting functions. We also acquired the rights to construct an additional building with approximately 140,000 square feet, which we began planning in 2011.

We lease 91,310 square feet in various locations in the United States. Examples of principal office locations in the U.S. are as follows:

<b>Location</b>	<b>Primary Usage</b>	<b>Space (square feet)</b>
San Carlos, California	U.S. Headquarters	40,265
Irving, Texas	Technical support, education and professional services	24,807
New York, New York	Sales	6,787

**Table of Contents**

Outside of Israel and the U.S., we lease offices in various locations throughout the world. Our primary locations are forth below:

<b>Location</b>	<b>Primary Usage</b>	<b>Space (square feet)</b>
Europe	Sales, research and development	37,415
Asia and Japan	Sales	16,830
Canada	Sales and technical services	16,963

**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.

**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 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 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. Our products and services are sold to enterprises, service providers, small and medium sized businesses and consumers. Our open platform 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.

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.

**Table of Contents**

We derive our sales primarily through indirect channels. During 2011, 2012 and 2013, we derived approximately 58%, 55% and 56%, respectively of our sales from our ten largest channel partners. In 2011, 2012 and 2013, each of our two distributors accounted for approximately 17%, 16% and 15% of our sales, respectively. The following table presents the percentage of total consolidated revenues that we derive from sales in each of the regions shown:

<b>Region:</b>	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Americas, principally U.S.	45%	45%	46%
Europe	39%	37%	37%
Asia, Middle East and Africa	16%	18%	17%

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. GAAP. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions that we make are reasonable based upon information available to us at the time that these estimates, judgments and assumptions were 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),

Goodwill,

Realizability of long-lived assets (including intangible assets),

Accounting for income taxes,

Equity-based compensation expense,

Allowances for doubtful accounts,

Derivative and hedge accounting, and

Impairment of marketable securities.

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, as set forth in Item 18.

## **Table of Contents**

### *Revenue recognition*

We derive our revenues mainly from sales of products and licenses, subscriptions and software updates and maintenance. Our products are generally integrated with software that is essential to the functionality of the product. We sell our products primarily through channel partners including distributors, resellers, OEMs, system integrators and MSPs, all of whom are considered end users.

Subscriptions include other security solutions and are sold as a service or annuity.

Software updates and maintenance provide customers with rights to unspecified software product upgrades released during the term of the agreement and include multiple services to customers, primarily telephone access to technical support personnel and hardware support services.

We recognize revenues when persuasive evidence of an arrangement exists, the product or software license has been delivered, the amounts are fixed or determinable and collection of the amount is considered probable. Revenues from subscriptions and from software updates and maintenance are recognized ratably over the term of the agreement. Revenues 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, provided that all other revenue recognition criteria have been met.

We apply the guidance of ASU 2009-14, Certain Arrangements That Include Software Elements ( ASU 2009-14 ) and ASU 2009-13, Multiple-Deliverable Revenue Arrangements ( ASU 2009-13 ). ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ( VSOE ), if available, third party evidence ( TPE ) if VSOE is not available, or estimated selling price ( ESP ) if neither VSOE or TPE is available. Our products and services generally qualify as separate units of accounting. As such revenues from multiple element arrangement that include products, subscriptions and software updates and maintenance are separated into their various elements using the relative selling price method based on either VSOE or ESP, as described below.

For products, we determined the fair value based on ESP by reviewing historical transactions, and considering several other external and internal factors including, but not limited to, pricing practices.

We established VSOE of fair value for subscriptions and for software updates and maintenance based on the renewal prices charged for such services.

We apply software revenue recognition guidance, ASC 985-605, Software Revenue Recognition , to all software arrangements where software element is not essential to the functionality of the tangible product. As required by ASC 985-605, we determined the value of the delivered elements of multiple-element arrangements using the residual method when VSOE of fair value exists for the undelivered elements. 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 when the appropriate criteria is met.

Deferred revenues represent mainly the unrecognized revenue billed for subscriptions and for software updates and maintenance. Such revenues are recognized ratably over the term of the related agreement.

We recognize revenues net of estimated amounts that may be refunded for sales returns, rebate arrangements with customers and for our distributors' right to rotate our products, subject to varying

## Table of Contents

limitations. We estimate and record these reductions based on our historical sales returns, 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 revenue line item on our consolidated statements of income and affect our accounts receivable, net and our deferred revenues on our consolidated balance sheets.

### *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 have one operating segment, and this segment comprises our only reporting unit.

We review goodwill for impairment annually on December 31 of each fiscal year and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with ASC 350 Intangibles Goodwill and other. ASC 350 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. Alternatively, ASC 350 permits an entity to bypass the qualitative assessment for any reporting unit and proceed directly to performing the first step of the goodwill impairment test. Goodwill impairment is deemed to exist if the carrying value of a reporting unit exceeds its fair value. In such cases, 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, including 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 2013, did not result in impairment. As of December 31, 2013, the market capitalization of the Company was significantly higher than the equity book value.

### *Realizability of long-lived assets (including intangible 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 2011, 2012 and 2013.





---

**Table of Contents***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.

Accounting for tax positions requires judgments, including estimating reserves for potential uncertainties. We have considered future reversal of existing temporary differences in determining the need for a valuation allowance. We record valuation allowances for deferred tax assets that we believe are not more likely than not to be realized in future periods. While we believe the resulting tax balances as of December 31, 2012 and 2013 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 have adequately provided for any reasonably foreseeable outcomes related to tax audits and settlements. 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. See: *Item 3 Key Information Risk Factors Risks Related to Our Business and Our Market*.

*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 as well as the determination of the amount of stock-based awards that are expected to be forfeited requires the exercise of judgment. If actual forfeitures differ from our estimates, equity-based compensation expense and our results of operations would be impacted. Performance restricted share units are subject to certain performance criteria. We recognized compensation expense for such awards when we determine it is probable that the related performance condition will be satisfied.

We estimate the fair value of employee stock options and employee stock purchase plan 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



## **Table of Contents**

expected life of the awards. We use the historical volatility of our publicly traded shares 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 exercise 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. We base the fair value of restricted stock units on the market value of the underlying shares at the date of grant.

### *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 factors that may affect a customer's ability to pay, such as age of the receivable balance and past experience. 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 59% to 61% of our operating expenses are denominated in U.S. dollars or linked to the U.S. dollar. In 2012 and 2013, we entered into foreign exchange forward contracts to hedge a significant portion of our foreign currency net exposure resulting from expenses denominated 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 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 based on 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.

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.

**Table of Contents**

*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 the accounting guidance in ASC 320

Investments- Debt and Equity Securities , 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, an 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 an 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.

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 using discounted cash flow models, whose inputs include interest rate curves, credit spreads, bond prices, volatilities and illiquidity considerations and/or existing market pricing. Unobservable inputs used in these models are significant to the fair value of the investments.

During the year ended December 31, 2011, we recognized a gain of \$2.0 million from sales of marketable securities that were previously impaired. In 2012, no other-than-temporary impairment was recorded. During the year ended December 31, 2013, we recognized a gain of \$0.9 million from sales of marketable securities that were previously impaired.

**Table of Contents****Results of Operations**

The following table presents information concerning our results of operations in 2011, 2012 and 2013:

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>(in thousands)</b>		
<b>Revenues:</b>			
Products and licenses	\$ 503,475	\$ 505,280	\$ 504,576
Subscriptions	105,790	162,931	209,442
Software updates and maintenance	637,721	674,484	680,087
<b>Total revenues</b>	<b>1,246,986</b>	<b>1,342,695</b>	<b>1,394,105</b>
<b>Operating expenses(*):</b>			
Cost of products and licenses	81,043	87,097	88,862
Cost of subscriptions	11,732	6,296	5,480
Cost of software updates and maintenance	51,737	61,786	67,680
Amortization of technology	31,171	3,982	612
<b>Total cost of revenues</b>	<b>175,683</b>	<b>159,161</b>	<b>162,634</b>
Research and development	110,147	111,911	121,764
Selling and marketing	253,800	255,345	276,067
General and administrative	65,182	69,743	72,735
<b>Total operating expenses</b>	<b>604,812</b>	<b>596,160</b>	<b>633,200</b>
Operating income	642,174	746,535	760,905
Financial income, net	39,023	40,332	34,003
Gain on sale of marketable securities previously impaired	2,017		928
<b>Income before taxes on income</b>	<b>683,214</b>	<b>786,867</b>	<b>795,836</b>
Taxes on income	139,248	166,867	143,036
<b>Net income</b>	<b>\$ 543,966</b>	<b>\$ 620,000</b>	<b>\$ 652,800</b>

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

Amortization of intangible assets	\$ 12,754	\$ 3,046	\$ 2,408
Selling and marketing			
Stock-based compensation			

Edgar Filing: CHECK POINT SOFTWARE TECHNOLOGIES LTD - Form 20-F

Cost of products and licenses	\$ 58	\$ 68	\$ 77
Cost of software updates and maintenance	909	761	971
Research and development	7,471	8,594	9,001
Selling and marketing	7,888	9,677	11,193
General and administrative	23,509	26,187	29,870

**Table of Contents**

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

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Revenues:</b>			
Products and licenses	40%	38%	36%
Subscriptions	9	12	15
Software updates and maintenance	51	50	49
<b>Total revenues</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Operating expenses:</b>			
Cost of products and licenses	6	6	6
Subscriptions	1		1
Cost of software updates and maintenance	5	5	4
Amortization of technology	2	1	
<b>Total cost of revenues</b>	<b>14</b>	<b>12</b>	<b>11</b>
Research and development	9	8	9
Selling and marketing	21	19	20
General and administrative	5	5	5
<b>Total operating expenses</b>	<b>49</b>	<b>44</b>	<b>45</b>
Operating income	51	56	55
Financial income, net	3	3	2
Net gain on sale of marketable securities previously impaired .			
<b>Income before taxes on income</b>	<b>54</b>	<b>59</b>	<b>57</b>
Taxes on income	10	13	10
<b>Net income</b>	<b>44%</b>	<b>46%</b>	<b>47%</b>

*Revenues*

We derive our revenues mainly from the sale of products and licenses, subscriptions and software updates and maintenance. Our revenues were \$1,247.0 million in 2011, \$1,342.7 million in 2012 and \$1,394.1 million in 2013.

Total revenues in 2013 grew by 4% compared to 2012. Product and license revenues in 2013 were \$504.6 million relative to \$505.3 million in 2012. In 2013, product and license revenues as a percentage of total revenues were 36%, compared to 38% in 2012. Subscription revenues increased by \$46.5 million, or 29%, from \$162.9 million in 2012 to \$209.4 million in 2013 primarily as a result of increasing sales of IPS, Application Control, URL Filtering and Antivirus security services. Software updates and maintenance revenues increased by \$5.6 million, or 1%, from \$674.5 million in 2012 to \$680.1 million in 2013 primarily as a result of renewals of existing and new sales of



maintenance contracts.

Total revenues in 2012 grew by 8% compared to 2011. Product and license revenues increased from \$503.5 million in 2011 to \$505.3 million in 2012. In 2012, product and license revenues as a percentage of total revenues were 38%, compared to 40% in 2011. Subscriptions revenues increased by \$57.1 million, or 54%, from \$105.8 million in 2011 to \$162.9 million in 2012 primarily as a result of increasing sales of IPS, Application Control and Antivirus security services. Software updates and maintenance revenues increased by \$36.8 million, or 6%, from \$637.7 million in 2011 to \$674.5 million in 2012, primarily as a result of renewals of existing and new sales of maintenance contracts.

## **Table of Contents**

### *Cost of Revenues*

Total cost of revenues was \$175.7 million in 2011, \$159.2 million in 2012 and \$162.6 million in 2013. Cost of revenues includes cost of product and licenses, cost of subscriptions and cost of software updates and maintenance and amortization of technology. Our cost of products and licenses includes mainly cost of software and hardware production packaging and shipping. Our cost of subscriptions includes mainly license fees paid to third parties. Our cost of software updates and maintenance include mainly the cost of post-sale customer support.

Cost of products and licenses was \$81.0 million in 2011, \$87.1 million in 2012 and \$88.9 million in 2013, and represented 16% of products and licenses revenues in 2011, 17% in 2012 and 18% in 2013. The increase of \$6.1 million in 2012 and \$1.8 million in 2013 cost of products and licenses was mainly due to the increase in volume of select security appliance products sold during these periods.

Cost of subscriptions was \$11.7 million in 2011, \$6.3 million in 2012 and \$5.5 million in 2013, and represented 11%, 4% and 3% of subscription revenues in 2011, 2012, and 2013, respectively. The reduction in these costs is attributable to the reduced cost of royalty payments.

Cost of software updates and maintenance was \$51.8 million in 2011, \$61.8 million in 2012 and \$67.7 million in 2013 and represented 8%, 9% and 10% of software updates and maintenance revenues in 2011, 2012 and 2013, respectively. In 2013, the \$5.9 million increase in the cost of updates and maintenance was primarily the result of a \$5.1 million increase in compensation expenses, which was primarily related to increase in headcount, from 364 at the end of 2012 to 436 at the end of 2013.

In 2013, amortization of technology decreased by \$3.4 million, to \$0.6 million. In 2012, amortization of technology decreased by \$27.2 million, to \$4.0 million, as part of the technology acquired in prior years was fully amortized at the beginning of 2012.

### *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 \$110.1 million in 2011, \$111.9 in 2012 and \$121.8 million in 2013, and represented 9% of revenues in 2011, 8% in 2012 and 9% in 2013. In 2013, there was an increase of \$9.9 million in research and development expenses compared to 2012. Of this increase, \$3.3 million was related primarily to an increase in compensation expenses related to an increase in headcount, from 970 at the end of 2012 to 1,055 at the end of 2013. An increase of \$5.0 million was caused by the impact of currency fluctuations on compensation expenses. This was in addition to an increase of \$1.6 million in overhead expenses. In 2012, there was an increase of \$1.8 million in research and development expenses compared to 2011. Of this increase, \$5.0 million was related primarily to an increase in compensation expenses related to an increase in headcount, from 840 at the end of 2011 to 970 at the end of 2012 and \$1.6 million in overhead expenses offset by a decrease of \$4.7 million which was caused by the impact of currency fluctuations on compensation expenses.

## **Table of Contents**

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 and the U.S. dollar, and between the Swedish Krona and the U.S. dollar, have affected and may in the future affect our research and development expenses. Check Point establishes forward contracts to hedge against a certain portion of the exposure mentioned above.

### *Selling and Marketing*

Selling and marketing expenses consist primarily of salaries, commissions, advertising, trade shows, seminars, public relations, co-op activities with partners, travel and other related expenses. Selling and marketing expenses were \$253.8 million in 2011, \$255.3 million in 2012 and \$276.1 million in 2013, which represented 20% of revenues in 2011, 19% of the revenues in 2012 and 20% of the revenues in 2013. In 2013, there was an increase of \$20.8 million. Of this increase, \$17.7 million was primarily as a result of an increase in compensation committed to sales and marketing in addition to a \$3.1 million increase caused by the impact of currency fluctuations on compensation expenses and overhead 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.

In 2012, the weakening of the Canadian Dollar, Israeli Shekel and the Euro compared to the U.S. dollar, overall decreased compensation expenses by approximately \$3.8 million compared to 2011.

In 2013, the strengthening of the Israeli Shekel and the Euro and weakening of the Australian Dollar and the Canadian Dollar, compared to the U.S. dollar, overall decreased compensation expenses by approximately \$1.2 million compared to 2012.

### *General and Administrative*

General and administrative expenses consist primarily of salaries and other related expenses for personnel, professional fees, insurance costs, legal and other expenses. General and administrative expenses were \$65.2 million in 2011, \$69.7 million in 2012 and \$72.7 million in 2013, and represented 5% of revenues in each of 2011, 2012 and 2013. In 2013, there was an increase of \$3.0 million in general and administrative expenses, which was primarily due to increase in expense relating to share-based compensation. In 2012, there was an increase of \$4.6 million of general and administrative expenses which was primary due to an increase in expense relating to share based compensation and the rest was due to legal accruals.

## **Table of Contents**

### *Operating Income Margin*

We had operating margins of 51% in 2011, 56% in 2012 and 55% in 2013.

The decrease of 1 percent in operating margin from 2012 to 2013 was attributable primarily to the increase in compensation and increase in headcount for research and development, sales and marketing, and the strengthening of the Israeli Shekel and the Euro compared to U.S. dollar. This increased compensation expenses by approximately \$4.5 million.

The increase of 5 percent in operating margin from 2011 to 2012 was attributable primarily to the higher revenue growth, more than the growth of operating expenses, as we continued to control and leverage our expense structure. In addition, 2012 operating margin increased due to a decrease in amortization of intangible assets by \$37 million and the weakening of the Canadian Dollar, Israeli Shekel and the Euro compared to U.S. dollar, which decreased compensation expenses by approximately \$9.8 million.

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 \$39.0 million in 2011, \$40.3 million in 2012 and \$34.0 million in 2013. As 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 denominated securities, our net financial income is heavily dependent on prevailing U.S. interest rates. The increase in net financial income in 2011 and 2012 was primarily due to additional cash invested. The decrease in net financial income in 2013 was primarily due to lower interest rates for our cash equivalents and marketable securities.

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. 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 to deteriorate. In 2011, we recorded a gain in the amount of \$2.0 million from sales of marketable securities that were previously impaired. In 2012, no other-than-temporary impairment was recorded. In 2013, we recorded a gain in the amount of \$0.9 million from sales of marketable securities that were previously impaired.

## **Table of Contents**

Because interest rates in the U.S. are low in the first quarter of 2014 and we expect it not to significantly increase during 2014, we believe that this will result in a low portfolio yield in our investments in marketable securities in the near term. See also Item 3, Risk Factors Risks Related to Our Business and Our Market Our cash balances and investment portfolio have been, and may continue to be, adversely affected by market conditions and interest rates .

### *Taxes on Income*

Total taxes on income were \$139.2 million in 2011, \$166.9 million in 2012 and \$143.0 million in 2013. Our effective tax rate was 20% in 2011, 21% in 2012 and 18% in 2013. The lower effective rate in 2013 is primarily due to decrease in the Preferred Enterprise tax rates which the Company is subject to. Our effective tax rate is lower than the statutory tax rate in Israel, which changed from 24% in 2011 to 25% in 2012 and 2013. This is primarily due to the fact that we are subject to Israeli approved enterprise programs, under which a substantial portion of our income is subject to reduced tax rates rather than the statutory rates 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 require us to meet several conditions, and may be terminated or reduced in the future, which would increase our taxes.

### **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.

**Table of Contents**

	Year Ended December 31, 2012				Year Ended December 31, 2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Unaudited							
	(in thousands, except per share amounts)							
Revenues:								
Products and licenses	\$ 110,182	\$ 123,155	\$ 121,036	\$ 150,907	\$ 106,530	\$ 120,762	\$ 121,081	\$ 156,203
Subscriptions	37,587	38,535	41,994	44,816	47,817	50,841	53,491	57,293
Software updates and maintenance	165,347	166,959	169,326	172,851	168,383	168,570	169,555	173,579
<b>Total revenues</b>	<b>313,116</b>	<b>328,649</b>	<b>332,356</b>	<b>368,574</b>	<b>322,730</b>	<b>340,172</b>	<b>344,127</b>	<b>387,075</b>
Operating expenses:								
Cost of products and licenses	19,604	20,671	20,606	26,216	18,849	20,916	21,727	27,370
Cost of subscriptions	932	1,054	1,409	2,901	1,606	1,240	1,095	1,539
Cost of software updates and maintenance	15,107	15,691	15,971	15,017	16,248	16,959	17,247	17,226
Amortization of technology	2,858	536	294	294	294	198	60	60
<b>Total cost of revenues</b>	<b>38,501</b>	<b>37,952</b>	<b>38,280</b>	<b>44,428</b>	<b>36,997</b>	<b>39,313</b>	<b>40,129</b>	<b>46,195</b>
Research and development	26,842	27,262	28,517	29,290	29,314	29,369	30,034	33,047
Selling and marketing	59,099	65,815	64,501	65,930	61,829	70,481	68,783	74,974
General and administrative	15,784	17,092	18,412	18,455	17,586	17,719	18,690	18,740
<b>Total operating expenses (*)</b>	<b>140,226</b>	<b>148,121</b>	<b>149,710</b>	<b>158,103</b>	<b>145,726</b>	<b>156,882</b>	<b>157,636</b>	<b>172,956</b>
Operating income	172,890	180,528	182,646	210,471	177,004	183,290	186,491	214,119
Financial income, net	10,462	9,774	10,452	9,644	7,914	7,608	9,098	9,383
Net gain on sale of marketable securities previously impaired (**)					928			

Edgar Filing: CHECK POINT SOFTWARE TECHNOLOGIES LTD - Form 20-F

Income before taxes on income	183,352	190,302	193,098	220,115	185,846	190,898	195,589	223,502
Taxes on income	39,726	40,321	40,691	46,129	37,886	39,890	35,888	29,372
<b>Net Income</b>	<b>\$ 143,626</b>	<b>\$ 149,981</b>	<b>\$ 152,407</b>	<b>\$ 173,986</b>	<b>\$ 147,960</b>	<b>\$ 151,008</b>	<b>\$ 159,701</b>	<b>\$ 194,130</b>
Basic earnings per ordinary share	\$ 0.70	\$ 0.73	\$ 0.75	\$ 0.87	\$ 0.75	\$ 0.77	\$ 0.82	\$ 1.01
Shares used in computing basic earnings per ordinary share	206,114	205,482	203,928	200,230	198,459	196,387	194,931	192,263
Diluted earnings per ordinary share	\$ 0.68	\$ 0.71	\$ 0.73	\$ 0.85	\$ 0.73	\$ 0.76	\$ 0.80	\$ 0.99
Shares used in computing diluted earnings per ordinary share	212,469	211,320	208,717	204,258	202,594	199,946	198,668	196,837

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

	Year Ended December 31, 2012				Year Ended December 31, 2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	<b>Unaudited (in thousands)</b>							
Amortization of intangible assets:								
Selling and marketing	\$ 1,146	\$ 645	\$ 628	\$ 628	\$ 628	\$ 628	\$ 602	\$ 550
<b>Total</b>	<b>\$ 1,146</b>	<b>\$ 645</b>	<b>\$ 628</b>	<b>\$ 628</b>	<b>\$ 628</b>	<b>\$ 628</b>	<b>\$ 602</b>	<b>\$ 550</b>
Stock-based compensation								
Cost of products and licenses	\$ 16	\$ 22	\$ 12	\$ 18	\$ 18	\$ 23	\$ 19	\$ 17
Cost of software updates and maintenance	67	238	234	222	199	249	266	257
Research and development	1,939	2,614	1,951	2,090	1,987	2,802	2,108	2,104
Selling and marketing	2,089	2,738	2,445	2,404	2,260	3,312	3,201	2,420
General and administrative	5,674	6,308	7,387	6,818	6,706	7,366	8,048	7,750

(\*\*) Including a gain of \$ 0.9 million in the first quarter of 2013.

**Table of Contents**

As a percentage of total revenues:

	Year Ended December 31, 2012				Year Ended December 31, 2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Revenues:</b>								
Products and licenses	35%	37%	36%	41%	33%	36%	35%	40%
Subscriptions	12	12	13	12	15	15	16	15
Software updates and maintenance	53	51	51	47	52	49	49	45
<b>Total revenues</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Operating expenses:								
Cost of products and licenses	6	6	6	7	6	6	7	7
Cost of subscriptions				1				
Cost of software updates and maintenance	5	5	5	4	5	5	5	5
Amortization of technology	1	1						
<b>Total cost of revenues</b>	<b>12</b>	<b>12</b>	<b>11</b>	<b>12</b>	<b>11</b>	<b>11</b>	<b>12</b>	<b>12</b>
Research and development	9	8	9	8	9	9	9	9
Selling and marketing	19	20	19	18	19	21	20	19
General and administrative	5	5	6	5	5	5	5	5
<b>Total operating expenses</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>43</b>	<b>45</b>	<b>46</b>	<b>46</b>	<b>45</b>
Operating income	55	55	55	57	55	54	54	55
Financial income, net	3	3	3	3	2	2	3	3
Net gain on sale of marketable securities previously impaired								
<b>Income before taxes on income</b>	<b>58</b>	<b>58</b>	<b>58</b>	<b>60</b>	<b>58</b>	<b>56</b>	<b>57</b>	<b>58</b>
Taxes on income	12	12	12	13	12	12	10	8
<b>Net Income</b>	<b>46%</b>	<b>46%</b>	<b>46%</b>	<b>47%</b>	<b>46%</b>	<b>44%</b>	<b>47%</b>	<b>50%</b>

Our future revenues and operating results are uncertain and may fluctuate from quarter to quarter and from year to year 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 quarterly operating results are likely to fluctuate, which could cause us to miss expectations about these results and cause the trading price of our ordinary shares to decline.

Historically, our revenues have reflected seasonal fluctuations related to the year-end purchasing cycles of many users of our products. We believe that we will continue to encounter seasonality for the foreseeable future.

Our expense levels are based, in part, on expectations as to future revenues. If our revenue levels are below expectations, our operating results are likely to be adversely affected, since most of our expenses are not variable. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and



should not be relied upon as indications of future performance. Due to the above, it is likely that in some future quarters, our operating results may be below the expectations of public market analysts and investors. In this event, the price of our ordinary shares would likely decline significantly.

---

**Table of Contents****Liquidity and Capital Resources**

During 2011, 2012 and 2013, we financed our operations through cash generated from operations. Our total cash and cash equivalents, short-term investments and long-term interest bearing investments, were \$3,295.4 million as of December 31, 2012 and \$3,629.9 million as of December 31, 2013. Our cash and cash equivalents and short-term investments were \$1,503.3 million as of December 31, 2012 and \$1,166.8 million as of December 31, 2013. Our long-term interest bearing investments were \$1,792.0 million as of December 31, 2012 and \$2,463.1 million as of December 31, 2013. We have a wholly owned subsidiary in Singapore that serves as a vehicle for a significant portion of our international investments and manages those financial assets. The remaining financial assets are held and managed through our subsidiary in the U.S. and through the parent company in Israel.

We generated net cash from operations of \$743.0 million in 2011, \$849.5 million in 2012 and \$811.3 million in 2013. Net cash from operations for 2011, 2012 and 2013 consisted primarily of net income adjusted for non-cash activity including stock-based compensation expenses, depreciation, amortization of intangible assets plus an increase in deferred revenue and accrued expenses and an increase in trade receivables. In 2013, we paid additional taxes as a result of a settlement agreement with the Israeli Tax Authority. See also Item 8 Financial Information under the caption Legal Proceedings and Note 11 to our Consolidated Financial Statements for further information.

Net cash used in investing activities was \$574.1 million in 2011, \$374.3 million in 2012 and \$545.9 million in 2013. In 2011, net cash used in investing activities consisted primarily of investments in marketable securities and short-term deposits as well as net cash paid in conjunction with 2011 acquisitions, partially offset by proceeds from sale and maturities of marketable securities. In 2012, net cash used in investing activities consisted primarily of investments in marketable securities and short-term deposits, partially offset by proceeds from sale and maturities of marketable securities. In 2013, net cash used in investing activities consisted primarily of investments in marketable securities, partially offset by proceeds from sale and maturities of marketable securities and short-term deposits. Our capital expenditures amounted to \$7.2 million in 2011, \$8.2 million in 2012 and \$9.6 million in 2013. Our capital expenditures consisted primarily of computer equipment and software for research and development, leasehold improvements and furniture.

During 2011, we funded minor acquisitions for approximately \$15.1 million from our cash and cash equivalents balances. No acquisitions were made in 2012 and 2013.

Net cash used in financing activities was \$227.1 million in 2011, \$394.0 million in 2012 and \$431.7 million in 2013. In 2011, 2012 and 2013, net cash used in financing activities was attributed primarily to the repurchase of ordinary shares. Under the repurchase programs, we may purchase our ordinary shares from time to time, depending on market conditions, share price, trading volume and other factors. In 2011, 2012 and 2013, we repurchased ordinary shares in the amount of \$300 million, \$466.2 million and \$534.2 million, respectively. We re-issue the repurchased shares to settle exercises of options and awards of restricted share units to our employees and directors. Proceeds from such activities were \$71.5 million, \$61.0 million and \$67.1 million in 2011, 2012 and 2013, respectively. During 2011, we acquired the SofaWare minority shares for \$6.6 million.

Our investments in marketable securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, recorded in other comprehensive income. Amortization of premium, discount and interest is recorded in our statements of income.

## **Table of Contents**

Our liquidity could be negatively affected by a decrease in demand for our products and services, including the impact of changes in customer buying that may result from the current general economic downturn. Also, if the financial system or the credit markets continue to deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected.

Our principal sources of liquidity consist of our cash and cash equivalents, short-term deposits and marketable securities (which aggregated \$3,629.9 million as of December 31, 2013), our cash flow from operations, and our net financial income. We believe that these sources of liquidity will be sufficient to satisfy our capital expenditure requirements for the next twelve months.

## **Research and Development, Patents and Licenses, etc.**

Additional details are provided in this Item 5, under the caption Results of operations .

## **Trend Information**

Additional details are provided in this Item 5, under the caption Results of operations .

## **Off-Balance Sheet Arrangements**

We are not a party to any off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create contingent obligations.

**Table of Contents****Tabular Disclosure of Contractual Obligations**

The following table summarizes our contractual obligations as of December 31, 2013:

	Total	Payments due by period			More than 5 years
		Less than 1 year	1-3 years	4-5 years	
Operating lease obligations	\$ 11,203	\$ 5,967	\$ 5,027	\$ 124	85
Uncertain income tax positions(*)	\$ 205,420				
Severance pay(**)	\$ 10,887				
Total	\$ 227,510	\$ 5,967	\$ 5,027	\$ 124	85

(\*) Accrual for uncertain income tax position under ASC 740 Income Taxes, is paid upon settlement and we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 11f of our Consolidated Financial Statements for further information regarding the Company's liability under ASC 740.

(\*\*) Severance pay obligations to our Israeli employees, as required under Israeli labor law, are payable only upon termination, retirement or death of the respective employee and there is no obligation for benefits accrued prior to 2007, if the employee voluntarily resigns. These obligations are partially funded through accounts maintained with financial institutions and recognized as an asset on our balance sheet. Of this amount, \$4.4 million is unfunded.

**Table of Contents****ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****Directors and Senior Management**

Our directors and executive officers as of December 31, 2013, were as follows:

Name	Position	Independent Director (1)	Outside Director (2)	Member of Audit Committee	Member of Compensation Committee	Member of Nominating Committee
Gil Shwed	Chief Executive Officer and Chairman of the Board					
Marius Nacht	Vice Chairman of the Board					
Jerry Ungerman	Vice Chairman of the Board					
Amnon Bar-Lev	President					
Tal Payne	Chief Financial Officer					
Dorit Dor	Vice President of Products					
Yoav Chelouche (3)	Director	Ö	Ö	Ö	Ö	
Irwin Federman (3)	Director	Ö	Ö	Ö	Ö	Ö
Guy Gecht (3)	Director	Ö	Ö	Ö	Ö	
Dan Propper	Director	Ö				
Ray Rothrock(3)	Director	Ö	Ö	Ö	Ö	Ö
David Rubner	Director	Ö				Ö
Tal Shavit	Director	Ö				Ö

(1) Independent Director under the NASDAQ Global Select Market regulations and the Israeli Companies Law (see explanation below).

(2) Outside Director as required by the Israeli Companies Law (see explanation below).

(3) Financial expert as required by the Israeli Companies Law and NASDAQ requirements with respect to membership on the audit committee (see Item 16A Audit Committee Financial Expert).

*Gil Shwed* is the founder, Chairman and Chief Executive Officer. Mr. Shwed is considered the inventor of the modern firewall and authored several patents, such as the company's Stateful Inspection technology. Mr. Shwed has received numerous accolades for his individual achievements and industry contributions, including an honorary Doctor of Science from the Technion Israel Institute of Technology, the World Economic Forum's Global Leader for Tomorrow for his commitment to public affairs and leadership in areas beyond immediate professional interests, and the Academy of Achievement's Golden Plate Award for his innovative contribution to business and technology. Mr. Shwed is the Chairman of the Board of Trustees of the Youth University of Tel Aviv University. He is also Chairman of the Board of the board of directors of Yeholot Association Founded by the Rashi Foundation whose charter is, among other things, to reduce the dropout rates in high schools.

*Marius Nacht*, one of Check Point's founders, has served as Vice Chairman of our board of directors since 2001. Mr. Nacht has also served as one of our directors since we were incorporated in 1993. From 1999 through 2005,

Mr. Nacht held Senior Vice President roles at Check Point. Mr. Nacht earned a B.S. (cum laude) in Physics and Mathematics from the Hebrew University of Jerusalem in 1983, and an M.S. in Electrical Engineering and Communication Systems from Tel Aviv University in 1987.

*Jerry Ungerman* has served as Vice Chairman of our board of directors since 2005. From 2001 to 2005, Mr. Ungerman served as our President and before that, from 1998 until 2000, he served as our Executive Vice President. Prior to joining us, Mr. Ungerman accumulated more than 30 years of high-tech

---

**Table of Contents**

sales, marketing and management experience at Hitachi Data Systems (HDS), a data storage company and a member of the Hitachi, Ltd. group. He began his career with International Business Machines Corp. (IBM), a global technology products and services company, after earning a B.A. in Business Administration from the University of Minnesota.

*Amnon Bar-Lev*, President at Check Point, is responsible for worldwide sales, global partner programs, business development and technical services for the company. Mr. Bar-Lev joined Check Point in 2005 and brings more than 15 years of high-tech sales, marketing and management experience to the organization. Prior to joining Check Point, Mr. Bar-Lev was founder and CEO of Xpert Integrated System Ltd., a leading provider of security, business-continuity and infrastructure platforms and solutions. Before forming Xpert, Mr. Bar-Lev began his career in the Israeli Air Force where he held several positions within the operational and administration units. Mr. Bar-Lev holds a B.A. in Computer Science (HONS) and Management (HONS) from Tel-Aviv University.

*Tal Payne* has served as our Chief Financial Officer since June 2008. Prior to joining us in 2008, Ms. Payne was Chief Financial Officer at Gilat Satellite Networks, Ltd., a leading provider of products and services for satellite-based communications networks. During her tenure at Gilat, Ms. Payne was responsible for the strategic planning, development and leadership of the finance organization, and held the role of vice president of finance for over five years. Ms. Payne led the company's public offerings, capital restructurings and other transactions. Before joining Gilat, she was previously employed at PricewaterhouseCoopers, a professional services company specializing in accounting and consulting. Ms. Payne holds a B.A. in Economics and Accounting and an Executive M.B.A., both from Tel-Aviv University. She is also a Certified Public Accountant.

*Dr. Dorit Dor*, Vice President of Products at Check Point, manages all product and development functions for both the enterprise and consumer divisions of the company. Her core responsibilities include leading the company's product management, research and development (R&D) and quality assurance (QA) initiatives from concept to delivery. Since joining the company in 1995, Dr. Dor has served in several pivotal roles in Check Point's R&D organization. She has been instrumental to the organization's growth and managed many successful product releases. Dr. Dor holds a Ph.D. and M.S degree in computer science from Tel-Aviv University, in addition to graduating cum laude for her B.S. She has been published in several influential scientific journals for her research on graph decomposition, median selection and geometric pattern matching in d-dimensional space. In 1993, she won the Israel National Defense Prize.

*Yoav Z. Chelouche* has served on our board of directors since 2006. Mr. Chelouche has also served as one of our outside directors under the Israeli Companies Law since 2006. Mr. Chelouche has been Managing Partner of Aviv Venture Capital since August 2000. Prior to joining Aviv Venture Capital, Mr. Chelouche served as President and Chief Executive Officer of Scitex Corp., a world leader in digital imaging and printing systems, from December 1994 until July 2000. From August 1979 until December 1994, Mr. Chelouche held various managerial positions with Scitex, including VP Strategy and Business Development, VP Marketing and VP Finance for Europe. Mr. Chelouche is a member of the board of directors of a number of private companies. He is also co-Chairman of IATI-Israel Advanced Technology Industries, an Israeli nonprofit organization that researches, develops and advocates policies that promote Israel's high tech ecosystem through activities in training, tuition, business development, public relations and public policy advocacy. Mr. Chelouche earned a B.A. in Economics and Statistics from Tel Aviv University, and an M.B.A. from INSEAD University in Fontainebleau, France.

*Irwin Federman* has served on our board of directors since 1995. Mr. Federman has also served as one of our outside directors under the Israeli Companies Law since 2000. Mr. Federman has been a General





## **Table of Contents**

Partner of U.S. Venture Partners, a venture capital firm, since 1990. Mr. Federman serves as director of SanDisk Corp., Mellanox Technologies Ltd., Intermolecular, Inc. and a number of private companies. Mr. Federman received a B.S. in Economics from Brooklyn College.

*Guy Gecht* has served on our board of directors since 2006. Mr. Gecht has also served as one of our outside directors under the Israeli Companies Law since 2006. Mr. Gecht is the Chief Executive Officer of Electronics For Imaging, Inc. (EFI), a company that provides digital imaging and print management solutions for commercial and industrial applications and has served in this position since January 2000. From October 1995 until January 2000, Mr. Gecht held various positions with EFI, including President of the company. Prior to joining EFI, Mr. Gecht held various software engineering positions with technology companies. Mr. Gecht holds a B.S. in Computer Science and Mathematics from Ben-Gurion University in Israel.

*Dan Propper* has served on our board of directors since 2006. Mr. Propper is the Chairman of the Board for the Osem Group, a leading Israeli manufacturer of food products. Mr. Propper served as the Chief Executive Officer of Osem for 25 years until April 2006. In addition to his role at Osem, from 1993 until 1999, Mr. Propper served as President of Israel's Manufacturers' Association, an independent umbrella organization representing industrial enterprises in Israel, and as Chairman of the Federation of Economic Organizations in Israel, which unites economic and business organizations that represents all business sectors in Israel. Mr. Propper has received numerous awards for his contributions to the Israeli industry and economy, including an honorary Doctorate from the Technion - Israel Institute of Technology in 1999. Mr. Propper serves as a member of the board of directors of Osem Investments Ltd., Teva Pharmaceutical Industries and a number of private companies. Mr. Propper is also a member of the board of governors of the Technion, the Weizmann Institute of Science and Ben-Gurion University in Israel. Mr. Propper earned a B.Sc. (summa cum laude) in Chemical Engineering and Food Technology from the Technion. As of 2011, Mr. Propper has been appointed as the Chairman of the Supervisory Council of the Bank of Israel.

*Ray Rothrock* has served on our board of directors since 1995. Mr. Rothrock has also served as one of our outside directors under the Israeli Companies Law since 2000. Mr. Rothrock is a Partner emeritus at Venrock, a venture capital firm, where he was a member since 1988 and a general partner since 1995. He retired from Venrock in 2013. Presently, Mr. Rothrock is the chairman and CEO of RedSeal Networks in Santa Clara, California. Mr. Rothrock is also a director of a number of private companies. Mr. Rothrock received a B.S. in Engineering from Texas A&M University, an M.S. from the Massachusetts Institute of Technology and an M.B.A. from the Harvard Business School.

*David Rubner* has served on our board of directors since 1999. Mr. Rubner is Chairman and Chief Executive Officer of Rubner Technology Ventures Ltd., a venture capital firm, and is a general partner at Hyperion Israel Advisors Ltd., a venture capital fund. Prior to founding Rubner Technology Ventures, Mr. Rubner served as President and Chief Executive Officer of ECI Telecommunications Ltd., a provider of telecommunications networking infrastructure solutions from September 1991 to February 2000. Prior to his appointment as President and Chief Executive Officer, Mr. Rubner held various management positions at ECI Telecom. Mr. Rubner serves as a member of the boards of directors of Elbit Imaging Ltd., Messaging International Ltd., Radware Ltd., Eltek Ltd., and a number of private companies. Mr. Rubner is also a member of the Board of Trustees of Jerusalem College of Technology and Shaare Zedek Hospital. Mr. Rubner holds a B.S. in Engineering from Queen Mary College, University of London and an M.S. in Electrical Engineering from Carnegie Mellon University, and he was a recipient of the Industry Prize in 1995.

*Dr. Tal Shavit* has served on our board of directors since 2000. Dr. Shavit is an organizational consultant specializing in international collaboration between Israeli and American companies, consulting in



## **Table of Contents**

the management of cultural differences in order to forge effective collaboration. Her work with leading management teams includes the definition of organizational culture as the engine of the company's activities. She consults with companies undergoing structural change with emphasis on organizational growth through effective mergers and acquisitions and a redefining of management roles in order to meet market changes.

Of the individuals mentioned above, only Gil Shwed and Marius Nacht owned more than one percent of our outstanding shares as of December 31, 2013. Additional details are provided in this Item 6, under the caption "Share ownership" and in Item 7 "Major Shareholders and Related Party Transactions."

Some of our directors are board members of multiple companies, some of which may be technology companies. The board of directors has determined that there are no current conflicts of interest with respect to any of our directors.

The terms of Gil Shwed, Marius Nacht, Jerry Ungerman, Dan Propper, David Rubner, Dr. Tal Shavit, Irwin Federman and Ray Rothrock will expire at our 2014 annual meeting of shareholders. The terms of Yoav Chelouche and Guy Gecht will expire at our 2015 annual meeting of shareholders.

There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any of the directors or members of senior management are elected.

## **Compensation of Directors and Officers**

The total direct cash compensation that we accrued for our directors and executive officers as a group was approximately \$2.0 million for the year ended December 31, 2011, \$2.3 million for the year ended December 31, 2012 and \$2.4 million for the year ended December 31, 2013. These amounts include \$0.13 million, \$0.12 million and \$0.14 million that were set aside or accrued to provide for severance and retirement insurance policies in 2011, 2012 and 2013, respectively. These amounts do not include amounts accrued for expenses related to business travel, professional and business association dues and other business expenses reimbursed to officers. We do not have any agreements with our directors who are also officers that provide for benefits upon termination of employment, except for severance payments mandated by Israeli law for all employees employed in Israel.

We currently pay each of our non-executive directors an annual cash retainer of \$40,000 for the services provided to our board of directors and an annual cash retainer of \$7,500 for each committee membership. In addition, we pay the chair of our audit committee an annual cash retainer of \$7,500 and the chair of each of our nominating committee and compensation committee an annual cash retainer of \$2,500. Only directors who are not officers receive compensation for serving as directors.

From time to time, we grant options and other awards under our equity incentive plans (described below) to our executive officers and directors. See Item 10 "Additional Information" "Compensation of Executive Officers and Directors; Executive Compensation Policy" for a detailed description of the approval procedures we follow in compensating our directors and executive officers.

Our non-employee directors receive an automatic option grant and are also eligible for discretionary awards under the plans. Each non-employee director who is first elected or appointed to the board of directors is granted an option to purchase 50,000 ordinary shares on the date of the initial election or appointment, vesting in equal annual installments over a four-year period. On the date of each annual general meeting of shareholders, each non-employee director who is to continue to serve as a non-employee director after the annual meeting is granted an option to purchase an additional 25,000 ordinary shares, of which 50%



## **Table of Contents**

vest six months after the grant date, 25% vest nine months after the grant date, and another 25% vest a year after the grant date, provided that the director has served as a non-employee director for at least six months prior to the date of the annual meeting. The directors in office immediately prior to the date of initial appointment or election, or of the annual meeting, as applicable, may determine to reduce the initial or annual grant to all non-employee directors or specific non-employee directors.

All options to directors are granted at an exercise price equal to 100% of the closing price of the ordinary shares on the NASDAQ Global Select Market on the date of grant.

In line with our goal of aligning the compensation of Mr. Shwed, our Chairman and Chief Executive Officer, with the objectives of our shareholders, on June 25, 2013, we granted Mr. Shwed options to purchase 1.6 million ordinary shares at an exercise price equal to 100% of the closing price of the ordinary shares on the NASDAQ Global Select Market on the date of the grant, vesting over a period of 4 years. The option grant to Mr. Shwed was recommended by the compensation committee, and approved by the board of directors and shareholders. Mr. Shwed requested to forego his salary and bonus for 2013, as he has done for the past several years. Following consideration of Mr. Shwed's request, our compensation committee and board of directors have determined that Mr. Shwed will not receive a bonus for 2013, and will not receive any cash compensation for 2013 except for an amount equal to the minimum wage required under Israeli law. Accordingly, other than the minimum wage required by law, Mr. Shwed's sole compensation for 2013 was the option grant described above.

As of December 31, 2013, our executive officers and directors held options to purchase an aggregate of approximately 12.03 million shares and held 107,688 restricted stock units under our stock option and equity incentive plans. The exercise prices of these options range between \$21.53 and \$55.95, and their expiration dates range between September 2014 and June 2020. During 2013, we granted our executive officers and directors options to purchase an aggregate of approximately 1.8 million shares under our equity incentive plans. The exercise price of these options was \$49.5, and their expiration is June 2020. Other than as specified in the share ownership table under the caption "Share ownership" below, none of our directors and executive officers holds more than 1% of our outstanding shares.

## **Board Practices**

Our board of directors currently consists of ten members. Under our articles of association, the board is to consist of between six and twelve members. Each director (other than an outside director as described below) is elected to serve until the next annual general meeting of shareholders and until his or her successor has been elected. Each executive officer is elected by the board of directors and serves at the discretion of the board. All of our executive officers and directors, other than non-employee directors, devote substantially all of their working time to our business. There are no family relationships among any of our directors, officers or key employees.

Our articles of association provide that any director may, by written notice to us, appoint another person to serve as an alternate director or may cancel the appointment of an alternate director. Any person eligible to serve as a director, other than a person who is already a director or an alternate director, may act as an alternate director. The term of appointment of an alternate director may be for one meeting of the board, for a specified period of time, a specified meeting or action of the board or until notice is given of the cancellation of the appointment. No director has appointed, and, to our knowledge, no director currently intends to appoint, any other person as an alternate director.

## **Table of Contents**

### **Outside and Independent Directors**

*Outside directors.* In accordance with the Israeli Companies Law and the relevant regulations, we must have at least two outside directors who meet the Israeli statutory requirements of independence. At least one of the outside directors is required to have financial and accounting expertise and the other outside director or directors are required to have professional expertise, all as defined under the Israeli Companies Law. Our board of directors has determined that each of Yoav Chelouche, Irwin Federman, Guy Gecht and Ray Rothrock has financial and accounting expertise, and each of Guy Gecht and Ray Rothrock has professional expertise .

An outside director serves for a term of three years, which may be extended for additional three-year terms. An outside director can be removed from office only under very limited circumstances. All of the outside directors must serve on the company's audit committee and compensation committee (including one outside director serving as the chair of the audit committee and the compensation committee), and at least one outside director must serve on each committee of the board of directors. As of December 31, 2013, Yoav Chelouche, Irwin Federman, Guy Gecht and Ray Rothrock are our outside directors under the Israeli Companies Law. Irwin Federman's and Ray Rothrock's term of office will expire in 2014 and Yoav Chelouche's and Guy Gecht's term of office will expire in 2015.

*Independent directors.* The Sarbanes-Oxley Act of 2002, as well as related rules subsequently implemented by the Securities and Exchange Commission and the NASDAQ Global Select Market, requires issuers to comply with various corporate governance practices. Under the rules applicable to us as a foreign private issuer, we are required to have a majority of independent directors within the meaning of the applicable NASDAQ regulations. Our board of directors complies with these requirements by including a majority of members who are independent directors within the meaning of the applicable NASDAQ regulations.

Pursuant to the Israeli Companies Law, an Israeli company whose shares are publicly traded may elect to adopt a provision in its articles of association pursuant to which a majority of its board of directors (or a third of its board of directors in case the company has a controlling shareholder) will constitute individuals complying with certain independence criteria prescribed by the Israeli Companies Law, as well as certain other recommended corporate governance provisions. Although we have not included these provisions in our articles of association because our board of directors already complies with the independence requirements and the corporate governance rules of the NASDAQ Global Select Market, as described below, a majority of our board of directors and all the members of our audit committee, compensation committee and nominating committee are directors who comply with the independence criteria prescribed by the Israeli Companies Law.

As of December 31, 2013, Yoav Chelouche, Irwin Federman, Guy Gecht, Dan Propper, Ray Rothrock, David Rubner and Tal Shavit are our independent directors under the applicable NASDAQ regulations and the Israeli Companies Law. Our independent directors have regularly held meetings at which only independent directors are present.

### **Committees of the Board of Directors**

Our articles of association provide that the board of directors may delegate all of its powers to committees of the board as it deems appropriate, subject to the provisions of Israeli law. Our board of directors has established an audit committee, compensation committee and nominating committee.

## **Table of Contents**

*Audit committee.* Under the Israeli Companies Law, the board of directors of any public company must establish an audit committee. The audit committee must consist of at least three directors, must include all of the outside directors (including one outside director serving as the chair of the audit committee), and a majority of the committee members must comply with the director independence requirements prescribed by the Israeli Companies Law.

The audit committee may not include the chairman of the board, or any director employed by us, by a controlling shareholder or by any entity controlled by a controlling shareholder, or any director providing services to us, to a controlling shareholder or to any entity controlled by a controlling shareholder on a regular basis, or any director whose income is primarily dependent on a controlling shareholder, and may not include a controlling shareholder or any relatives of a controlling shareholder. Individuals who are not permitted to be audit committee members may not participate in the committee's meetings other than to present a particular issue at the request of the chair of the committee. However, an employee who is not a controlling shareholder or relative may participate in the committee's discussions but not in any vote, and the company's legal counsel and corporate secretary (if they are not a controlling shareholder or relative) may participate in the committee's discussions and votes if requested by the committee.

In addition, the NASDAQ regulations also require us to maintain an audit committee consisting of at least three directors, all of whom must be independent under the NASDAQ regulations applicable to audit committee members. Irwin Federman is the chairman of the audit committee. Yoav Chelouche, Guy Gecht and Ray Rothrock serve as the other members of our audit committee. The audit committee has adopted an audit committee charter as required by the NASDAQ regulations.

The audit committee's duties include providing assistance to the board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions. In this respect the audit committee approves the services performed by our independent accountants and reviews their reports regarding our accounting practices and systems of internal accounting controls. The audit committee also oversees the audits conducted by our independent accountants and takes those actions, as it deems necessary to satisfy itself that the accountants are independent of management. Under the Israeli Companies Law, the audit committee also is required to monitor whether there are any deficiencies in the administration of our company, including by consulting with the internal auditor and independent accountant, to review, classify and approve related party transactions and extraordinary transactions, to review the internal auditor's audit plan and to establish and monitor whistleblower procedures.

Under the Israeli Companies Law, a meeting of the audit committee is properly convened if a majority of the committee members attend the meeting, and in addition a majority of the attending committee members are independent directors within the meaning of the Israeli Companies Law and include at least one outside director.

*Compensation committee.* Under the Israeli Companies Law, the board of directors of any public company must establish a compensation committee. The compensation committee must consist of at least three directors, include all of the outside directors (including one outside director serving as the chair of the compensation committee), and a majority of the committee members must comply with the director independence requirements prescribed by the Israeli Companies Law.

Similar to the rules that apply to the audit committee, the compensation committee may not include the chairman of the board, or any director employed by us, by a controlling shareholder or by any entity controlled by a controlling shareholder, or any director providing services to us, to a controlling shareholder or to any entity controlled by a controlling shareholder on a regular basis, or any director whose primary





**Table of Contents**

income is dependent on a controlling shareholder, and may not include a controlling shareholder or any of its relatives. Individuals who are not permitted to be compensation committee members may not participate in the committee's meetings other than to present a particular issue; provided, however, that an employee that is not a controlling shareholder or relative may participate in the committee's discussions but not in any vote, and the company's legal counsel and corporate secretary may participate in the committee's discussions and votes if requested by the committee.

In addition, the NASDAQ regulations also require us to maintain a compensation committee consisting of independent directors. Ray Rothrock is the chairman of the compensation committee. Yoav Chelouche, Irwin Federman and Guy Gecht serve as the other members of our compensation committee. The compensation committee has adopted a compensation committee charter.

The compensation committee's duties include recommending to the board of directors a compensation policy for executives and monitor its implementation, approve compensation terms of executive officers, directors and employees affiliated with controlling shareholders, make recommendations to the board of directors regarding the issuance of equity incentive awards under our equity incentive plans and exempt certain compensation arrangements from the requirement to obtain shareholder approval under the Israeli Companies Law.

*Nominating committee.* The nominating committee identifies prospective board candidates, recommends nominees for election to our board of directors, develops and recommends board member selection criteria, considers committee member qualification, supervises the selection and composition of committees of our board of directors, and provides oversight in the evaluation of our board of directors and each committee. David Rubner is the chairman of the nominating committee. Irwin Federman, Ray Rothrock and Tal Shavit serve as the other members of our nominating committee. The nominating committee has adopted a nominating committee charter.

**Employees**

As of December 31, 2013, we had 2,990 employees.

Over the past three years, the number of our employees by function was as follows:

<b>Function</b>	As of December 31, 2013		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Research, development and quality assurance	840	970	1,055
Marketing, sales and business development	926	1,061	1,158
Customer support	303	364	436
Information systems, administration, finance and operation	303	311	341
<b>Total</b>	<b>2,372</b>	<b>2,706</b>	<b>2,990</b>

**Table of Contents**

From time to time, we also engage a limited number of subcontractors. As of December 31, 2013, we had 85 contractors.

Over the past three years, the number of our employees by geographic area was as follows:

<b>Function</b>	As of December 31, 2013		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Israel	1,078	1,254	1,437
United States	633	681	712
Rest of the World	661	771	841
<b>Total</b>	<b>2,372</b>	<b>2,706</b>	<b>2,990</b>

We are subject to Israeli labor laws and regulations with respect to our Israeli employees. The Israeli labor laws differ materially from U.S. labor laws and, in some cases, impose material obligations on us (such as severance pay and mandatory cost of living increases). We are also subject to the labor laws and regulations of other jurisdictions in the world where we have employees.

**Share Ownership**

The following table shows information regarding beneficial ownership by our directors and executive officers as of January 31, 2014. Beneficial ownership is determined in accordance with rules of the Securities and Exchange Commission.

All information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder and, unless otherwise indicated below, we believe that persons named in the table have sole voting and sole investment power with respect to all of the shares shown as beneficially owned, subject to community property laws, where applicable. All shares shown as beneficially owned have identical rights in all respects. The shares beneficially owned by the directors include the shares owned by their family members to which such directors disclaim beneficial ownership.

The share numbers and percentages listed below are based on shares outstanding as of January 31, 2014.

**Table of Contents**

Name	Number of shares beneficially owned (1)	% of class of shares (2)	Title of securities covered by the options	Number of options and RSUs (3)	Exercise price of options	Date of expiration of options
Gil Shwed	30,668,807	15.4%	Ordinary shares	5,705,000	\$ 23.65 - \$53.67	09/03/2014-06/24/2020
Marius Nacht	21,214,986	11.0%	Ordinary shares			
All directors and officers as a group (13 persons including Messrs. Shwed and Nacht) (4)	53,485,652	26.7%	Ordinary shares	7,126,846	\$ 21.53 - \$55.95	09/03/2014-06/24/2020

- (1) The number of ordinary shares shown includes shares that each shareholder has the right to acquire pursuant to stock options that are exercisable and restricted share units that vest within 60 days after January 31, 2014.
- (2) If a shareholder has the right to acquire shares by exercising stock options (as determined in accordance with footnote (1)), these shares are deemed outstanding for the purpose of computing the percentage owned by the specific shareholder (that is, they are included in both the numerator and the denominator), but they are disregarded for the purpose of computing the percentage owned by any other shareholder.
- (3) Number of options immediately exercisable or exercisable and restricted share units that vest within 60 days from January 31, 2014.
- (4) Each of Messrs./Mmes. Ungerman, Bar-Lev, Payne, Dor, Chelouche, Federman, Gecht, Propper, Rothrock, Rubner and Dr. Shavit beneficially owns less than one percent of our outstanding ordinary shares.

**Equity Incentive Plans**

The following table summarizes our equity incentive plans, which have outstanding awards as of December 31, 2013:

Plan	Share reserved	Option and RSUs grants net (*)	Outstanding options and RSUs	Options outstanding exercise price	Date of expiration	Options exercisable
2005 United States Equity Incentive Plan	36,000,000(**)	2,736,224	914,338	\$ 23.46-\$58.49	09/03/2014-10/21/2020	423,750
2005 Israel Equity Incentive Plan	54,000,000(**)	18,677,061	12,593,737	\$ 21.53-\$55.95	09/03/2014-07/23/2020	7,576,796
Zone Labs	2,461,943	2,461,943	679	\$ 6.08	02/16/2014	679

1998 Stock Option Plan		
Employee Stock Purchase Plan	6,000,000	4,933,124

(\*) Grants net is calculated by subtracting options and RSUs expired or forfeited.

(\*\*) As further described below, following the amendments to the equity incentive plans in January 2014, the number of ordinary shares reserved under the plans was significantly reduced. As of January 31, 2014, the number of ordinary shares reserved under both the 2005 United States Equity Incentive Plan and the 2005 Israel Equity Plan together equals 19,000,000.

In 2005, we adopted our 2005 United States Equity Incentive Plan and our 2005 Israel Equity Incentive Plan, which were subsequently amended in January 2014. We refer to the plans, as amended in January 2014, as the U.S. Equity Plan and the Israel Equity Plan, and, together, as the Equity Plans.

## **Table of Contents**

### **Number of Ordinary Shares Reserved for Future Grants under the Equity Plans**

Following the amendment of the U.S. Equity Plan and the Israel Equity Plan in January 2014, we reserved a total of 19,000,000 ordinary shares under the two Equity Plans together. Commencing December 31, 2014, on December 31st of each year, the number of Reserved and Authorized Shares (as defined below) under both Equity Plans together shall be automatically reset on such date to equal 10% of the number of ordinary shares issued and outstanding on such date (provided that the number shall not be less than the number of outstanding awards granted under the Equity Plans as of such date). The number of *Reserved and Authorized Shares* under the Equity Plans shall equal the sum of (i) the number of ordinary shares reserved and authorized under the Equity Plans for outstanding awards granted under the Equity Plans as of such date, and (ii) the number of ordinary shares reserved, authorized and available for issuance under the Equity Plans on such date.

As of December 31, 2013, we had granted options to purchase an aggregate of 19,562,690 ordinary shares under the Equity Plans combined, of which options to purchase 12,601,546 ordinary shares were outstanding on that date. The option exercise prices range between \$21.53 and \$58.49 per share. As of December 31, 2013, we had granted an aggregate of 4,610,271 RSUs under the equity plans combined, of which 906,529 RSUs were outstanding on that date.

### **Administration**

Both Equity Plans are administered by our board of directors or a committee of our board. The compensation committee of our board of directors currently operates as the administrator of the Equity Plans. The administrator has full power to determine the persons to whom awards shall be granted and the other terms of the awards granted, including (a) the number of shares subject to each award, (b) the duration of the related award agreement, (c) the time, manner and form of payment upon the exercise of an award, and (d) other terms and provisions governing the awards. The administrator also establishes the vesting schedule of awards that are granted.

### **2005 United States Equity Incentive Plan, as Amended**

*Awards.* The U.S. Equity Plan provides for the following kinds of awards, which we refer to generically as awards: (i) Incentive Stock Options (ISOs), (ii) Non-statutory Stock Options (NSOs), (iii) Restricted Stock, (iv) Restricted Stock Units (RSUs), (v) Performance Shares, (vi) Performance RSUs ( PSUs ) and (vii) Deferred Stock Units. All of these awards can vest based on time or performance milestones.

**Table of Contents**

*Granting of options, price and duration.* Our U.S. Equity Plan provides that each option will expire on the date stated in the notice of grant, which will not be more than seven years from its date of grant (or five years, in the case of an ISO granted to a person who on the date of grant owns 10% or more of our voting power). The exercise price of an option cannot be less than 100% of the fair market value per share on the date of grant (or 110% of the fair market value, in the case of an ISO granted to a person who on the date of grant owns 10% or more of our voting power). The administrator will fix the period within which the award can be exercised and the exercise price. No option award can vest until at least six months after the grant date.

*Granting of awards, other than options, and price.* The administrator can determine the conditions that must be satisfied, which typically will be based principally or solely on the recipient's continuing to provide services to us, but conditions may also include a performance-based component. We can issue ordinary shares under grants of Restricted Stock, RSUs, Performance Shares and PSUs upon payment of their nominal value. No such award can vest until at least one year after the grant date. Deferred Stock Units consist of Restricted Stock, RSUs, Performance Shares, or PSUs that the administrator permits to be paid out in installments or on a deferred basis.

**2005 Israel Equity Incentive Plan, as Amended**

*Awards.* The Israel Equity Plan provides for the following kinds of awards, which we refer to generically as awards: (i) Approved 102 Options/Shares, which are grants to directors, employees and officers that are eligible for favorable tax treatment in Israel and which must be held by a trustee for a minimum period; (ii) Non-approved 102 Options/Shares, which are grants of options or shares that are not eligible for favorable tax treatment in Israel and which may be held directly by the participants; (iii) Restricted Stock; (iv) RSUs; (v) Performance Shares; (vi) PSUs; and (vii) Deferred Stock Units. All of these awards can vest based on time or performance milestones.

*Trustee.* A trustee designated by our board of directors and approved by the Israel Tax Authority must hold any shares allocated or issued upon exercise of Approved 102 Options or other shares subsequently received following any realization of rights, including bonus shares (stock dividends), for at least the period of time specified by Section 102 of Israel's Income Tax Ordinance.

*Granting of options, price and duration.* Our Israel Equity Plan provides that each option will expire on the date stated in the option agreement, which will not be more than seven years from its date of grant. The exercise price of an option cannot be less than 100% of the fair market value per share on the date of grant. The administrator will fix the period within which the award can be exercised and the exercise price. No option award can vest until at least six months after the grant date.

*Granting of awards, other than options, and price.* The administrator can determine the conditions that must be satisfied, which typically will be based principally or solely on the recipient's continuing to provide services to us, but conditions may also include a performance-based component. We can issue ordinary shares under grants of Restricted Stock, RSUs, Performance Shares and PSUs upon payment of their nominal value. No such award can vest until at least one year after the grant date. Deferred Stock Units consist of Restricted Stock, RSUs, Performance Shares, or PSUs that the administrator permits to be paid out in installments or on a deferred basis.

## **Table of Contents**

*Change of control arrangements.* Upon a change of control of us, if the acquirer refuses to assume or provide substitute awards, then the administrator of the equity plans, which is currently the compensation committee of our board of directors, can either terminate all unvested awards or accelerate the vesting period of any award under our Equity Plans. The administrator also has the authority to accelerate the vesting of the ordinary shares subject to outstanding awards held by our directors, officers and employees in connection with the subsequent termination of some officers' employment following a change of control event.

### **Zone Labs 1998 Stock Option Plan**

In connection with our acquisition of Zone Labs in March 2004, we assumed all of the outstanding Zone Labs stock options under the Zone Labs 1998 Stock Option Plan, which were converted into options to purchase approximately 2.8 million of our ordinary shares. As of December 31, 2013, 2,461,264 ordinary shares had been issued under the Zone Labs 1998 Stock Option Plan, and options to purchase 679 ordinary shares were outstanding on that date. The option exercise price is \$6.08 per share. No further stock options can be granted under the Zone Labs 1998 Stock Option Plan.

### **Employee Stock Purchase Plan**

In 1996, we adopted an Employee Stock Purchase Plan, which we refer to as the ESPP. The ESPP permits our full-time employees (and full-time employees of some of our subsidiaries) to purchase ordinary shares through payroll deductions. Under the ESPP, 6,000,000 ordinary shares were authorized for issuance. As of December 31, 2013, 4,933,124 ordinary shares had been issued under the ESPP. The ESPP has six-month offering periods, with purchases occurring in January and July. The compensation committee of our board of directors administers the ESPP. The ESPP will terminate on the earliest of (i) the last business day in January 2016, (ii) when no more shares are available for issuance under the ESPP, or (iii) when all purchase rights under the ESPP are granted or exercised in connection with a Corporate Transaction as defined in the ESPP.

An eligible employee can purchase ordinary shares at a price of 85% of the fair market value of the ordinary shares at the beginning of the six-month offering period (or 85% of the fair market value of the ordinary shares on the semi-annual purchase date, if that is lower). Each eligible employee can elect to purchase ordinary shares under the ESPP in an amount of up to 15% of the employee's compensation, but not more than 1,250 shares per participant on any purchase date. Employees may terminate their participation in the ESPP at any time during the offering period, and participation ends automatically on termination of employment with us. Each outstanding purchase right will be exercised immediately prior to our merger or consolidation with another company. Our board of directors may amend or terminate the ESPP immediately after the close of any purchase date. The board may not, unless shareholders approve, materially increase the number of ordinary shares available for issuance, reduce the purchase price payable for ordinary shares, or materially modify the eligibility requirements for participation or the benefits available to participants.

**Table of Contents****ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

The following table shows information as of December 31, 2011, 2012 and 2013, for each person who, to the best of our knowledge, beneficially owned more than 5% of our outstanding ordinary shares as December 31, 2013:

Name of Five Percent Shareholders	No. of shares beneficially held (1) December 31, 2011	% of class of shares (2)	No. of shares beneficially held (1) December 31, 2012	% of class of shares (2)	No. of shares beneficially held (1) December 31, 2013	% of class of shares (2)
Gil Shwed	32,110,792	15.1%	32,018,735	15.5%	31,436,485	15.8%
Marius Nacht	21,214,986	10.3%	21,214,986	10.7%	21,214,986	11.0%
Franklin Resources Inc. (3)					10,900,178	5.7%

- (1) The amount includes ordinary shares owned by each of the individuals, directly or indirectly, and options immediately exercisable or that are exercisable within 60 days from December 31<sup>st</sup>, of each of the years shown in this table.
- (2) If a shareholder has the right to acquire ordinary shares by exercising stock options exercisable within 60 days from December 31<sup>st</sup>, of each of the years shown in this table, these Ordinary shares are deemed outstanding for the purpose of computing the percentage owned by the specific shareholder (that is, they are included in both the numerator and the denominator), but they are disregarded for the purpose of computing the percentage owned by any other shareholder.
- (3) As of December 31, 2013, based on information contained in a Schedule 13F-HR filed by Franklin Resources Inc. with the Securities and Exchange Commission on February 12, 2014. Based on information available to us, as of December 31, 2011 and 2012, Franklin Resources Inc. did not beneficially own more than 5% of our outstanding ordinary shares. The address for Franklin Resources Inc. is One Franklin Parkway, San Mateo, California 94403.

Our major shareholders do not have different voting rights from other shareholders with respect to our ordinary shares.

According to our transfer agent, as of December 31, 2013, there were 174 holders of record of our ordinary shares in the United States, representing approximately 86% of our outstanding shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held by brokers or other nominees.

We are not controlled by another corporation or by any foreign government, directly or through any other entity. Each of our outstanding ordinary shares has identical rights in all respects.

As of December 31, 2012, we had employee and payroll accrual for related parties in a total amount of \$4.3 million, for the years 2002 through 2007. As of December 31, 2013, the accrual amounted to a total of \$3.7 million, for the years 2002 through 2007.



**Table of Contents**

**ITEM 8. FINANCIAL INFORMATION**

**Consolidated Financial Statements**

You can find our financial statements in Item 18 Financial Statements.

*Dividend policy.* We currently do not intend to distribute any amounts as dividend in the near-term. As described below, during 2013, we entered into a settlement agreement with the Israel Tax Authority, resulting in the full release of the profits we generated under the Israeli Law for the Encouragement of Capital Investments (the Investment Law ) through the year ended December 31, 2011 (known in Israel as trapped profits ), provided that in accordance with the Investment Law and the regulations thereunder, during the five years commencing 2013, we are obligated to invest approximately \$111 million in (i) production assets (as defined therein), (ii) research and development activities in Israel and (iii) employment payments for certain new employees (other than office holders) added after 2011. For amounts distributed as dividends from earnings from 2012 and 2013 are exempt from additional taxes.

**Legal Proceedings**

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 the Company and various tax authorities in different parts of the world.

In November 2013, we reached a settlement agreement (the Settlement Agreement ), with the Israeli Tax Authorities ( ITA ) for years 2002 through 2011 and accordingly, we and the ITA notified the court that we have reached an agreement outside of the court and obtained the court s approval (see Note 11).

We have filed for a declaratory judgment in a patent related case. The adversary is a non-practicing entity. At this time, we do not expect the ultimate resolution of these litigation matters to be material to our business, results of operations and financial condition.

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.

**Table of Contents****ITEM 9. THE OFFER AND LISTING**

Our ordinary shares are traded publicly on the NASDAQ Global Select Market under the symbol **CHKP** and on the Frankfurt Stock Exchange under the symbol **CPW**.

The following table lists the high and low prices of the ordinary shares on the NASDAQ Global Select Market for the periods indicated:

	<b>High</b>	<b>Low</b>
<b>Year</b>		
2009	\$ 34.57	\$ 18.94
2010	47.08	28.82
2011	61.60	43.20
2012	65.00	40.60
2013	64.95	44.40
<b><u>2012</u></b>		
First quarter	64.68	50.64
Second quarter	65.00	46.94
Third quarter	51.88	43.18
Fourth quarter	48.75	40.60
<b><u>2013</u></b>		
First quarter	53.01	45.75
Second quarter	51.61	44.40
Third quarter	59.49	48.83
Fourth quarter	64.95	55.08
<b><u>Most recent six months</u></b>		
September 2013 2006	58.95	56.00
October 2013 2006	62.32	55.08
November 2013 2006	63.29	57.72
December 2013 2006	64.95	59.63
January 2014 2007	68.89	63.04
February 2014 2007	68.34	62.31
March 2014 (through March 14, 2014) 2007	50.13	50.43

On March 14, 2014, the last reported sale price of our ordinary shares on the NASDAQ Global Select Market was \$67.32 per share.

**ITEM 10. ADDITIONAL INFORMATION**

We were incorporated in Israel in July 1993, and we are registered with the Israeli Registrar of Companies as public company number 52-004282-1.

## **Table of Contents**

The objectives and purposes stated in our memorandum of association are to engage in any lawful activity. 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 security, endpoint security, data security and management solutions. A broad range of our network security solutions operate under a unified security architecture, with central management and enforcement of security policy, and with centralized real-time security updates. Our products and services are sold to enterprises, service providers, small and medium-sized businesses and consumers.

## **Articles of Association and Israeli Companies Law**

The following is a summary of the material provisions of our articles of association and related provisions of Israeli corporate law. For the complete text of our articles of association, see Item 19 Exhibits.

## **Description of shares**

Our authorized share capital consists of the following: (i) 500,000,000 ordinary shares, NIS 0.01 nominal value; (ii) 5,000,000 preferred shares, NIS 0.01 nominal value; and (iii) 10 deferred shares, NIS 1.00 nominal value.

## **Description of ordinary shares**

All of the issued and outstanding ordinary shares are validly issued, fully paid, and non-assessable. The ordinary shares do not have pre-emptive rights. Our memorandum of association, our articles of association and Israeli law do not restrict in any way the ownership or voting of our ordinary shares by non-residents of Israel, except with respect to citizens of countries that are in a state of war with Israel.

*Dividend and liquidation rights.* The holders of our ordinary shares will be entitled to their proportionate share of any cash dividend, share dividend, or dividend in kind distributed with respect to our ordinary shares. This right may be changed if shares with special dividend rights are authorized in the future. Under the Israeli Companies Law, we may declare dividends out of the higher of retained earnings and earnings generated over the two most recent years (the profits test), in either case, provided that our board of directors reasonably believes that the dividend will not render us unable to meet our current or foreseeable obligations when due (the solvency test). Even if we do not comply with the profits test, a court may allow us to distribute a dividend as long as the court is convinced that the solvency test is fulfilled.

Our articles of association provide that the board of directors may declare and distribute interim dividends without the approval of the shareholders. Shareholder approval is required for the payment of a final dividend proposed by the board of directors, but shareholders cannot approve a final dividend that is greater than the board's proposal. In addition, once an interim dividend has been declared and paid, it cannot be affected by any subsequent resolution of the shareholders or the shareholders' failure to approve a final dividend.

In the event of our liquidation, holders of our ordinary shares have the equal right to participate in the distribution of assets remaining after payment of liabilities. This right may be changed if shares with special liquidation or dividend rights are issued in the future.

*Voting, shareholder meetings and resolutions.* Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. This right may be changed if shares with special voting rights are issued in the future.



## Table of Contents

Under the Israeli Companies Law, we must hold an annual meeting of our shareholders once every calendar year and not more than 15 months from the date of the previous annual shareholders meeting. The board of directors determines the location of the meeting, which can be in Israel or elsewhere. In addition, our board of directors may, in its discretion, convene additional meetings as special shareholders meetings. The board of directors is also required to convene a special shareholders meeting upon the demand of any of the following: (i) two directors; (ii) one quarter of the directors in office; (iii) the holder or holders of 5% of our outstanding share capital and 1% of our voting power; or (iv) the holder or holders of 5% of our voting power. Our articles of association provide that each shareholder of record is entitled to receive prior notice of any shareholders meeting in accordance with the requirements of the Israeli Companies Law. The law currently provides for at least 21 days notice, with certain specified matters requiring at least 35 days notice. For purposes of determining the shareholders entitled to notice and to vote at such meeting, the board of directors may fix a record date, which shall be between 4 and 40 days prior to the date of the meeting.

The quorum required for a meeting of shareholders consists of at least two shareholders present in person or by proxy and holding more than 50% of the voting power. The chairman of the board of directors presides at each of our shareholders meetings. The chairman of the meeting does not have an additional or casting vote. A meeting adjourned for lack of a quorum will be adjourned to the same day in the following week, at the same time and place, or to the day, time and place that the chairman determines, with the consent of the holders of a majority of the shares present in person or by proxy and voting on the question of adjournment. At the reconvened meeting, the required quorum consists of any two shareholders, regardless of the number of shares they hold or represent.

The Israeli Companies Law requires that shareholders approve certain transactions, actions and arrangements, as described below under the caption Approval of certain transactions; obligations of directors, officers and shareholders.

Shareholders resolutions will be deemed adopted if approved by the holders of a majority of the voting power voting at a shareholders meeting, except for the following decisions which require a different majority:

- (1) A special or extraordinary resolution (such as a resolution amending our memorandum of association or articles of association). A majority of at least 75% of the shares voting on the matter is needed.
- (2) A voluntary liquidation process or a merger. A majority of at least 75% of the shares voting on the matter is needed.
- (3) A compromise or arrangement between us and our creditors or shareholders, reorganization, stock split or reverse split. This has to be approved by a majority in the number of the persons participating in the vote (except for those abstaining) who together hold at least 75% of the value represented at the vote. In addition, court approval is needed.
- (4) The nomination and dismissal of outside directors. Outside directors may be elected or removed by a majority vote at a shareholders meeting, as long as either:
  - (i) The majority of shares includes a majority of the shares of non-controlling shareholders and shareholders who have no personal interest in the election of the outside directors (excluding a

personal interest that is not related to a relationship with the controlling shareholders) voted at the meeting, or

**Table of Contents**

(ii) The total number of shares of non-controlling shareholders and disinterested shareholders voted against the proposal does not exceed 2% of our aggregate voting rights.

(5) Extraordinary transactions with a controlling shareholder (i.e., any shareholder that has the ability to direct our actions, including any shareholder who holds 25% or more of our voting rights if no other shareholder owns more than 50% of our voting rights), with another person in which the controlling shareholder has a personal interest; or a transaction with a controlling shareholder (or a relative of such controlling shareholder) concerning terms of compensation for service as an office holder, or as a service provider to the company, including through a company controlled by a controlling shareholder. Following audit committee (or, alternatively, compensation committee if it relates to terms of compensation for service as an office holder or as a service provider) and board of directors approval, these transactions must be approved by a majority vote at a shareholders meeting, as long as either:

(i) The majority of shares includes at least a majority of the shares of the voting shareholders who have no personal interest in the transaction, or

(ii) The total shareholdings of those who have no personal interest in the transaction and who vote against the transaction does not exceed 2% of our aggregate voting rights.

Generally, the approval of such a transaction may not extend for more than three years, except that in the case of an extraordinary transaction with a controlling shareholder or in which a controlling shareholder has a personal interest that does not concern terms of compensation for service as an office holder, or as a service provider to the company, the transaction may be approved for a longer period if the audit committee determines that the approval of the transaction for a period longer than three years is reasonable under the circumstances.

(6) The adoption of an executive compensation policy. Following compensation committee and board of directors approval, the policy must be approved by a majority vote at a shareholders meeting, as long as either:

(i) The majority of shares includes a majority of the shares of non-controlling shareholders and shareholders who have no personal interest in the adoption of the policy voted at the meeting, or

(ii) The total number of shares of non-controlling shareholders and disinterested shareholders voted against the proposal does not exceed 2% of our aggregate voting rights.

(7) The approval of a compensation arrangement with the chief executive officer or the approval of a compensation arrangement with an executive officer or director that is not in compliance with the company's executive compensation policy. Following compensation committee and board of directors approval specifying the special circumstances requiring the arrangement of such arrangement (in the case of an arrangement that is not in compliance with the executive compensation policy), the compensation arrangement must be approved by a majority vote at a shareholders meeting, as long as either:

- (i) The majority of shares includes a majority of the shares of non-controlling shareholders and shareholders who have no personal interest in the adoption of the compensation arrangement voted at the meeting, or



## **Table of Contents**

- (ii) The total number of shares of non-controlling shareholders and disinterested shareholders voted against the proposal does not exceed 2% of our aggregate voting rights.

*Transfer of shares.* Fully paid ordinary shares are issued in registered form and, subject to applicable securities laws, may be transferred freely.

*Election of directors.* Our ordinary shares do not have cumulative voting rights in the election of directors. Therefore, the holders of shares representing more than 50% of the voting rights at the shareholders' meeting, voting in person or by proxy, have the power to elect any or all of the directors whose positions are being filled at that meeting, subject to the special approval requirements for outside directors described above.

*Chairman of the Board.* Under the Israeli Companies Law, the general manager of a company (or a relative of the general manager) may not serve as the chairman of the board of directors, and the chairman of the board of directors (or a relative of the chairman of the board of directors) may not serve as the general manager, unless approved by the shareholders by a special majority vote prescribed by the Israeli Companies Law. In any event, the shareholder vote cannot authorize the appointment for a period longer than three years, which period may be extended from time to time by the shareholders with a similar special majority vote. The chairman of the board of directors shall not hold any other position with the company (except as general manager if approved in accordance with the above procedure) or in any entity controlled by the company, other than as chairman of the board of directors of a controlled entity, and the company shall not delegate to the chairman duties that, directly or indirectly, make him or her subordinate to the general manager. In 2012, our shareholders last authorized Mr. Shwed to serve as both our Chief Executive Officer (general manager) and Chairman of the board of directors, and this authorization will expire in 2015.

*Transfer agent and registrar.* The transfer agent and registrar for our ordinary shares is American Stock Transfer & Trust Company, 59 Maiden Lane, Plaza Level, New York, NY 10038 U.S.A., Tel.: 718-921-8124.

## **Description of preferred shares**

We have 5,000,000 preferred shares authorized. Our articles of association provide that the board of directors has the authority to issue the preferred shares in one or more series and to fix the rights, preferences, privileges and restrictions of the preferred shares, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series, without further vote or action by the shareholders. If this provision withstands judicial scrutiny under the Israeli Companies Law, the issuance of preferred shares may have the effect of delaying, deferring or preventing a change in control of us without further action by the shareholders. For example, the board of directors could issue preferred shares with voting and conversion rights that may adversely affect the voting power of the holders of ordinary shares, including the loss of voting control to others.

## **Anti-takeover measures**

Some of the provisions of our articles of association and Israeli law could, together or separately:

Discourage potential acquisition proposals,

Delay or prevent a change in control,

Limit the price that investors might be willing to pay in the future for our ordinary shares.

## **Table of Contents**

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.

Under the Israeli Companies Law, in the case of a merger, the shareholders and board of directors of each of the merging companies generally need to approve the merger. Shares held in one of the merging companies by the other merging company (or certain of its affiliates) are not counted toward the required approval. If a merging company has different classes of shares, the approval of each class may be required. Under the Israeli Companies Law, a merger of our company requires the approval of a supermajority of at least 75% of our shares that are voted on the merger. A merger cannot be completed until 30 days have passed after shareholder approval of each of the merging companies, all approvals have been submitted to the Israeli Registrar of Companies and 50 days have passed from the time that a proposal for approval of the merger is filed with the Registrar of Companies. In addition, a creditor can seek to block a merger on the ground that the surviving company will not be able to meet its obligations.

The Israeli Companies Law also provides that an acquisition of shares in a public company, such as our company, must be made by means of a tender offer, if as a result of the acquisition, the purchaser would become the holder of 25% or more of the voting rights in the company (unless there is another 25% shareholder of the company, or the shares are acquired from another 25% shareholder). Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company, such as our company, must be made by means of a tender offer, if as a result of the acquisition the purchaser would hold more than 45% of the shares of the company (unless there is another holder of more than 45% of the shares of the company, or the shares are acquired from another holder of more than 45% of the shares of the company). These rules do not apply if the acquisition takes the form of a merger.

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

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

The acquisition of any level of control requires the purchaser to make a tender offer to the public. The Israeli Companies Law provides specific rules and procedures for the acquisition of shares held by minority shareholders if the majority shareholder holds more than 90% of the outstanding shares. Israeli tax law treats specified acquisitions, including a stock-for-stock swap between an Israeli company and a foreign company, less favorably than does U.S. tax law.

In addition, our articles of association contain certain provisions that may make it more difficult to acquire us, such as the ability of our board of directors to issue preferred shares, as described above under the caption Description of preferred shares.

Our articles of association provide that we may not engage in any business combination with an interested shareholder for a period of three years after the date that the shareholder became an interested shareholder, unless:

Prior to that date, the board of directors approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder; or

## **Table of Contents**

Upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 75% of our voting shares outstanding at the time the transaction commenced.

A business combination includes:

Any merger or consolidation between the interested shareholder and us;

Any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 10% or more of our assets in a transaction involving the interested shareholder;

Subject to certain exceptions, any transaction that results in our issuance or transfer of any of our shares to the interested shareholder;

Any transaction in which we are involved that has an effect of increasing the proportionate share of our shares, of any class or series, beneficially owned by the interested shareholder; or

The receipt by the interested shareholder of the benefit of any loans, advances, guarantees, pledges, or other financial benefits provided by or through us.

In general, the articles of association define an interested shareholder as any entity or person that beneficially owns 15% or more of our outstanding voting shares and any entity or person affiliated with, controlling or controlled by such entity or person.

In addition, our shareholders are not able to cumulate votes at a meeting, which may require the acquirer to hold more shares to gain representation on the board of directors than if cumulative voting were permitted.

### **Approval of certain transactions; obligations of directors, officers and shareholders**

*Officers and directors.* The Israeli Companies Law codifies the fiduciary duties that office holders, which under the law, includes our directors and executive officers, owe to a company.

*Fiduciary duties.* An office holder's fiduciary duties consist of a duty of loyalty and a duty of care.

The duty of loyalty requires an office holder to act in good faith and for the benefit of the company, including to avoid any conflict of interest between the office holder's position in the company and personal affairs, and proscribes any competition with the company or the exploitation of any business opportunity of the company in order to receive personal advantage for himself or herself or for others. This duty also requires an office holder to reveal to the company any information or documents relating to the company's affairs that the office holder has received due to his or her position as an office holder. A company may approve any of the acts mentioned above; provided, however, that all the following conditions apply: the office holder acted in good faith; neither the act nor the approval of the act prejudices the good of the company; and the office holder disclosed the essence of his or her personal interest in the act, including any substantial fact or document, in a reasonable time before the date for discussion of the approval. A director is required to exercise independent discretion in fulfilling his or her duties and may not be party to a voting

agreement with respect to his or her vote as a director. A violation of these requirements is deemed a breach of the director's duty of loyalty.

The duty of care requires an office holder to act with a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to use reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information material to these actions.

## **Table of Contents**

*Disclosure of personal interest.* The Israeli Companies Law requires that an office holder promptly disclose to the company any personal interest that he or she may have and all related material information or documents known to him or her, in connection with any existing or proposed transaction by the company. Personal interest, as defined by the Israeli Companies Law, includes a personal interest of any person in an act or transaction of the company, including a personal interest of his relative or of a corporation (i) in which that person or a relative of that person is a 5% or greater shareholder, a holder of 5% or more of the voting rights, or a director or general manager, or (ii) in which he or she has the right to appoint at least one director or the general manager, and includes shares for which the person has the right to vote pursuant to a power-of-attorney. Personal interest does not apply to a personal interest stemming merely from holding shares in the company.

The office holder must immediately make the disclosure of his or her personal interest and no later than the first meeting of the company's board of directors that discusses the particular transaction. This duty does not apply to the personal interest of a relative of the office holder in a transaction unless it is an extraordinary transaction. The Israeli Companies Law defines an extraordinary transaction as a transaction that is not in the ordinary course of business of a company, or that is not on market terms, or which is likely to have a material impact on the company's profitability, assets or liabilities. The Israeli Companies Law defines a relative as a spouse, sibling, parent, grandparent, descendant and the descendant, sibling or parent of a spouse, as well as the spouse of any of the foregoing.

*Approvals.* The Israeli Companies Law provides that a transaction with an office holder or a transaction in which an office holder has a personal interest requires board approval, unless the transaction is an extraordinary transaction or the articles of association provide otherwise. The transaction may not be approved if it is adverse to the company's interest. If the transaction is an extraordinary transaction, or if it concerns exculpation, indemnification, insurance or compensation of an office holder, then the approval of the company's compensation committee and the board of directors is required, except if the compensation arrangement is an immaterial amendment to an existing compensation arrangement of an officer who is not a director (in which case the approval of the compensation committee is sufficient). Exculpation, indemnification, insurance or compensation of a director or the Chief Executive Officer also requires shareholder approval.

A person who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee generally may not attend that meeting or vote on that matter, unless a majority of the board of directors or the audit committee also has a personal interest in the matter or if such person is invited by the chairman of the board of directors or audit committee, as applicable, to present the matter being considered. If a majority of the board of directors has a personal interest in the transaction, all directors may attend that meeting and vote, and a shareholder approval also would be required.

*Shareholders.* The Israeli Companies Law imposes the same disclosure requirements described above on a controlling shareholder of a public company that it imposes on an office holder. For this purpose, a controlling shareholder is any shareholder who has the ability to direct the company's actions, including any shareholder holding 25% or more of the voting rights, if no other shareholder owns more than 50% of the voting rights in the company. Two or more shareholders with a personal interest in the approval of the same transaction are deemed to be one shareholder.

## **Table of Contents**

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

Any amendment to the articles of association,

An increase of the company's authorized share capital,

A merger, or

Approval of interested party transactions that require shareholder approval.

In addition, any controlling shareholder, any shareholder who can determine the outcome of a shareholder vote, and any shareholder who under the company's articles of association can appoint or prevent the appointment of an office holder, is under a duty to act with fairness towards the company. The Israeli Companies Law provides that a breach of the duty of fairness will be governed by the laws governing breach of contract. The Israeli Companies Law does not describe the substance of this duty.

### ***Compensation of Executive Officers and Directors; Executive Compensation Policy***

In accordance with the Israeli Companies Law, we have adopted a compensation policy for our executive officers and directors. The purpose of the policy is to describe our overall compensation strategy for our executive officers and directors and to provide guidelines for setting their compensation, as prescribed by the Companies Law. In accordance with the Companies Law, the policy must be reviewed and readopted at least once every three years.

Approval of the compensation committee, the board of directors and our shareholders, in that order, is required for the adoption of the compensation policy. The shareholder's approval must include the majority of shares voted at the meeting. In addition to the majority vote, the shareholder approval must satisfy either of two additional tests:

the majority includes at least a majority of the shares voted by shareholders other than our controlling shareholders or shareholders who have a personal interest in the adoption of the compensation policies;  
or

the total number of shares held by non-controlling shareholders and disinterested shareholders that voted against the adoption of the compensation policies, does not exceed 2% of the aggregate voting rights of our company.

Under the Companies Law, the compensation arrangements for officers (other than the Chief Executive Officer) who are not directors require the approval of the compensation committee and the board of directors; provided, however, that if the compensation arrangement is not in compliance with our executive compensation policy, the arrangement may only be approved by the compensation committee and the board of directors for special reasons to be noted, and the compensation arrangement shall also require a special shareholder approval. If the compensation arrangement is an



immaterial amendment to an existing compensation arrangement of an officer who is not a director and is in compliance with our executive compensation policy, the approval of the compensation committee is sufficient.

Arrangements regarding the compensation of the Chief Executive Officer and directors require the approval of the compensation committee, the board and the shareholders, in that order. In certain limited cases, the compensation of a new Chief Executive Officer who is not a director may be approved without approval of the shareholders.

**Table of Contents**

**Indemnification and insurance of directors and officers; limitations on liability**

Our articles of association allow us to indemnify, exculpate and insure our office holders to the fullest extent permitted under the Israeli Companies Law.

Under the Israeli Companies Law, we may indemnify an office holder for any of the following liabilities or expenses that they may incur due to an act performed or failure to act in his or her capacity as our office holder:

Monetary liability imposed on the office holder 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 an office holder as a result of an investigation or proceeding instituted against the office holder by a competent authority, provided that such investigation or proceeding concludes without the filing of an indictment against the office holder, and either:

No financial liability was imposed on the office holder in lieu of criminal proceedings, or

Financial liability was imposed on the office holder 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 office holder or for which the office holder is charged by a court:

In an action brought against the office holder by us, on our behalf or on behalf of a third party,

In a criminal action in which the office holder is found innocent, or

In a criminal action in which the office holder is convicted, but in which proof of criminal intent is not required.

A company may indemnify an office holder in respect of these liabilities either in advance of an event or following an event. If a company undertakes to indemnify an office holder in advance of an event, the indemnification, other than litigation expenses, must be limited to foreseeable events in light of the company's actual activities when the company undertook such indemnification, and reasonable amounts or standards, as determined by the board of directors.

A company may obtain insurance for an office holder against liabilities incurred in his or her capacity as an office holder. These liabilities include a breach of duty of care to the company or a third party including a breach arising out of negligent conduct of the office holder, a breach of duty of loyalty and any monetary liability imposed on the office holder in favor of a third party. A company may also exculpate an office holder from a breach of duty of care in advance of that breach. Our articles of association provide for exculpation both in advance or retroactively, to the

extent permitted under Israeli law. A company may not exculpate an office holder from a breach of duty of loyalty towards the company or from a breach of duty of care concerning dividend distribution or a purchase of the company's shares by the company or other entities controlled by the company.

Under the Israeli Companies Law, a company may indemnify or insure an office holder against a breach of duty of loyalty only to the extent that the office holder acted in good faith and had reasonable grounds to assume that the action would not prejudice the company. In addition, a company may not indemnify, insure or exculpate an office holder against a breach of duty of care if committed intentionally or recklessly (excluding mere negligence), or committed with the intent to derive an unlawful personal gain, or for a fine or forfeit levied against the office holder in connection with a criminal offense.

## **Table of Contents**

We have resolved to indemnify our directors and officers, to the extent permitted by law and by our articles of association, for liabilities not covered by insurance, that are of certain enumerated types of events, and subject to limitations as to amount.

We have also entered into indemnification, insurance and exculpation agreements with our directors and officers undertaking to indemnify, insure and exculpate them to the full extent permitted by the Israeli Companies Law.

## **Charitable Contributions**

Our Articles of Association authorize the company to contribute reasonable amounts to worthy causes. In accordance with our charitable contribution policy, we contribute from time to time to various worthy causes. During 2013, the list of entities to which we contributed included the Tel Aviv University, Youth University of Tel Aviv University and the Rashi Foundation. Gil Shwed, our founder, Chairman and Chief Executive Officer, is a member of the Board of Trustees of Tel Aviv University, the Chairman of the Board of Trustees of the Youth University of Tel Aviv University and the Chairman of the Board of Directors of Yeholot Association Founded by the Rashi Foundation whose charter is, among other things, to reduce the dropout rates in high schools.

## **Borrowing power: amendment of rights of ordinary shares**

Our articles of association grant broad powers to the board of directors to have us borrow, repay borrowings, make guarantees and grant security interests in borrowings. The rights and provisions of the ordinary shares may be cancelled, added to, restricted, amended, or otherwise altered with a vote of the holders of at least 75% of the outstanding ordinary shares voting at a duly convened shareholders meeting.

## **Availability of Annual Report on Form 20-F**

In accordance with our articles of association and NASDAQ rules, we post our Annual Report on Form 20-F on our Web site ([www.checkpoint.com](http://www.checkpoint.com)), rather than mail it to shareholders.

## **Material Contracts**

None

## **Israeli Taxation, Foreign Exchange Regulation and Investment Programs**

The following is a summary of the principal Israeli tax laws applicable to us, the Israeli Government programs from which we benefit, and Israeli foreign exchange regulations. This section also contains a discussion of material Israeli tax consequences to our shareholders who are not residents or citizens of Israel. This summary does not discuss all aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances, or to some types of investors subject to special treatment under Israeli law. Examples of investors subject to special treatment under Israeli law include residents of Israel, traders in securities, or persons who own, directly or indirectly, 10% or more of our outstanding voting capital, all of whom are subject to special tax regimes not covered in this discussion. Some parts of this discussion are based on new tax legislation that has not been subject to judicial or administrative interpretation. The discussion should not be construed as legal or professional tax advice and does not cover all possible tax consequences.



## **Table of Contents**

**You are urged to consult your own tax advisor as to the Israeli and other tax consequences of the purchase, ownership and disposition of our ordinary shares, including, in particular, the effect of any non-Israeli, state or local taxes.**

### **General corporate tax structure in Israel**

Taxable income of Israeli companies is subject to tax at the rate of 24% in 2011, 25% in 2012 and 2013, and 26.5% in 2014 and onwards.

However, as discussed below, the rate is effectively reduced for income derived from our Approved Enterprise, Privileged Enterprise and Preferred Enterprise plans.

### **Law for the Encouragement of Capital Investments, 1959 ( Investment Law )**

Various production and development facilities of Check Point Software Technologies Ltd. have been granted Approved Enterprise and Privileged Enterprise status, which provides certain benefits, including tax exemptions and reduced tax rates for a defined period.

Distribution of dividends derived from income that was taxed at reduced rates, but not tax-exempt, does not result in additional tax consequences to the company.

In December 2010, new legislation amending the Investment Law was adopted effective January 1, 2011. According to the new legislation, the benefit tracks in the Investment Law were modified and a flat tax rate applies to preferred income produced or generated by a preferred company from the effective date. Commencing 2012, the Company elected for the Preferred Enterprise regime to apply (the waiver is non-recourse) and the Company's entire preferred income is subject to the tax rates as follows: 2012 15%, 2013 12.5% and 2014 and thereafter 16%. The profits of these Industrial Companies will be freely distributable as dividends, subject to a 15%-20% withholding tax (or lower, under an applicable tax treaty). However, upon the distribution of a dividend from Preferred Income to an Israeli company, no withholding tax will be remitted.

Income from sources other than the Approved, Privileged or Preferred Enterprise programs is subject to tax at regular Israeli corporate tax rate.

We have derived, and expect to continue to derive, a substantial portion of our operating income from our Preferred Enterprise facilities. We are, therefore, eligible for reduced tax rates for an unlimited period.

The benefits available to a Preferred Enterprise are conditioned upon terms stipulated in the Investment Law and the related regulations. If we do not fulfill these conditions, in whole or in part, the benefits can be cancelled, and we may be required to refund the benefits in an amount linked to the Israeli consumer price index plus interest. We believe that our Preferred Enterprise program currently operates, in compliance with all applicable conditions and criteria, but we cannot assure you that they will continue to do so.

Shareholders who receive dividends derived from Approved Enterprise, Privileged Enterprise or Preferred Enterprise income are generally taxed at a rate of 15%-20%, which is withheld and paid by the

## **Table of Contents**

company paying the dividend, if the dividend is distributed during the benefits period or within the following 12 years. The limitation does not apply to a Preferred Enterprise or to a Foreign Investors Company, which is a company that more than 25% of its shares owned by non-Israeli residents. Upon the distribution of a dividend derived from Preferred Enterprise to an Israeli company, no withholding tax will be remitted.

Pursuant to a temporary tax relief initiated by the Israeli government, a company that elected by November 11, 2013, to pay a reduced corporate tax rate as set forth in the temporary tax relief with respect to undistributed exempt income generated under the Law for the Encouragement of Capital Investments, 1959 (the Investment Law ) accumulated by the company until December 31, 2011 ( Trapped Earnings ) is entitled to distribute a dividend from such income without being required to pay additional corporate tax with respect to such dividend. A company that has so elected must make certain qualified investments in Israel over five-year period. A company that has elected to apply the temporary tax relief cannot withdraw from its election.

On November 11, 2013, we reached a settlement agreement with the ITA which provided (i) the full settlement of all disputes with the ITA with respect to the tax years 2002 through 2011, and (ii) the release of all the Trapped Earnings through the year ended December 31, 2011. In accordance with Section 52B of the Investments Law and the temporary tax relief, we are obligated to invest approximately \$111,000 during five years period in the following forms (i) production assets (as defined therein), (ii) research and development activities in Israel and/or (iii) employment payments for new employees (other than office holders) added after 2011. Any amount not invested in the five years period, should be paid at the end of the 5 years, linked to the Israeli CPI and bears 4% annual interest since the election date.

## **Foreign Exchange Regulations**

Under the Foreign Exchange Regulations, an Israeli company calculates its tax liability in U.S. dollars according to certain orders. The tax liability, as calculated in U.S. dollars is translated into NIS according to the exchange rate as of December 31st of each year.

Dividends, if any, paid to the holders of our ordinary shares, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency. If these amounts are paid in Israeli currency, they may be converted into freely repatriable U.S. dollars at the rate of exchange prevailing at the time of conversion. In addition, the statutory framework for the potential imposition of exchange controls has not been eliminated, and may be restored at any time by administrative action.

## **Equity Based Compensation**

Effective from January 1, 2003, the Tax Reform Legislation enables a company to grant options/shares through one of three tax tracks:

(a) the income tax track through a trustee pursuant to which the employee pays income tax rate (according to the marginal tax rate of the employee up to 45% tax in 2011 and 48% in 2012 and thereafter) plus payments to the National Insurance Institute and health tax on the profit gained upon the earlier to occur of the transfer of the options/shares or the underlying shares from the trustee to the employee or the sale of the options/shares or the underlying shares by the trustee, and the company may recognize expenses pertaining to the options/shares for tax purposes. The shares/options (or upon their exercise, the underlying





**Table of Contents**

shares), must be held by a trustee for a period of 12 months commencing from the date of which the options/shares were issued and deposited with the trustee. As of January 1, 2013, the marginal tax rate (48%) of an individual will increase by 2% in the event the employee's taxable income in any tax year exceeds the amount of NIS 800,000 (linked to the CPI each year) including capital gains from marketable securities, dividends and interest income; or

(b) the capital gains tax track through a trustee pursuant to which the employee pays capital gains tax at a rate of 25% on the capital profit portion and marginal tax rate (including payments to the National Insurance Institute and health tax) on the income portion (in general, the income portion is the profit derived from the difference between the average market value of the share 30 days before the allotment date and the exercise price of the option/share) upon the earlier to occur of the transfer of the options/shares or the underlying shares from the trustee to the employee or the sale of the options/shares or the underlying shares by the trustee. (On the capital profit, the employee is not required to make payments to the National Insurance Institute and health tax). In this track, on the capital profit, the Company may not recognize expenses pertaining to the options/shares for tax purposes but may do so on the income portion. The shares/options (or upon their exercise, the underlying shares), must be held by a trustee for a period of 24 months commencing from the date of which the options/shares were issued and deposited with the trustee (with respect to options/shares granted before January 1, 2006, a period of 30 months commencing from the date of which the options/shares were granted or a period of 24 months commencing from the date of which the options/shares were issued and deposited with the trustee). As of January 1, 2013, the capital gain tax rate percentage increased by 2% in the event the employee's taxable income in any tax year exceeds the amount of NIS 800,000 (linked to the CPI each year) including capital gains from marketable securities, dividends and interest income; or

(c) the income tax track without a trustee pursuant to which the employee pays income tax rate (according to the marginal tax rate of the employee up to 45% tax in 2011 and 48% in 2012 and thereafter) plus payments to the National Insurance Institute and health tax on the profit at the allotment date, and pays capital gains tax at a rate of 25% or 30% (pursuant to 2011 tax reform legislation, the capital tax rate increased from 20% or 25% in 2011 to 25% or 30% in 2012 and thereafter) on the capital profit upon the sale of the underlying shares/shares, and the company may not recognize expenses pertaining to the capital gain for tax purposes but may recognize expenses pertaining to the profit at the allotment date. As of January 1, 2013, the marginal tax rate (48%) of an individual or the capital gain tax rate percentage, as applicable, increased by 2% in the event the employee's taxable income in any tax year exceeds the amount of NIS 800,000 (linked to the CPI each year) including capital gains from marketable securities, dividends and interest income.

In accordance with the provisions of the Israeli Tax Ordinance, if a company has selected the capital gains track, the company must continue granting options/shares under the selected capital gains track until the end of the year following the year in which the first grant of options/shares under that trustee track will be made.

We implement the capital gain track on RSUs and stock options granted to our employees and directors.

We implement the income tax track without a trustee on our ESPP.

Notwithstanding the above, the company may at any time also grant options/shares under the provisions of the income tax track without a trustee.

## **Table of Contents**

The above rules apply only to employees, including officeholders but excluding controlling shareholders.

Controlling shareholders will be taxable under section 3(i) to the tax ordinance, according to which, the individual pays income tax rate (according to the marginal tax rate of the individual- up to 45% in 2011 and 48% in 2012 and thereafter) on the profit upon the sale of the underlying shares/shares. As of January 1, 2013, the marginal tax rate (48%) of an individual increased by 2% in the event the employee's taxable income in any tax year exceeds the amount of NIS 800,000 (linked to the CPI each year) including capital gains from marketable securities, dividends and interest income.

## **Taxation of Non-Israeli Subsidiaries**

Non-Israeli subsidiaries are generally taxed based upon tax laws applicable in their countries of residence. In accordance with the provisions of Israeli-controlled foreign corporation rules, certain income of a non-Israeli subsidiary, if the subsidiary's primary source of income is passive income (such as interest, dividends, royalties, rental income or income from capital gains), may be deemed distributed as a dividend to the Israeli parent company and consequently is subject to Israeli taxation. An Israeli company that is subject to Israeli taxes on such deemed dividend income of its non-Israeli subsidiaries may generally receive a credit for non-Israeli income taxes paid by the subsidiary in its country of residence or are to be withheld from the actual dividend distributions.

## **Taxation of Non-Israeli Shareholders on Receipt of Dividends**

Under Israeli tax law, a distribution of dividends from income attributable to an Approved Enterprise, Privileged Enterprise or Preferred Enterprise will be subject to tax in Israel at the rate of 15%-20%, which is withheld and paid by the company paying the dividend, if the dividend is distributed during the benefits period or within the following 12 years (this limitation does not apply to a Foreign Investors Company or to a preferred Enterprise). However, if the dividend is attributable partly to income derived from an Approved Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. Any distribution of dividends from income that is not attributable to an Approved Enterprise, Privileged Enterprise or Preferred Enterprise will be subject to tax in Israel at the rate of 25%, except that dividends distributed to an individual who is deemed a substantial shareholder will be subject to tax at the rate of 30%.

Under the United States-Israel tax treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a United States resident is 25%. Dividends received by a United States company that holds at least 10% of our voting rights, will be subject to withholding tax at the rate of 12.5%, provided that certain other conditions in the tax treaty are met (or at the tax rate of 15% in respect of dividends paid from income attributable to our Approved Enterprises or Privileged Enterprise). Dividends distributed to other foreign shareholders may be subject to different withholding tax rates based on the applicable tax treaty.

A non-resident of Israel who has interest or dividend income derived from or accrued in Israel, from which tax was withheld at the source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer.

## **Capital Gains Taxes Applicable to Non-Israeli Shareholders**

Capital gains from the sale of our ordinary shares by non-Israeli shareholders are exempt from Israeli taxation under the Israeli domestic tax law, provided that the capital gain is not derived from a



## **Table of Contents**

permanent establishment in Israel. In addition, the United States-Israel tax treaty exempts United States residents who hold less than 10% of our voting rights, and who held less than 10% of our voting rights during the 12 months prior to a sale of their shares, from Israeli capital gains tax in connection with such sale under certain circumstances.

### **United States Federal Income Tax Considerations**

The following discussion describes the material U.S. federal income tax considerations relating to the ownership or disposition of our ordinary shares to a holder who is:

A citizen or resident (as defined for U.S. federal income tax purposes) of the United States;

A corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any of its states;

An estate, if the estate's income is subject to U.S. federal income taxation regardless of its source; or

A trust, if a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons (e.g., a U.S. citizen, resident, or corporation) have the authority to control all of its substantial decisions.

We refer to any of the above as a U.S. Shareholder.

This discussion is based on the provisions of the Internal Revenue Code of 1986, as amended, referred to as the Code, U.S. Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as in effect as of the date of this Annual Report on Form 20-F. This discussion generally considers only U.S. Shareholders who will hold the ordinary shares as capital assets. The discussion does not consider:

Aspects of U.S. federal income taxation relevant to U.S. Shareholders by reason of their particular circumstances (including potential application of the alternative minimum tax).

U.S. Shareholders subject to special treatment under the U.S. federal income tax laws, such as financial institutions, insurance companies, broker-dealers, tax-exempt organizations, partnerships or entities treated as partnerships and their partners and foreign individuals or entities.

U.S. Shareholders who own 10% or more of our outstanding voting shares, either directly or by attribution.

U.S. Shareholders who hold our ordinary shares as part of a hedging, straddle, or conversion transaction.

U.S. Shareholders who acquire their ordinary shares in a compensatory transaction.

U.S. Shareholders whose functional currency is not the U.S. dollar.

Any aspect of state, local, or non-U.S. tax law.

**The following summary does not address all of the tax consequences of owning or disposing of our ordinary shares to you based on your individual tax circumstances. Accordingly, you should consult your own tax advisor as to the particular tax consequences to you of owning or disposing of our ordinary shares, including the effects of applicable state, local, or non-U.S. tax laws and possible changes in the tax laws.**

---

**Table of Contents****Dividends Paid on the Ordinary Shares**

A U.S. Shareholder, as defined above, will generally be required to include in gross income the amount of any distributions paid in respect of the ordinary shares to the extent that the distributions are paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of the distribution would include any Israeli taxes withheld as part of the distributions. A maximum U.S. federal income tax rate of 20% (plus potentially an additional 3.8% on certain net investment income as described below) will generally apply for individual shareholders and 35% for corporate shareholders if certain holding period requirements are met. The 20% maximum individual shareholder rate is applicable for qualified dividend income received by an individual as well as certain trusts and estates. Qualified dividend income generally includes dividends paid by a U.S. corporation or a qualified foreign corporation. A non-U.S. corporation, such as ours, generally will be considered to be a qualified foreign corporation if (i) our shares are readily tradable on an established securities market in the United States, or (ii) we are eligible for the benefits of a comprehensive U.S. income tax treaty determined to be satisfactory to the U.S. Department of the Treasury. The U.S. Department of the Treasury and the Internal Revenue Service have determined that the United States-Israel tax treaty is satisfactory for this purpose. In addition, the U.S. Department of the Treasury and the Internal Revenue Service have determined that ordinary shares are considered readily tradable on an established securities market if they are listed on an established securities market in the United States, such as the NASDAQ Global Select Market. The information returns, reporting the dividends paid to U.S. Shareholders, will identify the amount of dividends eligible for the reduced rates.

Any distributions in excess of earnings and profits will be treated first as non-taxable return of capital, reducing a U.S. Shareholder's tax basis in the ordinary shares to the extent of the distributions, and then as capital gain from a sale or exchange of the ordinary shares. Our dividends will generally not qualify for the dividends received deduction available to corporations. Any cash distribution paid in Israeli Shekels will equal the U.S. dollar value of the distribution, calculated based on the spot exchange rate in effect on the date of the distribution.

**Credit for Israeli Taxes Withheld**

Subject to certain conditions and limitations, a U.S. Shareholder may be eligible for a credit against United States federal income tax liability for any Israeli tax withheld or paid with respect to dividends on the ordinary shares. The Code provides limitations on the amount of foreign tax credits. These limitations include extensive separate computation rules under which foreign tax credits allowable with respect to specific categories of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such category of income. A shareholder who does not elect to claim a foreign tax credit may instead claim a deduction for Israeli income tax withheld or paid, but only if the shareholder elects to do so for all foreign income taxes in that year. Special rules for determining a U.S. Shareholder's foreign tax credit limitation apply in the case of qualified dividend income. Rules similar to those concerning adjustments to the foreign tax credit limitation to reflect any capital gain rate differential also apply to any qualified dividend income. The rules relating to foreign tax credits are complex and each shareholder should consult his, her, or its own tax advisor to determine whether and if the specific shareholder would be entitled to this credit.

*Disposition of the Ordinary Shares*

The sale or exchange of ordinary shares will generally result in the recognition of capital gain or loss. The amount of gain or loss is the difference between the amount realized on the sale or exchange and the tax basis in the ordinary shares. If a U.S. Shareholder's holding period for the ordinary shares exceeds



## **Table of Contents**

one year at the time of the disposition, the amount of the shareholder's gain or loss generally will be long-term capital gain or loss. Long-term capital gains of non-corporate shareholders realized upon a sale or exchange of ordinary shares generally will be subject to a maximum U.S. federal income tax rate of 20% (plus potentially an additional 3.8% on certain net investment income as described below). The deductibility of capital losses may be subject to limitation. Gain or loss recognized by a U.S. Shareholder on a sale or exchange of ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Under the United States-Israel tax treaty, gain derived from the sale, exchange, or other disposition of ordinary shares by a holder, who is a resident of the United States for purposes of the treaty and who sells the ordinary shares within Israel, may be treated as foreign source income for U.S. foreign tax credit purposes.

### **Additional Tax on Investment Income**

U.S. Shareholders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to a 3.8% tax on certain net investment income, including, among other things, dividends on and capital gains from the sale or other disposition of our ordinary shares, subject to certain limitations and exceptions.

### **Passive Foreign Investment Company Status**

Based upon our income, assets and activities, we believe that we are not currently, and have not been in prior years, a passive foreign investment company (PFIC) for U.S. federal income tax purposes. We do not currently anticipate that we will be a PFIC for any subsequent year. We would be classified as a PFIC if, for any taxable year, either:

75% or more of our gross income in the taxable year is passive income, or

50% or more of the average percentage of our assets held during the taxable year produce or are held for the production of passive income.

For this purpose, passive income includes dividends, interest, royalties, rents, annuities and the excess of gain over losses from the disposition of assets that produce passive income.

If we were a PFIC for any taxable year during which you held shares as a U.S. Shareholder and you did not timely elect to treat us as a qualified electing fund under Section 1295 of the Code or elect to mark the ordinary shares to market, you would be subject to special tax rules that have a penalizing effect on the receipt of an excess distribution on the ordinary shares. Generally, a distribution is considered an excess distribution to the extent it exceeds 125% of the average annual distributions in the prior three years. You would also be subject to special tax rules that have a penalizing effect on the gain from the disposition of the ordinary shares, including the treatment if any such gain as ordinary income, not capital gain.

A U.S. Shareholder may be able to mitigate certain adverse tax consequences of holding shares in a PFIC by making a qualified electing fund, deemed sale or mark-to-market election. However, as a U.S. Shareholder you may make a qualified electing fund election only if we agree to furnish certain tax information annually. We do not presently prepare or provide this information, and this information may not be available to you if we are subsequently determined to be a PFIC. A number of specific rules and requirements apply to a U.S. Shareholder under either of the elections available to owners of a PFIC. You are urged to consult your tax advisor concerning these elections.





## **Table of Contents**

### **Information Reporting and Back up Withholding**

Dividend payments and proceeds from the sale or disposal of ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. federal backup withholding. However, backup withholding will not apply to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification, or who is otherwise exempt from backup withholding (for example, a corporation). Any U.S. Shareholder who is required to establish exempt status generally must file IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Amounts withheld as backup withholding may be credited against a U.S. Shareholder's federal income tax liability. A U.S. Shareholder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

### **Documents on Display**

This report and other information filed or to be filed by us can be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission at:

Securities and Exchange Commission

100 F Street, NE

Public Reference Room

Washington, D.C. 20549

For further information on the operation of the public reference room and copy charges, the Securities and Exchange Commission may be contacted at 1-800-SEC-0330.

The Securities and Exchange Commission maintains a Web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the Securities and Exchange Commission using its EDGAR system. We intend to post our Annual Report on Form 20-F on our website ([www.checkpoint.com](http://www.checkpoint.com)) promptly following the filing of our Annual Report on Form 20-F with the Securities and Exchange Commission.

Additionally, documents referred to in this Annual Report on Form 20-F may be inspected at our principal executive offices located at 5 Ha Solelim Street, Tel Aviv 6789705, Israel.

### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risks that result primarily from weak economic conditions in the markets in which we sell our products, and from changes in exchange rates or in interest rates.

As of December 31, 2013, securities representing 4.1% of our investments portfolios are rated as AAA; securities representing 50.2% of the portfolio are rated as AA; securities representing 45.0% of the portfolio are rated as A; and securities representing 0.7% of the portfolio are rated as BB.



**Table of Contents**

The table below provides information regarding our investments in cash, cash equivalents and marketable securities, as of December 31, 2013:

	2014	2015	Maturity			2019 onwards	Total Amortized cost	Fair Value at Dec. 31, 2013
			2016	2017	2018			
(in thousands)								
Government and corporate debentures - fixed interest rates	\$ 593,218	\$ 826,826	\$ 689,039	\$ 332,473	\$ 121,176		\$ 2,562,732	\$ 2,565,099
U.S. Agencies	\$ 93,900	\$ 156,113	\$ 170,502	\$ 99,062	\$ 16,042		\$ 535,619	\$ 535,415
Government and corporate debentures - floating interest rates	\$ 67,794	\$ 3,007	\$ 31,247	\$ 6,969	\$ 11,746		\$ 120,763	\$ 120,978
Short-term deposits, money market instruments & cash	\$ 408,432						\$ 408,432	\$ 408,432
<b>Total</b>	<b>\$ 1,163,344</b>	<b>\$ 985,946</b>	<b>\$ 890,788</b>	<b>\$ 438,504</b>	<b>\$ 148,964</b>		<b>\$ 3,627,546</b>	<b>\$ 3,629,924</b>

**Foreign Currency Risk**

Most of our sales are denominated in U.S. dollars, and we incur most of our expenses in U.S. dollars, Euros, Swedish Krona, British Pounds and Israeli Shekels. According to the factors indicated in ASC 830, Foreign Currency Matters, our cash flow, sale price, sales market, expense, financing and inter-company transactions, and arrangement indicators, are predominantly denominated in U.S. dollars. In addition, the U.S. dollar is the primary currency of the economic environment in which we operate, and thus, the U.S. dollar is our functional and reporting currency.

On our balance sheet, we convert into U.S. dollars all monetary accounts (principally liabilities) that are maintained in other currencies. For this conversion, we use the relevant foreign exchange rate at the balance sheet date. Any gain or loss that results from this conversion is reflected in the statement of income as financial income or financial expense, as appropriate.

We measure and record non-monetary accounts in our balance sheet in U.S. dollars. For this measurement, we use the U.S. dollar value in effect at the date that the asset or liability was initially recorded in our balance sheet (the date of the transaction).

We entered into forward contracts to hedge the exchange impacts on assets and liabilities denominated in Israeli Shekels, Euros, British Pounds, Swedish Krona and Japanese Yen. As of December 31, 2013, we had outstanding forward contracts that did not meet the requirement for hedge accounting, in the amount of \$236.4 million. These

contracts were for a period of up to twelve months. The net gains recognized in financial income, net during 2013 were \$20.3 million.

During 2013, we entered into forward contracts to hedge against the risk of overall changes in exchange rates on future cash flow from payments of payroll and related expenses denominated in Israeli Shekels. As of December 31, 2013, we had outstanding forward contracts in the notional amount of \$29.6 million and their fair value amounted to \$0.1 million. These contracts were for a period of up to twelve

**Table of Contents**

months. These contracts met the requirement for cash flow hedge accounting and as such gains in the amount of \$2.4 million were recognized when the related expense were incurred and classified in operating expenses during 2013.

The Company's operating expenses may be affected by fluctuations in the value of the U.S dollar as it relates to foreign currencies; with Israel and Europe having the greatest potential impact. In managing our foreign exchange risk we periodically enter into foreign exchange hedging contracts. Our goal is to mitigate the potential exposure with these contracts. By way of example, a 10% weakening in the value of the dollar relative to the currencies in which the Company's operating expenses are denominated in 2013 would result in an increase in operating expenses of \$25 million for the year ended December 31, 2013. This calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.

**Interest Rate Risk**

Our exposure to market risk for changes in interest rates relates primarily to our investment in marketable securities. Our marketable securities portfolio includes government and government agencies debt instruments (U.S., European and other) and corporate debt instruments. By policy, we limit the amount of credit exposure to any one issuer.

Investments in both fixed rate and floating rate interest bearing securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, our income from investments may decrease in the future in the event that interest rates fluctuate.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

**Table of Contents**

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

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

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

There are no material modifications to, or qualifications of, the rights of security holders that are required to be disclosed.

**ITEM 15. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

As of December 31, 2013, we performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2013, to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information related to us and our consolidated subsidiaries is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

**Management's report on internal control over financial reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets,

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and



## **Table of Contents**

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management recognizes that there are inherent limitations in the effectiveness of any system of internal control over financial reporting, including the possibility of human error and the circumvention or override of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation, and may not prevent or detect all misstatements. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In conducting its assessment of internal control over financial reporting, management based its evaluation on the framework in Internal Control Integrated Framework (the 1992 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our management has concluded based on its assessment, that our internal control over financial reporting was effective as of December 31, 2013, based on these criteria.

Our financial statements and internal control over financial reporting have been audited by Kost, Forer, Gabbay & Kasierer (A Member of EY Global), an independent registered public accounting firm which has issued an attestation report on the Company's internal control over financial reporting included elsewhere in this Annual report on Form 20-F.

## **Changes in Internal Control over Financial Reporting**

During the period covered by this Annual Report on Form 20-F, no changes in our internal control over financial reporting have occurred that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 16. Reserved.**

### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Messrs. Yoav Chelouche and Irwin Federman are audit committee financial experts and that they are independent under the applicable Securities and Exchange Commission and NASDAQ Global Select Market rules.

### **ITEM 16B. CODE OF ETHICS**

In March 2004, our board of directors adopted a Code of Ethics that applies to all of our employees, directors and officers, including the Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller and other individuals who perform similar functions. The Code of Ethics is updated from time to time. You can obtain a copy of our Code of Ethics without charge, by sending a written request to our investor relations department at Check Point Software Technologies, Inc., Attn: Investor Relations, 959 Skyway Road, Suite 300, San Carlos, California 94070 U.S.A.; Tel: 650-628-2000; Email: [ir@us.checkpoint.com](mailto:ir@us.checkpoint.com)



**Table of Contents****ITEM 16C.PRINCIPAL ACCOUNTANT FEES AND SERVICES****Fees and Services**

The following table sets forth the aggregate fees for the audit and other services provided by Kost, Forer, Gabbay & Kasierer, a member of EY Global and other members of EY Global during the years ended December 31, 2012 and 2013 (in thousands):

	Year Ended December 31, 2012		Year Ended December 31, 2013	
	Amount	Percentage	Amount	Percentage
	(in thousands, except percentages)			
Audit fees (1)	\$ 748	80%	\$ 739	81%
Audit-related fees				
Tax fees (2)	\$ 188	20%	\$ 178	19%
Total	\$ 936	100%	\$ 917	100%

- (1) Audit fees are fees for audit services for each of the years shown in this table, including fees associated with the annual audit (including audit of our internal control over financial reporting) and reviews of our quarterly financial results submitted on Form 6-K, consultations on various accounting issues and audit services provided in connection with other statutory or regulatory filings.
- (2) Tax fees are fees for professional services rendered by our auditors for tax compliance, tax planning and tax advice on actual or contemplated transactions, tax consulting associated with international transfer prices and employee benefits.

*Audit committee's pre-approval policies and procedures*

Our audit committee chooses and engages our independent auditors to audit our financial statements, with the approval of our shareholders as required by Israeli law. Our audit committee adopted a policy requiring our management to obtain the audit committee's approval before engaging our independent auditors to provide any audit or permitted non-audit services to us or our subsidiaries. This policy, which is designed to assure that such engagements do not impair the independence of our auditors, requires pre-approval from the audit committee on an annual basis for the various audit and non-audit services that may be performed by our auditors. In addition, the audit committee limited the aggregate amount of fees our auditors may have received during 2012 and 2013, and will receive during 2014 for non-audit services in certain categories.

Our Chief Financial Officer reviews all management requests to engage our auditors to provide services and approves a request if the requested services are of those that have received pre-approval from our audit committee. We inform our audit committee of these approvals at least quarterly and prior to the commencement of the related services. If the services are not included in those categories that were pre-approved by our audit committee, then specific approval is needed from our audit committee before these services are commenced. Our audit committee is not permitted to approve the engagement of our auditors for any services that would be inconsistent with maintaining the auditors independence or that are not permitted by applicable law.



**Table of Contents****ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

As of December 31, 2013, the Company repurchased ordinary shares for an aggregate amount of \$3,073 million. On January 28, 2014, the Company's board of directors approved and authorized the repurchase of up to additional \$1,000 million of the Company's ordinary shares. Under the repurchase programs, share purchases may be made from time to time depending on market conditions, share price, trading volume and other factors and will be funded from available working capital.

During 2013, we used \$537.8 million to repurchase approximately 10.1 million ordinary shares which were repurchased under our ninth program. The table below provides detailed information.

<b>Period</b>	<b>(a) Total Number of Ordinary Shares Purchased</b>	<b>(b) Average Price per Ordinary Share</b>	<b>(c) Total Number of Ordinary Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Approximate Dollar Amount Available for Repurchase under the Plans or Programs</b>
January 1 - January 31	810,200	48	810,200	\$ 655,054,400
February 1 - February 28	959,900	51	959,900	\$ 606,137,270
March 1 - March 31	937,889	50	937,889	\$ 559,183,347
April 1 - April 30	965,958	46	965,958	\$ 514,682,890
May 1 - May 31	1,038,700	48	1,038,700	\$ 464,559,504
June 1 - June 30	913,081	50	913,081	\$ 419,196,251
July 1 - July 31	446,698	53	446,698	\$ 396,005,319
August 1 - August 31	853,100	58	853,100	\$ 347,029,793
September 1 - September 30	968,683	57	968,683	\$ 291,514,141
October 1 - October 31	817,400	58	817,400	\$ 244,340,510
November 1 - November 30	492,905	60	492,905	\$ 214,712,007
December 1 - December 31	944,320	62	944,320	\$ 156,394,310
<b>Total</b>	<b>10,148,834</b>	<b>53</b>	<b>10,148,834</b>	

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**Table of Contents**

**ITEM 16G. CORPORATE GOVERNANCE**

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Marketplace Rules.

We do not comply with the NASDAQ requirement that an issuer listed on the NASDAQ Global Select Market have a quorum requirement that in no case be less than 33 1/3% of the outstanding shares of the company's common voting stock. Our articles of association, consistent with the Israeli Companies Law, provide that the quorum requirements for an adjourned meeting are the presence of a minimum of two shareholders present in person. As such, our quorum requirements for an adjourned meeting do not comply with the NASDAQ requirements and we instead follow our home country practice.

In addition, we follow our home country law, instead of the NASDAQ Marketplace Rules, which require that we obtain shareholder approval for the establishment or amendment of certain equity based compensation plans and arrangements. Under Israeli law and practice, in general, the approval of the board of directors is required for the establishment or amendment of equity based compensation plans and arrangements, unless the arrangement is for the benefit of a director or a controlling shareholder, in which case compensation committee or audit committee and shareholder approval are also required.

As a foreign private issuer listed on the NASDAQ Global Select Market, we may also follow home country practice with regard to, among other things, composition of the board of directors, director nomination process and regularly scheduled meetings at which only independent directors are present. In addition, we may follow our home country practice, instead of the NASDAQ Global Select Market rules, which require that we obtain shareholder approval for certain dilutive events, such as for an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. A foreign private issuer that elects to follow a home country practice instead of NASDAQ rules must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission or on its website each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

See Item 3.D. Key Information Risk factors Risks relating to our operations in Israel As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, etc., Item 6 Directors, Senior Management and Employees Board Practices and Item 10 Additional Information Articles of Association and Israeli Companies Law for a detailed description of the significant ways in which the registrant's corporate governance practices differ from those followed by U.S. companies under the listing standards of the NASDAQ Global Select Market.

**Table of Contents**

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Check Point has responded to Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

See pages F-1 to F-43 below.

**Table of Contents**

**ITEM 19. EXHIBITS**

- 1 Articles of Association of Check Point Software Technologies Ltd. (1)
- 4.1 Form of Director Insurance, Indemnification and Exculpation Agreement between Check Point Software Technologies Ltd. and its directors (2)
- 4.2 Check Point Software Technologies Ltd. 2005 Israel Equity Incentive Plan (3)
- 4.3 Check Point Software Technologies Ltd. 2005 United States Equity Incentive Plan (4)
- 4.4 Zone Labs, Inc. 1998 Stock Option Plan (5)
- 4.5 Check Point Software Technologies Ltd. Employee Stock Purchase Plan (6)
- 4.6 A translation of an agreement between Tzlil Ad Ltd. and Check Point Software Technologies Ltd., for the purchase of the leasing rights of a building in Tel Aviv, Israel, dated as of March 19, 2006 (7)
- 4.7 Amendment to Check Point Software Technologies Ltd. 2005 Israel Equity Incentive Plan, dated January 22, 2014
- 4.8 Amendment to Check Point Software Technologies Ltd. 2005 United States Equity Incentive Plan, dated January 22, 2014
- 4.9 Check Point Software Technologies Ltd. Executive Compensation Plan (8)
- 8 List of subsidiaries (9)
- 12.1 Certification of the Chief Executive Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002
- 12.2 Certification of the Chief Financial Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002
- 13 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
- 15 Consent of Kost, Forer, Gabbay & Kasierer, a Member of EY Global
- 101 XBRL (Extensible Business Reporting Language) The following materials from Check Point Software Technologies Ltd. s Annual Report on Form 20-F for the fiscal year-ended December 31, 2013, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Shareholders Equity/(Deficit) and Comprehensive Income/(Loss) (iv) Consolidated Statements of Cash Flows, (v) Notes to the Consolidated Financial Statements, and (vi) Schedule II Valuation and Qualifying Accounts and Reserves.

- (1) Incorporated by reference to Exhibit 1 of Check Point s Annual Report on Form 20-F for the year ended December 31, 2005.
- (2) Incorporated by reference to Exhibit 4.1 of Check Point s Annual Report on Form 20-F for the year ended December 31, 2005.
- (3) Incorporated by reference to Exhibit 4.7 of Check Point s Annual Report on Form 20-F for the year ended December 31, 2005.
- (4) Incorporated by reference to Exhibit 4.8 of Check Point s Annual Report on Form 20-F for the year ended December 31, 2005.



**Table of Contents**

- (5) Incorporated by reference to Exhibit 4.1 of Check Point Software Technologies Ltd. s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on April 15, 2004.
- (6) Incorporated by reference to Exhibit 4.10 of Check Point s Annual Report on Form 20-F for the year ended December 31, 2005.
- (7) Incorporated by reference to Exhibit 4.11 of Check Point s Annual Report on Form 20-F for the year ended December 31, 2006.
- (8) Incorporated by reference to Annex A of Check Point s Report on Form 6-K filed with the Securities and Exchange Commission on May 23, 2013.
- (9) Incorporated by reference to Item 4 Information on Check Point Organizational Structure in this Annual Report on Form 20-F.

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2013**

**IN U.S. DOLLARS**

**INDEX**

	<b>Page</b>
<b><u>Reports of Independent Registered Public Accounting Firm</u></b>	<b>F-2 - F-4</b>
<b><u>Consolidated Balance Sheets</u></b>	<b>F-5 - F-6</b>
<b><u>Consolidated Statements of Income</u></b>	<b>F-7</b>
<b><u>Consolidated Statements of Comprehensive Income</u></b>	<b>F-8</b>
<b><u>Statements of Changes in Shareholders' Equity</u></b>	<b>F-9</b>
<b><u>Consolidated Statements of Cash Flows</u></b>	<b>F-10 - F-11</b>
<b><u>Notes to Consolidated Financial Statements</u></b>	<b>F-12 - F-43</b>

**Table of Contents**

**Kost Forer Gabbay &  
Kasierer**

Tel: +972-3-6232525

3 Aminadav St.

Fax: +972-3-5622555

Tel-Aviv 6706703, Israel      ey.com

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and Board of Directors of**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

We have audited the accompanying consolidated balance sheets of Check Point Software Technologies Ltd. (the Company ) and its subsidiaries as of December 31, 2012 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2012 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission - 1992 framework and our report dated March 19, 2014, expressed an unqualified opinion thereon.

Tel-Aviv, Israel  
March 28, 2014

/s/ KOST FORER GABBAY & KASIERER  
KOST FORER GABBAY & KASIERER

A Member of EY Global

**Table of Contents**

**Kost Forer Gabbay &  
Kasierer** Tel: +972-3-6232525  
3 Aminadav St. Fax: +972-3-5622555  
Tel-Aviv 6706703, Israel ey.com

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
To the Shareholders and Board of Directors of  
CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

We have audited Check Point Software Technologies Ltd. s ( Check Point or the Company ) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission - 1992 framework (the COSO criteria ). Check Point s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management s report on internal control over financial reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



**Table of Contents**

**Kost Forer Gabbay &  
Kasierer** Tel: +972-3-6232525  
3 Aminadav St. Fax: +972-3-5622555  
Tel-Aviv 6706703, Israel ey.com

In our opinion, the Company maintained in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Check Point and its subsidiaries as of December 31, 2012 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013, and our report dated March 19, 2014, expressed an unqualified opinion thereon.

Tel-Aviv, Israel  
March 28, 2014

/s/ KOST FORER GABBAY & KASIERER  
KOST FORER GABBAY & KASIERER

A Member of EY Global

F-4

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****U.S. dollars in thousands**

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 574,802	\$ 408,432
Short-term deposits	233,057	
Marketable securities	695,478	758,382
Trade receivables (net of allowances for doubtful accounts and sales reserves of \$ 18,011 and \$ 20,856 at December 31, 2012 and 2013, respectively)	373,755	379,648
Prepaid expenses and other current assets	46,699	53,856
<u>Total</u> current assets	1,923,791	1,600,318
<b>LONG-TERM ASSETS:</b>		
Marketable securities	1,792,027	2,463,110
Property and equipment, net	36,973	37,991
Severance pay fund	6,038	6,488
Deferred tax asset, net	19,173	13,557
Other intangible assets, net	19,211	16,191
Goodwill	727,875	727,875
Other assets	19,797	20,907
<u>Total</u> long-term assets	2,621,094	3,286,119
<u>Total</u> assets	\$ 4,544,885	\$ 4,886,437

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

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands (except share and per share amounts)

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$ 9,420	\$ 10,707
Employees and payroll accruals	90,946	113,350
Deferred revenues	524,627	590,752
Accrued expenses and other liabilities	237,655	272,045
<b>Total current liabilities</b>	<b>862,648</b>	<b>986,854</b>
<b>LONG-TERM LIABILITIES:</b>		
Deferred revenues	65,063	80,871
Income tax accrual	259,547	205,420
Deferred tax liability, net	1,039	308
Accrued severance pay	10,279	10,887
<b>Total long-term liabilities</b>	<b>335,928</b>	<b>297,486</b>
<b>Total liabilities</b>	<b>1,198,576</b>	<b>1,284,340</b>
<b>SHAREHOLDERS EQUITY:</b>		
Share capital -		
Preferred shares, NIS 0.01 par value, 5,000,000 shares authorized at December 31, 2012 and 2013; no shares issued and outstanding at December 31, 2012 and 2013		
Ordinary shares, NIS 0.01 par value, 500,000,000 shares authorized at December 31, 2012 and 2013; 261,223,970 shares issued at December 31, 2012 and 2013; 199,028,983 and 192,262,757 shares outstanding at December 31, 2012 and 2013, respectively	774	774
Additional paid-in capital	693,212	774,917
Treasury shares at cost - 62,194,987 and 68,961,213 ordinary shares at December 31, 2012 and 2013, respectively	(1,955,328)	(2,421,278)
Accumulated other comprehensive income	14,606	1,839
Retained earnings	4,593,045	5,245,845
<b>Total shareholders equity</b>	<b>3,346,309</b>	<b>3,602,097</b>



<u>Total</u> liabilities and shareholders' equity	\$ 4,544,885	\$ 4,886,437
---	--------------	--------------

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

F-6

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

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

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Revenues:</b>			
Products and licenses	\$ 503,475	\$ 505,280	\$ 504,576
Subscriptions	105,790	162,931	209,442
Software updates and maintenance	637,721	674,484	680,087
<b>Total revenues</b>	<b>1,246,986</b>	<b>1,342,695</b>	<b>1,394,105</b>
<b>Operating expenses:</b>			
Cost of products and licenses *)	81,043	87,097	88,862
Cost of subscriptions *)	11,732	6,296	5,480
Cost of software updates and maintenance *)	51,737	61,786	67,680
Amortization of technology	31,171	3,982	612
<b>Total cost of revenues</b>	<b>175,683</b>	<b>159,161</b>	<b>162,634</b>
Research and development	110,147	111,911	121,764
Selling and marketing	253,800	255,345	276,067
General and administrative	65,182	69,743	72,735
<b>Total operating expenses</b>	<b>604,812</b>	<b>596,160</b>	<b>633,200</b>
Operating income	642,174	746,535	760,905
Financial income, net	39,023	40,332	34,003
Gain on sale of marketable securities previously impaired	2,017		928
<b>Income before taxes on income</b>	<b>683,214</b>	<b>786,867</b>	<b>795,836</b>
Taxes on income	139,248	166,867	143,036
<b>Net income</b>	<b>\$ 543,966</b>	<b>\$ 620,000</b>	<b>\$ 652,800</b>
Basic earnings per ordinary share	\$ 2.63	\$ 3.04	\$ 3.34
Diluted earnings per ordinary share	\$ 2.54	\$ 2.96	\$ 3.27

\*) Not including amortization of technology shown separately below.  
The accompanying notes are an integral part of the consolidated financial statements.

F-7

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

U.S. dollars in thousands

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Net income	\$ 543,966	\$ 620,000	\$ 652,800
Other comprehensive income (loss)			
Change in unrealized gains (losses) on marketable securities:			
Unrealized gains (losses) arising during the period, net of tax benefit (expense) of \$480, \$(674) and \$3,369, respectively	(573)	1,750	(9,685)
Gains reclassified into earnings, net of tax expense of \$519, \$315 and \$300, respectively	(2,170)	(1,121)	(2,011)
	(2,743)	629	(11,696)
Change in unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses) arising during the period, net of tax benefit (expense) of \$3, \$(181) and \$(452), respectively	(14)	1,220	704
Losses (gains) reclassified into earnings, net of tax benefit (expense) of \$31, \$(15) and \$592, respectively	(177)	107	(1,775)
	(191)	1,327	(1,071)
Other comprehensive income (loss), net of tax	(2,934)	1,956	(12,767)
Comprehensive income	\$ 541,032	\$ 621,956	\$ 640,033

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

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

U.S. dollars in thousands (except share amounts)

	Share capital	Additional paid-in capital	Treasury shares at cost	Accumulated other comprehensive income	Retained earnings	Total shareholders equity
Balance as of January 1, 2011	\$ 774	\$ 580,276	\$ (1,306,382)	\$ 15,584	\$ 3,429,079	\$ 2,719,331
Excess tax benefit from stock-based compensation		7,956				7,956
Acquisition of non-controlling interest in Sofaware		(6,556)				(6,556)
Issuance of treasury shares under stock plans, upon exercise of options and vesting of restricted stock units (3,069,869 ordinary shares, net of 52,431 shares for taxes)		8,997	62,496			71,493
Treasury shares at cost (5,591,687 ordinary shares)			(300,000)			(300,000)
Stock-based compensation expense related to employees		39,835				39,835
Other comprehensive loss, net of tax				(2,934)		(2,934)
Net income					543,966	543,966
Balance as of December 31, 2011	774	630,508	(1,543,886)	12,650	3,973,045	3,073,091
Excess Tax benefit from stock-based compensation		11,128				11,128
Issuance of treasury shares under stock plans, upon exercise of options and vesting of restricted stock units (2,619,204 ordinary shares, net of 49,854 shares for taxes)		6,289	54,722			61,011
Treasury shares at cost (9,483,090 ordinary shares)			(466,164)			(466,164)
		45,287				45,287

Stock-based compensation expense related to employees						
Other comprehensive income, net of tax				1,956		1,956
Net income					620,000	620,000
Balance as of December 31, 2012	774	693,212	(1,955,328)	14,606	4,593,045	3,346,309
Excess Tax benefit from stock-based compensation		35,345				35,345
Issuance of treasury shares under stock plans, upon exercise of options and vesting of restricted stock units (3,382,608 ordinary shares, net of 42,623 shares for taxes)		(4,752)	71,879			67,127
Treasury shares at cost (10,148,834 ordinary shares)			(537,829)			(537,829)
Stock-based compensation expense related to employees		51,112				51,112
Other comprehensive loss, net of tax				(12,767)		(12,767)
Net income					652,800	652,800
Balance as of December 31, 2013	\$ 774	\$ 774,917	\$ (2,421,278)	\$ 1,839	\$ 5,245,845	\$ 3,602,097

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

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****U.S. dollars in thousands**

	<b>2011</b>	<b>Year ended December 31, 2012</b>	<b>2013</b>
<b><u>Cash flows from operating activities:</u></b>			
Net income	\$ 543,966	\$ 620,000	\$ 652,800
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation of property and equipment	7,620	7,861	8,545
Amortization of premium and accretion of discount on marketable securities, net and revaluation of short-term deposits	28,092	33,784	22,389
Net gain on sale of marketable securities previously impaired	(2,017)		(928)
Realized gain on sale of marketable securities, net	(672)	(1,436)	(1,383)
Amortization of intangible assets	43,925	7,028	3,020
Stock-based compensation	39,835	45,287	51,112
Deferred income tax expense (benefit)	(11,552)	(1,453)	28
Excess tax benefit from stock-based compensation	(7,956)	(11,128)	(35,345)
Accrued severance pay, net	(546)	57	158
Increase in trade receivables, net of allowances for doubtful accounts and sales reserves	(73,674)	(16,337)	(5,893)
Decrease (increase) in prepaid expenses and other current assets and other assets	(4,917)	4,592	(816)
Increase (decrease) in trade payables	(5,999)	5,445	1,287
Increase in employees and payroll accruals	8,988	958	22,404
Increase in accrued expenses and other liabilities	90,384	117,371	11,975
Increase in deferred revenues	87,487	37,512	81,933
<b>Net cash provided by operating activities</b>	<b>742,964</b>	<b>849,541</b>	<b>811,286</b>
<b><u>Cash flows from investing activities:</u></b>			
Cash paid for acquisitions, net of acquired cash	(15,060)		
Proceeds from maturity of marketable securities	820,365	991,578	1,110,176
Proceeds from sale of marketable securities	23,655	242,074	21,716
Proceeds from short-term deposits			248,571
Investment in marketable securities	(1,173,398)	(1,589,115)	(1,916,832)
Investment in short-term deposits	(222,455)	(10,602)	
Purchase of property and equipment	(7,195)	(8,195)	(9,563)

Net cash used in investing activities	(574,088)	(374,260)	(545,932)
---------------------------------------	-----------	-----------	-----------

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

F-10



Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	<b>2011</b>	<b>Year ended December 31, 2012</b>	<b>2013</b>
<b><u>Cash flows from financing activities:</u></b>			
Proceeds from issuance of shares under stock purchase plan and upon exercise of options	71,493	61,011	67,127
Acquisition of non-controlling interest in Software	(6,556)		
Purchase of treasury shares at cost	(300,000)	(466,164)	(534,196)
Excess tax benefit from stock-based compensation	7,956	11,128	35,345
Net cash used in financing activities	(227,107)	(394,025)	(431,724)
Increase (decrease) in cash and cash equivalents	(58,231)	81,256	(166,370)
Cash and cash equivalents at the beginning of the year	551,777	493,546	574,802
Cash and cash equivalents at the end of the year	\$ 493,546	\$ 574,802	\$ 408,432
<b><u>Supplemental disclosure of cash flow information:</u></b>			
Cash paid during the year for income taxes	\$ 63,593	\$ 85,897	\$ 173,234
<b><u>Supplemental disclosure of non-cash financing activities:</u></b>			
Accrued liability with respect to treasury shares	\$	\$	\$ 3,633

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

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 1:- GENERAL**

- a. Check Point Software Technologies Ltd. ( Check Point Ltd. ), an Israeli corporation, and its subsidiaries (collectively, the Company or Check Point ), are engaged in developing, marketing and supporting software and combined hardware (appliance) and software products and subscriptions, by offering network security, data security and security management solutions for enterprise networks and service providers.

The Company operates in one reportable segment and its revenues are mainly derived from the sales of its network and data security products, including licenses, related software updates, maintenance and subscriptions. The Company sells its products worldwide primarily through multiple distribution channels ( channel partners ), including distributors, resellers, system integrators, Original Equipment Manufacturers ( OEMs ) and Managed Security Service Providers ( MSPs ).

- b. During 2011, 2012 and 2013, approximately 35%, 32% and 29% of the Company s revenues were derived from two channel partners, respectively, 18%, 16% and 14% from one channel partner and 17%, 16% and 15%, from the other, respectively. Trade receivable balances from these two channel partners aggregated to \$ 117,394 and \$ 136,384 as of December 31, 2012 and 2013, respectively.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

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

- a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company s management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, significant estimates evaluated

by the Company's management include those related to accounts receivable and sales allowances, fair values of estimated selling price (ESP), fair values of financial instruments, fair values and useful lives of intangible assets, fair values of stock-based awards, valuation allowance on deferred tax assets, income tax uncertainties and other contingent liabilities. Such estimates are based on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

F-12

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

b. Financial statements in United States dollars:

Most of the Company's revenues and costs are denominated in United States dollars ( dollars ). The Company's management believes that the dollar is the primary currency of the economic environment in which Check Point Ltd. and each of its subsidiaries operate. Thus, the dollar is the Company's functional and reporting currency.

Accordingly, non-dollar transactions and balances have been re-measured into the functional currency in accordance with ASC No. 830, Foreign Currency Matters . All transaction gains and losses of the re-measured monetary balance sheet items are reflected in the statements of income as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of Check Point Ltd. and its subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less at acquisition.

e. Short-term deposits:

Bank deposits with maturities of more than three months but less than one year are included in short-term deposits. Such deposits are stated at cost which approximates market values.

f. Investments in marketable securities:

The Company accounts for investments in marketable securities in accordance with ASC No. 320, Investments - Debt and Equity Securities .

Management determines the appropriate classification of its investments at the time of purchase and reevaluates such determinations at each balance sheet date.

The Company classifies all of its marketable securities as available for sale. Available for sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in accumulated other comprehensive income in shareholders' equity. Realized gains and losses on sale of investments are included in financial income, net and are derived using the specific identification method for determining the cost of securities.

**Table of Contents****CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share amounts)****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization together with interest on securities is included in financial income, net .

The Company recognizes an impairment charge when a decline in the fair value of its investments in debt securities below the cost basis of such securities is judged to be other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and the Company's intent to sell, including whether it is more likely than not that the Company will be required to sell the investment before recovery of cost basis. For securities that are deemed other-than-temporarily impaired, the amount of impairment is recognized in net gain on sale of marketable securities previously impaired in the statements of income and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income.

g. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers and peripheral equipment	33 - 50
Office furniture and equipment	10 - 20
Building	4
Leasehold improvements	The shorter of term of the lease or the useful life of the asset

h. Goodwill:

Goodwill has been recorded as a result of acquisitions. Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized, but rather is subject to an impairment test.

ASC 350 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment, while the second phase (if necessary) measures impairment. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. In such case, the second phase is then performed, and the Company measures impairment by comparing the carrying amount of the reporting unit's goodwill to the implied fair value of that goodwill. An impairment loss is recognized in an amount equal to the excess. ASC 350 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount.

F-14

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Alternatively, ASC 350 permits an entity to bypass the qualitative assessment for any reporting unit and proceed directly to performing the first step of the goodwill impairment test.

The Company operates in one operating segment, and this segment comprises its only reporting unit. The Company performs an annual impairment test during the fourth quarter of each fiscal year, or more frequently if impairment indicators are present.

For each of the three years in the period ended December 31, 2013, no impairment losses have been identified.

i. Other intangible assets:

Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives, which range from 2 to 20 years. Acquired customer arrangements are amortized over their estimated useful lives in proportion to the economic benefits realized. This accounting policy results in accelerated amortization of such customer arrangements as compared to the straight-line method. Other intangible assets consist primarily of core technology, trademarks and trade names and are amortized over their estimated useful lives on a straight-line basis.

j. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC No. 360, Property, Plant and Equipment, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. During 2011, 2012 and 2013, no impairment indicators have been identified.

k. Research and development costs:

Research and development costs are charged to the statements of income as incurred. ASC 985-20, Software- Costs of Software to Be Sold, Leased, or Marketed, requires capitalization of certain software development costs subsequent to



the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working models and the point at which the products are ready for general release, have been insignificant. Therefore, all research and development costs are expensed as incurred.

F-15

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

1. Revenue recognition:

The Company derives its revenues mainly from sales of products and licenses, subscriptions and software updates and maintenance. The Company's products are generally integrated with software that is essential to the functionality of the product. The Company sells its products primarily through channel partners including distributors, resellers, Original Equipment Manufacturers ( OEMs ), system integrators and Managed Service Providers ( MSPs ), all of whom are considered end-users. The Company also sells certain products directly to end users primarily through its website.

The Company's subscriptions include other security solutions and are sold as a service or annuity.

The Company's software updates and maintenance provide customers with rights to unspecified software product upgrades released during the term of the agreement and include multiple services to customers, primarily telephone access to technical support personnel and hardware support services.

Revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the amounts are fixed or determinable and collection of the amount is considered probable. Revenues from subscriptions and from software updates and maintenance are recognized ratably over the term of the agreement. Revenues from 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, provided that all other revenue recognition criteria have been met.

The Company applies ASU 2009-14, *Certain Arrangements That Include Software Elements*, ( ASU 2009-14 ) and ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*, ( ASU 2009-13 ). ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 eliminates the use of the residual method for allocation of revenues and requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services, based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ( VSOE ), if available, third party evidence ( TPE ) if VSOE is not available, or estimated selling price ( ESP ) if neither VSOE or TPE is available.

The Company's products and services generally qualify as separate units of accounting. As such, revenues from multiple element arrangement that include products, subscriptions and software updates and maintenance are separated into their various elements using the relative selling price method based on either VSOE or ESP, as

described below.

F-16

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

For products, the Company determined the fair value based on ESP by reviewing historical transactions, and considering several other external and internal factors including, but not limited to, pricing practices.

The Company established VSOE of fair value for subscriptions and for software updates and maintenance based on the renewal prices charged for such services.

The Company applies software revenue recognition guidance, ASC 985-605, Software Revenue Recognition, to all software arrangements where software element is not essential to the functionality of the tangible product. As required by ASC 985-605, the Company determined the value of the delivered elements of its multiple-element arrangements using the residual method when VSOE of fair value exists for the undelivered elements. 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 revenue for each element is recognized when the appropriate criteria is met.

Deferred revenues represent mainly the unrecognized revenue billed for subscriptions and for software updates and maintenance. Such revenues are recognized ratably over the term of the related agreement.

The Company records a provision for estimated sales returns, stock rotations and other rights granted to customers on product and service related sales in the same period the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data, stock rotation and other known factors. Such provisions amounted to \$ 10,330 and \$ 14,932 as of December 31, 2012 and 2013, respectively.

m. Cost of revenues:

Cost of products and licenses is comprised of cost of software and hardware production, manuals, packaging and shipping.

Cost of subscriptions is comprised of license fees paid to third parties.

Cost of software updates and maintenance is mainly comprised of cost of post-sale customer support.

Amortization of technology is comprised of amortization of core technology assets which are used in the Company's operations, and is presented separately as part of cost of revenues.

F-17

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

n. Severance pay:

The Company's liability for severance pay for periods prior to January 1, 2007, is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. The Company recorded as expenses the increase in the severance liability, net of earnings (losses) from the related investment fund. Employees were entitled to one month's salary for each year of employment, or a portion thereof. Until January 1, 2007, the Company's liability was partially funded by monthly payments deposited with insurers; any unfunded amounts are covered by a provision established by the Company.

The carrying value of deposited funds in respect to the severance liability for services prior to January 1, 2007, includes profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements.

Effective January 1, 2007, the Company's agreements with employees in Israel, are under Section 14 of the Severance Pay Law, 1963. The Company's contributions for severance pay have replaced its severance obligation. Upon contribution of the full amount of the employee's monthly salary for each year of service, no additional calculations is conducted between the parties regarding the matter of severance pay and no additional payments is made by the Company to the employee. Further, the related obligation and amounts deposited on behalf of the employee for such obligation are not stated on the balance sheet, as the Company is legally released from the obligation to employees once the deposit amounts have been paid.

Severance expenses for the years ended December 31, 2011, 2012 and 2013, were \$ 4,823, \$ 5,113 and \$ 5,987, respectively.

o. Employee benefit plan:

The Company has a 401(K) defined contribution plan covering certain employees in the U.S. All eligible employees may elect to contribute up to 50%, but generally not greater than \$ 17.5 per year (and an additional amount of \$ 5.5 for employees aged 50 and over), of their annual compensation to the plan through salary deferrals, subject to IRS limits. The Company matches 50% of employee contributions to the plan up to a limit of 3% of their eligible compensation. In 2011, 2012 and 2013, the Company's matching contribution to the plan amounted to \$ 991, \$ 954 and \$ 1,073, respectively.

F-18

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

p. Income taxes:

The Company accounts for income taxes in accordance with ASC No. 740, Income Taxes. ASC No. 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined for temporary differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized.

Deferred tax liabilities and assets are classified as current or non-current based on the classification of the related asset or liability for financial reporting, or according to the expected reversal dates of the specific temporary differences if not related to an asset or liability for financial reporting.

ASC 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement. The Company accrues interest related to unrecognized tax benefits in its taxes on income.

q. Advertising costs:

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2011, 2012 and 2013, were \$ 2,918, \$ 3,239 and \$ 4,260, respectively.

r. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits, marketable securities, trade receivables and foreign currency derivative contracts.

The Company's majority cash and cash equivalents and short-term deposits are deposited in major banks in the U.S., Israel and Europe. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions.



Generally, these deposits may be withdrawn upon demand and therefore bear low risk. Marketable securities are held mainly by the Company's Singaporean subsidiary, the U.S. subsidiary and Check Point Ltd., and are invested in U.S. dollar and U.S. dollar-linked debentures.

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company's marketable securities consist of investments in government, corporate and government sponsored enterprises debentures. The Company's investment policy, approved by the Board of Directors, limits the amount the Company may invest in any one type of investment or issuer, thereby reducing credit risk concentrations.

The Company's trade receivables are geographically dispersed and derived from sales to channel partners mainly in the United States, Europe and Asia. Concentration of credit risk with respect to trade receivables is limited by credit limits, ongoing credit evaluation and account monitoring procedures. The Company performs ongoing credit evaluations of its channel partners and establishes an allowance for doubtful accounts based on factors that may affect a customer's ability to pay, such as age of the receivable balance and past experience. Allowance for doubtful accounts amounted to \$ 7,681 and \$ 5,924 as of December 31, 2012 and 2013, respectively. The Company writes off receivables when they are deemed uncollectible, having exhausted all collection efforts.

Actual collection experience may not meet expectations and may result in increased bad debt expense. Bad debt expense amounted to \$ 702, \$ 855 and \$ (1,090) in 2011, 2012 and 2013, respectively. Total write offs during 2011, 2012 and 2013 amounted to \$ 1,076, \$ 471 and \$ 668, respectively.

s. **Derivatives and hedging:**

The Company accounts for derivatives and hedging based on ASC No. 815, *Derivatives and Hedging*. ASC No. 815 requires the Company to recognize all derivatives on the balance sheet at fair value. 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 on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company 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.

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company entered into forward contracts to hedge the fair value of assets and liabilities denominated in Israeli Shekels, Euros, British Pounds, Swedish Krona, Norwegian Krone and Japanese Yen. As of December 31, 2012 and 2013, the Company had outstanding forward contracts that did not meet the requirement for hedge accounting, in the notional amount of \$ 100,865 and \$ 236,440, respectively. The Company measured the fair value of the contracts in accordance with ASC No. 820 (classified as level 2). The net gains (losses) recognized in financial income, net during 2011, 2012 and 2013 were \$ (240), \$ 3,483 and \$ 20,306, respectively. The fair value of the Company's outstanding forward contracts at December 31, 2012 and 2013 amounted to gains (losses) of \$ 24 and \$ (11), respectively.

The Company 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 and Euros. As of December 31, 2012 and 2013, the Company had outstanding forward contracts in the notional amount of \$ 25,878 and \$ 29,622, respectively. These contracts were for a period of up to twelve months. The Company measured the fair value of the contracts in accordance with ASC No. 820 (classified as level 2). These contracts met the requirement for cash flow hedge accounting and as such during 2011, 2012 and 2013 gains/(losses) in the amount of \$ 208, \$ (122) and \$ 2,366, respectively, were recognized when the related expenses were incurred and classified in operating expenses. The fair value of the Company's outstanding forward contracts at December 31, 2012 and 2013 amounted to gains of \$ 1,445 and \$ 102, respectively.

t. Basic and diluted earnings per share:

Basic earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted earnings per share is computed based on the weighted average number of ordinary shares outstanding during each year, plus dilutive potential ordinary shares outstanding during the year, in accordance with ASC No. 260, Earnings Per Share .

The total weighted average number of shares related to the outstanding options excluded from the calculations of diluted earnings per share, since it would have an anti-dilutive effect, was 1,342,904, 3,811,680 and 5,694,945 for 2011, 2012 and 2013, respectively.

u. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC No. 718, Compensation-Stock Compensation . ASC No. 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statements of income.

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company recognizes compensation expenses for the value of awards granted, based on the straight line method for service based awards and based on the accelerated method for performance-based awards. Compensation expense is recognized over the requisite service period of each of the awards, net of estimated forfeitures. ASC No. 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

The Company selected the Black-Scholes-Merton option pricing model as the most appropriate fair value method for its stock options awards and Employee Stock Purchase Plan, whereas the fair value of restricted stock units is based on the market value of the underlying shares at the date of grant. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending on the grant date, equal to the expected term of the options. The expected term of options granted is based upon historical experience and represents the period of time between when the options are granted and when they are expected to be exercised. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term to the expected term of the options. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

The fair value of options granted and Employee Stock Purchase Plan in 2011, 2012 and 2013 is estimated at the date of grant using the following weighted average assumptions:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b><u>Employee Stock Options</u></b>			
Expected volatility	29.59%	29.37%	30.14%
Risk-free interest rate	2.04%	0.75%	1.72%
Dividend yield	0.0%	0.0%	0.0%
Expected term (years)	5.84	5.58	6.00
<b><u>Employee Stock Purchase Plan</u></b>			
Expected volatility	23.94%	32.04%	26.98%
Risk-free interest rate	0.14%	0.09%	0.06%
Dividend yield	0.0%	0.0%	0.0%

Expected term (years)	0.5	0.5	0.5
-----------------------	-----	-----	-----

F-22

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

v. Fair value of financial instruments:

The Company measures its investments in money market funds classified as cash equivalents, marketable securities and auction rate securities, and its foreign currency derivative contracts at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

w. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC No. 220, Comprehensive Income . Comprehensive income generally represents all changes in shareholders equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its items of other comprehensive income relate to gains and losses on hedging derivative instruments and unrealized gains and losses on available for sale marketable securities.

The following table shows the components of Accumulated other comprehensive income, net of taxes, as of December 31, 2013:





**Table of Contents****CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

	<b>Year ended December 31, 2013</b>		
	<b>Unrealized gains (losses) on marketable securities</b>	<b>Unrealized gains (losses) on cash flow hedges</b>	<b>Total</b>
Beginning balance	\$ 13,473	\$ 1,133	\$ 14,606
Other comprehensive income (loss) before reclassifications	(9,685)	704	(8,981)
Amounts reclassified from accumulated other comprehensive income	*)(2,011)	**)(1,775)	(3,786)
Net current-period other comprehensive loss	(11,696)	(1,071)	(12,767)
Ending balance	\$ 1,777	\$ 62	\$ 1,839

\*) The reclassification out of accumulated other comprehensive income during the year ended December 31, 2013 for realized gains on marketable securities of \$2,011 are included within financial income, net.

\*\*\*) The reclassification out of accumulated other comprehensive income during the year ended December 31, 2013 for realized gains on cash flow hedges of \$1,775 are included in operating expenses, out of which \$1,181 is included within research and development.

x. Treasury shares:

The Company repurchases its ordinary shares from time to time on the open market and holds such shares as treasury shares. The Company presents the cost to repurchase treasury stock as a separate component of shareholders' equity.

The Company reissues treasury shares under the stock purchase plan, upon exercise of option and upon vesting of restricted stock units. Reissuance of treasury shares is accounted for in accordance with ASC 505-30 whereby gains

are credited to additional paid-in capital and losses are charged to additional paid-in capital to the extent that previous net gains are included therein; otherwise to retained earnings.

y. Legal contingencies:

The Company is currently involved in various claims and legal proceedings. The Company reviews the status of each matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss.

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 3:- MARKETABLE SECURITIES**

Marketable securities with contractual maturities of less than one year are as follows:

	December 31,							
	2012			Fair value	2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Government and corporate debentures - fixed interest rate	\$ 599,614	\$ 2,738	\$ (20)	\$ 602,332	\$ 593,218	\$ 2,987	\$ (16)	\$ 596,189
Government-sponsored enterprises debentures	59,719	271		59,990	93,900	400		94,300
Government and corporate debentures - floating interest rate	33,096	61	(1)	33,156	67,794	99		67,893
	\$ 692,429	\$ 3,070	\$ (21)	\$ 695,478	\$ 754,912	\$ 3,486	\$ (16)	\$ 758,382

Marketable securities with contractual maturities of over one year through five years are as follows:

	December 31,							
	2012			Fair value	2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Government and corporate debentures - fixed interest rate	\$ 1,327,086	\$ 13,094	\$ (731)	\$ 1,339,449	\$ 1,969,514	\$ 6,554	\$ (7,158)	\$ 1,968,910
Government-sponsored enterprises	382,758	2,170	(39)	384,889	441,719	707	(1,311)	441,115
	64,694	304	(6)	64,992	52,969	163	(47)	53,085

Government and  
corporate debentures -  
floating interest rate

Auction rate securities 2,697 2,697

\$ 1,777,235 \$ 15,568 \$ (776) \$ 1,792,027 \$ 2,464,202 \$ 7,424 \$ (8,516) \$ 2,463,110

Investments with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values were as follows:

	<b>Investments with continuous unrealized losses for less than 12 months</b>		<b>December 31, 2012 Investments with continuous unrealized losses for 12 months or greater</b>		<b>Total Investments with continuous unrealized losses</b>	
	<b>Fair value</b>	<b>Unrealized losses</b>	<b>Fair value</b>	<b>Unrealized losses</b>	<b>Fair value</b>	<b>Unrealized losses</b>
Government and corporate debentures - fixed interest rate	\$ 352,886	\$ (747)	\$ 6,046	\$ (4)	\$ 358,932	\$ (751)
Government-sponsored enterprises	39,883	(39)	252		40,135	(39)
Government and corporate debentures - floating interest rate	6,213	(6)	6,249	(1)	12,462	(7)
	\$ 398,982	\$ (792)	\$ 12,547	\$ (5)	\$ 411,529	\$ (797)

F-25

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 3:- MARKETABLE SECURITIES (Cont.)**

	<b>December 31, 2013</b>					
	<b>Investments with continuous unrealized losses for less than 12 months</b>		<b>Investments with continuous unrealized losses for 12 months or greater</b>		<b>Total Investments with continuous unrealized losses</b>	
	<b>Fair value</b>	<b>Unrealized losses</b>	<b>Fair value</b>	<b>Unrealized losses</b>	<b>Fair value</b>	<b>Unrealized losses</b>
Government and corporate debentures - fixed interest rate	\$ 944,769	\$ (5,762)	\$ 97,770	\$ (1,410)	\$ 1,042,539	\$ (7,172)
Government-sponsored enterprises	214,719	(1,104)	19,811	(208)	234,530	(1,312)
Government and corporate debentures - floating interest rate	19,511	(48)	1,000		20,511	(48)
	<b>\$ 1,178,999</b>	<b>\$ (6,914)</b>	<b>\$ 118,581</b>	<b>\$ (1,618)</b>	<b>\$ 1,297,580</b>	<b>\$ (8,532)</b>

As of December 31, 2012 and 2013, interest receivable amounted to \$ 16,622 and \$ 17,587, respectively, and is included within other current assets in the balance sheets.

**NOTE 4:- FAIR VALUE MEASUREMENTS**

In accordance with ASC 820, the Company measures its cash equivalents, marketable securities, auction rate securities and foreign currency derivative contracts at fair value. Cash equivalents and marketable securities, except investments in auction rate securities are classified within Level 1 or Level 2. This is because these assets are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

Investments in auction rate securities are classified within Level 3. The Company values the Level 3 investments based on an externally developed valuation using discounted cash flow model, whose inputs include interest rate curves, credit spreads, bond prices, volatilities and illiquidity considerations and/or existing market pricing.

Unobservable inputs used in these models are significant to the fair value of the investments.

The Company's financial assets measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following types of instruments as of the following dates:

F-26

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 4:- FAIR VALUE MEASUREMENTS (Cont.)**

	<b>December 31, 2012</b>			
	<b>Fair value measurements using input type</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Cash equivalents:</b>				
Money market funds	\$ 169,894	\$	\$	\$ 169,894
<b>Marketable securities:</b>				
Government and corporate debentures - fixed interest rate		1,941,781		1,941,781
Government-sponsored enterprises		444,879		444,879
Government and corporate debentures - floating interest rate		98,148		98,148
Auction rate securities			2,697	2,697
<b>Foreign currency derivative contracts</b>		1,469		1,469
<b>Total financial assets</b>	<b>\$ 169,894</b>	<b>\$ 2,486,277</b>	<b>\$ 2,697</b>	<b>\$ 2,658,868</b>

	<b>December 31, 2013</b>			
	<b>Fair value measurements using input type</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Cash equivalents:</b>				
Money market funds	\$ 88,784	\$	\$	\$ 88,784
<b>Marketable securities:</b>				
Government and corporate debentures - fixed interest rate		2,565,099		2,565,099
Government-sponsored enterprises		535,415		535,415
Government and corporate debentures - floating interest rate		120,978		120,978
<b>Foreign currency derivative contracts</b>		91		91
<b>Total financial assets</b>	<b>\$ 88,784</b>	<b>\$ 3,221,583</b>	<b>\$</b>	<b>\$ 3,310,367</b>

F-27



Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 4:- FAIR VALUE MEASUREMENTS (Cont.)**

The following table presents the changes in Level 3 instruments measured on a recurring basis for the years ended December 31, 2012 and 2013:

	<b>Auction rate securities</b>
Balance at January 1, 2012	\$ 6,078
Securities sold during 2012	(3,381)
Balance at December 31, 2012	2,697
Recognized gains in income	928
Securities sold during 2013	(3,625)
Balance at December 31, 2013	\$

**NOTE 5:- PROPERTY AND EQUIPMENT, NET**

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
Cost:		
Computers and peripheral equipment	\$ 64,026	\$ 69,968
Office furniture and equipment	5,966	6,324
Building	34,396	35,538
Leasehold improvements	5,393	7,160
	109,781	118,990
Accumulated depreciation	72,808	80,999
Property and equipment, net	\$ 36,973	\$ 37,991

F-28

**Table of Contents****CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 6:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET**

## a. Goodwill:

There were no changes to the carrying amount of goodwill in the two years period commencing January 1, 2012 through December 31, 2013.

## b. Other intangible assets, net:

Net other intangible assets consisted of the following:

	Useful life	December 31,	
		2012	2013
<b>Original amount:</b>			
Core technology	3 - 8	\$ 131,797	\$ 4,739
Trademarks and trade names	3 - 20	26,476	25,520
Customer relationships	2 - 6	55,108	3,108
		213,381	33,367
<b>Accumulated amortization:</b>			
Core technology		129,767	3,323
Trademarks and trade names		10,738	11,358
Customer relationships		53,665	2,495
		194,170	17,176
<b>Other intangible assets, net:</b>			
Core technology		2,030	1,416
Trademarks and trade names		15,738	14,162
Customer relationships		1,443	613
		\$ 19,211	\$ 16,191

The estimated future amortization expense of other intangible assets as of December 31, 2013 is as follows:

2014	\$ 2,142
2015	2,023
2016	1,899
2017	1,817
2018	1,817
Thereafter	6,493
	\$ 16,191

**NOTE 7:- EMPLOYEES AND PAYROLL ACCRUALS**

As of December 31, 2012 and 2013, employees and payroll accruals include a total amount of \$ 4,351 and \$ 3,731, respectively, related to payroll accrued for the benefit of certain related parties since 2002 until 2007.

**Table of Contents****CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 8:- DEFERRED REVENUES**

Deferred revenues consisted of the following:

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
Subscriptions	\$ 118,083	\$ 160,163
Software updates and maintenance	468,663	504,919
Other	2,944	6,541
	<b>\$ 589,690</b>	<b>\$ 671,623</b>

The majority of the deferred revenues are recognized within one year or less and presented as current deferred revenues in the balance sheet. The remaining deferred revenues are recognized within three years and are shown as long term deferred revenues.

**NOTE 9:- ACCRUED EXPENSES AND OTHER LIABILITIES**

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
Income taxes payable	\$ 111,558	\$ 129,305
Accrued products and licenses costs	35,731	40,560
Marketing expenses payable	9,126	9,350
Legal accrual	38,010	47,384
Purchase commitment to subcontractors	5,376	2,732
Accrued expenses	37,854	42,714
	<b>\$ 237,655</b>	<b>\$ 272,045</b>

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES**

## a. Lease commitments:

Certain facilities of the Company are rented under operating lease agreements, which expire on various dates, the latest of which is in 2019. The Company recognizes rent expense under such arrangements on a straight-line basis.

Aggregate minimum lease commitments under non-cancelable operating leases as of December 31, 2013, were as follows:

2014	\$ 5,967
2015	3,581
2016	1,153
2017	293
2018	124
Thereafter	85
	\$ 11,203

Rent expenses for the years ended December 31, 2011, 2012 and 2013, were \$ 5,950, \$ 5,408 and \$ 6,224, respectively.

## b. Litigation:

The Company operates its business in various countries, and accordingly attempts to utilize an efficient operating model to structure its tax payments based on the laws in the countries in which the Company operates. This can cause disputes between the Company and various tax authorities in different parts of the world.

In November 2013, the Company reached a settlement agreement (the Settlement Agreement), with the Israeli Tax Authorities (ITA) for years 2002 through 2011 and accordingly the Company and the ITA notified the court that they have reached an agreement outside of the court and obtained the court's approval (see Note 11).

We have filed for a declaratory judgment in a patent related case. The adversary is a non-practicing entity. At this time, we do not expect the ultimate resolution of these litigation matters to be material to our business, results of operations and financial condition.

Further, the Company is the defendant in various other lawsuits, including employment-related litigation claims, lease termination claims and other legal proceedings in the normal course of its 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 the Company intends to defend the aforementioned matters vigorously, it believes that a loss in excess of its accrued liability with respect to these claims is neither probable nor reasonably possible.

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 11:- TAXES ON INCOME**

a. Israeli taxation:

1. Corporate tax rate in Israel:

Taxable income of Israeli companies is subject to tax at the rate of 24% in 2011, and 25% in 2012 and 2013.

On July 30, 2013, the Israeli Parliament (the Knesset) approved the second and third readings of the Economic Plan for 2013-2014 ( Amended Budget Law ) which consists, among others, raising the Israeli corporate tax rate from 25% to 26.5% commencing January 1, 2014.

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

Various production and development facilities of Check Point Ltd. have been granted Approved Enterprise and Privileged Enterprise status, which provides certain benefits, including tax exemptions and reduced tax rates for a defined period.

Distribution of dividends derived from income that was taxed at reduced rates, but not tax-exempt, will not result in additional tax consequences to the company.

In December 2010, new legislation amending the Investment Law was adopted effective January 1, 2011. According to the new legislation, the benefit tracks in the Investment Law were modified and a flat tax rate applies to preferred income produced or generated by a preferred company from the effective date. Commencing 2012, the Company elected for the Preferred Enterprise regime to apply (the waiver is non-recourse) and the Company's entire preferred income is subject to the tax rates as follows: 2012 - 15%, 2013 - 12.5% and 2014 and thereafter - 16%.

Income attributable to Approved, Privileged and Preferred Enterprises will be freely distributable as dividends, subject to a 15%-20% withholding tax (or lower, under an applicable tax treaty). However, upon the distribution of a dividend from Preferred Income to an Israeli company, no withholding tax will be remitted.

Income from sources other than the Approved, Privileged or Preferred Enterprise programs is subject to tax at regular Israeli corporate tax rate.





Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 11:- TAXES ON INCOME (Cont.)**

3. Foreign Exchange Regulations:

Under the Foreign Exchange Regulations, Check Point Ltd. calculates its tax liability in U.S. Dollars according to certain orders. The tax liability, as calculated in U.S. Dollars is translated into NIS according to the exchange rate as of December 31st of each year.

b. Income taxes of non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective countries of residence.

Undistributed earnings of subsidiaries amounted to \$ 156,817 as of December 31, 2013. Where the Company intends to reinvest these earnings indefinitely in the foreign subsidiaries, no deferred income taxes have been provided. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes in the amount of \$ 30,863.

c. Deferred tax assets and liabilities:

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2012 and 2013, the Company's deferred taxes were in respect of the following:

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
Carry forward tax losses	\$ 249,270	\$ 235,942
Employee stock based compensation	15,642	19,846
Other	26,214	33,992
Deferred tax assets before valuation allowance	291,126	289,780
Valuation allowance	(246,785)	(234,600)

Deferred tax asset	44,341	55,180
Intangible assets	(7,927)	(7,773)
Undistributed earnings of a subsidiary		(10,788)
Unrealized gains on marketable securities, net	(4,266)	(688)
Other	(945)	(950)
Deferred tax liability	(13,138)	(20,199)
Deferred tax asset, net	\$ 31,203	\$ 34,981

F-33

**Table of Contents****CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 11:- TAXES ON INCOME (Cont.)**

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
Current deferred tax asset, net	\$ 13,069	\$ 21,732
Non-current deferred tax asset, net	19,173	13,557
Non-current deferred tax liability, net	(1,039)	(308)
	\$ 31,203	\$ 34,981

Current deferred tax asset, net, is included within prepaid expenses and other current assets in the balance sheets.

The Company's subsidiaries in the U.S. have provided valuation allowance in respect of deferred tax assets resulting from carry forward of net operating loss related to excess tax benefits from options exercised prior to the adoption of ASC 718.

Through December 31, 2013, the U.S. subsidiaries had a U.S. federal loss carry forward of approximately \$ 608,471, expiring beginning 2018, mainly resulting from tax benefits related to employees' stock option exercises that can be carried forward and offset against taxable income. Excess tax benefits related to employee stock option exercises for which no compensation expense was recognized will be credited to additional paid-in capital when realized. Through December 31, 2013, the U.S. subsidiaries had a U.S. state net loss carry forward of approximately \$ 268,557, which expire between fiscal 2014 and fiscal 2024, and are subject to limitations on their utilization. Through December 31, 2013, the U.S. subsidiaries had research and development tax credits of approximately \$ 9,603, which expire between fiscal 2019 and fiscal 2033 and are subject to limitations on their utilization.

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

	<b>Year ended</b>		
	<b>December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Domestic	\$ 655,486	\$ 725,651	\$ 743,125
Foreign	27,728	61,216	52,711

\$ 683,214	\$ 786,867	\$ 795,836
------------	------------	------------

F-34

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 11:- TAXES ON INCOME (Cont.)**

e. Taxes on income are comprised of the following:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Current	\$ 150,800	\$ 168,320	\$ 143,008
Deferred	(11,552)	(1,453)	28
	<b>\$ 139,248</b>	<b>\$ 166,867</b>	<b>\$ 143,036</b>
Domestic	\$ 134,242	\$ 152,040	\$ 130,109
Foreign	5,006	14,827	12,927
	<b>\$ 139,248</b>	<b>\$ 166,867</b>	<b>\$ 143,036</b>

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Domestic taxes:</b>			
Current	\$ 138,686	\$ 152,453	\$ 124,522
Deferred	(4,444)	(413)	5,587
	<b>134,242</b>	<b>152,040</b>	<b>130,109</b>
<b>Foreign taxes - US:</b>			
Current	8,870	12,720	14,965
Deferred	1,567	(355)	(4,813)
	<b>10,437</b>	<b>12,365</b>	<b>10,152</b>

Other international locations:			
Current	3,245	3,149	3,521
Deferred	(8,676)	(687)	(746)
	(5,431)	2,462	2,775
Total foreign taxes	5,006	14,827	12,927
Taxes on income	\$ 139,248	\$ 166,867	\$ 143,036

F-35

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 11:- TAXES ON INCOME (Cont.)**

- f. A reconciliation of the beginning and ending amount of unrecognized tax benefits related to uncertain tax positions is as follows:

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
Beginning balance	\$ 219,469	\$ 259,547
Increases related to tax positions taken during prior years	38,209	91,202
Increases related to tax positions taken during the current year	11,361	142,875
Decrease related to settlement with the ITA		(288,204)
Decreases related to expiration of statute of limitations	(9,492)	
Ending balance	\$ 259,547	\$ 205,420

Substantially all the balance of unrecognized tax benefits, if recognized, would reduce the Company's annual effective tax rate.

During the years ended December 31, 2011, 2012 and 2013, the Company recorded \$ 13,587, \$ 15,032 and \$ 20,857, respectively for interest expense related to uncertain tax positions. As of December 31, 2012 and 2013, the Company had accrued interest liability related to uncertain tax positions in the amounts of \$ 63,059 and \$ 4,578 respectively, which is included within income tax accrual on the balance sheets.

Pursuant to a temporary tax relief initiated by the Israeli government, a company that elected by November 11, 2013 to pay a reduced corporate tax rate as set forth in the temporary tax relief with respect to undistributed exempt income generated under the Law for the Encouragement of Capital Investments, 1959 (the Investment Law) accumulated by the company until December 31, 2011 (Trapped Earnings) is entitled to distribute a dividend from such income without being required to pay additional corporate tax with respect to such dividend. A company that has so elected must make certain qualified investments in Israel over five-year period. A company that has elected to apply the temporary tax relief cannot withdraw from its election.

On November 11, 2013, the Company reached a settlement agreement with the ITA which provided (i) the full settlement of all disputes with the ITA with respect to the tax years 2002 through 2011, and (ii) the release of all the



Company's Trapped Earnings through the year ended December 31, 2011. In accordance with Section 52B of the Investments Law and the temporary tax relief, the Company is obligated to invest approximately \$ 111,000 during five years period in the following forms (i) production assets (as defined therein), (ii) research and development activities in Israel and/or (iii) employment payments for new employees (other than office holders) added after 2011. Any amount not invested in the five years period, should be paid at the end of the 5 years, linked to the Israeli CPI and bears 4% annual interest since the election date.

F-36

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 11:- TAXES ON INCOME (Cont.)**

The Company's U.S. subsidiaries file federal and state income tax returns in the U.S. All of the U.S. subsidiaries' tax years are subject to examination by the U.S. federal and most U.S. state tax authorities due to their carry forward tax losses and overall credit carry-forward position, except for tax years 2005 through 2008.

The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. The final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net income in the period in which such determination is made.

g. Reconciliation of the theoretical tax expenses:

Reconciliation between the theoretical tax expenses, assuming all income is taxed at the statutory rate in Israel and the actual income tax as reported in the statements of income is as follows:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Income before taxes as reported in the statements of income	\$ 683,214	\$ 786,867	\$ 795,836
Statutory tax rate in Israel	24%	25%	25%
Decrease in taxes resulting from:			
Effect of Approved, Privileged or Preferred Enterprise status *)	(6%)	(7%)	(6%)
Others, net	2%	3%	(1%)
Effective tax rate	20%	21%	18%
*) Basic earnings per share amounts of the benefit resulting from the Approved, Privileged or Preferred Enterprise status	\$ 0.21	\$ 0.24	\$ 0.24

Diluted earnings per share amounts of the benefit resulting from the Approved, Privileged or Preferred Enterprise status	\$ 0.20	\$ 0.23	\$ 0.24
--	---------	---------	---------

F-37

**Table of Contents**

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 12:- SHAREHOLDERS' EQUITY**

a. General:

Ordinary shares confer upon their holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends if declared.

Dividends declared on ordinary shares will be paid in NIS. Dividends paid to shareholders outside Israel will be converted into U.S. dollars, on the basis of the exchange rate prevailing at the date of payment.

b. Share repurchase:

As of December 31, 2013, the Company's repurchase ordinary shares for an aggregate amount of \$ 3,072,528. On January 28, 2014, the Company's board of directors approved and authorized the repurchase of up to additional \$ 1,000,000 of the Company's ordinary shares. Under the repurchase programs, share purchases may be made from time to time depending on market conditions, share price, trading volume and other factors and will be funded from available working capital. During 2011, 2012 and 2013 the Company repurchased 5,591,687, 9,483,090 and 10,148,834 shares for an aggregate amount of \$ 300,000, \$ 466,164 and \$ 537,829, respectively.

c. Stock Options and RSUs:

In 2005, the Company adopted two new equity incentive plans, which were subsequently amended in January 2014: the 2005 United States Equity Incentive Plan, which is referred to as the U.S. Plan, and the 2005 Israel Equity Incentive Plan, which is referred to as the Israel Plan, and together with the U.S. Plan, the Equity Incentive Plans.

Under the Equity Incentive Plans, the Company may grant options to employees, officers and directors at an exercise price equal to at least the fair market value of the ordinary shares at the date of grant and are granted for periods not to exceed seven years. The Company grants under the Equity Incentive Plans Options, Restricted Stock Units ( RSUs ) and Performance RSUs ( PSUs ) and can also grant a variety of other equity incentives. Options granted under the Equity Incentive Plans generally vest over a period of four to five years of employment. Any options that are cancelled or forfeited before expiration become available for future grants. Since 2006, the Company started to routinely grant RSUs under the Equity Incentive Plans and since 2013, the Company started to grant its sales employees PSUs. The number of PSUs granted to sales employees is equal to the amount of compensation earned

(based on the employee's level) divided by the fair value of the ordinary share at the grant date. RSUs and PSUs vest over a four year period of employment from the grant date. PSUs are subject to certain performance criteria; accordingly, compensation expense is recognized for such awards when it becomes probable that the related performance condition will be satisfied. RSUs and PSUs that are cancelled or forfeited become available for future grants.

**Table of Contents****CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share amounts)**

**NOTE 12:-SHAREHOLDERS EQUITY (Cont.)**

Under the Equity Incentive Plans, the Company's non-employee directors receive an automatic annual option grant.

As of December 31, 2013, 13,508,075 options and RSUs were outstanding under the Equity Incentive Plans and 679 options were outstanding under the Zone Labs plan.

Following the amendments to the Equity Incentive Plans in January 2014, the number of ordinary shares reserved under the Equity Incentive Plans equals 19,000,000 (under the original terms of the Equity Incentive Plans, and before the amendment, 65,134,597 ordinary shares were available for future grant as of December 31, 2013). Commencing December 31, 2014, on December 31st of each year, the number of Reserved and Authorized Shares under the Equity Incentive Plans shall be automatically reset on such date to equal 10% of the number of ordinary shares issued and outstanding on such date.

A summary of the Company's stock option activity and related information is as follows:

	Options in thousands			Weighted average exercise price		
	2011	2012	2013	2011	2012	2013
Outstanding at beginning of year	14,192	13,337	13,448	\$ 23.85	\$ 28.50	\$ 35.24
Granted	2,125	2,955	1,930	\$ 52.92	\$ 54.24	\$ 49.77
Exercised	(2,324)	(1,944)	(2,712)	\$ 22.83	\$ 21.80	\$ 20.56
Expired	(602)			\$ 26.97		
Forfeited	(54)	(900)	(64)	\$ 27.89	\$ 26.69	\$ 44.79
Outstanding at December 31,	13,337	13,448	*)12,602	\$ 28.50	\$ 35.24	\$ 40.58
Exercisable at December 31,	8,429	8,530	8,001	\$ 24.21	\$ 28.20	\$ 35.22

\*)

As of December 31, 2013, approximately 12.5 million options are vested and expected to vest. Options expected to vest reflect an estimated forfeiture rate for purposes of determining related compensation expense.

	<b>Year ended December 31, 2013</b>	
	<b>Options</b>	<b>Aggregate intrinsic value</b>
	<b>In thousands</b>	
Outstanding at beginning of year	13,448	\$ 196,927
Granted	1,930	
Exercised	(2,712)	
Forfeited	(64)	
Outstanding as of December 31,	12,602	\$ 301,449
Exercisable as of December 31,	8,001	\$ 234,287

**Table of Contents****CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share amounts)****NOTE 12:-SHAREHOLDERS EQUITY (Cont.)**

The total intrinsic value of options exercised during the years 2011, 2012 and 2013 was \$ 73,973, \$ 61,564 and \$ 90,352, respectively.

The weighted average fair values at grant date of options granted for the years ended December 31, 2011, 2012 and 2013; with an exercise price equal to the market value at the date of grant were \$ 17.04, \$ 15.52 and \$ 16.17, respectively.

The following table summarizes information relating to RSUs, as well as changes to such awards during 2011, 2012 and 2013:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>Number in thousands</b>		
Outstanding at beginning of year	1,254	1,111	980
Granted	389	395	394
Vested	(425)	(415)	(359)
Forfeited	(107)	(111)	(108)
Outstanding as of December 31,	1,111	980	907

The weighted average fair values at grant date of RSUs granted for the years ended December 31, 2011, 2012 and 2013 were \$ 51.89, \$ 54.76 and \$ 48.64, respectively.

The total fair value of shares vested during the years 2011, 2012 and 2013 was \$ 22,753, \$ 22,806 and \$ 17,738, respectively.

The options outstanding as of December 31, 2013, have been separated into ranges of exercise price, as follows:



<b>Exercise price</b> <b>\$</b>	<b>Number of options</b> <b>(in thousands)</b>	<b>Outstanding Weighted average remaining contractual life</b> <b>(years)</b>	<b>Weighted average exercise price</b> <b>\$</b>	<b>Number of options</b> <b>(in thousands)</b>	<b>Exercisable Weighted average remaining contractual life</b> <b>(years)</b>	<b>Weighted average exercise price</b> <b>\$</b>
6.08-6.08	1	0.13	6.08	1	0.13	6.08
21.53-21.95	112	2.16	21.89	112	2.16	21.89
23.46-24.01	2,527	1.11	23.81	2,527	1.11	23.81
26.47 -26.47	1,100	2.57	26.47	1,100	2.57	26.47
26.77-29.49	1,830	3.40	29.22	1,410	3.45	29.37
32.31-35.79	209	3.24	35.07	108	3.25	35.21
42.85 -49.5	1,904	6.42	49.26	448	6.36	49.13
51.98-53.05	2,010	4.38	52.92	1,240	4.38	52.96
53.67-58.49	2,910	5.39	54.54	1,056	5.41	54.13
6.08-58.49	12,602	3.93	40.58	8,001	3.14	35.22

F-40

**Table of Contents****CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share amounts)****NOTE 12:-SHAREHOLDERS EQUITY (Cont.)**

As of December 31, 2013, the Company had approximately \$ 107,818 of unrecognized compensation expense related to non-vested stock options and non-vested restricted stock units, expected to be recognized over a weighted average period of 1.91 years.

d. Employee Stock Purchase Plan ( ESPP ):

The Company reserved a total of 6,000,000 ordinary shares for issuance under the ESPP. Eligible employees may use up to 15% of their salaries to purchase ordinary shares but no more than 1,250 shares per participant on any purchase date. The ESPP is implemented through an offering every six months. The price of an ordinary share purchased under the ESPP is equal to 85% of the lower of the fair market value of the ordinary share on the subscription date of each offering period or on the purchase date.

During 2011, 2012 and 2013, employees purchased 374,050, 309,559 and 354,487 ordinary shares at average prices of \$ 34.14, \$ 44.15 and \$ 42.14 per share, respectively.

As of December 31, 2013, 1,066,876 ordinary shares were available for future issuance under the ESPP.

In accordance with ASC No. 718, the ESPP is compensatory and as such results in recognition of compensation cost. For the years ended December 31, 2011, 2012 and 2013, the Company recognized \$ 3,400, \$ 4,313 and \$ 3,973, respectively, of compensation expense in connection with the ESPP.

**NOTE 13:-EARNINGS PER SHARE**

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

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Net income	\$ 543,966	\$ 620,000	\$ 652,800

Edgar Filing: CHECK POINT SOFTWARE TECHNOLOGIES LTD - Form 20-F

Weighted average ordinary shares outstanding (in thousands)	206,917	203,918	195,647
<b>Dilutive effect:</b>			
Employee stock options and RSUs (in thousands)	7,005	5,252	3,840
<b>Diluted weighted average ordinary shares outstanding (in thousands)</b>	<b>213,922</b>	<b>209,170</b>	<b>199,487</b>
Basic earnings per ordinary share	\$ 2.63	\$ 3.04	\$ 3.34
<b>Diluted earnings per ordinary share</b>	<b>\$ 2.54</b>	<b>\$ 2.96</b>	<b>\$ 3.27</b>

F-41

Table of Contents**CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 14:- GEOGRAPHIC INFORMATION AND SELECTED STATEMENTS OF INCOME DATA**

## a. Summary information about geographical areas:

The Company operates in one reportable segment (see Note 1 for a brief description of the Company's business). The total revenues are attributed to geographic areas based on the location of the Company's channel partners which are considered as end customers, as well as direct customers of the Company.

The following table presents total revenues for the years ended December 31, 2011, 2012 and 2013, and property and equipment, net as of December 31, 2012 and 2013, by geographic area:

## 1. Revenues based on the channel partners' location:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Americas, principally U.S.	\$ 553,843	\$ 603,605	\$ 647,533
Europe	488,632	501,547	514,858
Asia, Middle-East and Africa	204,511	237,543	231,714
	\$ 1,246,986	\$ 1,342,695	\$ 1,394,105

## 2. Property and equipment, net:

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
U.S.	\$ 3,519	\$ 3,270
Israel	31,450	33,605
Rest of the world	2,004	1,116

\$ 36,973      \$ 37,991

b. Summary information about product lines:

The Company's products can be classified by three main product lines. The following table presents total revenues for the years ended December 31, 2011, 2012 and 2013 by product lines:

F-42

**Table of Contents****CHECK POINT SOFTWARE TECHNOLOGIES LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands (except share and per share amounts)

**NOTE 14:- GEOGRAPHIC INFORMATION AND SELECTED STATEMENTS OF INCOME DATA (Cont.)**

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Product and licenses:</b>			
Network security Gateways	\$ 446,747	\$ 442,169	\$ 449,860
Other *)	56,728	63,111	54,716
	503,475	505,280	504,576
<b>Subscriptions:</b>			
Network security Gateways	105,790	162,931	209,442
Software updates and maintenance	637,721	674,484	680,087
<b>Total revenues</b>	<b>\$ 1,246,986</b>	<b>\$ 1,342,695</b>	<b>\$ 1,394,105</b>

\*) Comprised of Endpoint security and Security management products, each consists of less than 10% of products and licenses revenues.

c. Financial income, net:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Financial income:</b>			
Interest income	\$ 68,351	\$ 73,711	\$ 71,107
Realized gain on sale of marketable securities	672	1,436	1,383
Foreign currency re-measurement gain and others	14	873	893
	69,037	76,020	73,383

Financial expense:

Amortization of marketable securities premium and accretion of discount, net	28,092	33,784	37,903
Others	1,922	1,904	1,477
	30,014	35,688	39,380
	\$ 39,023	\$ 40,332	\$ 34,003

F-43

Table of Contents

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**CHECK POINT SOFTWARE  
TECHNOLOGIES LTD.**

By: /s/ Gil Shwed  
Gil Shwed  
Chief Executive Officer and Chairman of the  
Board

By: /s/ Tal Payne  
Tal Payne  
Chief Financial Officer

Date: March 28, 2014