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

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

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

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

OR

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

OR

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

For the transition period from ________ ..... ________ to ________ ..... ________

OR

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

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

Commission file number 000-28584

CHECK POINT SOFTWARE TECHNOLOGIES LTD.

(Exact name of Registrant as specified in its charter)

ISRAEL

(Jurisdiction of incorporation or organization)

5 Ha'Solelim Street, Tel Aviv 67897, Israel

(Address of principal executive offices)

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

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

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

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

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

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

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

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

Yes S 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 S

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 S 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 S 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 S 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:

S 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 S

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.

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
ASSETS		
CURRENT ASSETS:		
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
Total current assets	1,202,210	1,416,934
LONG-TERM ASSETS:		
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
Total long-term assets	1,867,384	2,188,368
Total assets	$3,069,594	$3,605,302

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	December 31, 2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
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
Total current liabilities	553,266	663,262
LONG-TERM LIABILITIES:		
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
Total liabilities	749,876	885,971
SHAREHOLDERS’ EQUITY:		
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
Total shareholders’ equity	2,319,718	2,719,331
Total liabilities and shareholders’ equity	$3,069,594	$3,605,302

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

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

**) Not including amortization of technology shown separately below.

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, 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	
Balance as of 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			
Accumulated other comprehensive income as of December 31, 2009				$ 12,555			

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

CHECK POINT SOFTWARE TECHNOLOGIES LTD.
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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.

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.
AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

a. Check Point Software Technologies Ltd. ("Check Point Ltd."), an Israeli corporation, and its subsidiaries (collectively, the "Company" or "Check Point"), are engaged in developing, marketing and supporting software and combined hardware 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.

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".

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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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.

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.

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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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.

l. 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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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.

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.

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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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:

	Year ended December 31,					
Employee Stock Options	2008		2009		2010	
Expected volatility	38.57	%	35.00	%	30.54	%
Risk-free interest rate	3.05	%	2.61	%	1.63	%
Dividend						