

CHECK POINT SOFTWARE TECHNOLOGIES LTD  
Form 20-F/A  
August 03, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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AMENDMENT NO. 1 ON  
FORM 20-F/A TO FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

OR

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

For the transition period from \_\_\_\_\_ ..... \_\_\_\_\_ to \_\_\_\_\_ ..... \_\_\_\_\_

OR

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

Date of event requiring this shell company report.....

Commission file number 000-28584

CHECK POINT SOFTWARE TECHNOLOGIES LTD.

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(Exact name of Registrant as specified in its charter)

ISRAEL

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(Jurisdiction of incorporation or organization)

5 Ha'Solelim Street, Tel Aviv 67897, Israel

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(Address of principal executive offices)

John Slavitt, Esq.  
General Counsel  
Check Point Software Technologies, Inc.  
800 Bridge Parkway  
Redwood City, CA 94065 U.S.A.  
Tel: (650) 628-2110  
Fax: (650) 649-1975

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

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

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

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

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

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

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

Yes  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

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## EXPLANATORY NOTE

Check Point Software Technologies Ltd. (the “Company”) is filing this Amendment No. 1 to its Annual Report on Form 20-F for the year ended December 31, 2010 (the “2010 20-F”), originally filed on April 1, 2011, solely for the purpose of (i) replacing and re-filing the report of the Company’s independent registered public accounting firm, Kost, Forer, Gabbay & Kasierer (“Kost”), on the Company’s internal control over financial reporting (the “Kost Report”), and (ii) including, as exhibits 12.1, 12.2 and 13, the currently-dated certifications from the Company’s principal executive officer and principal financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The Kost Report is being replaced and re-filed because Kost inadvertently omitted from such report filed with the 2010 20-F its opinion as to whether the Company maintained, in all material respects, effective internal control over financial reporting. [The 2010 20-F has already disclosed that Kost has audited our internal control over financial reporting and Kost’s report on our consolidated financial statements as of and for the year ended December 31, 2010 also noted that it has given a separate report with an unqualified opinion on the Company’s internal control over financial reporting.]

For the convenience of the reader, this Amendment No. 1 sets forth (a) Part III, Item 18 (which includes the new Kost Report and the consolidated financial statements of the Company and its subsidiaries as of and for the year ended December 31, 2010) in its entirety and (b) the currently-dated certifications from the Company’s principal executive officer and principal financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as exhibits 12.1, 12.2 and 13. Except for the filing of the new Kost Report and the currently-dated certifications, this Amendment No. 1 does not change the previously reported consolidated financial statements and other disclosures included in the 2010 20-F. No other information in the 2010 20-F as originally filed is amended hereby, and accordingly, this Amendment No. 1 does not reflect events occurring after the original filing date of the 2010 20-F or modify or update those disclosures affected by subsequent events. Accordingly, this Amendment No. 1 on Form 20-F should be read in conjunction with our other filings with the Securities and Exchange Commission.

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CHECK POINT SOFTWARE TECHNOLOGIES LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

IN U.S. DOLLARS

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## 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
- 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, 2010. In conducting its assessment of internal control over financial reporting, management based its evaluation on the framework in "Internal Control – Integrated 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, 2010 based on these criteria.

Our financial statements and internal control over financial reporting have been audited by Kost, Forer, Gabbay & Kasierer (A Member of Ernst & Young Global), an independent registered public accounting firm.

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, 2010 and 2009, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010. 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 at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, 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, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 3, 2011, expressed an unqualified opinion thereon.

/s/ KOST FOERER GABBAY &  
KASIERER  
KOST FORER GABBAY &  
KASIERER  
A Member of Ernst & Young Global

Tel-Aviv, Israel  
August 3, 2011



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, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (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. 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.

In our opinion, Check Point maintained in all material respects, effective internal control over financial reporting as of December 31, 2010, 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 subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010, and our report dated August 3, 2011, expressed an unqualified opinion thereon.

/s/ KOST FOERER GABBAY &  
KASIERER

KOST FORER GABBAY &  
KASIERER

A Member of Ernst & Young Global

Tel-Aviv, Israel  
August 3, 2011

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## CHECK POINT SOFTWARE TECHNOLOGIES LTD.

AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2009	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$414,085	\$551,777
Marketable securities	469,913	537,718
Trade receivables (net of allowances for doubtful accounts and sales reserves of \$19,335 and \$21,170 at December 31, 2009 and 2010, respectively)	283,668	283,192
Prepaid expenses and other current assets	34,544	44,247
<b>Total current assets</b>	<b>1,202,210</b>	<b>1,416,934</b>
<b>LONG-TERM ASSETS:</b>		
Marketable securities	963,001	1,325,451
Property and equipment, net	38,936	37,065
Severance pay fund	6,314	6,532
Deferred tax asset, net	16,307	18,122
Other intangible assets, net	114,192	66,765
Goodwill	708,458	717,052
Other assets	20,176	17,381
<b>Total long-term assets</b>	<b>1,867,384</b>	<b>2,188,368</b>
<b>Total assets</b>	<b>\$3,069,594</b>	<b>\$3,605,302</b>

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

## CHECK POINT SOFTWARE TECHNOLOGIES LTD.

AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2009	2010
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$8,860	\$9,927
Employee and payroll accruals	67,167	80,814
Deferred revenues	384,255	424,158
Accrued expenses and other liabilities	92,984	148,363
<b>Total current liabilities</b>	<b>553,266</b>	<b>663,262</b>
<b>LONG-TERM LIABILITIES:</b>		
Deferred revenues	41,005	40,394
Income tax accrual	132,908	169,370
Deferred tax liability	11,636	1,721
Accrued severance pay	11,061	11,224
	196,610	222,709
<b>Total liabilities</b>	<b>749,876</b>	<b>885,971</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital -		
Preferred shares, NIS 0.01 par value, 5,000,000 shares authorized at December 31, 2009 and 2010; no shares issued and outstanding at December 31, 2009 and 2010	-	-
Deferred shares, NIS 1 par value, 10 shares authorized at December 31, 2009 and 2010; 1 share issued and outstanding at December 31, 2009 and 2010	-	-
Ordinary shares, NIS 0.01 par value, 500,000,000 shares authorized at December 31, 2009 and 2010; 261,223,970 shares issued at December 31, 2009 and 2010; 209,099,392 and 208,414,687 shares outstanding at December 31, 2009 and 2010, respectively	774	774
Additional paid-in capital	527,874	580,276
Treasury shares at cost - 52,124,578 and 52,809,283 Ordinary shares at December 31, 2009 and 2010, respectively	(1,199,752)	(1,306,382)
Accumulated other comprehensive income	12,555	15,584
Retained earnings	2,978,267	3,429,079
<b>Total shareholders' equity</b>	<b>2,319,718</b>	<b>2,719,331</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$3,069,594</b>	<b>\$3,605,302</b>

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

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## CHECK POINT SOFTWARE TECHNOLOGIES LTD.

AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

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

	Year ended December 31,		
	2008	2009	2010
<b>Revenues:</b>			
Products and licenses	\$338,317	\$361,633	\$444,400
Software updates, maintenance and services	470,173	562,784	653,468
<b>Total revenues</b>	<b>808,490</b>	<b>924,417</b>	<b>1,097,868</b>
<b>Operating expenses: *)</b>			
Cost of products and licenses **)	34,648	61,495	75,426
Cost of software updates, maintenance and services **)	33,407	43,551	55,721
Amortization of technology	24,554	28,224	32,826
<b>Total cost of revenues</b>	<b>92,609</b>	<b>133,270</b>	<b>163,973</b>
Research and development	91,629	89,743	105,748
Selling and marketing	214,439	220,877	235,301
General and administrative	53,313	56,409	57,244
Restructuring and other acquisition related costs	-	9,101	588
<b>Total operating expenses</b>	<b>451,990</b>	<b>509,400</b>	<b>562,854</b>
Operating income	356,500	415,017	535,014
Financial income, net	40,876	32,058	30,164
Other than temporary impairment, net of gain on sale of marketable securities previously impaired	(11,221 )	(1,277 )	(785 )
Income before taxes on income	386,155	445,798	564,393
Taxes on income	62,189	88,275	111,567
<b>Net income</b>	<b>\$323,966</b>	<b>\$357,523</b>	<b>\$452,826</b>
Basic earnings per Ordinary share	\$1.51	\$1.71	\$2.18
Diluted earnings per Ordinary share	\$1.50	\$1.68	\$2.13

\*) Includes stock-based compensation to employees in the following items:

Cost of products and licenses	\$48	\$47	\$49
Cost of software updates, maintenance and services	684	641	984
Research and development	5,037	6,649	7,325
Selling and marketing	6,855	5,032	7,279

General and administrative	19,703	18,538	19,543
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\*\*)

Not including amortization of technology shown separately below.

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

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## 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 (loss)	Retained earnings	Total comprehensive income	Total shareholders' equity
Balance as of December 31, 2007	\$ 774	\$ 464,330	\$ (907,022 )	\$ 1,233	\$ 2,297,640		\$ 1,856,955
Tax benefit related to exercise of stock options	-	13,019	-	-	-		13,019
Issuance of treasury shares under stock plans, upon exercise of options and vesting of restricted stock units (2,402,792 Ordinary shares net of 29,383 for taxes)	-	(6,268 )	41,314	-	-		35,046
Treasury shares at cost (10,914,008 Ordinary shares)	-	-	(239,542 )	-	-		(239,542 )
Stock-based compensation expense related to employees	-	32,327	-	-	-		32,327
Comprehensive income, net of tax - Reclassification adjustments to income on marketable securities, net of \$ 403 tax	-	-	-	1,091	-	\$ 1,091	1,091
Other than temporary impairment on marketable securities, net of \$2,272 tax	-	-	-	8,949	-	8,949	8,949
Unrealized losses on marketable securities,	-	-	-	(15,946 )	-	(15,946 )	(15,946 )



net of \$ (4,304) tax							
Net income	-	-	-	-	323,966	323,966	323,966
Total comprehensive income						\$ 318,060	
B a l a n c e a s o f							
December 31, 2008	\$ 774	\$ 503,408	\$ (1,105,250)	\$ (4,673 )	\$ 2,621,606		\$ 2,015,865
Unrealized losses on marketable securities, net of \$ 1,255 tax							
				\$ (4,673 )			
Accumulated other comprehensive loss as of December 31, 2008							
				\$ (4,673 )			

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

## CHECK POINT SOFTWARE TECHNOLOGIES LTD.

AND ITS SUBSIDIARIES

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Share capital	Additional paid-in capital	Treasury shares at cost	Accumulated other comprehensive income (loss)	Retained earnings	Total comprehensive income	Total shareholders' equity
Balance as of December 31, 2008	\$ 774	\$ 503,408	\$ (1,105,250)	\$ (4,673 )	\$ 2,621,606		\$ 2,015,865
Tax benefit related to exercise of stock options	-	7,502	-	-	-		7,502
Issuance of treasury shares under stock plans, upon exercise of options and vesting of restricted stock units (6,871,250 Ordinary shares net of 43,805 for taxes)	-	(13,943 )	107,783	-	(862 )		92,978
Treasury shares at cost (7,814,140 Ordinary shares)	-	-	(202,285 )	-	-		(202,285 )
Stock-based compensation expense related to employees	-	30,907	-	-	-		30,907
Comprehensive income, net of tax - Reclassification adjustments to income on marketable securities, net of \$ (122) tax	-	-	-	104	-	\$ 104	104
Other than temporary impairment, net of \$ 669 tax	-	-	-	2,523	-	2,523	2,523
Unrealized gain on marketable securities, net of \$ 4,747 tax	-	-	-	14,601	-	14,601	14,601
Net income	-	-	-	-	357,523	357,523	357,523
						\$ 374,751	

Total comprehensive  
income

Balance as of						
December 31, 2009	\$ 774	\$ 527,874	\$ (1,199,752)	\$ 12,555	\$ 2,978,267	\$ 2,319,718

Unrealized gain on marketable securities, net of \$ 4,039 tax				\$ 12,555		
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Accumulated other comprehensive income as of December 31, 2009				\$ 12,555		
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The accompanying notes are an integral part of the consolidated financial statements.

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## 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 comprehensive income	Total shareholders' equity
Balance as of December 31, 2009	\$ 774	\$ 527,874	\$ (1,199,752)	\$ 12,555	\$ 2,978,267		\$ 2,319,718
Tax benefit related to exercise of stock options	-	4,763	-	-	-		4,763
Issuance of treasury shares under stock plans, upon exercise of options and vesting of restricted stock units (4,965,581 Ordinary shares net of 61,149 for taxes)	-	12,459	93,370	-	(2,014 )		103,815
Treasury shares at cost (5,650,169 Ordinary shares)	-		(200,000 )	-			(200,000 )
Stock-based compensation expense related to employees		35,180	-	-	-		35,180
Comprehensive income, net of tax -		-	-	-	-		35,180
Reclassification adjustments to income on marketable securities, net of \$(244) tax	-	-	-	(974 )	-	\$ (974 )	(974 )
Other than temporary impairment, net of \$147 tax	-	-	-	785	-	785	785
Unrealized gain on marketable securities, net of \$967 tax	-	-	-	3,218	-	3,218	3,218
Net income	-	-	-		452,826	452,826	452,826
Total comprehensive income						\$ 455,855	

Balance as of						
December 31, 2010	\$ 774	\$ 580,276	\$ (1,306,382)	\$ 15,584	\$ 3,429,079	\$ 2,719,331
Unrealized gain on marketable securities, net of \$ 4,909 tax						
				\$ 15,584		
Accumulated other comprehensive income						
as of December 31, 2010				\$ 15,584		

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

## CHECK POINT SOFTWARE TECHNOLOGIES LTD.

AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2008	2009	2010
Cash flows from operating activities:			
Net income	\$ 323,966	\$ 357,523	\$ 452,826
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	8,648	8,885	6,890
Amortization of premium and accretion of discount on marketable securities, net	3,099	8,414	14,428
Other than temporary impairment net of gain on sale of marketable securities previously impaired	11,221	1,277	785
Realized loss (gain) on sale of marketable securities, net	1,494	1,896	(974 )
Amortization of intangible assets	36,982	50,653	51,876
Stock-based compensation	32,327	30,907	35,180
Foreign currency on amount due to Protect Data shareholders	(463 )	-	-
Deferred income taxes, net	(14,034 )	(11,386 )	(11,674 )
Decrease (increase) in trade receivables, net of allowances for doubtful accounts and sales reserves	(50,256 )	(11,256 )	536
Decrease (increase) in prepaid expenses and other current assets and other assets	(3,521 )	1,285	(5,742 )
Increase (decrease) in trade payables	744	(2,405 )	789
Increase in employees and payroll accruals	1,289	20,163	13,647
Increase in accrued expenses and other liabilities	38,423	63,026	97,178
Increase in deferred revenues	57,104	46,006	37,649
Excess tax benefit from stock-based compensation	(13,019 )	(7,502 )	(4,763 )
Increase (decrease) in accrued severance pay, net	25	(379 )	(55 )
Net cash provided by operating activities	434,029	557,107	688,576
Cash flows from investing activities:			
Cash paid in conjunction with acquisitions, net of acquired cash	-	(58,787 )	(13,957 )
Payments made in connection with prior years acquisitions	(8,579 )	-	-
Proceeds from maturity of marketable securities	311,134	427,660	605,725
Proceeds from sale of marketable securities	259,803	27,006	44,096
Investment in marketable securities	(736,781 )	(1,002,305)	(1,090,416)
Investment in short term deposits	(26,302 )	-	-
Proceeds from maturity of short term deposits	-	26,302	-
Purchase of property and equipment	(8,301 )	(4,283 )	(4,910 )
Net cash used in investing activities	(209,026 )	(584,407 )	(459,462 )

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

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## CHECK POINT SOFTWARE TECHNOLOGIES LTD.

AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2008	2009	2010
Cash flows from financing activities:			
Proceeds from issuance of shares under stock purchase plan and upon exercise of options	35,046	92,978	103,815
Purchase of treasury shares at cost	(239,542 )	(202,285 )	(200,000 )
Excess tax benefit from stock-based compensation	13,019	7,502	4,763
Net cash used in financing activities	(191,477 )	(101,805 )	(91,422 )
Increase (decrease) in cash and cash equivalents	33,526	(129,105 )	137,692
Cash and cash equivalents at the beginning of the year	509,664	543,190	414,085
Cash and cash equivalents at the end of the year	\$543,190	\$414,085	\$551,777
Supplemental disclosure of cash flow information:			
Cash paid during the year for income taxes	\$63,251	\$55,440	\$59,945
Supplemental disclosures of non cash financing and investing activities			
Net change in unrealized gain (loss) on marketable securities	\$(7,535 )	\$22,521	\$3,899

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



CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 and software products and services, by offering network security, data security and 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, support and other services. The Company sells its products worldwide primarily through multiple distribution channels ("channel partners"), including distributors, resellers, system integrators, Original Equipment Manufacturers ("OEMs"), system integrators and Managed Security Service Providers ("MSPs").

b. During 2010 and 2009, approximately 35% of the Company's revenues were derived from the same two channel partners, 18% from one channel partner and 17% from the other. During 2008, approximately 30% of the Company's revenues were derived from the same two channel partners, 16% from one channel partner and 14% from the other. Trade receivable balances from these two channel partners aggregated \$ 101,094 and \$ 114,801 as of December 31, 2009 and December 31, 2010, 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. generally accepted accounting principles 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, the Company's management evaluate estimates, including those related to accounts receivable and sales allowances, fair values of financial instruments, fair values and useful lives of intangible assets, fair values of stock-based awards, income taxes, and 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.

CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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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, monetary amounts denominated in a currency other than the functional currency are re-measured into the functional currency in accordance with ASC Topic 830, "Foreign Currency Matters," while 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. 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 (loss)" 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.

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



CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## 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 an impairment charge when a decline in the fair value of its investments in debt securities is 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 "other than temporary impairment, net of gain on sale of marketable securities previously impaired" in the statement of income and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income.

During 2008, 2009 and 2010, other-than-temporary impairment net of gain on sale of marketable securities previously impaired amounted to \$ 11,221, \$ 1,277 and \$ 785, respectively. The amount in 2009 includes a loss of \$ 3,134 and a gain of \$ 1,857 on sale of securities previously impaired. See further details in Note 4.

## f. 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

Property and equipment 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 2008, 2009 and 2010, no impairment losses have been recorded.

## g. Goodwill and other intangible assets:

Goodwill and certain other purchased intangible assets have 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. The Company performs an

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

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CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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U.S. dollars in thousands (except share and per share amounts)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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. For each of the three years in the period ended December 31, 2010, no impairment losses have been identified.

Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives, which range from 0.5 to 20 years. Some of the 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. All other acquired customer arrangements are amortized over their estimated useful lives on a straight-line basis. Other intangible assets consist primarily of core technology, trademarks, and backlog and are amortized over their estimated useful lives on a straight-line basis.

The carrying amount of these assets to be held and used is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset (or asset group) to the future undiscounted cash flows the asset (or asset group) is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. During 2008, 2009 and 2010, no impairment loss was recorded.

In determining the fair values of long-lived assets for purpose of measuring impairment, starting in 2009, the Company's assumptions include those that market participants will consider in valuations of similar assets.

h. Business Combinations

Effective January 1, 2009, the Company adopted the amended ASC No. 805, "Business Combinations". ASC 805 requires recognition of assets acquired, liabilities assumed, and any non-controlling interest at the acquisition date, measured at their fair values as of that date. The amended ASC also requires the fair value of acquired in-process research and development ("IPR&D") to be recorded as an indefinite life intangible asset (subject to impairment) until the research and developments efforts are either completed or abandoned, and restructuring and acquisition-related costs to be expensed as incurred. Any excess of the fair value of net assets acquired over purchase price and any subsequent changes in estimated contingencies are to be recorded in earnings. In addition, changes in valuation allowance related to acquired deferred tax assets and in acquired income tax position are to be recognized in earnings.



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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The amendment is applied prospectively for all business combinations occurring after January 1, 2009, except for changes in valuation allowance related to deferred tax assets and changes in acquired income tax position originating from business combinations that occurred prior to the effective date of the amendment, which are recognized in earnings following the adoption date.

i. Research and development costs:

Research and development costs are charged to the statement 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.

j. Revenue recognition:

The Company derives its revenues mainly from products, licenses, combined hardware and software products, software updates and maintenance and support services. The Company's products are generally integrated with software that is essential to the functionality of the equipment. The Company sells its products primarily through channel partners including distributors, resellers, OEMs, system integrators and MSPs, all of whom are considered end-users. The Company also sells its products directly to end users primarily through its web site.

The Company applies software revenue recognition guidance, ASC 985-605, "Software Revenue Recognition", to all transactions involving the sale of software products and hardware products that include software. Product and software license revenue is recognized when persuasive evidence of an arrangement exists, the software license has been delivered, there are no uncertainties surrounding product acceptance, there are no significant future performance obligations, the license fees are fixed or determinable and collection of the license fee is considered probable. For hardware transactions where software is essential to the functionality of the appliance, the Company does not separate the license fee and does not apply separate accounting guidance to the hardware and software elements. Fees for arrangements with payment terms extending beyond customary payment terms are considered not to be fixed or determinable, in which case revenue is deferred and recognized when payments become due from the customer or are actually collected, provided that all other revenue recognition criteria have been met.



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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As required by ASC 985-605, the Company determines the value of the software and hardware components (the delivered elements) of its multiple-element arrangements using the residual method when vendor specific objective evidence (VSOE) of fair value exists for the undelivered elements of the support and maintenance agreements. VSOE is based on the price charged when an element is sold separately or renewed. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

The Company's software updates and maintenance provides customers with rights to unspecified software product upgrades released during the term of the agreement and other security solutions sold as a service or annuity. The Company's support offerings include multiple services to customers primarily telephone access to technical support personnel and hardware support services. Revenue s from software updates, maintenance and services are recognized ratably over the term of the agreement.

Deferred revenues represent mainly the unrecognized fees billed for unspecified software updates, maintenance and support services; referred to collectively as PCS services.

The Company determines the fair value of each type of undelivered element as follows:

For enterprise products, the Company determines the fair value of the PCS services based on the renewal prices charged for such services. The Company offers several levels of services, classified by services offered, response time, and availability. The Company has defined classes of customers, based on the total gross value of licensed software and hardware products the customer purchased from the Company. The Company prices renewals for each service level and each class of customer as a fixed percentage of the total gross value of licensed software and hardware products the customer purchased.

For its consumer products, the Company determines the fair value of PCS services based on the renewal prices of such services for the different products offered. The renewal prices are based on the Company's price list.

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 in accordance with ASC No. 985-605. These estimates are based on historical sales returns, analysis of credit memo data, stock rotation and other known factors. Such provisions amounted to \$ 10,762 and \$ 14,075 as of December 31, 2009 and 2010, respectively.

k. Cost of revenues:

Cost of products and licenses is comprised of cost of software and hardware production, manuals, packaging and license fees paid to third parties.

Cost of software updates, maintenance and services is comprised of cost of post sale customer support and license fees paid to third parties.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

1. 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 would be paid from operating funds and 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 shall replace its severance obligation. Upon contribution of the full amount of the employee's monthly salary for each year of service, no additional calculations shall be conducted between the parties regarding the matter of severance pay and no additional payments shall be 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. Effective from January 1, 2007, the Company increased its contribution to the deposited funds to cover the full amount of the employee's monthly salary for each year of service.

Severance expenses for the years ended December 31, 2008, 2009 and 2010, were \$ 5,134, \$ 4,037 and \$ 4,053, respectively.

m. 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 \$ 16,500 per year (and an additional amount of \$ 5,500 for employees aged 50 and over), of their annual compensation to the plan through salary deferrals, subject to IRS limits. Effective from January 1, 2006, the Company matches 50% of employee contributions to the plan up to a limit of 3% of their eligible compensation. In 2008, 2009 and 2010, the Company's match amounted to \$ 684, \$ 848 and \$ 904, respectively.



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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. 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 based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to 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% likely to be realized upon ultimate settlement. The Company accrues interest and penalties related to unrecognized tax benefits in its taxes on income.

o. Advertising expenses:

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2008, 2009 and 2010, were \$ 2,796, \$ 1,400 and \$ 3,098, respectively.

p. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities and trade receivables.

The Company's cash and cash equivalents, and marketable securities are held by the Company's Singaporean subsidiary, the U.S. subsidiary and Check Point Ltd., are invested in dollar and dollar-linked investments, and are deposited in major banks in the U.S. 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 redeemed upon demand and therefore bear low risk.

The Company's marketable securities consist of investment-grade corporate bonds, U.S. government agency securities and sovereign bonds. 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.



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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's trade receivables are geographically diversified 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 upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are recorded at a specific rate, based upon the age of the receivable, the collection history and current economic trends. Allowance for doubtful accounts amounted to \$ 8,573 and \$ 7,095 as of December 31, 2009 and 2010, 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 \$ 1,898, \$ 2,052 and \$ 97 in 2008, 2009 and 2010, respectively. Total write offs during 2008, 2009 and 2010 amounted to \$ 726, \$ 274 and \$ 1,575, respectively.

q. 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 further, 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.

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, 2009 and 2010, the Company had outstanding forward contracts that did not meet the requirement for hedge accounting, in the notional amount of \$ 142,400 and \$ 187,676, respectively. The Company measured the fair value of the contracts in accordance with ASC No. 820 (classified as level 2). The net gains recognized in "financial income, net" during 2009 and 2010 were \$ 6,048 and \$ 10,848, respectively.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

During 2010, 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, Euros, British Pounds and Swedish Krona. As of December 31, 2010, there were no outstanding contracts. The Company measured the fair value of the contracts in accordance with ASC No. 820. These contracts met the requirement for cash flow hedge accounting and as such losses in the amount of \$ 428 were recognized when the related expenses were incurred and classified in operating expenses during 2010.

r. Basic and diluted earnings per share:

Basic earnings per share is computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted earnings per share is computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares 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 14,461,565, 8,386,309 and 1,147,378 for 2008, 2009 and 2010, respectively.

s. 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.

The Company recognizes compensation expenses for the value of its awards granted based on the straight line method 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.

ASC No. 718 requires the cash flows resulting from the tax deductions in excess of the compensation costs recognized for those stock options to be classified as financing cash flows.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Company selected the Black-Scholes-Merton option pricing model as the most appropriate fair value method for its stock-options awards and whereas the fair value of restricted stocks awards 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. The expected term of options granted is based upon historical experience and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term to the expected life of the options. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

The fair value of options granted in 2008, 2009 and 2010 is estimated at the date of grant using a Black-Scholes-Merton options pricing model with the following weighted average assumptions:

Employee Stock Options	2008	Year ended		2010
		December 31,		
		2009		
Expected volatility	38.57 %	35.00 %		30.54 %
Risk-free interest rate	3.05 %	2.61 %		1.63 %
Dividend yield	0.0 %	0.0 %		0.0 %
Expected term from vesting date (years)	3.55	3.62		2.97
Employee Stock Purchase Plan				
Expected volatility	31.15 %	46.90 %		20.20 %
Risk-free interest rate	1.92 %	0.31 %		0.16 %
Dividend yield	0.0 %	0.0 %		0.0 %
Expected term (years)	0.5	0.5		0.5

## t. Fair value of financial instruments:

The Company measures its cash equivalents, marketable securities, Auction Rate Securities, and 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 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

u. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC No. 220, "Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. 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 relates to gain and loss on hedging derivative instruments and unrealized gains and losses on available for sale securities.

v. Treasury stock:

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

From time to time the Company reissues treasury shares under the stock purchase plan, upon exercise of option and upon vesting of restricted stock units. When treasury stock is reissued, the Company accounts for the re-issuance in accordance with ASC No. 505-30, "Treasury Stock" and charges the excess of the purchase cost, including related stock-based compensation expenses, over the re-issuance price to retained earnings. The purchase cost is calculated based on the specific identification method. In case the purchase cost is lower than the re-issuance price, the Company credits the difference to additional paid-in capital.

w. Impact of recently issued accounting standards:

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) ("ASU 2009-13") and ASU 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) ("ASU 2009-14"). 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 amendment eliminates the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. 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 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact on its consolidated results of operations and financial condition.



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## NOTE 3:- ACQUISITIONS

a. On April 14, 2009, the Company completed the acquisition of the security appliance business of Nokia Corporation (“Nokia”). Prior to the completion of the acquisition, Check Point had collaborated with Nokia’s security appliance business over the past decade to deliver enterprise security solutions. Since completing the acquisition, the Company has been building upon this collaboration and the synergies between the Company and Nokia’s security appliance business to provide an extended security appliance portfolio that is developed, manufactured and supported by Check Point. Total purchase price was \$54,037. A significant amount of the acquisition was recorded as goodwill due to the synergies and previous collaboration with Nokia.

## Purchase price allocation:

Under business combination accounting, the total purchase price was allocated to Nokia’s net tangible and intangible assets based on their estimated fair values as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill.

Accounts receivable	\$27,674
Inventory	7,575
Other assets	8,148
Accounts payable and other liabilities	(21,703 )
Deferred revenues	(48,457 )
Intangible assets	36,944
Goodwill (tax deductible)	43,856
<b>Total purchase price</b>	<b>\$54,037</b>

## Intangible assets:

In performing the purchase price allocation, the Company considered, among other factors, analysis of historical financial performance, highest and best use of the acquired assets and estimates of future performance of Nokia’s products. The fair value of intangible assets was based on market participant approach to valuation performed by a third party valuation firm using an income approach and estimates and assumptions provided by management. The following table sets forth the components of intangible assets associated with the Nokia acquisition:

	Fair value	Useful life
Customer relationships (1)	\$ 11,909	2 years
Core technology (2)	20,058	3 years
In-Process research and development (3)	2,741	
Backlog	1,280	0.5 years
Trade names (4)	956	3 years

Total intangible assets	\$	36,944
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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:- ACQUISITIONS (Cont.)

- (1) Customer relationships represent the underlying relationships and agreements with Nokia's installed customer base and is amortized over 2 years using the accelerated method.
- (2) Core technology represents a combination of Nokia processes, patents and trade secrets related to the design and development of its products. This proprietary know-how can be leveraged to develop new technology and improve the Company's products.
- (3) In-process research and development ("IPR&D") represents incomplete Nokia research and development projects that had not reached technological feasibility and had no alternative future use as of the date of the acquisition. The asset was fully amortized in 2010 as the Company abandoned the development efforts.
- (4) Trade names value represents the recognition value of Nokia's brand name as a result of advertising expenditures for customer relations and the technological development to provide consistent, leading edge products and a strong research and development commitment by the Company.

During the second quarter of fiscal year 2009, the Company approved a plan to restructure certain operations of Nokia to eliminate redundant costs resulting from the acquisition and improve efficiencies in operations. The restructuring charges recorded are based on a restructuring plan that have been committed to by management.

The total restructuring and other acquisition related costs of \$ 9,101 consisted mainly of employee severance costs in the amount of \$ 7,700 out of which \$ 7,237 was paid during 2009. The remaining balance was paid in 2010. Also included are excess facilities obligations through fiscal 2010 and other acquisition costs.

The following unaudited condensed combined pro forma information for the years ended December 31, 2008 and 2009, gives effect to the acquisition of Nokia as if the acquisition had occurred on January 1, 2008. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisitions been consummated on that date, nor does it purport to represent the results of operations for future periods. For the purposes of the pro forma information, the Company has assumed that net income includes additional amortization of intangible assets related to the acquisition of \$ 16,623 and \$ 2,738 in 2008 and 2009, respectively, and related tax effects.

	Year ended December 31	
	2008	2009
	Unaudited	Unaudited
Revenues(*)	\$ 1,006,204	\$ 971,993
Net income	\$ 355,035	\$ 368,788
Basic earnings per share	\$ 1.66	\$ 1.76

Diluted earnings per share	\$ 1.64	\$ 1.74
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(\*)Nokia revenues prior to the acquisition date were denominated in currencies other than the US dollar; such revenues were re-measured into US dollars in accordance with ASC 830.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 3:- ACQUISITIONS (Cont.)

b. In June 2010, the Company acquired Liquid Machines, Inc. a leader in data security for a cash consideration of \$ 13,957. Under the acquisition method of accounting, the total consideration was allocated to tangible and intangible assets acquired and liabilities assumed based on their respective fair values. The excess of the consideration transferred over the fair value of the net tangible and identifiable intangible assets was recorded as goodwill. As part of the allocation \$ 4,449 was allocated to amortizable intangible assets (technology and customer relationships) that are being amortized over their estimated useful lives of three to six years and the residual was recorded as goodwill in the amount of \$ 8,594. The results of the aforementioned acquisition are included with that of the Company for the period subsequent to the acquisition date and are immaterial to the consolidated results. The acquisition did not have a material effect on pro forma financial data.

## NOTE 4:- MARKETABLE SECURITIES

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

	2009		December 31,		2010		Fair value	
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains		Gross unrealized losses
Government and corporate debentures - fixed interest rate	\$193,902	\$ 2,643	\$ (134 )	\$196,411	\$313,939	\$ 2,372	\$ (85 )	\$316,226
Government-sponsored enterprises	239,609	605	(562 )	239,652	142,496	504	(100 )	142,900
Structured notes (*)	12,128	-	(38 )	12,090	-	-	-	-
Government and corporate debentures - floating interest rate	21,764	7	(11 )	21,760	78,505	97	(10 )	78,592
	\$467,403	\$ 3,255	\$ (745 )	\$469,913	\$534,940	\$ 2,973	\$ (195 )	\$537,718

CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4:- MARKETABLE SECURITIES (Cont.)

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

	December 31,							
	2009					2010		
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Government and corporate debentures - fixed interest rate	\$726,117	\$ 13,823	\$(1,342 )	\$738,598	\$990,454	\$ 18,421	\$(1,731 )	\$1,007,144
Government-sponsored enterprises	93,049	1,551	(267 )	94,333	189,085	1,366	(552 )	189,899
Government and corporate debentures - floating interest rate	120,976	459	(140 )	121,295	120,206	297	(85 )	120,418
Mortgage and asset backed securities	-	-	-	-	-	-	-	-
Auction rate securities (**)	8,775	-	-	8,775	7,990	-	-	7,990
	\$948,917	\$ 15,833	\$(1,749 )	\$963,001	\$1,307,735	\$ 20,084	\$(2,368 )	\$1,325,451

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

	December 31, 2009					
	Investments with continuous unrealized losses for less than 12 months		Investments with continuous unrealized losses for 12 months or greater		Total Investments with continuous unrealized losses	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Government and corporate debentures - fixed interest rate	\$ 260,225	\$ (1,475 )	\$ -	\$ -	\$ 260,225	\$ (1,475 )
Government-sponsored enterprises	155,577	(830 )	-	-	155,577	(830 )

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Structured note (*)	12,090	(38 )	-	-	12,090	(38 )
Government and corporate debentures - floating interest rate	45,107	(151 )	-	-	45,107	(151 )
	\$ 472,999	\$ (2,494 )	\$ -	\$ -	\$ 472,999	\$ (2,494 )

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CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4:- MARKETABLE SECURITIES (Cont.)

	Investments with continuous unrealized losses for less than 12 months		December 31, 2010 Investments with continuous unrealized losses for 12 months or greater		Total Investments with continuous unrealized losses	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Government and corporate debentures - fixed interest rate	\$ 195,784	\$ (1,816 )	\$ -	\$ -	\$ 195,784	\$ (1,816 )
Government-sponsored enterprises	122,574	(649 )	4,999	(3 )	127,572	(652 )
Government and corporate debentures - floating interest rate	58,632	(47 )	15,834	(48 )	74,467	(95 )
	\$ 376,990	\$ (2,512 )	\$ 20,833	\$ (51 )	\$ 397,823	\$ (2,563 )

(\*)The structured note as of December 31, 2009, is comprised solely of an inverse floating interest rate bond, which matured during March 2010. Inverse floating rate bonds are bonds where the coupon varies inversely with changes in specified interest rates or indices (for example, LIBOR).

(\*\*)The balance is comprised of four auction rate securities, which have suffered from failed auctions since September 2007. As a result of the auction failures these auction rate securities do not have a readily determinable market value. As such, since 2008, the Company obtained a third party valuation to determine the fair values of these securities (see Note 5).

As of December 31, 2009 and 2010, interest receivable amounted to \$12,400 and \$15,324 respectively, and is included within other current assets in the balance sheets.

The other-than-temporary loss recognized in earnings during 2010 was \$785 relating to auction rate securities. The Company may recognize additional losses in the future should the market prospects of the issuers of these securities continue to deteriorate.

The Company recognized in 2009 other-than-temporary impairment in a total amount of \$ 3,134 related to its auction rate securities loss and a gain of \$ 1,857 on sale of marketable securities that were impaired in 2008.

The other-than-temporary loss recognized in earnings during 2008 was \$11,221, out of which \$6,290 pretax was related to auction rate securities.

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CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5:- 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, 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 because they are valued using valuation techniques. Some of the inputs to these models are unobservable in the market and are significant.

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. 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:

	December 31, 2009			
	Fair value measurements using input type			Total
	Level 1	Level 2	Level 3	
<b>Cash equivalents:</b>				
Money market funds	\$ 281,427	\$ -	\$ -	\$ 281,427
Commercial papers	-	22,780	-	22,780
Government and corporate debentures - fixed interest rate	-	6,004	-	6,004
<b>Marketable securities:</b>				
Government and corporate debentures - fixed interest rate	-	935,009	-	935,009
Government-sponsored enterprises	-	333,985	-	333,985
Structured notes	-	12,090	-	12,090
Government and corporate debentures - floating interest rate	-	143,055	-	143,055
Auction rate securities	-	-	8,775	8,775
Foreign currency derivative contracts	-	435	-	435
<b>Total financials assets</b>	<b>\$ 281,427</b>	<b>\$ 1,453,358</b>	<b>\$ 8,775</b>	<b>\$ 1,743,560</b>

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CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5:- FAIR VALUE MEASUREMENTS (Cont.)

	December 31, 2010			Total
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	
<b>Cash equivalents:</b>				
Money market funds	\$ 226,092	\$ -	\$ -	\$ 226,092
Government and corporate debentures - fixed interest rate		7,932		7,932
<b>Marketable securities:</b>				
Government and corporate debentures - fixed interest rate	-	1,323,370	-	1,323,370
Government-sponsored enterprises	-	332,799	-	332,799
Government and corporate debentures - floating interest rate	-	199,010	-	199,010
Auction rate securities	-	-	7,990	7,990
Foreign currency derivative contracts	-	1,219	-	1,219
<b>Total financials assets</b>	<b>\$ 226,092</b>	<b>\$ 1,864,330</b>	<b>\$ 7,990</b>	<b>\$ 2,098,412</b>

The following table presents the changes in Level 3 instruments measured on a recurring basis for the year ended December 31, 2010. The Company's Level 3 instruments consist of Auction Rate Securities classified as available-for-sale with the unrealized gains and losses, net of tax, reported in "accumulated other comprehensive income (loss)" in shareholders' equity.

Fair value measurements using significant unobservable inputs (Level 3):

	Auction rate securities
Balance at January 1, 2009	\$ 11,909
Unrealized losses included in earning (other than temporary impairment)	(3,134 )
Balance at December 31, 2009	8,775
Unrealized losses included in earning (other than temporary impairment)	(785 )
Balance at December 31, 2010	\$ 7,990





CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 6:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2009	2010
Cost:		
Computers and peripheral equipment	\$ 52,830	\$ 55,475
Office furniture and equipment	5,311	5,379
Building	32,201	32,907
Leasehold improvement	4,423	4,389
	94,765	98,150
Accumulated depreciation and amortization	55,829	61,085
Property and equipment, net	\$ 38,936	\$ 37,065

During 2009 and 2010, the Company recorded a reduction of \$ 1,947 and \$ 1,719, respectively, to the cost and accumulated depreciation of fully depreciated equipment no longer in use.

## NOTE 7:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET

a. Goodwill:

Changes in goodwill for the years ended December 31, 2009 and 2010 are as follows:

	Year ended December 31,	
	2009	2010
Goodwill, beginning of year	\$ 664,602	\$ 708,458
Acquisition of Nokia Appliance Business	43,856	-
Acquisition of Liquid Machines	-	8,594
Goodwill, end of year	\$ 708,458	\$ 717,052

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 7:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET (Cont.)

## b. Other intangible assets, net

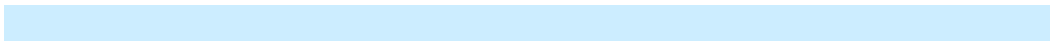
Net other intangible assets consisted of the following:

	Useful life	December 31,	
		2009	2010
<b>Original amount:</b>			
Core technology	2 - 5	\$ 139,008	\$ 141,819
Trademarks and Trade names	3 - 20	26,476	26,476
Customer relationship	2 - 6	65,489	67,127
In process research and development	(*)	2,741	2,741
Backlog	0.5	1,280	-
		234,994	238,163
<b>Accumulated amortization:</b>			
Core technology		73,739	106,565
Trademarks		5,281	7,175
Customer relationship		40,502	54,917
In process research and development		-	2,741
Backlog		1,280	-
		120,802	171,398
<b>Other intangible assets, net:</b>			
Core technology		65,269	35,254
Trademarks		21,195	19,301
Customer relationship		24,987	12,210
In process research and development		2,741	-
		\$ 114,192	\$ 66,765

(\*)Amortized during 2010, as the research and development efforts were abandoned.

The estimated future amortization expense of other intangible assets as of December 31, 2010 is as follows:

2011	\$43,838
2012	6,190
2013	2,233
2014	1,809
2015	1,690
Thereafter	11,005



\$66,765

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CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 8:- EMPLOYEE AND PAYROLL ACCRUALS

As of December 31, 2009 and 2010, employee and payroll accruals include a total amount of \$ 5,273 and \$ 4,542, respectively, related to payroll accrued for the benefit of certain related parties since 2002 until 2007, respectively.

## NOTE 9:- ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2009	2010
Income taxes payable	\$ 24,851	\$ 54,794
Accrued products and licenses costs	22,276	28,341
Current deferred tax liability, net	7,420	8,679
Marketing expenses payable	5,176	7,564
Legal accrual	11,025	19,445
Purchase commitment to subcontractors	4,486	5,415
Accrued expenses	17,750	24,125
	\$ 92,984	\$ 148,363

## NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES

## a. Lease commitments:

Certain facilities of the Company are rented under operating lease agreements that expire between 2011 and 2014. Certain of these agreements have immaterial free rent payment provisions. The Company recognizes rent expense under such arrangements on a straight-line basis. The Company leases vehicles under standard commercial operating leases.

Aggregate minimum lease commitments under non-cancelable operating leases as of December 31, 2010, were as follows:

2011	\$4,329
2012	2,732
2013	786
2014	252
	\$8,099

Rent expenses for the years ended December 31, 2008, 2009 and 2010, were \$ 7,307, \$ 7,068 and \$ 6,193, respectively.

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CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

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 particular, following audits of the Company's 2002 through 2005 corporate tax returns, the Israeli Tax Authority (the "ITA") issued orders challenging its positions on several issues, including matters such as the usage of funds earned by its approved enterprise for investments outside of Israel, deductibility of employee stock options expenses, percentage of foreign ownership of its shares, taxation of interest earned outside of Israel and deductibility of research and development expenses. The largest amount in dispute relates to the treatment of financial income on cash that is held and managed by its wholly-owned Singapore subsidiary, which the ITA is seeking to tax in Israel. In an additional challenge to this amount, the ITA reclassified the transfer of funds from Check Point to its subsidiary in Singapore as a dividend for purposes of the Law for the Encouragement of Capital Investments, which would result in tax on the funds transferred. The ITA orders also contest its positions on various other issues. The ITA therefore demanded the payment of additional taxes in the aggregate amount of NIS 1,412 million with respect to these four years (this amount includes interest through the respective assessment dates). The Company has appealed the orders relating to all four years with the Tel Aviv District Court, and these appeals are pending. There can be no assurance that the court will accept the Company's positions on these matters or others and, in such an event, the Company may record additional tax expenses if these matters are settled for amounts in excess of its current provisions. In addition, the ITA has issued preliminary assessments for 2006 and 2007 in which it demanded the payment of additional taxes in the aggregate amount of NIS 410 million with respect to these two years, including interest through the assessment date of August 2, 2009. The Company has filed objections to these assessments and the ITA is currently conducting a re-examination. There can be no assurance that the ITA will accept the Company's positions on matters raised and, if it does not, an order will be issued.

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

In the first quarter of 2011 the Company settled all litigation relating to its SofaWare subsidiary. As of December 31, 2010, a sufficient provision was recorded in the Company's financial statements in relation to the litigation. As part of the settlement the Company acquired the SofaWare shares held by its co-founders, bringing its total SofaWare holdings to almost 90% of the outstanding shares. The Company is currently in the process of acquiring the remaining shares, and expects that SofaWare will become a wholly-owned subsidiary.





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## NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

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.

## NOTE 11:- TAXES ON INCOME

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

	December 31,	
	2009	2010
Beginning balance	\$ 101,230	\$ 132,908
Additions for prior year tax positions	28,264	20,616
Additions for current year tax position	3,414	15,846
Ending balance	\$ 132,908	\$ 169,370

As of December 31, 2010, the entire amount of the unrecognized tax benefits could affect the Company's income tax provision and the effective tax rate.

During the years ended December 31, 2008, 2009 and 2010, the Company recorded \$ 5,904, \$ 8,239 and \$10,695, respectively for interest expense related to uncertain tax positions. As of December 31, 2009 and 2010, the Company had accrued interest liability related to uncertain tax positions in the amounts of \$ 23,743 and \$34,438, respectively, which is included within income tax accrual on the balance sheets.

Domestically, the Israeli Tax Authorities ("ITA") issued an order with respect to income tax returns of the Company for years 2002 through 2005. The ITA disagreed with several of the Company's positions as it pertains to the treatment of taxes. In addition, the ITA is currently examining the income tax returns for the years 2006 and 2007. The ITA has issued a preliminary assessment under which it demanded the payment of additional taxes in the aggregate amount of NIS 410 million with respect to these years (assessment received on August 2, 2009) including interest as of the assessment date. The Company appealed such assessment. The ITA is currently conducting a re-examination, there can be no assurance that the ITA will accept the companies positions on the matters raised and in such an event an order will be issued (see note 10b).

The Company's U.S. subsidiaries file federal and state income tax returns in the U.S. All of the Company's tax years are subject to examination by the U.S. federal and most U.S. state tax authorities due to the Company's net operating loss and overall credit carry-forward position.

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CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- TAXES ON INCOME (Cont.)

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.

b. Israeli taxation:

1. Corporate tax structure:

Taxable income of Israeli companies is subject to tax at the rate of 27% in 2008, 26% in 2009, and 25% in 2010 and thereafter. In July 2009, Israel's Parliament (the Knesset) passed the Economic Efficiency Law (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among other things, an additional gradual reduction in the Israeli corporate tax rate and real capital gains tax rate starting from 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

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

Check Point Ltd. is entitled to tax benefits under the Law. Certain production and development facilities of Check Point Ltd. have been granted "Approved Enterprise" status pursuant to the Law, which provides certain tax benefits to its investment programs.

A company that obtained an Approved Enterprise approval may elect to forego the entitlement to grants and apply for an alternative package of tax benefits (the "Alternative Package"). Under the Alternative Package, undistributed income from the Approved Enterprise operations is fully tax exempt (the "tax holiday") for a defined period and is subject to reduced tax for an additional defined period.

On April 1, 2005, an amendment to the Law came into effect (the "Amendment") and has significantly changed the provisions of the Law (the "Old Law"). Generally, investment programs of Check Point Ltd. that have already obtained approval for an Approved Enterprise by the Israeli Investment Center will continue to be subject to the Old Law's provisions. On the Alternative Package, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Old Law so that companies are no longer required to obtain Investment Center approval in order to qualify for tax benefits. Such an enterprise is a "Privileged Enterprise", rather than the previous terminology of Approved Enterprise. The period of tax benefits for a new Privileged Enterprise commences in the "Year of Commencement". This year is the later of: (1) the year in which taxable income is first generated by the company, or (2) the Year of Election. If a company requested the Alternative Package of benefits for an Approved Enterprise under the Law, it was precluded from filing a Privileged Enterprise status for three years after the year in which the Approved Enterprise was activated ("Cooling Period"). In November 2008, the Law was amended to shorten the Cooling Period to two years. Following the amendment, the Year of Election for the Company's first Privileged Enterprise is 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- TAXES ON INCOME (Cont.)

Recently, new legislation amending the Investment Law was adopted. Under this new legislation, a uniform corporate tax rate will apply to all qualifying income of certain Industrial Companies, as opposed to the current law's incentives, which are limited to income from Approved Enterprises during their benefits period. Under the new law, the uniform tax rate will be 10% in areas in Israel designated as Development Zone A and 15% elsewhere in Israel during 2011-2012, 7% and 12.5%, respectively, in 2013-2014, and 6% and 12%, respectively thereafter. The profits of these Industrial Companies will be freely distributable as dividends, subject to a 15% withholding tax (or lower, under an applicable tax treaty).

However, upon the distribution of a dividend to an Israeli company, no withholding tax will be remitted. The amendment will become effective as of January 1, 2011 and will apply to preferred income produced or generated by a preferred company from the effective date. Under the transition provisions of the new legislation, the Company may decide to irrevocably implement the new law while waiving benefits provided under the current law or to remain subject to the current law. Changing from the current law to the new law is permitted at any time.

Check Point Ltd. has been granted the status of Approved Enterprises, under the Law, in six investment programs (the "Programs"). Out of the Programs, the Company's benefit period related to its first and second investment programs ended, therefore, the Company's income attributed to these investment programs is not entitled to tax benefits. For all of such Approved Enterprises, the Company has elected the Alternative Package.

As of December 31, 2010, Check Point Ltd. has elected the status of Privileged Enterprise, under the Amendment, for its seventh and eighth plans.

The tax benefits attributable to the Company's current Approved and Privileged Enterprises are scheduled to expire in phases by 2017.

The benefits available to an Approved Enterprise and a Privileged Enterprise relate only to taxable income attributable to the specific investment program and are conditioned upon terms stipulated in the Investment Law and the related regulations and the criteria set forth in the applicable certificate of approval (for an Approved Enterprise). If the Company does not fulfill these conditions, in whole or in part, the benefits can be cancelled and the Company may be required to refund the amount of the benefits, linked to the Israeli consumer price index plus interest.

The Company's income attributed to the Approved Enterprise and Privileged Enterprise under the alternative package is tax exempt for a period of two years and is subject to a reduced corporate tax rate of 10% - 25% for an additional period of five to eight years, based on the percentage of foreign investment.

In the event of distribution of dividends from the above mentioned tax-exempt income, the amount distributed will be subject to the same reduced corporate tax rate that would have been applied to the Approved Enterprise's and Privileged Enterprise's income.



CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- TAXES ON INCOME (Cont.)

The amendment to the Investment Law treats repurchase of shares out of Privileged Enterprise tax exempt income as deemed-dividend. Through December 31, 2010, the Company repurchased 79,240,041 of its Ordinary shares in a total amount of \$ 1,768,589. The Company's retained earnings attributed to taxable income are higher than the total shares repurchased and therefore should not trigger a deemed-dividend event. For further information about the Company's repurchase program refer to Note 12e.

Out of the Company's retained earnings as of December 31, 2010, \$713,007 are tax-exempt attributable to its Approved Enterprise programs. If such tax-exempt income is distributed in a manner other than upon complete liquidation of the Company, it would be taxed at the reduced corporate tax rate applicable to such profits (between 10%-25%), and an income tax liability of up to \$163,617 would be incurred as of December 31, 2010.

In addition, as a result of the amendment, tax-exempt income attributed to Privileged Enterprises, will subject the Company to taxes upon distribution in any manner including complete liquidation. As of December 31, 2010, the Company had \$699,345 tax-exempt income attributed to its Privileged Enterprise plan. In case of distribution or complete liquidation of the Company, it would be taxed at the reduced corporate tax rate between 10%-25% and an income tax liability of up to \$114,928 would be incurred as of December 31, 2010.

The Company's board of directors has determined that it will not distribute any amounts of its undistributed tax-exempt income as dividend in the near-term. The Company currently intends to reinvest its tax-exempt income and not to distribute such income as a dividend. Accordingly, no deferred income taxes have been provided on income attributable to the Company's Approved Enterprise and Privileged Enterprise programs as the undistributed tax exempt income is essentially permanent by reinvestment.

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

3.Foreign Exchange Regulations:

Under the Foreign Exchange Regulations the Israeli company is calculating 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.

CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- TAXES ON INCOME (Cont.)

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

The Company qualifies as an Industrial Company within the meaning of the Law for the Encouragement of Industry (Taxes), 1969 (the "Industrial Encouragement Law"). The Industrial Encouragement Law defines an "Industrial Company" as a company that is resident in Israel and that derives at least 90% of its income in any tax year, other than income from defense loans, capital gains, interest and dividends, from an enterprise whose major activity in a given tax year is industrial production. Under the Industrial Encouragement Law the Company is entitled to amortization of the cost of purchased know-how and patents over an eight-year period for tax purposes as well as accelerated depreciation rates on equipment and buildings.

Eligibility for the benefits under the Industrial Encouragement Law is not subject to receipt of prior approval from any governmental authority.

c. Income taxes on non-Israeli subsidiaries:

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

Israeli income taxes and foreign withholding taxes were not provided for undistributed earnings of the Company's foreign subsidiaries. Undistributed earnings amounted to \$129,298 as of December 31, 2010. The Company's board of directors has determined that the Company will not distribute any amounts of its undistributed earnings as dividend. The Company intends to reinvest these earnings indefinitely in the foreign subsidiaries. Accordingly, 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.

d. 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, 2009 and 2010, the Company's deferred taxes were in respect of the following:



CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:-

## TAXES ON INCOME (Cont.)

	December 31,	
	2009	2010
Carry-forward tax losses	\$ 269,469	\$ 266,011
Deferred revenues	3,194	3,479
Employee stock based compensation	14,316	14,472
Accrued employees costs	3,098	4,614
Reserves and allowances	4,137	3,174
Fixed assets	3,070	6,055
Marketable Securities amortization	-	1,242
Intangible assets	2,314	3,406
Tax credits	9,791	10,980
Deferred tax assets before valuation allowance	309,389	313,433
Valuation allowance	(275,013)	(273,481)
Deferred tax asset	34,376	39,952
Intangible assets	(23,681 )	(16,842 )
Unrealized gains on marketable securities, net	(4,039 )	(4,909 )
Other	(604 )	(603 )
Deferred tax liability	(28,324 )	(22,354 )
Deferred tax asset, net	\$ 6,052	\$ 17,598
	December 31,	
	2009	2010
Domestic:		
Current deferred tax asset, net	\$ 634	\$ 524
Non-current deferred tax asset, net	9,772	10,974
	10,406	11,498
Foreign:		
Current deferred tax asset, net	8,167	9,352
Current deferred tax liability, net	(7,420 )	(8,679 )
Non-current deferred tax asset, net	6,535	7,148

Non-current deferred tax liability	(11,636 )	(1,721 )
	(4,354 )	6,100
	\$ 6,052	\$ 17,598

CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Current deferred tax asset, net, is included within other current assets in the balance sheets. Current deferred tax liability, net, is included within accrued expenses and other liabilities 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 forwards of net operating loss and research and development tax credit. ASC No. 718 prohibits recognition of a deferred income tax asset for excess tax benefits due to stock option exercises that have not yet been realized through a reduction in income tax payable. All net operating loss carry-forwards relate to excess tax deductions from stock options which have not yet been realized. Such unrecognized deferred tax benefits will be accounted for as a credit to additional paid-in-capital, if and when realized. The Company has recorded a valuation allowance for the research and development credit carry-forwards due to uncertainties about whether it will be able to utilize these assets before they expire. The net change in the valuation allowance primarily relates to stock option benefits and were accounted for as a credit to additional paid-in-capital.

Through December 31, 2010, the U.S. subsidiaries had a U.S. federal loss carryforward of approximately \$656 million resulting from tax benefits related to employees' stock option exercises that can be carried forward and offset against taxable income up to 20 years, expiring before 2020. 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, 2010, the U.S. subsidiaries had a U.S. state net loss carryforward of approximately \$ 669 million, which expire between fiscal 2011 and fiscal 2024, and are subject to limitations on their utilization. Through December 31, 2010, the U.S. subsidiaries had research and development tax credits of approximately \$ 10 million, which expire between fiscal 2011 and fiscal 2028 and are subject to limitations on their utilization.

- e. Income before taxes on income is comprised of the following:

	2008	Year ended December 31, 2009	2010
Domestic	\$ 350,963	\$ 421,471	\$ 540,402
Foreign	35,192	24,327	23,991
	\$ 386,155	\$ 445,798	\$ 564,393

CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:-

## TAXES ON INCOME (Cont.)

f. Taxes on income are comprised of the following:

	2008	Year ended December 31, 2009	2010
Current	\$ 76,223	\$ 99,661	\$ 123,241
Deferred	(14,034 )	(11,386 )	(11,674 )
	\$ 62,189	\$ 88,275	\$ 111,567
Domestic	\$ 59,870	\$ 85,626	\$ 110,318
Foreign	2,319	2,649	1,249
	\$ 62,189	\$ 88,275	\$ 111,567
		Year ended December 31,	
	2008	2009	2010
Domestic taxes:			
Current	\$ 62,650	\$ 88,398	\$ 112,475
Deferred	(2,780 )	(2,772 )	(2,157 )
	59,870	85,626	110,318
Foreign taxes - US:			
Federal taxes:			
Current	7,101	7,166	6,608
Deferred	(2,762 )	1,281	(792 )
	4,339	8,447	5,816
State taxes:			
Current	650	977	1,243
Deferred	226	423	(52 )
	876	1,400	1,191
Other international locations:			
Current	5,822	3,120	2,915
Deferred	(8,718 )	(10,318 )	(8,673 )

	(2,896 )	(7,198 )	(5,758 )
Total foreign taxes	2,319	2,649	1,249
Taxes on income	\$ 62,189	\$ 88,275	\$ 111,567

CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

## g. Reconciliation of the theoretical tax expenses:

A reconciliation between the theoretical tax expenses, assuming all income is taxed at the statutory rate applicable and the actual income tax as reported in the statements of income is as follows:

	Year ended December 31,					
	2008		2009		2010	
Income before taxes as reported in the statements of income	\$	386,155	\$	445,798	\$	564,393
Statutory tax rate in Israel	27	%	26	%	25	%
Decrease in taxes resulting from:						
Effect of "Approved and Privileged Enterprise" status (*)	(12)	)%	(13)	)%	(8)	)%
Foreign exchange (see note h below)	1	%	1	%	-	
Stock based compensation – nondeductible expense	2	%	1	%	1	%
Others, net	(2)	)%	5	%	2	%
Effective tax rate	16	%	20	%	20	%
(*) Basic earnings per share amounts of the benefit resulting from the "Approved and Privileged Enterprise" status	\$	0.21	\$	0.27	\$	0.20
Diluted earnings per share amounts of the benefit resulting from the "Approved and Privileged Enterprise" status	\$	0.21	\$	0.27	\$	0.20

## h. Measurement of income tax in foreign subsidiaries:

Results of the Company's subsidiary in Sweden for tax purposes are measured and reflected in terms of earnings in SEK. As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual changes in the SEK/dollar exchange rate causes a further difference between taxable income and the income before taxes shown in the financial statements. In accordance with ASC 740-10-25-3f, the Company's subsidiary has

not provided deferred income taxes on the difference between the reporting currency and the tax bases of assets and liabilities resulting from changes in exchange rate.

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CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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. The Company's board of directors has determined that it will not distribute any amounts of its undistributed tax exempt income as dividend.

b. Deferred share:

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

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

The Company reserved a total of 6,000,000 Ordinary shares for issuance under the ESPP. Eligible employees 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 2008, 2009 and 2010, employees purchased 474,550, 478,231 and 433,940 Ordinary shares at average prices of \$ 18.29, \$ 19.19 and \$ 24.97 per share, respectively.

As of December 31, 2010, 2,104,972 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, 2008, 2009 and 2010, the Company recognized \$ 2,770, \$ 3,061 and \$ 2,940, respectively, of compensation expense in connection with the ESPP.

d. Stock options:

In 2005, the Company adopted two new equity incentive plans: the 2005 United States Equity Incentive Plan, which is referred to as the 2005 U.S. Plan, and the 2005 Israel Equity Incentive Plan, which is referred to as the 2005 Israel Plan. Both of these plans will be in effect until 2015. Following ratification of the new plans by its shareholders in September 2005, the Company stopped issuing stock options under the plans approved in 1996.





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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

Under the Company's 2005 equity incentive plans (the "2005 Plans"), options are granted to employees, officers and directors at an exercise price equal to at least the fair market value at the date of grant and are granted for periods not to exceed seven years. Options granted under the 2005 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. The Company can also issue a variety of other equity incentives under the 2005 Plans. In addition to granting stock options, since 2006, the Company started to routinely grant Restricted Stock Units ("RSUs") under the 2005 Plans. The Company does not record compensation expenses for performance based options for which the grantees did not reach the performance targets. RSUs vest over a four year period of employment and may be subject to performance criteria. RSUs that are cancelled or forfeited become available for future grants.

Under the 2005 Plans, the Company's non-employee directors receive an automatic annual option grant.

Under the terms of the 2005 Plans, options to purchase 50,000,000 Ordinary shares were reserved for issuance (increasing by 5,000,000 Ordinary shares on January 1 of each year beginning January 1, 2006), out of which as of December 31, 2010, 58,630,047 Ordinary shares were available for future grant under the 2005 Plans. As of December 31, 2010, 11,546,701 options and RSUs were outstanding under the 2005 Plans, 3,857,131 options were outstanding under the plans approved in 1996, 23,565 were outstanding under the Zone Labs plan and 18,565 were outstanding under the Pointsec Plan.

A summary of the Company's stock option activity and related information, including options under the Zone Labs 1998 Stock Option Plan assumed by the Company (in connection with the Zone Labs acquisition in 2004) and Pointsec Plans, is as follows:

	Options in thousands			Weighted average exercise price		
	2008	2009	2010	2008	2009	2010
Outstanding at beginning of year	24,156	21,582	16,601	\$ 22.02	\$ 20.97	\$ 23.12
Granted	1,900	1,845	2,139	\$ 23.21	\$ 25.86	\$ 30.69
Exercised	(1,713 )	(6,039 )	(4,062 )	\$ 16.41	\$ 16.40	\$ 24.15
Expired	(1,761 )	(591 )	(470 )	\$ 41.89	\$ 23.31	\$ 26.57
Forfeited	(1,000 )	(196 )	(16 )	\$ 21.45	\$ 19.60	\$ 21.95
Outstanding at December 31,	21,582	16,601	14,192	\$ 20.97	\$ 23.12	\$ 23.85
Exercisable at December 31,	14,629	10,469	8,695	\$ 20.47	\$ 22.86	\$ 22.09

\*)

As of December 31, 2010, approximately 14.0 million options were outstanding and expected to vest. Options expected to vest reflect an estimated forfeiture rate for purposes of determining related compensation expense.

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CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

	Options	Year ended December 31, 2010 Aggregate intrinsic value In thousands
Outstanding at beginning of year	16,601	\$ 181,798
Granted	2,139	N/A
Exercised	(4,062 )	55,594
Forfeited	(486 )	N/A
Outstanding as of December 31,	14,192	\$ 318,075
Exercisable as of December 31,	8,695	\$ 210,141

The following table summarizes information relating to RSUs, as well as changes to such awards during 2008, 2009 and 2010:

	2008	Year ended December 31, 2009	2010
	Number in thousands		
Outstanding at beginning of year	1,232	1,398	1,612
Granted	676	755	371
Vested	(245 )	(398 )	(530 )
Forfeited	(265 )	(143 )	(199 )
Outstanding as of December 31,	1,398	1,612	1,254

The weighted average fair values at grant date of RSUs granted for the years ended December 31, 2008, 2009 and 2010 were \$ 22.25, \$ 23.87 and \$ 36.43, respectively.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

The options outstanding as of December 31, 2010, have been separated into ranges of exercise price, as follows:

Exercise price \$	Number of options (in thousands)	Outstanding Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of options (in thousands)	Exercisable Weighted average remaining contractual life (years)	Weighted average exercise price \$
4.42-6.08	24	0.40	6.04	24	0.40	6.04
16.80-16.80	2,200	2.58	16.80	2,200	2.58	16.80
18.56-22.41	1,110	3.24	21.40	586	2.05	21.11
22.50-23.65	5,384	2.56	23.37	4,105	2.58	23.38
24.01-26.77	2,603	5.18	25.45	1,263	5.06	25.06
26.99-32.31	2,432	4.73	28.78	517	5.18	28.97
33.20-43.95	439	6.26	35.35	-	0.00	0.00
4.42-43.95	14,192	3.58	23.85	8,695	3.05	22.09

The weighted average fair values at grant date of options granted for the years ended December 31, 2008, 2009 and 2010, with an exercise price equal to the market value at the date of grant were \$ 9.61, \$ 9.98 and \$ 9.09, respectively.

As of December 31, 2010, the Company had approximately \$ 62,815 of unrecognized compensation expense related to non-vested stock options and non-vested restricted stock awards, expected to be recognized over four years.

e. Since 2003, the Company's board of directors approved six programs to repurchase Ordinary shares for a total of \$ 1,850,000. The first through fifth programs were announced between 2003 and 2008. The sixth program was announced on January 27, 2010, and as of December 31, 2010, is still in effect, and authorizes the repurchase of up to \$250,000 of its 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.

CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

The repurchase programs have no time limit and may be suspended from time to time or discontinued. Under the above programs, the Company repurchased during 2008, 2009 and 2010 approximately 10.9, 7.81 and 5.65 million shares, respectively, at a total cost of \$ 239,542, \$ 202,285 and \$ 200,000, respectively. The average purchase price per share during 2008, 2009 and 2010 was \$ 21.95, \$ 25.89 and \$ 35.38, respectively. Such purchases of ordinary shares are accounted for as treasury stock and result in a reduction of shareholders' equity. As of December 31, 2010, there is approximately \$ 81,482 remaining out of the \$ 250,000 authorized under the share repurchase program in 2010. On February 3, 2011, a seventh program was announced, and authorized the repurchase of up to \$300,000 annually of Ordinary shares following the approval of the Company's consolidated financial statements for the year ended December 31, 2010.

Through December 31, 2010, the Company reissued 26,581,275 of its repurchased ordinary shares in consideration for the exercise of stock options and restricted shares by employees and for shares issued under the ESPP.

## NOTE 13:- EARNINGS PER SHARE

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

	2008	Year ended December 31, 2009	2010
Net income	\$ 323,966	\$ 357,523	\$ 452,826
Weighted average Ordinary shares outstanding (in thousands)	214,361	209,371	208,106
Dilutive effect:			
Employee stock options and RSUs (in thousands)	2,307	2,837	4,827
Diluted weighted average Ordinary shares outstanding (in thousands)	216,668	212,208	212,933
Basic earnings per Ordinary share	\$ 1.51	\$ 1.71	\$ 2.18
Diluted earnings per Ordinary share	\$ 1.50	\$ 1.68	\$ 2.13

CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## 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 presents total revenues for the years ended December 31, 2008, 2009 and 2010, and long-lived assets as of December 31, 2009 and 2010, by geographic area:

## 1.Revenues based on the channel partners' location:

	2008	Year ended December 31, 2009	2010
Americas, principally U.S.	\$ 349,614	\$ 395,835	\$ 479,692
Europe, Middle East and Africa	360,161	405,334	440,620
Asia Pacific and Japan	98,715	123,248	177,556
	\$ 808,490	\$ 924,417	\$ 1,097,868

## 2.Long-lived assets:

	December 31,	
	2009	2010
U.S.	\$ 196,336	\$ 205,422
Israel	102,949	86,577
Sweden	561,128	528,002
Rest of the world	1,173	881
	\$ 861,586	\$ 820,882

CHECK POINT SOFTWARE TECHNOLOGIES LTD.  
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## 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.	Financial income, net:		
	2008	Year ended December 31, 2009	2010
<b>Financial income:</b>			
Interest income	\$ 51,776	\$ 41,346	\$ 53,567
Realized gain on sale of marketable securities	125	-	974
Foreign currency re-measurement gain and others	-	2,061	-
	51,901	43,407	54,541
<b>Financial expense:</b>			
Amortization of marketable securities premium and accretion of discount, net	3,099	8,414	14,428
Foreign currency re-measurement loss	4,311	-	2,808
Realized loss on sale of marketable securities	1,619	1,897	-
Others	1,996	1,038	7,141
	11,025	11,349	24,377
	\$ 40,876	\$ 32,058	\$ 30,164

## NOTE 15:- SUBSEQUENT EVENTS

In February 2011, the Company acquired 29% of the shares of the Company's subsidiary SofaWare Technologies from the SofaWare founders. As such the Company holds 92% of SofaWare's shares. This transaction was accounted for as an equity transaction under ASC 810, as amended by ASU 2010-02.

In connection with this transaction the legal disputes with two minority shareholders of the Company's subsidiary SofaWare Technologies Ltd (as discussed in note 10b) were dismissed. In addition, all other outstanding SofaWare litigation was resolved.



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: August 3, 2011

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