

CHECK POINT SOFTWARE TECHNOLOGIES LTD

Form 20-F

April 24, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number 000-28584

CHECK POINT SOFTWARE TECHNOLOGIES LTD.

(Exact name of Registrant as specified in its charter)

ISRAEL

(Jurisdiction of incorporation or organization)

5 Ha Solelim Street, Tel Aviv 6789705, Israel

(Address of principal executive offices)

John Slavitt, Esq.

General Counsel

Check Point Software Technologies, Inc.

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

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2014. 183,790,953 Ordinary Shares, nominal value NIS 0.01 per share

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large Accelerated filer Accelerated filer Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

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

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

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Currency of Presentation and Certain Defined Terms

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

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

Forward-Looking Statements

Some of the statements contained in this Annual Report on Form 20-F are forward-looking statements that involve risks and uncertainties. The statements contained in this Annual Report on Form 20-F that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding: our expectations for our business, trends related to our business and the markets in which we operate and into which we sell products; future amounts and sources of our revenue; our future costs and expenses; the adequacy of our capital resources; our expectations with respect to share repurchases by us and dividend payments by us; our ongoing relationships with our current and future customers and channel partners; and our other expectations, beliefs, intentions and strategies. In some cases, you can identify forward-looking statements by terminology, such as may, will, could, should, expects, plans, anticipates, believes, intends, estimates, predicts, potential, negative of these terms or other comparable terminology. These statements are subject to known and unknown risks, uncertainties and other factors, which may cause our actual results to differ materially from those implied by the forward-looking statements. Many of these risks, uncertainties and assumptions are described in the risk factors set forth in Item 3 Key Information Risk Factors and elsewhere in this Annual Report on Form 20-F. All forward-looking statements included in this Annual Report on Form 20-F, are based on information available to us on the date of the filing. We undertake no obligation to update or revise any of the forward-looking statements after the date of the filing, except as required by applicable law.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

We prepare our historical consolidated financial statements in accordance with U.S. GAAP. The selected financial data, set forth in the table below, have been derived from our audited historical financial statements for each of the years from 2010 to 2014. The selected consolidated statement of income data for the years 2014, 2013 and 2012, and the selected consolidated balance sheet data at December 31, 2014 and 2013, have been derived from our audited consolidated financial statements set forth in Item 18 Financial Statements. The selected consolidated statement of income data for the years 2011 and 2010, and the selected consolidated balance sheet data at December 31, 2012, 2011 and 2010, have been derived from our previously published audited consolidated financial statements, which are not included in this Annual Report on Form 20-F. These selected financial data should be read in conjunction with our consolidated financial statements, as set forth in Item 18, and are qualified entirely by reference to such consolidated financial statements.

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| | Year ended December 31, | | | | |
|--|-------------------------|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands) | | | | |
| Consolidated Statements of Income Data: | | | | | |
| Revenues | \$ 1,495,816 | \$ 1,394,105 | \$ 1,342,695 | \$ 1,246,986 | \$ 1,097,868 |
| Operating expenses (*): | | | | | |
| Cost of revenues | 176,541 | 162,634 | 159,161 | 175,683 | 163,973 |
| Research and development | 133,300 | 121,764 | 111,911 | 110,147 | 105,748 |
| Selling and marketing | 306,363 | 276,067 | 255,345 | 253,800 | 235,301 |
| General and administrative | 78,558 | 72,735 | 69,743 | 65,182 | 57,244 |
| Restructuring and other acquisition related costs | | | | | 588 |
| Total operating expenses | 694,762 | 633,200 | 596,160 | 604,812 | 562,854 |
| Operating income | 801,054 | 760,905 | 746,535 | 642,174 | 535,014 |
| Financial income, net | 28,762 | 34,931 | 40,332 | 41,040 | 29,379 |
| Income before taxes on income | 829,816 | 795,836 | 786,867 | 683,214 | 564,393 |
| Taxes on income | 170,245 | 143,036 | 166,867 | 139,248 | 111,567 |
| Net income | \$ 659,571 | \$ 652,800 | \$ 620,000 | \$ 543,966 | \$ 452,826 |
| Basic earnings per ordinary share | \$ 3.50 | \$ 3.34 | \$ 3.04 | \$ 2.63 | \$ 2.18 |
| Shares used in computing basic earnings per ordinary share | 188,487 | 195,647 | 203,918 | 206,917 | 208,106 |
| Diluted earnings per ordinary share | \$ 3.43 | \$ 3.27 | \$ 2.96 | \$ 2.54 | \$ 2.13 |
| Shares used in computing diluted earnings per ordinary share | 192,300 | 199,487 | 209,170 | 213,922 | 212,933 |

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

| | | | | | |
|--|----------|----------|----------|-----------|-----------|
| Amortization of intangible assets | | | | | |
| Cost of revenues | \$ 240 | \$ 612 | \$ 3,982 | \$ 31,171 | \$ 32,826 |
| Selling and marketing | 1,866 | 2,408 | 3,046 | 12,754 | 16,309 |
| Research and development | | | | | 2,741 |
| Stock-based compensation | | | | | |
| Cost of revenues | \$ 1,090 | \$ 1,048 | \$ 829 | \$ 967 | \$ 1,033 |
| Research and development | 9,284 | 9,001 | 8,594 | 7,471 | 7,325 |
| Selling and marketing | 13,339 | 11,193 | 9,677 | 7,888 | 7,279 |
| General and administrative | 39,456 | 29,870 | 26,187 | 23,509 | 19,543 |

| | December 31, | | | | |
|---|----------------|------------|--------------|--------------|------------|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Working capital | \$ 815,000 | \$ 617,520 | \$ 1,061,143 | \$ 1,007,533 | \$ 753,672 |
| Total assets | 4,948,818 | 4,886,437 | 4,544,885 | 4,128,063 | 3,605,302 |

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| | | | | | |
|---------------------|-----------|-----------|-----------|-----------|-----------|
| Shareholders equity | 3,637,559 | 3,602,097 | 3,346,309 | 3,073,091 | 2,719,331 |
| Capital stock | 859,898 | 775,691 | 693,986 | 631,282 | 581,050 |

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Risk Factors

An investment in our ordinary shares involves a high degree of risk. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. If any of the following risks materialize, our business, financial condition, results of operations and prospects could be materially harmed. In that event, the market price of our ordinary shares could decline and you could lose part or all of your investment.

Risks Related to Our Business and Our Market

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

The market for information and network security solutions may not continue to grow. Continued growth of this market will depend, in large part, upon:

the continued expansion of Internet usage and the number of organizations adopting or expanding intranets;

the continued adoption of cloud infrastructure by organizations;

the ability customer s respective infrastructures to support an increasing number of users and services;

the continued development of new and improved services for implementation across the Internet and between the Internet and intranets;

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

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

general economic conditions in the markets in which we, our customers and our suppliers operate. In 2014, global and regional economies around the world and financial markets, remained volatile as a result of a multitude of factors, including adverse credit conditions, changes in economic activity, concerns about inflation and deflation, fluctuating energy costs, decreased consumer confidence, reduced capital spending, adverse business conditions and liquidity concerns and other factors. During this period, many organizations limited their expenditures and a significant portion of such organizations have remained reluctant to increase expenditures. If challenging economic conditions continue or worsen, it may cause our customers to reduce or postpone their technology spending significantly, which could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition.

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

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

The market for information and network security solutions is intensely competitive and we expect that competition will continue to increase in the future. Our competitors include Cisco Systems, Inc., Juniper Networks, Inc., Fortinet Inc., SonicWall Inc. (owned by Dell Inc.), Palo Alto Networks, Inc., WatchGuard Technologies, Inc., McAfee, Inc. (owned by Intel Corporation), Sourcefire, Inc. (owned by Cisco Systems Inc.), and other companies in the network security space. We also compete with several other companies, including Microsoft Corporation, Symantec Corporation, International Business Machines Corporation, Hewlett-Packard, FireEye, Inc. and Websense Inc. with respect to specific products that we offer. There are hundreds of small and large companies that offer security products and services that we may compete with from time to time.

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

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

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

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

We may not be able to continue competing successfully against our current and future competitors, and increased competition may result in price reductions, reduced gross margins and operating margins, reduced net income, and loss of market share, any of which will materially adversely affect our business, operating results and financial condition. For additional information, see Item 4 Information on Check Point.

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

The information and network security industry is characterized by rapid technological advances, changes in customer requirements, frequent new product introductions and enhancements, and evolving industry standards in computer hardware and software technology. In particular, the markets for data security, Internet and intranet applications are rapidly evolving. As a result, we must continually change and improve our products in response to changes in operating systems, application software, computer and communications hardware, networking software, programming tools, and computer language technology. We must also continually change our products in response to changes in network infrastructure requirements, including the expanding use of cloud computing. Further, we must continuously improve our products to protect our customers' data and networks from evolving security threats.

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

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

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

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

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

Our products are complex and must meet stringent quality requirements. They may contain undetected hardware or software errors or defects, especially when new or acquired products are introduced or when new versions are released. In particular, the personal computer hardware environment is characterized by a wide variety of non-standard configurations that make pre-release testing for programming or compatibility errors very difficult and time-consuming. We may need to divert the attention of our engineering personnel from our research and development efforts to address instances of errors or defects.

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

We are subject to risks relating to acquisitions

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

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

issue equity securities which would dilute current shareholders' percentage ownership;

incur substantial debt;

assume contingent liabilities; or

expend significant cash.

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

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

unanticipated costs or liabilities associated with the acquisition;

incurrence of acquisition-related costs;

diversion of management's attention from other business concerns;

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

the potential loss of key employees;

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

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

unrealistic goals or projections for the acquisition.

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

We are dependent on a small number of distributors

We derive our sales primarily through indirect channels. During 2014, 2013 and 2012, we derived approximately 54%, 57%, and 45%, respectively, of our sales from our ten largest distributors. In 2014, 2013 and 2012, our two largest distributors accounted for approximately 37%, 30% and 30% of our sales. We expect that a small number of distributors will continue to generate a significant portion of our sales. Furthermore, there has been an industry trend toward consolidation among distributors, and we expect this trend to continue in the near future which could further increase our reliance on a small number of distributors for a significant portion of our sales. If these distributors reduce the amount of their purchases from us for any reason, including because they choose to focus their efforts on the sales of the products of our competitors, our business, operating results and financial condition could be materially adversely affected.

Our future success is highly dependent upon our ability to establish and maintain successful relationships with our distributors. In addition, we rely on these entities to provide many of the training and support services for our products

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

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

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

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Managing our supplier and contractor relationships is particularly difficult during time periods in which we introduce new products and during time periods in which demand for our products is increasing, especially if demand increases more quickly than we expect. We also have extended support contracts with these suppliers and are dependent on their ability to perform over a period of years.

We are dependent on a limited number of product families

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

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

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

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

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

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

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

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In November 2013, we reached a settlement agreement (the Settlement Agreement), with the Israeli Tax Authorities (ITA) for years 2002 through 2011 and accordingly, we and the ITA notified the court that they have reached an agreement outside of the court and obtained the court's approval. See also Note 11 to our Consolidated Financial Statements for further information.

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

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

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

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

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

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

There is considerable patent and other intellectual property development activity in our industry. Our success depends, in part, upon our ability not to infringe upon the intellectual property rights of others. Our competitors, as well as a number of other entities and individuals, own or claim to own intellectual property relating to our industry. From time to time, third parties have brought, and continue to bring, claims that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. In addition, third-parties have in the past sent us correspondence claiming that we infringe upon their intellectual property, and in the future we may receive claims that

our products infringe or violate their intellectual property rights. Furthermore, we may be unaware of the intellectual property rights of others that may cover some or all of our technology or products. Any claims or litigation could cause us to incur

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significant expenses and, if successfully asserted against us, could require that we pay substantial damages or royalty payments, prevent us from selling our products, or require that we comply with other unfavorable terms. In addition, we may decide to pay substantial settlement costs and/or licensing fees in connection with any claim or litigation, whether or not successfully asserted against us. Even if we were to prevail, any disputes or litigation regarding intellectual property matters could be costly and time-consuming and divert the attention of our management and key personnel from our business operations. As such, third-party claims with respect to intellectual property may increase our cost of goods sold or reduce the sales of our products, and may have a material and adverse effect on our business.

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

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

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

technology import and export license requirements;

costs of localizing our products for foreign countries, and the lack of acceptance of localized products in foreign countries;

trade restrictions;

imposition of or increases in tariffs or other payments on our revenues in these markets;

greater difficulty in protecting intellectual property;

difficulties in managing our overseas subsidiaries and our international operations;

declines in general economic conditions;

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

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

expropriation and confiscation of assets and facilities;

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

recruiting and retaining talented and capable employees;

differing labor standards;

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

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

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

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

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

Changing laws, regulations and