

**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

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

For the fiscal year ended December 31, 2018

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)

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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.

| | |
|---|---|
| <u>Title of each class</u> | <u>Name of exchange on which registered</u> |
| 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, 2018. 155,380,498 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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large Accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13 (a) of the Exchange Act.

The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

Currency of Presentation and Certain Defined Terms

In this Annual Report on Form 20-F, or the Annual Report, 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

In addition to historical fact, this Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are subject to risks and uncertainties, and include information about possible or assumed future results of our business, financial condition, results of operations, liquidity, plans and objectives. In some cases you can identify forward-looking statements by terminology such as “may,” “will,” “could,” “would,” “should,” “expects,” “plans,” “anticipates,” “believes,” “intends,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these terms or other comparable terminology. These forward-looking statements include, but are not limited to, statements concerning the following:

- our expectations for our business, trends related to our business and the markets in which we operate and into which we sell products;
- the effects of increased competition in our market;
- our ability to timely and effectively scale and adapt our existing technology and infrastructure to meet current and future market demands;
- our ability to develop or acquire new and more technologically advanced products, and to successfully commercialize these products;
- our ability to protect our proprietary technology and intellectual property;
- our ability to increase adoption of our products and to maintain or increase our market share;
- our ability to maintain our growth;
- 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;
- the effects on our business of evolving laws and regulations, including government export or import controls and U.S. tax regulations, and the potential economic effects of “Brexit”;
- our ongoing relationships with our current and future customers and channel partners, suppliers, contract manufacturers and distributors; and
- our other expectations, beliefs, intentions and strategies.

These statements are subject to known and unknown risks, uncertainties and other factors, which are difficult to predict and which may cause our actual results to differ materially and adversely 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. All forward-looking statements included in this Annual Report are based on information available to us on the date of the filing. While we may elect to update forward-looking statements in the future, we specifically disclaim any 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 2014 to 2018. The selected consolidated statement of income data for the years 2016, 2017 and 2018, and the selected consolidated balance sheet data at December 31, 2017 and 2018, have been derived from our audited consolidated financial statements set forth in "Item 18 – Financial Statements." The selected consolidated statement of income data for 2014 and 2015, and the selected consolidated balance sheet data at December 31, 2014, 2015 and 2016, have been derived from our previously published audited consolidated financial statements, which are not included in this Annual Report. These selected financial data should be read in conjunction with our consolidated financial statements, as set forth in Item 18, and the related notes thereto, and are qualified entirely by reference to such consolidated financial statements.

| | Year ended December 31, | | | | |
|--|-------------------------|-------------|------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 (in thousands) | 2015 | 2014 |
| Consolidated Statements of Income Data: | | | | | |
| Revenues | \$1,916,475 | \$1,854,658 | \$1,741,301 | \$1,629,838 | \$1,495,816 |
| Operating expenses (*): | | | | | |
| Cost of revenues | 201,379 | 212,963 | 202,003 | 189,057 | 176,541 |
| Research and development | 211,523 | 192,386 | 178,372 | 149,279 | 133,300 |
| Selling and marketing | 500,854 | 433,427 | 420,526 | 359,804 | 306,363 |
| General and administrative | 88,945 | 91,965 | 88,130 | 91,981 | 78,558 |
| Total operating expenses | 1,002,701 | 930,741 | 889,031 | 790,121 | 694,762 |
| Operating income | 913,774 | 923,917 | 852,270 | 839,717 | 801,054 |
| Financial income, net | 65,066 | 47,029 | 44,402 | 34,073 | 28,762 |
| Income before taxes on income | 978,840 | 970,946 | 896,672 | 873,790 | 829,816 |
| Taxes on income | 157,535 | 168,023 | 171,825 | 187,924 | 170,245 |
| Net income | \$ 821,305 | \$ 802,923 | \$ 724,847 | \$ 685,866 | \$ 659,571 |
| Basic earnings per ordinary share | \$ 5.24 | \$ 4.93 | \$ 4.26 | \$ 3.83 | \$ 3.50 |
| Shares used in computing basic earnings per ordinary share | 156,632 | 162,720 | 170,155 | 179,218 | 188,487 |
| Diluted earnings per ordinary share | \$ 5.15 | \$ 4.82 | \$ 4.18 | \$ 3.74 | \$ 3.43 |
| Shares used in computing diluted earnings per ordinary share | 159,447 | 166,662 | 173,296 | 183,619 | 192,300 |

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

| | Year ended December 31, | | | | |
|---|-------------------------|----------|----------|----------|----------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (in thousands) | | | | |
| Amortization of intangible assets and acquisition related expenses | | | | | |
| Cost of revenues | \$ 2,811 | \$ 2,184 | \$ 2,184 | \$ 1,808 | \$ 240 |
| Research and development | 5,837 | 7,588 | 7,588 | 6,146 | — |
| Selling and marketing | 3,264 | 3,264 | 3,358 | 3,267 | 1,866 |
| Stock-based compensation | | | | | |
| Cost of revenues | \$ 3,545 | \$ 2,741 | \$ 2,153 | \$ 1,585 | \$ 1,090 |
| Research and development | 17,644 | 16,233 | 12,718 | 11,544 | 9,284 |
| Selling and marketing | 20,800 | 18,278 | 19,168 | 16,351 | 13,339 |
| General and administrative | 47,337 | 50,207 | 48,693 | 46,822 | 39,456 |

| | December 31, | | | | |
|---|----------------|------------|------------|------------|------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (in thousands) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Working capital | \$ 990,037 | \$ 757,506 | \$ 726,597 | \$ 678,981 | \$ 780,825 |
| Total assets | 5,828,213 | 5,462,926 | 5,217,636 | 5,069,880 | 4,948,818 |
| Shareholders' equity | 3,772,389 | 3,600,123 | 3,491,123 | 3,531,866 | 3,637,559 |
| Capital stock | 1,598,574 | 1,305,904 | 1,140,416 | 988,105 | 859,898 |

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 of the infrastructures implemented by organizations 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;
- continued access to mobile API’s, APPs and application stores with Apple, Google and Microsoft;
- 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 2018, global and regional economies around the world and financial markets, remained volatile as a result of a multitude of factors, including economic and political uncertainty, terrorism, governmental instability 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 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, results of operations and financial condition may be materially adversely affected. Additional details are provided in “Item 4 – Information on Check Point.”

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

The market for information and network security solutions is intensely competitive and we expect that competition will continue to increase in the future. Our competitors include Cisco Systems, Inc., Juniper Networks, Inc., Fortinet Inc., SonicWall Inc. and Palo Alto Networks, Inc., and other companies in the network security space. We also compete with several other companies, including Microsoft Corporation, Symantec Corporation, McAfee, Inc., International Business Machines Corporation, Hewlett-Packard Enterprise Company and FireEye, Inc., with respect to specific products that we offer. In addition, 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, results of operations 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 within the market may result in price reductions, reduced gross margins and operating margins, reduced net income, and loss of market share, any or all of which may materially adversely affect our business, results of operations and financial condition. For additional information, see “Item 4 – Information on Check Point.”

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

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

Our future results of operations 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, results of operations 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.

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, including the recent acquisitions of Dome9 Security in October 2018 and ForceNock Security in January 2019, 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 the current shareholders' percentage of ownership;
- incur substantial debt;
- assume contingent liabilities; or
- expend significant cash.

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

In addition, with respect to the businesses we recently acquired and additional businesses we may acquire in the future, 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 businesses 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 2018, 2017 and 2016, we derived approximately 53%, 54% and 52%, respectively, of our sales from our ten largest distributors. In 2018, 2017 and 2016, our two largest distributors accounted for approximately 36%, 36% and 37% 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, results of operations 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, results of operations and financial condition.

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

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

Managing our supplier and contractor relationships is particularly difficult during time periods in which we introduce new products and during time periods in which demand for our products is increasing, especially if demand increases more quickly than we expect. We also have extended support contracts with these suppliers and have been 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 security 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 security subscriptions represent an additional revenue source as well as our cloud initiatives. 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, results of operations and financial condition.

Failures of the third-party servers, cloud service providers and other third-party hardware, software and infrastructure on which we rely could adversely affect our business

We rely on servers, cloud service providers and other third-party hardware, software and infrastructure to support our operations. The owners and operators of the data centers and cloud services with which we are engaged do not guarantee uninterrupted or error-free services. Problems faced by our third-party hosting providers, including technological or business-related disruptions, could adversely impact our business and results of operations.

Our servers, data centers and other facilities are also vulnerable to damage or interruption from fires, natural disasters, terrorist attacks, power loss, telecommunications failures or similar catastrophic events. Disruptions to these servers or facilities could interrupt our ability to provide our products and services and materially adversely affect our business and results of operations.

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

As a global company we are subject to taxation in Israel, the United States and various other countries and states. We attempt to utilize an efficient operating model and accordingly to pay taxes based on the laws in the countries in which we operate. This can lead to disputes with various tax authorities in different parts of the world.

In 2015, the Organization for Economic Co-operation and Development, or OECD, published the Base Erosion and Profit Shifting, or BEPS, Action Plan. The BEPS Action Plan includes fifteen Actions to address BEPS in a comprehensive manner and represents a significant change to the international corporate tax landscape. These actions, if adopted by countries, may increase tax uncertainty and adversely affect our provision for income taxes. Countries have only recently begun to translate the BEPS recommendations into specific national tax laws, and it remains difficult to predict the magnitude of the effect of such new rules on our financial results.

In addition, we are subject to the continuous examination of our income tax returns by tax authorities around the world. It is possible that tax authorities may disagree with certain positions we have taken and any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes, but the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods for which such determination is made. There can be no assurance that the outcomes from continuous examinations will not have an adverse effect on our business, financial condition and results of operations.

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. 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.”

Uncertainties in the interpretation and application of the 2017 Tax Cuts and Jobs Act could materially affect our tax obligations and effective tax rate.

The 2017 Tax Cuts and Jobs Act (the Tax Act) was enacted on December 22, 2017 and significantly affected U.S. tax law by changing how the U.S. imposes income tax on multinational corporations. The U.S. Department of Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations.

The Tax Act, among other things (i) lowered the statutory corporate income tax rate (the federal tax rate) from 35% to 21%; (ii) limits the tax deduction for interest expense to 30% of adjusted taxable income; (iii) implemented a “base erosion anti-abuse tax”; (iv) repealed the alternative minimum tax, or AMT, for corporations; (v) changed a taxpayer’s ability to either utilize or refund the AMT credits previously generated; (vi) changed the attribution rules relating to shareholders of certain “controlled foreign corporations”; (vii) limits the deduction for net operating losses carried forward from taxable years beginning after December 31, 2017 to 80% of current year taxable income and eliminates net operating loss carrybacks; (viii) allows immediate deductions for certain investments rather than deductions for depreciation over time; and (ix) limits various business deductions and credits. The overall impact of the Tax Act is uncertain, and our business, results of operations and financial condition could be adversely affected.

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 in the future 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, which could cause substantial harm to our business

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.

In addition to patents, we rely on trade secret and other rights to protect our unpatented proprietary intellectual property and technology. Despite our efforts to protect our proprietary technologies and our intellectual property rights, unauthorized parties, including our employees, consultants, service providers or customers, may attempt to copy aspects of our products or obtain and use our trade secrets or other confidential information. We generally enter into confidentiality agreements with our employees, consultants, and other service providers, and generally limit access to and distribution of our proprietary information and proprietary technology through certain procedural safeguards. These agreements and arrangements may not effectively prevent unauthorized use or disclosure of our intellectual property or technology and may not provide an adequate remedy in the event of unauthorized use or disclosure of our intellectual property or technology. We cannot be certain that the steps taken by us will prevent misappropriation of our intellectual property or technology or infringement of our intellectual property rights.

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 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 results of operations

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, results of operations 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;
- varying economic and political climates;
- trade restrictions, including as a result of trade disputes or other disputes between countries or regions in which we sell and operate;
- 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;
- increased tax rates;
- potentially adverse tax consequences, including taxation of a portion of our revenues at higher rates than the tax rate that applies to us in Israel;
- fluctuations in currency exchange rates and the impact of such fluctuations on our results of operations and financial position; and
- the introduction of exchange controls and other restrictions by foreign governments.

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

Due to the global nature of our business, we could be adversely affected by violations of anti-bribery laws

The global nature of our business creates various domestic and local regulatory challenges. The U.S. Foreign Corrupt Practices Act of 1977, as amended (the “FCPA”), the U.K. Bribery Act 2010 (the “U.K. Bribery Act”), and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to foreign government officials and other persons for the purpose of obtaining or retaining business. In addition, companies are required to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. Further, changes in laws could result in increased regulatory requirements and compliance costs which could adversely affect our business, financial condition and results of operations.

As a result, we are exposed to a risk of violating anti-bribery laws in the countries where we operate. Although we have internal policies and procedures, including a code of ethics and proper business conduct, reasonably designed to promote compliance with anti-bribery laws, we cannot assure that our employees or other agents will not engage in prohibited conduct and render us responsible under the FCPA, the U.K. Bribery Act or any similar anti-bribery laws in other jurisdictions. If we are found to be in violation of the FCPA, the U.K. Bribery Act or other anti-bribery laws (either due to acts or inadvertence of our employees, or due to the acts or inadvertence of others), we could suffer criminal or civil penalties or other sanctions, which could have a material adverse effect on our business, results of operations, cash flows, financial condition, reputation and ability to win future business or maintain existing contracts.

Our actual or perceived failure to adequately protect personal data could subject us to sanctions and damages and could harm our reputation and business

A variety of state, national, foreign, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These privacy- and data protection-related laws and regulations are evolving, with new or modified laws and regulations proposed and implemented frequently and existing laws and regulations subject to new or different interpretations. Compliance with these laws and regulations can be costly and can delay or impede the development and offering of new products and services.

For example, the General Data Protection Regulation, which became applicable on May 25, 2018, adopts more stringent requirements for data processors and controllers. Such requirements include more fulsome disclosures about the processing of personal information, data retention limits and deletion requirements, mandatory notification in the case of a data breach and elevated standards regarding valid consent in some specific cases of data processing. The General Data Protection Regulation also includes substantially higher penalties for failure to comply, inter alia, a fine up to 20 million Euros or up to 4% of the annual worldwide turnover, whichever is greater, can be imposed. These more stringent requirements on privacy user notifications and data handling require us to adapt our business and incur additional costs.

Our actual or alleged failure to comply with applicable laws and regulations, or to protect personal data, could result in enforcement actions, significant penalties or other legal action against us or our customers or suppliers, which could result in negative publicity, increase our operating costs, subject us to claims or other remedies and have a material adverse effect on our business and results of operations.

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

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank”), new SEC regulations, amendments to the Israeli Companies Law and NASDAQ Global Select Market rules are creating increased compliance costs and uncertainty for companies like ours. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. The implementation of these laws and their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

In addition, continuing compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal control over financial reporting requires the commitment of significant financial and managerial resources and the report of an independent registered public accounting firm on the Company’s internal control over financial reporting.

In connection with our Annual Report for fiscal 2018, our management assessed our internal control over financial reporting, and determined that our internal control over financial reporting was effective as of December 31, 2018, and our independent auditors have expressed an unqualified opinion over the effectiveness of our internal control over financial reporting as of December 31, 2018. However, we will undertake management assessments of our internal control over financial reporting in connection with each annual report, and any deficiencies uncovered by these assessments or any inability of our auditors to issue an unqualified report could harm our reputation and the price of our ordinary shares.

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

As of January 31, 2019, our directors and executive officers owned approximately 20.2% of the voting power of our outstanding ordinary shares, or 22.5% of our outstanding ordinary shares if the percentage includes options currently exercisable or exercisable within 60 days of January 31, 2019. The interests of these shareholders may differ from your interests and present a conflict. If these shareholders act together, they could exercise significant influence over our operations and business strategy. For example, although these shareholders hold considerably less than a majority of our outstanding ordinary shares, they may have sufficient voting power to

influence matters requiring approval by our shareholders, including the election and removal of directors and the approval or rejection of mergers or other business combination transactions. In addition, this concentration of ownership may delay, prevent or deter a change in control, or deprive a shareholder of a possible premium for its ordinary shares as part of a sale of our company.

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

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

- Monetary liability imposed on the director or senior officer in favor of a third party in a judgment, including a settlement or an arbitral award confirmed by a court.
- Reasonable legal costs, including attorneys' fees, expended by a director or senior officer as a result of an investigation or proceeding instituted against the director or senior officer by a competent authority; provided, however, that such investigation or proceeding concludes without the filing of an indictment against the director or senior officer and either:
 - no financial liability was imposed on the director or senior officer in lieu of criminal proceedings, or
 - financial liability was imposed on the director or senior officer in lieu of criminal proceedings, but the alleged criminal offense does not require proof of criminal intent.
- Reasonable legal costs, including attorneys' fees, expended by the director or senior officer or for which the director or senior officer is charged by a court:
 - in an action brought against the director or senior officer by us, on our behalf or on behalf of a third party,
 - in a criminal action in which the director or senior officer is found innocent, or
 - in a criminal action in which the director or senior officer is convicted, but in which proof of criminal intent is not required.

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

We maintain substantial balances of cash and liquid investments, for purposes of acquisitions and general corporate purposes. Our cash, cash equivalents, short-term bank deposits and marketable securities totaled \$4,039 million as of December 31, 2018. The performance of the capital markets affects the values of funds that are held in marketable securities. These assets are subject to market fluctuations and various developments, including, without limitation, rating agency downgrades that may impair their value. We expect that market conditions will continue to fluctuate and that the fair value of our investments may be affected accordingly.

Financial income is an important component of our net income. The outlook for our financial income is dependent on many factors, some of which are beyond our control, and they include the future direction of interest rates, the amount of any share repurchases or acquisitions that we effect and the amount of cash flows from operations that are available for investment. We rely on third-party money managers to manage the majority of our investment portfolio in a risk-controlled framework. Our investment portfolio throughout the world is invested primarily in fixed-income securities and is affected by changes in interest rates. Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Any significant decline in our financial income or the value of our investments as a result of the changes in interest rates and interest rate expectations of the financial markets, deterioration in the credit rating of the securities in which we have invested, or general market conditions, could have an adverse effect on our results of operations and financial condition.

We generally buy and hold our portfolio positions, while minimizing credit risk by setting a maximum concentration limit per issuer and credit rating. Our investments consist primarily of government and corporate debentures. Although we believe that we generally adhere to conservative investment guidelines, the continuing turmoil in the financial markets may result in impairments of the carrying value of our investment assets. We classify our investments as available-for-sale. Changes in the fair value of investments classified as available-for-sale are not recognized as income during the period, but rather are recognized as a separate component of equity until realized. Realized losses in our investments portfolio may adversely affect our financial position and results. Had we reported all the accumulated changes in the fair values of our investments as part of our income, our reported net income for the year ended December 31, 2018, would have decreased by \$24 million.

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

Our functional and reporting currency is the U.S. dollar. We generate a majority of our revenues and expenses in U.S. dollars. In 2018, we incurred approximately 46% of our expenses in foreign currencies, primarily Israeli Shekels and Euros. Accordingly, changes in exchange rates may have a material adverse effect on our business, results of operations and financial condition. The exchange rates between the U.S. dollar and certain foreign currencies have fluctuated substantially in recent years and may continue to fluctuate substantially in the future. We expect that a majority of our revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs, as well as capital and operating expenditures, will continue to be denominated in the currencies referred to above. The results of our operations may be adversely affected in relation to foreign exchange fluctuations. During 2018, we entered into forward contracts to hedge against some of the risk of foreign currency exchange rates fluctuations resulting in changes in future cash flow from payments of payroll and related expenses denominated in Israeli Shekels and Euros. As of December 31, 2018, we had outstanding forward contracts that hedge against changes in foreign currency exchange rates of \$112 million.

We entered into forward contracts to hedge the exchange impacts on assets and liabilities denominated in Israeli Shekels and other currencies. As of December 31, 2018, we had outstanding forward contracts that did not meet the requirement for hedge accounting, in the amount of \$337 million. We use derivative financial instruments, such as foreign exchange forward contracts, to mitigate the risk of changes in foreign exchange rates on accounts receivable and forecast cash flows denominated in certain foreign currencies. We may not be able to purchase derivative instruments adequate to fully insulate ourselves from foreign currency exchange risks and over the past year we have incurred losses as a result of exchange rate fluctuations on exposures that have not been covered by our hedging strategy.

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

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

The economic effects of “Brexit” may affect relationships with existing and future customers and could have an adverse impact on our business and results of operations

On June 23, 2016, the United Kingdom (the “U.K.”) held a referendum in which voters approved an exit from the European Union (“E.U.”), commonly referred to as “Brexit.” On February 8, 2017, the U.K.’s House of Commons approved a bill authorizing the government to start exit talks with the European Union, and on March 29, 2017, the U.K. Government served formal notice under Article 50 of The Treaty on European Union to terminate the U.K.’s membership of the E.U. The U.K. is still currently negotiating the terms of its exit from the E.U. With a range of outcomes still possible, the impact on us from Brexit will depend, in part, on the outcome of tariff, trade, regulatory and other negotiations.

As a result of the referendum, the global markets and certain currencies were adversely impacted, including a sharp decline in the value of the British pound as compared to other global currencies, which led to a decrease in our revenues generated from sales in the U.K. A potential further reduction in value of the British pound may impair the purchasing power of buyers in the U.K. and could cause those buyers to decrease their purchase of our products and services.

Additionally, if the U.K. leaves the E.U. with no agreement, it will likely have an adverse impact on labor and trade in addition to creating further short-term uncertainty and currency volatility. In the absence of a future trade deal, the U.K.’s trade with the E.U. and the rest of the world would be subject to tariffs and duties set by the World Trade Organization. Additionally, the movement of goods between the U.K. and the remaining member states of the E.U. will be subject to additional inspections and documentation checks, leading to possible delays at ports of entry and departure. These changes to the trading relationship between the U.K. and E.U. would likely result in increased cost of goods imported into and exported from the U.K. and may decrease the profitability of our U.K. and other operations.

Volatility in the foregoing exchange rates resulting from Brexit may continue as the U.K. negotiates its exit from the E.U. We translate sales and other results denominated in foreign currency into U.S. dollars for our financial statements. During periods of a strengthening U.S. dollar, our reported international sales and earnings would be reduced because sales made in these currencies would translate into fewer U.S. dollars.

Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate, and those laws and regulations may be cumbersome, difficult or costly in terms of compliance. Any of these effects of Brexit, among other factors, could adversely affect our business, financial condition, results of operations and cash flows.

Third parties might attempt to gain unauthorized access to our network or seek to compromise our products and services

We regularly face attempts by others to gain unauthorized access through the Internet or to introduce malicious software to our information technology (IT) systems. Additionally, malicious hackers may attempt to gain unauthorized access and corrupt the processes of hardware and software products that we manufacture and services we provide. We or our products are a frequent target of computer hackers and organizations that intend to sabotage, take control of, or otherwise corrupt our manufacturing or other processes and products. We are also a target of malicious attackers who attempt to gain access to our network or data centers or those of our customers or end users; steal proprietary information related to our business, products, employees, and customers; or interrupt our systems or those of our customers or others. We believe such attempts are increasing in number. From time to time we encounter intrusions or attempts at gaining unauthorized access to our products and network. To date, none have resulted in any material adverse impact to our business or operations. While we seek to detect and investigate all unauthorized attempts and attacks against our network and products, and to prevent their recurrence where practicable through changes to our internal processes and tools and/or changes or patches to our products, we remain potentially vulnerable to additional known or unknown threats. Such incidents, whether successful or unsuccessful, could result in our incurring significant costs related to, for example, rebuilding internal systems, reduced inventory value, providing modifications to our products and services, defending against litigation, responding to regulatory inquiries or actions, paying damages, or taking other remedial steps with respect to third parties. Publicity about vulnerabilities and attempted or successful incursions could damage our reputation with customers or users, and reduce demand for our products and services.

We may need to change our pricing models to compete successfully

The intense competition we face in the sales of our products and services and general economic and business conditions can put pressure on us to change our prices. If our competitors offer deep discounts on certain products or services or develop products that the marketplace considers more valuable, we may need to lower prices or offer other favorable terms in order to compete successfully. Any such changes may reduce margins and could adversely affect results of operations. Additionally, the increasing prevalence of cloud and SaaS delivery models offered by us and our competitors may unfavorably impact pricing in both our on-premise enterprise software business and our cloud business, as well as overall demand for our on-premise software product and service offerings, which could reduce our revenues and profitability. Our competitors may offer lower pricing on their support offerings, which could put pressure on us to further discount our product or support pricing.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets

Because we incorporate encryption technology into our products, certain of our products are subject to U.S. export controls and may be exported outside the U.S. only with the required export license or through an export license exception. If we were to fail to comply with U.S. export licensing requirements, U.S. customs regulations, U.S. economic sanctions, or other laws, we could be subject to substantial civil and criminal penalties, including fines, incarceration for responsible employees and managers, and the possible loss of export or import privileges. Obtaining the necessary export license for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. Furthermore, U.S. export control laws and economic sanctions prohibit the shipment of certain products to U.S. embargoed or sanctioned countries, governments, and persons. Even though we take precautions to ensure that we comply with all relevant regulations, any failure by us or any partners to comply with such regulations could have negative consequences for us, including reputational harm, government investigations, and penalties.

In addition, various countries regulate the import of certain encryption technology, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our products or could limit our end-customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products into international markets, prevent our end-customers with international operations from deploying our products globally or, in some cases, prevent or delay the export or import of our products to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons, or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential end-customers with international operations. Any decreased use of our products or limitation on our ability to export to or sell our products in international markets would likely adversely affect our business, financial condition, and results of operations.

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

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

Risks Related to Our Operations in Israel

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

We are incorporated under the laws of the State of Israel, and our principal executive offices and principal research and development facilities are located in Israel. Accordingly, political, economic and military conditions in and surrounding Israel may directly affect our business. Since the State of Israel was established in 1948, a number of armed conflicts have occurred between Israel and its Arab neighbors. Terrorist attacks and hostilities within Israel; the hostilities between Israel and Hezbollah and between Israel and Hamas; as well as tensions between Israel and Iran, have also heightened these risks, including extensive hostilities along Israel's border with the Gaza Strip, which included missiles being fired from the Gaza Strip into Israel. Our principal place of business is located in Tel Aviv, Israel, which is approximately 40 miles from the nearest point of the border with the Gaza Strip. There can be no assurance that attacks launched from the Gaza Strip will not reach our facilities, which could result in a significant disruption of our business. In addition, there are significant ongoing hostilities in the Middle East, particularly in Syria and Iraq, which may impact Israel in the future. Any hostilities involving Israel, a significant increase in terrorism or the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel, could materially adversely affect our operations. Ongoing and revived hostilities or other Israeli political or economic factors could materially adversely affect our business, results of operations and financial condition. In addition, there have been increased efforts by activists to cause companies and consumers to boycott Israeli goods based on Israeli government policies. Such actions, particularly if they become more widespread, may adversely impact our ability to sell our products.

Uprisings and armed conflicts in various countries in the Middle East and North Africa are affecting the political stability of those countries. This instability may lead to deterioration of the political and trade relationships that exist between Israel and these countries. In addition, this instability may affect the global economy and marketplace, including as a result of changes in oil and gas prices.

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

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

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

For the year ended December 31, 2018, our effective tax rate was 16%. We have benefited or currently benefit from a variety of government programs and tax benefits that generally carry conditions that we must meet in order to be eligible to obtain any benefit. Our tax expenses and the resulting effective tax rate reflected in our financial statements may increase over time as a result of changes in corporate income tax rates, other changes in the tax laws of the countries in which we operate or changes in the mix of countries where we generate profit.

If we fail to meet the conditions upon which certain favorable tax treatment is based, we would not be able to claim future tax benefits and could be required to refund tax benefits already received.

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

- Some programs may be discontinued,
- We may be unable to meet the requirements for continuing to qualify for some programs,
- These programs and tax benefits may be unavailable at their current levels, or
- We may be required to refund previously recognized tax benefits if we are found to be in violation of the stipulated conditions.

Additional details are provided in “Item 5 – Operating and Financial Review and Products” under the caption “Taxes on income”, in “Item 10 – Additional Information” under the caption “Israeli taxation, foreign exchange regulation and investment programs” and in Note 12 to our Consolidated Financial Statements.

Your rights and responsibilities as a shareholder are, and will continue to be, governed by Israeli law which differs in some material respects from the rights and responsibilities of shareholders of U.S. companies

The rights and responsibilities of the holders of our ordinary shares are governed by our articles of association and by Israeli law. These rights and responsibilities differ in some material respects from the rights and responsibilities of shareholders in U.S.-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders, and to refrain from abusing its power in the company, including, among other things, in voting at a general meeting of shareholders on matters such as amendments to a company’s articles of association, increases in a company’s authorized share capital, mergers and acquisitions and related party transactions requiring shareholder approval. In addition, a shareholder who is aware that it possesses the power to determine the outcome of a shareholder vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. There is limited case law available to assist in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations.

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

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

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

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

As a foreign private issuer we are not subject to the provisions of Regulation FD or U.S. proxy rules and are exempt from filing certain Exchange Act reports

As a foreign private issuer, we are exempt from a number of requirements under U.S. securities laws that apply to public companies that are not foreign private issuers. In particular, we are exempt from the rules and regulations under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual and current reports and financial statements with the SEC as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act and we are generally exempt from filing quarterly reports with the SEC under the Exchange Act. We are also exempt from the provisions of Regulation FD, which prohibits issuers from making selective disclosure of material nonpublic information to, among others, broker-dealers and holders of a company’s securities under circumstances in which it is reasonably foreseeable that the holder will trade in the company’s securities on the basis of the

information. For so long as we qualify as a foreign private issuer, we are not required to comply with the proxy rules applicable to U.S. domestic companies, although pursuant to the Companies Law, we disclose the annual compensation of our five most highly compensated office holders (as defined under the Israeli Companies Law) on an individual basis, including in this Annual Report.

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

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

ITEM 4. INFORMATION ON CHECK POINT

Check Point Heritage and Vision

Since its inception, Check Point's sole focus has been on IT security. Making the Internet secure, reliable, and available for corporations and consumers has been, and continues to be, our ongoing vision. Building on our heritage of pioneering the first firewall, and with a long track record of industry-leading cyber security solutions, the company's products provide protection against existing types of cyber security threats in a range of environments: physical and virtual networks, cloud and mobile surroundings, critical infrastructures and the 'Internet of Things' (IoT). Today, Check Point is one the largest pure cyber security vendors globally. We are committed to addressing the real needs of our customers and we take pride in consistently charting innovation in a field that never ceases to stop evolving.

Check Point Technology Leadership in 2018

AVLabs

- Highest Score, SandBlast for Browsers, 100% Block Rate

Forrester

- Leader, Endpoint Security Suites 2018

Gartner

- Leader Enterprise Network Firewall Market Quadrant 2018
- Leader, Unified Threat Management Magic Quadrant 2018
- Customer's Choice, Unified Threat Management Peer Insights 2018

NSS Labs

- Recommended in Next Generation Firewall Test 2018

PCMag

- Editor's Choice, Anti-Ransomware

Business Highlights

In October 2018, we acquired 100% of the share capital of Dome9 Security Ltd. (Dome9), a privately held Israeli company. Founded in 2011, Dome9 has built a strong reputation for enabling security and compliance for rapid public cloud adoption. Dome9 customers use its platform to secure multi-cloud deployments across Amazon AWS, Microsoft Azure and Google Cloud. Dome9 provides significant cloud-native security capabilities, including intuitive visualization of security posture, compliance and governance automation, privileged identity protection and cloud traffic and event analysis, enabling safer and more manageable cloud deployments.

In January 2019, we acquired 100% of the share capital of ForceNock Security Ltd. (ForceNock), a privately held Israeli company. Founded in 2017, ForceNock developed a Web Application and API Protection (WAAP) technology, which utilizes machine learning, behavioral and reputation-based security engines. Check Point plans to integrate ForceNock's technology into its Infinity total protection architecture.

Further details regarding the important events in the development of our business since the beginning of 2018 are provided in "Item 5 – Operating and Financial Review and Prospects" under the caption "Overview."

We are incorporated as a company under the laws of the State of Israel in 1993 under the name of "Check Point Software Technologies Ltd." Our registered office and principal place of business is located at 5 Ha'Solelim Street, Tel Aviv 6789705 Israel. The telephone number of our registered office is 972-3-753-4555. Our company's web site is www.checkpoint.com. The contents of our web site are not incorporated by reference into this Annual Report.

This Annual Report is available on our web site. If you would like to receive a printed copy via mail, please contact our Investor Relations department at 959 Skyway Road, Suite 300, San Carlos, CA 94070, U.S.A., Tel.: 650-628-2050, email: ir@us.checkpoint.com.

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

Market Landscape - The 5th Generation of Cyber Security

In the last 25 years, the technologies behind cyber attacks and the ensuing preventative measures have advanced rapidly. During 2018, we have seen an unprecedented number of cyber attacks carried out as large-scale, multi-vector mega attacks, inflicting major damage on businesses and their reputations. Looking back, we identify the different generations of both attacks and security products. Today's attacks are the most advanced and impactful we have ever seen. We find ourselves in the midst of the 5th generation of cyber attacks, yet the security deployed by most businesses is generationally behind and incapable of protecting against such attacks. Specifically, while we are facing the 5th generation of attacks, most businesses possess only 2nd or 3rd generation security. Let us look at the generations of attacks and associated security:

- Generation 1 – Late 1980s, virus attacks on stand-alone PCs affected all businesses and drove the rise of anti-virus products.
- Generation 2 – Mid 1990s, attacks from the internet affected all business and drove the creation of the firewall.
- Generation 3 – Early 2000s, exploiting vulnerabilities in applications affected most businesses and drove the rise in intrusion prevention systems (IPS) products.
- Generation 4 – Approximately 2010, rise of targeted, unknown, evasive, polymorphic attacks affected most businesses and drove the increase in behavior analysis technologies such as sandboxing products.
- Generation 5 – Approximately 2015, large-scale and multi-vector mega attacks using advanced attack technologies. These are fast-moving attacks so detection-only is not enough. These attacks target traditional attack vectors and expanded to mobile and cloud. Advanced threat prevention is required.

While it may be commonplace for businesses to avoid cutting-edge IT technologies in critical operations, being generationally behind in security protection leaves the business fully exposed to advanced attacks. Such attacks can not only impact operations, but the exposure of critical information can damage the reputation and the viability of a business. Today, even 4th generation security is simply not enough to properly protect against today's 5th generation of attacks on today's IT environments, cloud deployments, and mobile devices. This is clearly not a risk worth taking.

To address this dangerous gap, businesses need to move from second- and third-generation approaches comprised of patchwork and best-of-breed deployments to a unified security foundation and a well-defined security architecture. This architecture should provide:

- Proven, best threat prevention technologies across an organization's entire IT infrastructure of networks, endpoints, cloud and mobile.
- Real-time sharing of threat intelligence across enterprises and within the enterprise.
- A single, consolidated security management framework.

Product Strategy and Offerings

At Check Point, we strive to bring the most innovative, highest-quality products to the market. In this way, we can provide exceptional value to our customers, allowing businesses of all sizes to be at the 5th generation of cyber-security and proactively protect their networks and prevent sophisticated threats. Our product strategy of driving innovation through research and development and strategic partnerships allows us to blaze new trails with market-leading products and solutions. Our strategy helps enterprises transition their corporate security strategies from not just detecting threats but to preventing them, while enabling businesses to adopt advanced IT technology and services, including mobility and cloud solutions.

Check Point Infinity Architecture

Check Point Infinity Architecture is a fully consolidated cyber security architecture that protects against 5th generation mega cyber attacks across all networks, endpoint, cloud and mobile. The architecture is designed to resolve the complexities of growing connectivity and inefficient security. Check Point Infinity leverages unified threat intelligence and open interfaces, enabling all environments to stay protected against targeted attacks. As a result, it provides comprehensive threat prevention which seals security gaps, enables automatic and immediate threat intelligence sharing across all security environments and a consolidated security management for an efficient security operation. Check Point Infinity delivers protection against current and potential attacks, today and in the future.

Check Point Infinity Total Protection security consumption model enables enterprises to benefit from the most advanced threat prevention technologies available. These programs allow enterprises to use all of Check Point's security technologies, protecting their networks, endpoint, mobile devices and cloud via an annual security subscription based on the number of enterprise users.

Check Point Network Security

In order to serve the different needs and demands of our customers, we offer a wide portfolio of security gateways from platforms for small business (SMB) and small office locations to high-end and high-demanding data center and perimeter environments. On each security gateway, we offer the full expanse of Check Point's network security portfolio from industry-leading next generation firewall, IPS, VPN, WEB security, and Data Security (DLP) to a wide set of threat prevention technologies blocking known and unknown advanced fifth-generation cyber-attacks. Check Point's security gateways are available as software-only products, that can run on standard hardware, or on dedicated security gateway hardware appliances.

In 2018, Check Point introduced a number of innovative security gateways and software solutions. Check Point expanded the 23000 family of enterprise and data center security gateways with the 23900. The 23900 combines comprehensive threat prevention and increased performance to rapidly inspect SSL-encrypted traffic without compromising network performance. Check Point announced the 6000 family of security gateways delivering increased SSL performance and threat prevention capabilities to mid-size and large enterprises. Check Point introduced the Maestro Security Orchestrator, the industry's first truly hyperscale network security solution. Maestro enables any size business to enjoy the power of flexible cloud-level security platforms. This enables companies to seamlessly expand their existing security gateways to hyperscale capacity, including the demands of high data rate, ultra-low latency 5G networks. Check Point updated the industry leading R80.20 Cyber Security Management Platform with 100 new features delivering significant improvements in gateway performance, advanced threat prevention, cloud security, access policy, and consolidated network and endpoint management.

Check Point Threat Prevention Technologies & Products

In our ongoing task, of increasing the ability to block and prevent cyber-attacks before they occur, the Check Point SandBlast family of advanced threat prevention and zero-day protections includes over 30 different innovative technologies developed to combat the growing frequency and sophistication of cyber security threats.

SandBlast technologies are deployed as part of Check Point's advanced threat prevention suite for network perimeters (SandBlast Network), endpoints (SandBlast Agent), web browsers (SandBlast Agent for browsers), and mobile (SandBlast Mobile). In 2017, we expanded our threat prevention capabilities with the Anti-Ransomware agent, preventing the most evasive zero-day ransomware, web sandboxing (an early detonation technology that detects highly evasive zero-day exploits in Adobe Flash objects) and Image Extraction, a feature that sanitizes suspicious images.

Check Point Cloud Security

The growth and popularity of the public cloud continues to drive more data beyond traditional IT security protections and into data center environments that are no longer owned, managed, or controlled by corporate IT. Security is often cited as a key barrier to the wide-spread adoption of an enterprise cloud. Traditional security approaches do not fit with the dynamic nature of the cloud and therefore leave a business exposed to a whole host of new threats. Managing security and compliance in the cloud requires a new breed of tools that prevent evolving cybersecurity attacks and fatal misconfigurations and that actively protect applications and workloads, maintain compliance, and enable the cloud to stay agile and elastic. Check Point combines its long history of innovation in threat prevention security with a dynamic and agile deployment to lead our customers safely into the cloud.

As part of the Check Point Infinity Architecture, the Check Point CloudGuard cloud security product family delivers threat prevention to the most comprehensive number of leading cloud providers and applications with dynamic and agile security.

The Check Point CloudGuard portfolio offers a comprehensive threat prevention security and cloud security orchestration solution for enterprise cloud networks, data and applications. CloudGuard IaaS provides a unified management pane for cybersecurity policy enforcement across cloud and on-premise environments. CloudGuard IaaS integrates with a large number of public and private cloud infrastructure and workload platforms, including VMware NSX, Cisco ACI, Amazon Web Services (AWS), Microsoft Azure cloud and the Google Cloud Platform (GCP). CloudGuard SaaS supports cloud-based applications such as Salesforce, Office 365, and Box to work at protecting cloud services against the most sophisticated malware and zero-day attacks.

CloudGuard Dome9, based on Dome9's platform that we acquired in 2018, extends public cloud capabilities allowing enterprise organizations to easily manage network security and compliance automation at any scale across AWS, Azure and GCP.

The combination of CloudGuard portfolio solutions provide a holistic approach to delivering a complimentary cybersecurity threat prevention and cloud security management migration strategy across cloud data and control planes. Furthermore, Check Point supports single-click and agile deployment models aligned with the dynamic nature of cloud services for its customers.

Check Point Mobile Security

Smartphones and tablets give us unprecedented access to the critical business information we need to work faster and more accurately. Providing business employees with access to information on mobile devices has many benefits, but they can also expose the business to risk. According to a new study published by Check Point mobile threat researchers, every business has experienced at least one mobile infection in the past year. We believe this report was the first study to document the volume and impact of mobile attacks across corporate and public enterprise environments.

Check Point SandBlast Mobile, an innovative approach to mobile security for iOS and Android devices, detects and stops mobile threats before they start. Whether your data is at rest on a device or in flight through the cloud, SandBlast Mobile helps protect our customers from vulnerabilities and attacks that may put their data at risk.

Check Point Security Management

A significant part of our product strategy addresses the need for scalable and consolidated security management. As part of Check Point's Infinity architecture we enable customers of all sizes - from single offices to hundreds and thousands of offices -to manage and tailor their security policy to express their business needs from a single pane of glass. With Check Point's security management, administrators can consolidate security management in an all-in-one, single scalable server for full threat visibility and control across Networks, Endpoints, Cloud and Mobile.

In 2018, we updated our Security Management Software to version R80.20 offering security management through a single console with a unified security policy that streamlines security operations and provides a greater visibility into policy administration and threat analysis.

Check Point's security management servers are available as software-only products that can run on standard hardware, or on dedicated security management hardware appliances named the Smart-1 product line. In 2018, Check Point also introduced a new Smart-1 appliances (525, 5050 and 5150), powering the 5th generation of Cyber Security with significant performance boost, facilitating the full security management consolidation under a single device.

Revenues by Category of Activity

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

| Category of Activity: | 2018 | Year Ended December 31, | |
|----------------------------------|--------------------|-------------------------|--------------------|
| | | 2017 | 2016 |
| | | (in thousands) | |
| Products and licenses | \$ 525,557 | \$ 559,026 | \$ 572,964 |
| Security subscriptions | \$ 542,323 | \$ 480,352 | \$ 389,885 |
| Software updates and maintenance | \$ 848,595 | \$ 815,280 | \$ 778,452 |
| Total revenues | \$1,916,475 | \$1,854,658 | \$1,741,301 |

Sales and Marketing

At the heart of Check Point's strategy to drive revenue is the commitment to address current and future customer requirements for enterprises of all sizes. We accomplish this in multiple ways:

- Through a global network of thousands of partners, which spans two-tier distributors, value-added resellers, global systems integrators, telecommunications companies and managed service providers.
- Spearheaded by our sales support and account management teams, Check Point works closely with the partner ecosystem to capture customer needs and match them with the right solutions.
- As part of our pre-sales support to our channel partners community, we employ technical consultants and systems engineers who work closely with partners and customers to assist them with pre-sale product configuration, use, and application support.
- Through technology partnerships with hardware and software suppliers such as IBM, Hewlett-Packard, VMware, Symantec, Apple, Google, Amazon, and Microsoft, Check Point uses integration to better meet diverse customer needs.

To drive awareness and demand for Check Point solutions, we create messaging and communications strategies to target users and business decision makers. These efforts include global media campaigns, thought-leadership programs, digital marketing, social media, as well as press and analyst relations. We promote our innovation and technology agenda globally through frequent product launches supported by targeted demand generation programs.

As of December 31, 2018, we had 2,345 employees and contractors dedicated to sales and marketing.

Support and Services

We operate a worldwide technical services organization which provides a wide range of services including the following: (i) technical customer support programs and plans; (ii) professional services in implementing, upgrading and optimizing Check Point products, such as design planning and security implementation; and (iii) certification and educational training on Check Point products.

Our technical assistance centers in the United States, Israel, Canada, Japan, India, China and Australia offer support worldwide, 24-hour service, seven days per week. As of December 31, 2018, we had 756 employees and contractors in our technical services organization.

Our support solutions include both indirect and direct offerings. Channel partners provide customers with installation, training, maintenance and support, while we provide technical support to our channel partners. Alternatively, our customers may elect to receive support directly from us. In addition, because of the increased demand for our portfolio of security gateway appliances, from small office locations to telco grade and capacity infrastructure platforms, we have expanded our technical support offerings around

the world. This includes same and next-business-day replacements, on-site support availability and device pre-configuration. We also offer ThreatCloud Managed Security Services and Incident Response Services. These services are focused on helping our partners and customers maximize the effectiveness of advanced protections and mitigate and remediate critical security events quickly.

Research and Product Development

We believe that our future success will depend upon our ability to enhance our existing products, and to develop, acquire and introduce new products to address the increasingly sophisticated needs of our customers. This becomes especially true as we find ourselves facing 5th generation cyber-attacks. Today's attacks are the most advanced and impactful we have ever seen and yet the security deployed by most businesses is generationally behind and incapable of protecting against these attacks. Part of the problem is that older generations of security are based on patchwork solutions that simply detect. Check Point's continues its focus in 2019 on 5th generation cyber security, which emphasizes prevention through a consolidated architecture that unifies all network, virtual, cloud, remote office and mobile operations.

We work closely with existing and potential customers, distribution channels and major resellers, who provide significant feedback for product development and innovation. We work with these audiences to understand the challenges they face, to ensure each new generation of security we introduce keeps them well protected as the threats evolve. Our product development efforts are focused on providing unified security architecture, named the Check Point Infinity Generation V Architecture, which functions throughout all layers of the network and devices that carry data. This includes enhancements to our current family of products and the continued development of new products to respond to the rapidly changing threat landscape through the provision of services, such as network perimeter protections, protection against cyber-threats, data protection for today's mobile environments, web security and security for managed enterprise endpoints. Our technology also centrally manages all of these layers and solutions. We develop most of our new products internally and also expect to leverage the products and technologies we have acquired. We may decide, based upon timing and cost considerations that it would be more efficient to acquire or license certain technologies or products from third parties, or to make acquisitions of other businesses.

As of December 31, 2018, we had 1,532 employees and contractors dedicated to research and development activities and quality assurance.

Competition

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

Proprietary Rights

Check Point relies on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. The company relies on trade secret and copyright laws to protect its software, documentation, and other written materials. Further, Check Point generally enters into confidentiality agreements with employees, consultants, customers and potential customers, and limits access and distribution of materials and information that the company considers proprietary.

We have 78 issued patents in the U.S. and in other regions and 31 pending patent applications worldwide. Our efforts to protect our patent rights and other proprietary rights may not be adequate and our competitors may independently develop technology that is similar. Additional details are provided in "Item 3 – Key Information" under the caption "Risk Factors – Risks Relating to Our Business and Our Market – We may not be able to successfully protect our intellectual property rights."

Effect of Government Regulation on our Business

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

Organizational Structure

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

| <u>NAME OF SUBSIDIARY</u> | <u>COUNTRY OF INCORPORATION</u> |
|---|-------------------------------------|
| Check Point Software Technologies, Inc. | United States of America (Delaware) |
| Check Point Software (Canada) Technologies Inc. | Canada |
| Check Point Software Technologies (Japan) Ltd. | Japan |
| Check Point Software Technologies (Netherlands) B.V. | Netherlands |
| Check Point Holding (Singapore) PTE Ltd. | Singapore |
| Check Point Holding (Singapore) PTE Ltd. (1) | Indonesia |
| Check Point Holding (Singapore) PTE Ltd. – U.S. Branch (2) | United States of America (New York) |
| Israel Check Point Software Technologies Ltd. China (3) | China |
| Check Point Holding AB (4) | Sweden |
| | |
| Dynasec Ltd. | Israel |
| Check Point Advanced Threat Prevention Ltd. (formerly known as Hyperwise Ltd.) | Israel |
| Check Point Mobile Security Ltd. (formerly known as Lagoon Mobile Security Ltd.) | Israel |
| Check Point Software Technologies South Africa PTY. Ltd | South Africa |
| Check Point Software (Kenya) Ltd. | Kenya |
| Check Point Software Technologies B.V Nigeria Ltd. (5) | Nigeria |
| Check Point Public Cloud Security Ltd. (formerly known as Dome9 Security Ltd.) | Israel |
| ForceNock Security Ltd. | Israel |
| Dome 9, Inc.(6) | United States of America (Delaware) |
| | |
| (1) Representative office of Check Point Holding (Singapore) PTE Ltd. | |
| (2) Branch of Check Point Holding (Singapore) PTE Ltd. | |
| (3) Representative office of Check Point Software Technologies Ltd. | |
| (4) Subsidiary of Check Point Holding (Singapore) PTE Ltd. (former name: Protect Data AB) | |
| (5) Subsidiary of Check Point Holding (Singapore) PTE Ltd. and Check Point Yazilim Teknolojileri Pazarlama A.S. | |
| (6) Subsidiary of Check Point Public Cloud Security Ltd. | |

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

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

(1) Representative office of Check Point Software Technologies (Hong Kong) Ltd.

Check Point Holding AB wholly owns the subsidiary listed below:

| <u>NAME OF SUBSIDIARY</u> | <u>COUNTRY OF INCORPORATION</u> |
|---|---------------------------------|
| Check Point Software Technologies (Sweden) AB | Sweden |

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

| <u>NAME OF SUBSIDIARY</u> | <u>COUNTRY OF INCORPORATION</u> |
|---------------------------|---------------------------------------|
| Zone Labs, L.L.C. | United States of America (California) |

Property and Equipment

Our international headquarters are located in Tel Aviv, Israel. We occupy our headquarters pursuant to a long-term lease with the City of Tel Aviv – Jaffa, which expires in August 2059. We made a prepayment for the entire term upon entering into this lease and we are not required to make any additional payments under the lease. Our international headquarters building contains approximately 332,000 square feet of office space, including an expansion of the existing building, which was substantially completed in the last quarter of 2017. In addition, we lease approximately 46,000 square feet of additional space in Tel Aviv, Israel.

Outside of Israel, we lease offices in various locations throughout the world. The breakdown in the various geographies is as follows:

| <u>Location</u> | <u>Space (square feet)</u> |
|--------------------------------------|----------------------------|
| Americas | 134,000 |
| Europe | 56,000 |
| Asia-Pacific, Middle East and Africa | 51,000 |

Principal Capital Expenditures and Divestitures

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview

We develop, market and support a wide range of products and services for IT security by offering a multilevel security architecture that defends enterprises’ cloud, network and mobile device information. Our solutions operate under a unified security architecture that enables end-to-end security with a single line of unified security gateways and allow a single agent for all endpoint security that can be managed from a single unified management console. This unified management allows for ease of deployment and centralized control and is supported by, and reinforced with, real-time security updates. Our products and services are sold to enterprises, service providers, small and medium sized businesses and consumers. Our open platform framework allows customers to extend the capabilities of our products and services with third-party hardware and security software applications. Our products are sold, integrated and serviced by a network of channel partners worldwide.

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

We derive our sales primarily through indirect channels. During 2018, 2017 and 2016, we derived approximately 53%, 54%, and 52%, respectively, of our sales from our ten largest channel partners. In 2018, 2017 and 2016, our two largest distributors accounted for approximately 36%, 36% and 37% of our sales. The following table presents the percentage of total consolidated revenues that we derive from sales in each of the regions shown:

| Region: | Year Ended December 31, | | |
|--------------------------------------|--------------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Americas, principally U.S. | 47% | 47% | 49% |
| Europe | 37% | 36% | 36% |
| Asia-Pacific, Middle East and Africa | 16% | 17% | 15% |

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

Critical Accounting Policies and Estimates

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

- Revenue recognition (including sales reserves),
- Realizability of long-lived assets (including intangible assets),
- Accounting for income taxes,
- Allowances for doubtful accounts,
- Impairment of marketable securities; and
- Loss Contingencies.

In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. Our senior management has reviewed these critical accounting policies and related disclosures with the audit committee of our board of directors. You can see a summary of our significant accounting policies in Note 2 to our consolidated financial statements, as set forth in Item 18.

Revenue recognition

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

Security subscriptions provide customers with access to its suite of security solutions and is sold as a service.

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

On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under Topic 605. As a result of this adoption, we revised our accounting policy for revenue recognition as detailed below. The new standard application had no material effect on the pattern of our revenue recognition.

We recognize revenue under the core principle that transfer of control to our customers should be depicted in an amount reflecting the consideration we expect to receive in revenue. Therefore, we identify a contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation in the contract and recognize revenues when (or as) we satisfy a performance obligation.

We recognize revenues from sales of products and licenses, under Topic 606, upon shipment when control of the promised goods is transferred to the customer, or upon electronic transfer of the Certificate Key to the customer.

We recognize revenues from security subscriptions and software updates and maintenance ratably over the term of the agreement due to the continuous transfer of control to the customer over the period.

Our arrangements typically contain multiple deliverables, such as products and licenses, security subscriptions and software updates and maintenance, which are generally capable of being distinct and accounted for as separate performance obligations. We evaluated the criteria to be distinct under Topic 606, and concluded that the products and the licenses were distinct and distinct in the

context of the contract from the security subscription and the software updates and maintenance, as the customer can benefit from the products and licenses without the services and the services are separately identifiable within the arrangement. We allocate the transaction price to each performance obligation based on relative standalone selling price basis, by using the prices charged for a performance obligation when sold separately.

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

We recognize revenues net of estimated amounts that may be refunded for sales returns, rebates, stock rotations and other rights provided to customers on product and service related sales subject to varying limitations. We estimate and record these reductions based on our historical sales returns experience, analysis of credit memo data, rebate plans, stock rotation and other known factors. In each accounting period, we use judgments and estimates to determine potential future sales credits, returns and stock rotation, related to current period revenue. These estimates affect our “revenue” line item on our consolidated statements of income and affect our “deferred revenues” and “accrued expenses and other current liabilities” on our consolidated balance sheets.

Realizability of long-lived assets (including intangible assets)

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

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flows from the use of the asset or asset group to the carrying amount of the asset, an impairment charge is recorded for the excess of carrying amount over the fair value. We measure fair value using discounted projected future cash flows. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our tangible and intangible long-lived assets subject to amortization. No impairment charges were recognized during 2018, 2017 and 2016.

Accounting for income tax

We are subject to income taxes in Israel, the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our taxes. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made.

We have accounted for the tax effects of the Tax Cuts and Jobs Act, which we refer to as the Tax Act, enacted on December 22, 2017, on a provisional basis. Our accounting for certain income tax effects is incomplete, but we have determined reasonable estimates for those effects. Our reasonable estimates are included in our financial statements as of December 31, 2018.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts for losses that may result from the failure of our channel partners to make required payments. We estimate this allowance based on our judgment as to our ability to collect outstanding receivables. We form this judgment based on factors that may affect a customer’s ability to pay, such as age of the receivable balance and past experience. If the financial condition of our channel partners were to deteriorate, resulting in their inability to make payments, we would need to increase the allowance for doubtful accounts.

Impairment of marketable securities

Our marketable securities are classified as available-for-sale securities. We assess our available-for-sale marketable securities on a regular basis for other-than-temporary impairment. Pursuant to the accounting guidance in ASC 320 "Investments- Debt and Equity Securities", if we have a security with a fair value less than its amortized cost and we intend to sell the security or it is more likely than not we will be required to sell the security before it recovers, an other-than temporary impairment has occurred and we must record the entire amount of the impairment in earnings. If we do not intend to sell the security or it is not more likely than not we will be required to sell the security before it recovers in value, we must estimate the net present value of cash flows expected to be collected. If the amortized cost exceeds the net present value of cash flows, such excess is considered a credit loss and an other-than-temporary impairment has occurred. The credit loss component is recognized in earnings and the residual portion of the other-than-temporary impairment is recorded in other comprehensive income. The determination of credit losses requires significant judgment and actual results may be materially different than our estimate. We consider the likely reason for the decline in value, the period of time the fair value was below amortized cost, changes in and performance of the underlying collateral, the ability of the issuer to meet payment obligations, changes in ratings and market trends and conditions.

We measure our money market funds and marketable securities at fair value. Money market funds and marketable securities are classified within Level 1 or Level 2. This is because these assets are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs.

Loss Contingencies

We are currently involved in various claims and legal proceedings. We review the status of each matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss.

Recent Accounting Pronouncements

For a summary of recent accounting pronouncements applicable to our consolidated financial statements see Note 2, "Significant Accounting Policies" to the Consolidated Financial Statements included in Part III, Item 18 of this Annual Report on Form 20-F.

Results of Operations

The following table presents information concerning our results of operations in 2018, 2017 and 2016:

| | 2018 | Year Ended December 31, | |
|--|----------------|-------------------------|------------|
| | | 2017 | 2016 |
| | (in thousands) | | |
| Revenues: | | | |
| Products and licenses | \$ 525,557 | \$ 559,026 | \$ 572,964 |
| Security subscriptions | 542,323 | 480,352 | 389,885 |
| Software updates and maintenance | 848,595 | 815,280 | 778,452 |
| Total revenues | 1,916,475 | 1,854,658 | 1,741,301 |
| Operating expenses(*): | | | |
| Cost of products and licenses | 91,949 | 104,210 | 105,967 |
| Cost of security subscriptions | 17,725 | 18,869 | 10,841 |
| Cost of software updates and maintenance | 88,894 | 87,700 | 83,011 |
| Amortization of technology | 2,811 | 2,184 | 2,184 |
| Total cost of revenues | 201,379 | 212,963 | 202,003 |
| Research and development | 211,523 | 192,386 | 178,372 |
| Selling and marketing | 500,854 | 433,427 | 420,526 |
| General and administrative | 88,945 | 91,965 | 88,130 |
| Total operating expenses | 1,002,701 | 930,741 | 889,031 |
| Operating income | 913,774 | 923,917 | 852,270 |
| Financial income, net | 65,066 | 47,029 | 44,402 |
| Income before taxes on income | 978,840 | 970,946 | 896,672 |

| | <u>2018</u> | <u>Year Ended December 31,</u> | |
|-----------------|-------------------|--------------------------------|-------------------|
| | | <u>2017</u> | <u>2016</u> |
| | | (in thousands) | |
| Taxes on income | 157,535 | 168,023 | 171,825 |
| Net income | <u>\$ 821,305</u> | <u>\$ 802,923</u> | <u>\$ 724,847</u> |

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

| | | | |
|---|------------------------|------------------------|------------------------|
| Amortization of intangible assets and acquisition related expenses | | | |
| Amortization of technology | \$ 2,811 | \$ 2,184 | \$ 2,184 |
| Research and development | 5,837 | 7,588 | 7,588 |
| Selling and marketing | 3,264 | 3,264 | 3,358 |
| Total amortization of intangible assets and acquisition related expenses | <u>\$11,912</u> | <u>\$13,036</u> | <u>\$13,130</u> |
| Stock-based compensation | | | |
| Cost of products and licenses | \$ 144 | \$ 115 | \$ 66 |
| Cost of software updates and maintenance | 3,401 | 2,626 | 2,087 |
| Research and development | 17,644 | 16,233 | 12,718 |
| Selling and marketing | 20,800 | 18,278 | 19,168 |
| General and administrative | 47,337 | 50,207 | 48,693 |
| Total stock-based compensation | <u>\$89,326</u> | <u>\$87,459</u> | <u>\$82,732</u> |

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

| | Year Ended December 31, | | |
|--|--------------------------------|--------------------|--------------------|
| | 2018 | 2017 | 2016 |
| Revenues: | | | |
| Products and licenses | 28% | 30% | 33% |
| Security subscriptions | 28 | 26 | 22 |
| Software updates and maintenance | 44 | 44 | 45 |
| Total revenues | <u>100%</u> | <u>100%</u> | <u>100%</u> |
| Operating expenses: | | | |
| Cost of products and licenses | 5 | 6 | 6 |
| Cost of security subscriptions | 1 | 1 | 1 |
| Cost of software updates and maintenance | 5 | 5 | 5 |
| Amortization of technology | —*) | —*) | —*) |
| Total cost of revenues | <u>11</u> | <u>12</u> | <u>12</u> |
| Research and development | 10 | 10 | 10 |
| Selling and marketing | 26 | 23 | 24 |
| General and administrative | 5 | 5 | 5 |
| Total operating expenses | <u>52</u> | <u>50</u> | <u>51</u> |
| Operating income | 48 | 50 | 49 |
| Financial income, net | 3 | 2 | 3 |
| Income before taxes on income | 51 | 52 | 52 |
| Taxes on income | 8 | 9 | 10 |
| Net income | <u>43</u> | <u>43</u> | <u>42</u> |

*) Less than 1%.

Revenues

We derive our revenues mainly from the sale of products and licenses, security subscriptions and software updates and maintenance. Our revenues were \$1,916 million in 2018, \$1,855 million in 2017 and \$1,741 million in 2016.

Total revenues in 2018 grew by 3% compared to 2017. Product and license revenues decreased by \$33 million, or 6%, from \$559 million in 2017 to \$526 million in 2018, which was attributed primarily to customer transitions to security subscriptions solutions. We continued to deliver increasingly more of our latest security offerings as subscriptions resulting in increased sales of our security subscription packages, including advance threat protection, Sandblast and CloudGuard solutions. As a result, security subscription revenues increased by \$62 million, or 13%, from \$480 million in 2017 to \$542 million in 2018. In 2018, product and license and security subscription revenues as a percentage of total revenues were 56%, similar to 2017. Software updates and maintenance revenues increased by \$34 million, or 4%, from \$815 million in 2017 to \$849 million in 2018, primarily as a result of renewals of existing and sales of new maintenance contracts.

Total revenues in 2017 grew by 7% compared to 2016. Product and license revenues decreased by \$14 million, or 2%, from \$573 million in 2016 to \$559 million in 2017, which can be attributed primarily to the impact of sales force organizational enhancements, attrition and hiring. We continued to deliver increasingly more of our latest security offerings as subscriptions resulting in increased sales of our security subscription packages, including Next Generation Threat Prevention and Next Generation Threat Extraction. As a result, security subscription revenues increased by \$90 million, or 23%, from \$390 million in 2016 to \$480 million in 2017. In 2017, product and license and security subscription revenues as a percentage of total revenues were 56%, compared to 55% in 2016. Software updates and maintenance revenues increased by \$37 million, or 5%, from \$778 million in 2016 to \$815 million in 2017, primarily as a result of renewals of existing and sales of new maintenance contracts.

Cost of Revenues

Total cost of revenues was \$201 million in 2018, \$213 million in 2017 and \$202 million in 2016. Cost of revenues includes cost of product and licenses, cost of security subscriptions and cost of software updates and maintenance and amortization of technology. Our cost of products and licenses includes mainly cost of software and hardware production, packaging and shipping. Our cost of security subscriptions is comprised of costs paid to third parties, hosting and infrastructure costs and cost of customer support related to these services. Our cost of software updates and maintenance include mainly the cost of post-sale customer support.

Cost of products and licenses was \$92 million in 2018, \$104 million in 2017 and \$106 million in 2016, and represented 17% of products and licenses revenues in 2018, 19% in 2017 and 18% in 2016.

Cost of security subscriptions was \$18 million in 2018, \$19 million in 2017 and \$11 million in 2016, and represented 3%, 4% and 3% of security subscription revenues in 2018, 2017 and 2016, respectively. The higher costs in 2017 were related to the increase in sales of security subscriptions, including sales of security subscriptions that have higher costs associated with them.

Cost of software updates and maintenance was \$89 million in 2018, \$88 million in 2017 and \$83 million in 2016 and represented 10%, 11% and 11% of software updates and maintenance revenues in 2018, 2017 and 2016, respectively. In 2017, the \$5 million increase in the cost of updates and maintenance was primarily the result of an increase in compensation expenses, which was related mainly to an increase in headcount of employees and contractors, from 618 at the end of 2016 to 693 at the end of 2017.

In 2018 amortization of technology was \$3 million. In 2017 and 2016 amortization of technology was \$2 million. The increase in 2018 is attributed to the acquisitions made during 2018.

Research and Development

Research and development expenses were \$212 million in 2018, \$192 million in 2017 and \$178 million in 2016, and represented 10% of revenues. Research and development expenses consist primarily of salaries and other related expenses for personnel, as well as the cost of facilities and depreciation of capital equipment. The \$20 million increase in 2018 is primarily a result of an increase in compensation for employees engaged in research and development. Out of the \$14 million increase in 2017 compared to 2016, \$11 million was primarily a result of an increase in compensation for employees engaged in research and development.

The majority of our personnel engaged in research and development are located in Israel, where compensation-related expenses are paid in Israeli Shekels, while our research and development expenses are reported in U.S. dollars. Therefore, changes to the exchange rate between the Israeli Shekel and the U.S. dollar have affected and may in the future affect our research and development expenses. We have forward contracts to hedge against a certain portion of the exposure mentioned above.

Selling and Marketing

Selling and marketing expenses consist primarily of salaries, commissions, advertising, trade shows, seminars, public relations, co-op activities with partners, travel and other related expenses. Selling and marketing expenses were \$501 million in 2018, \$433 million in 2017 and \$421 million in 2016, which represented 26% of revenues in 2018, 23% of revenues in 2017 and 24% of revenues in 2016. In 2018 and 2017, there was an increase of \$67 million and \$13 million, respectively. In 2018, the increase was primarily related to an increase in compensation expenses from our expansion of the sales and marketing workforce, and in 2017, the change was primarily due to increase in compensation expenses.

Our selling and marketing expenses worldwide are paid in local currencies and are reported in U.S. dollars. Therefore, changes to the exchange rates between the local currencies and the U.S. dollar have affected, and may in the future affect, our expense level.

General and Administrative

General and administrative expenses consist primarily of salaries and other related expenses for personnel, professional fees, insurance costs, legal and other expenses. General and administrative expenses were \$89 million in 2018, \$92 million in 2017 and \$88 million in 2016, and represented 5% of revenues in each of the years 2018, 2017 and 2016. In 2018, there was a decrease of \$3 million in general and administrative expenses, which was primarily due to a decrease in legal expenses. In 2017, there was an increase of \$4 million in general and administrative expenses, which was primarily due to an increase in compensation expenses.

Operating Income Margin

We had an operating margin of 48% in 2018, 50% in 2017 and 49% in 2016. Our operating margin decreased by 2% in 2018 mainly due to continued investment in our sales force and marketing efforts. Our operating margin increased by 1% in 2017.

We may experience future fluctuations or declines in operating margins from historical levels due to several factors, as described above in “Item 3 – Key Information” under the caption “Risk Factors – Risks Relating to Our Business and Our Market – Our operating margins may decline.”

Financial Income, Net

Net financial income consists primarily of interest earned on cash equivalents and marketable securities. Net financial income was \$65 million in 2018, \$47 million in 2017 and \$44 million in 2016. As we generally hold debt securities until maturity, our current portfolio’s yield is derived primarily from market interest rates and the yield of securities on the date of the investment. Since most of our investments are in U.S. dollars denominated securities, our net financial income is heavily dependent on prevailing U.S. interest rates changes and the market expectations to such changes. The increase in net financial income in 2018 was primarily due to an increase in interest rate in 2018 and market expectations for an increase in U.S. interest rates during 2019, leading to better yields on securities purchased in 2018. The increase in net financial income in 2017 was primarily due to an increase in interest rate in 2017 and market expectations for an increase in U.S. interest rates during 2018, leading to better yields on securities purchased in 2017. We review various factors in determining whether we should recognize an impairment charge for our marketable securities, including whether we intend to sell, or if it is more likely than not that we will be required to sell before recovery of the amortized cost basis of, such marketable securities, the length of time and extent to which the fair value has been less than its cost basis in such marketable securities, the credit ratings of such marketable securities, the nature of underlying collateral as applicable and the financial condition, expected cash flow and near-term prospects of the issuer. In evaluating when declines in fair value are other-than-temporary, we considered all available evidence, including market declines subsequent to the end of the period. We may recognize additional losses in the future should the prospects of the issuers of these securities continue to deteriorate. In 2018, 2017 and 2016 no other-than-temporary impairment was recorded.

For further risk related to our portfolio see also Item 3, “Risk Factors – Risks Related to Our Business and Our Market – Our cash balances and investment portfolio have been, and may continue to be, adversely affected by market conditions and interest rates”.

Taxes on Income

Total taxes on income were \$158 million in 2018, \$168 million in 2017 and \$172 million in 2016. Our effective tax rate was 16% in 2018, 17% in 2017 and 19% in 2016. The lower effective tax rate in 2018 is attributed to the lower provisions on uncertain tax positions. The lower effective tax rate in 2017 in comparison to 2016 is attributed to the reduction of the tax rates in 2017. See Note 12 to our consolidated financial statements for further information on our statutory rates.

On June 14, 2017, the Israeli government promulgated new regulations regarding the “Preferred Technological Enterprise” regime, under which a company that complies with the terms may be entitled to certain tax benefits. Our operations in Israel comply with the terms of the Preferred Technological Enterprise regime. Under the new legislation, the majority of our income from our operations in Israel, is subject to a corporate rate of 12%.

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

Liquidity and Capital Resources

During 2018, 2017 and 2016, we financed our operations through cash generated from operations. Our total cash and cash equivalents, short-term investments and long-term interest bearing investments, were \$4,039 million as of December 31, 2018 and \$3,848 million as of December 31, 2017. Our cash and cash equivalents and short-term investments were \$1,752 million as of December 31, 2018 and \$1,411 million as of December 31, 2017. Our long-term interest bearing investments were \$2,287 million as of December 31, 2018 and \$2,437 million as of December 31, 2017. Our financial assets are held and managed through the parent company in Israel and our subsidiaries in Singapore, Canada and the U.S.

We generated net cash from operations of \$1,143 million in 2018, \$1,110 million in 2017 and \$949 million in 2016. Net cash from operations for 2018, 2017 and 2016 consisted primarily of net income adjusted for non-cash activity including stock-based compensation expenses, depreciation, amortization of intangible assets plus changes in deferred revenues, deferred income tax benefit, accrued expenses and other liabilities, trade receivables and prepaid expenses and other assets. In addition to the increase in our net income in 2018, our cash flows provided by operating activities reflect also the increase in our deferred revenues and accrued expenses and other current liabilities. In 2016, we paid additional taxes as a result of settlement agreements. See also Note 12 to our Consolidated Financial Statements for further information.

Net cash used in investing activities was \$330 million in 2018, \$179 million in 2017 and \$110 million in 2016. In 2018 net cash used in investing activities consisted primarily of additional investments and proceeds related to marketable securities and short terms deposits, as well as cash paid for acquisitions of a subsidiary. In 2017 net cash used in investing activities consisted primarily of additional investments and proceeds related to marketable securities and short terms deposits. In 2016 our net cash used in investing activities consisted primarily of investments and proceeds related to marketable securities and short terms deposits. Our capital expenditures amounted to \$17 million in 2018, \$29 million in 2017 and \$24 million in 2016. Our capital expenditures consisted primarily of computer equipment and software, construction of a new office building in Israel and leasehold improvements.

Net cash used in financing activities was \$755 million in 2018, \$873 million in 2017 and \$844 million in 2016. In 2018, 2017 and 2016, net cash used in financing activities was attributed primarily to the repurchase of ordinary shares. Under the repurchase programs, we may purchase our ordinary shares from time to time, depending on market conditions, share price, trading volume and other factors. In 2018, 2017 and 2016, we repurchased ordinary shares in the amount of \$1,104 million, \$995 million and \$988 million, respectively. We re-issued the repurchased shares to settle exercises of options and awards of restricted share units to our employees and directors. Proceeds from such activities were \$354 million, \$128 million and \$129 million in 2018, 2017 and 2016, respectively.

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

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

Our principal sources of liquidity consist of our cash and cash equivalents, short-term deposits and marketable securities (which aggregated \$4,039 million as of December 31, 2018) and our cash flow from operations. We believe that these sources of liquidity will be sufficient to satisfy our capital expenditure requirements for the next twelve months.

Research and Development, Patents and Licenses, etc.

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

Trend Information

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

Off-Balance Sheet Arrangements

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

Tabular Disclosure of Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2018:

| | Payments due by period | | | | |
|-----------------------------------|------------------------|-----------------|-----------------|-----------------|-----------------|
| | Total | Less than 1 | | | |
| | | year | 1-3 years | 4-5 years | Over 5 years |
| (in thousands) | | | | | |
| Operating lease obligations | \$ 30,441 | \$ 7,844 | \$12,057 | \$ 7,884 | \$ 2,656 |
| Uncertain income tax positions(*) | \$375,163 | — | — | — | — |
| Severance pay(**) | \$ 9,425 | — | — | — | — |
| Total | <u>\$415,029</u> | <u>\$ 7,844</u> | <u>\$12,057</u> | <u>\$ 7,884</u> | <u>\$ 2,656</u> |

(*) Accrual for uncertain income tax position under ASC 740 “Income Taxes,” is paid upon settlement and we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 12g of our Consolidated Financial Statements for further information regarding our liability under ASC 740.

(**) Severance pay obligations to our Israeli employees, as required under Israeli labor law, are payable only upon termination, retirement or death of the respective employee and there is no obligation for benefits accrued prior to 2007, if the employee voluntarily resigns. These obligations are partially funded through accounts maintained with financial institutions and recognized as an asset on our balance sheet. Of this amount, \$4 million is unfunded.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

Our directors and executive officers as of December 31, 2018, were as follows:

| <u>Name</u> | <u>Position</u> | <u>Independent Director (1)</u> | <u>Outside Director (2)</u> | <u>Member of Audit Committee</u> | <u>Member of Compensation Committee</u> | <u>Member of Nominating Committee</u> |
|--------------------|--|---------------------------------|-----------------------------|----------------------------------|---|---------------------------------------|
| Gil Shwed | Chief Executive Officer and Director | | | | | |
| Marius Nacht | Chairman of the Board | | | | | |
| Jerry Ungerman | Vice Chairman of the Board | | | | | |
| Tal Payne | Chief Financial and Operations Officer | | | | | |
| Dorit Dor | Vice President of Products | | | | | |
| Dan Yerushalmi | Chief Customer Officer | | | | | |
| Yoav Chelouche (3) | Director | ✓ | ✓ | ✓ | ✓ | |
| Irwin Federman (3) | Director | ✓ | ✓ | ✓ | ✓ | ✓ |
| Guy Gecht (3) | Director | ✓ | ✓ | ✓ | ✓ | |
| Dan Propper | Director | ✓ | | | | |
| Ray Rothrock (3) | Director | ✓ | ✓ | ✓ | ✓ | ✓ |
| Tal Shavit | Director | ✓ | | | | ✓ |
| Shai Weiss | Director | ✓ | | | | ✓ |

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

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

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

Gil Shwed is the founder, Chief Executive Officer and Director. Mr. Shwed served as Chairman of our board of directors until September 2015. Mr. Shwed is considered the inventor of the modern firewall and authored several patents, such as the company's Stateful Inspection technology. Mr. Shwed has received numerous accolades for his individual achievements and industry contributions, including an honorary Doctor of Science from the Technion – Israel Institute of Technology, an honorary Doctor of Science from Tel Aviv University, the World Economic Forum's Global Leader for Tomorrow for his commitment to public affairs and leadership in areas beyond immediate professional interests, and the Academy of Achievement's Golden Plate Award for his innovative contribution to business and technology. Mr. Shwed is the Chairman of the Board of Trustees of the Youth University of Tel Aviv University. Mr. Shwed is a Tel Aviv University Governor and founder of the University's Check Point Institute for Information Security. He is also Chairman of the Board of the board of directors of Yeholot Association Founded by the Rashi Foundation whose charter is, among other things, to reduce the dropout rates in high schools. In 2018, Gil was awarded the prestigious Israel Prize for his contributions to the Israeli technology industry.

Marius Nacht, one of Check Point's founders, has served as Chairman of our board of directors since September 2015 and as Vice Chairman of our board of directors from 2001 until September 2015. Mr. Nacht has also served as one of our directors since we were incorporated in 1993. From 1999 through 2005, Mr. Nacht held Senior Vice President roles at Check Point. He also serves as a director in a number of private companies. Mr. Nacht earned a B.S. (cum laude) in Physics and Mathematics from the Hebrew University of Jerusalem in 1983, and an M.S. in Electrical Engineering and Communication Systems from Tel Aviv University in 1987.

Jerry Ungerman has served as Vice Chairman of our board of directors since 2005. From 2001 to 2005, Mr. Ungerman served as our President and before that, from 1998 until 2000, he served as our Executive Vice President. Prior to joining us, Mr. Ungerman accumulated extensive experience in high-tech sales, marketing and management experience at Hitachi Data Systems (HDS), a data storage company and a member of the Hitachi, Ltd. group. He began his career with International Business Machines Corp. (IBM), a global technology products and services company, after earning a B.A. in Business Administration from the University of Minnesota.

Tal Payne has been serving as Chief Financial Officer of Check Point since joining in 2008 and as Chief Financial and Operations Officer since 2015. Ms. Payne oversees Check Point's global operations and finance, including investor relations, legal, treasury, purchasing and facilities. Prior to joining Check Point, Ms. Payne served as Chief Financial Officer at Gilat Satellite Networks, Ltd., where she held the role of Vice President of Finance for over five years. Ms. Payne began her career as a certified public accountant at PricewaterhouseCoopers. Ms. Payne holds a B.A. in Economics and Accounting and an Executive M.B.A., both from Tel Aviv University. Ms. Payne is a certified public accountant. Ms. Payne is a board member of SolarEdge Technologies, Inc.

Dr. Dorit Dor, Vice President of Products at Check Point, manages all product and development functions from concept to delivery. Since joining the company in 1995, Dr. Dor has served in several pivotal roles in Check Point's R&D organization. She has been instrumental to the organization's growth and managed many successful product releases. Dr. Dor holds a Ph.D. and M.S degree in computer science from Tel-Aviv University, in addition to graduating cum laude for her B.S. In 1993, she won the Israel National Defense Prize.

Dan Yerushalmi, Chief Customer Officer at Check Point, manages worldwide sales field operations and engineering, channel sales and strategic technologies, focusing on customer experience. Mr. Yerushalmi has served as a c-suite leader in large-scale enterprises in technology, banking, and telecom. Prior to joining Check Point in 2018, he was the first Executive Vice President, group Chief Technology Officer and Chief Operations Officer of Israel's largest Bank - Bank Leumi Ltd from 2013 to 2017. He also served as President of EMEA for Advertising and Media and Regional Vice President & Client Business Executive at Amdocs, a multinational technology corporation from 1993 to 2012. In 2016, he was named one of the leading Chief Technology Officers by CIO 100 magazine..

Yoav Z. Chelouche has served on our board of directors since 2006. Mr. Chelouche has also served as one of our outside directors under the Israeli Companies Law since 2006. Mr. Chelouche has been Managing Partner of Aviv Venture Capital since August 2000. Prior to joining Aviv Venture Capital, Mr. Chelouche served as President and Chief Executive Officer of Scitex Corp., a world leader in digital imaging and printing systems, from December 1994 until July 2000. From August 1979 until December 1994, Mr. Chelouche held various managerial positions with Scitex, including VP Strategy and Business Development, VP Marketing and VP Finance for Europe. Mr. Chelouche is a member of the board of directors of a number of private companies. Mr. Chelouche is an independent board member of Tower Semiconductor Ltd. as of July 2016. He also serves as a director on the Tel Aviv Stock Exchange (TASE). Mr. Chelouche earned a B.A. in Economics and Statistics from Tel Aviv University, and an M.B.A. from INSEAD University in Fontainebleau, France.

Irwin Federman has served on our board of directors since 1995. Mr. Federman has also served as one of our outside directors under the Israeli Companies Law since 2000. Mr. Federman was a General Partner of U.S. Venture Partners, a venture capital firm, from 1990 to 2015. He is presently a senior advisor to that firm. Mr. Federman serves as chairman of Mellanox Technologies Ltd., and director in Intermolecular, Inc. and a number of private companies. Mr. Federman received a B.S. in Economics from Brooklyn College.

Guy Gecht has served on our board of directors since 2006. Mr. Gecht has also served as one of our outside directors under the Israeli Companies Law since 2006. Mr. Gecht served as the Chief Executive Officer of Electronics For Imaging, Inc. (EFI), a company that provides digital imaging and print management solutions for commercial and industrial applications and has served in this position from January 2000 until October, 2018. From October 1995 until January 2000, Mr. Gecht held various positions with EFI, including President of the company. Prior to joining EFI, Mr. Gecht held various software engineering positions with technology companies. Mr. Gecht holds a B.S. in Computer Science and Mathematics from Ben-Gurion University in Israel.

Dan Propper has served on our board of directors since 2006. Mr. Propper is the Chairman of the Board for the Osem Group, a leading Israeli manufacturer of food products. Mr. Propper served as the Chief Executive Officer of Osem for 25 years until April 2006. In addition to his role at Osem, from 1993 until 1999, Mr. Propper served as President of Israel's Manufacturers' Association, an independent umbrella organization representing industrial enterprises in Israel, and as Chairman of the Federation of Economic Organizations in Israel, which unites economic and business organizations that represents all business sectors in Israel. Mr. Propper has received numerous awards for his contributions to the Israeli industry and economy, including an honorary Doctorate from the Technion – Israel Institute of Technology in 1999. Mr. Propper serves as a member of the board of directors of Osem Investments Ltd., Vitania Ltd. and a number of private companies. Mr. Propper is also a member of the board of governors of the Technion, the Weizmann Institute of Science, Tel Aviv University and Ben-Gurion University in Israel. Mr. Propper earned a B.Sc. (summa cum laude) in Chemical Engineering and Food Technology from the Technion. From October 2011 to September 2014, Mr. Propper served as the Chairman of the Supervisory Council of the Bank of Israel. In 2018, Mr. Propper was appointed the Czech Republic Honorary Consul in Jerusalem.

Ray Rothrock has served on our board of directors since 1995. Mr. Rothrock has also served as one of our outside directors under the Israeli Companies Law since 2000. Mr. Rothrock is a Partner emeritus at Venrock, a venture capital firm, where he was a member since 1988 and a general partner since 1995. He retired from Venrock in 2013. Presently, Mr. Rothrock is the Chairman and Chief Executive Officer of RedSeal, Inc., a cybersecurity analytics company. Mr. Rothrock is also a director of a number of private companies. Mr. Rothrock is a member of the Massachusetts Institute of Technology Corporation, and a Trustee of the University of Texas and Texas A&M Investment Management Company. Mr. Rothrock received a B.S. in Engineering from Texas A&M University, an M.S. from the Massachusetts Institute of Technology and an M.B.A. from the Harvard Business School.

Dr. Tal Shavit has served on our board of directors since 2000. Dr. Shavit is an organizational consultant specializing in international collaboration between Israeli and American companies, consulting in the management of cultural differences in order to forge effective collaboration. Her work with leading management teams includes the definition of organizational culture as the engine of the company's activities. She consults with companies undergoing structural change with emphasis on organizational growth through effective mergers and acquisitions and a redefining of management roles in order to meet market changes.

Shai Weiss has served on our board of directors since 2018. Mr. Weiss is the Chief Executive Officer of Virgin Atlantic, one of the most innovative airlines in the world. Mr. Weiss joined Virgin Atlantic as Executive Vice President and Chief Financial Officer in July 2014 from Virgin Management Ltd, where he had been an Investment Partner since 2012 and was a Founding Partner of Virgin Green Fund. Prior to joining Virgin Group, he held several senior management positions at ntl:Telewest (now Virgin Media), the UK and Europe's largest cable operator. Mr. Weiss was part of the turn-around of ntl with roles including Managing Director of Consumer Products, Director of Operations, and Director of Financial Planning for the Consumer division. Mr. Weiss was also behind the merger between Virgin Mobile UK and ntl:Telewest and the re-brand to Virgin Media. Prior to ntl, Mr. Weiss established the European office of early-stage technology venture fund JVP and was a senior associate with Morgan Stanley. He holds an M.B.A. degree from Columbia University and a BBA degree from City University of New York, Baruch College.

Of the individuals mentioned above, only Gil Shwed and Marius Nacht owned more than one percent of our outstanding shares as of December 31, 2018. Additional details are provided in this Item 6, under the caption "Share ownership" and in "Item 7 – Major Shareholders and Related Party Transactions."

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

The terms of Gil Shwed, Marius Nacht, Jerry Ungerman, Dan Propper, Dr. Tal Shavit and Shai Weiss will expire at our 2019 annual meeting of shareholders. The terms of Irwin Federman and Ray Rothrock will expire at our 2020 annual meeting of shareholders, and the terms of Yoav Chelouche and Guy Gecht will expire at our 2021 annual meeting of shareholders.

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

Compensation of Directors and Officers

The total direct cash compensation that we accrued for our directors and executive officers as a group including a director and an executive officer who left the company during 2018 was approximately \$2.4 million for the year ended December 31, 2018. These amounts include \$0.18 million that were set aside or accrued to provide for severance and retirement insurance policies in 2018. These amounts do not include amounts accrued for expenses related to business travel, professional and business association dues and other business expenses reimbursed to officers. We do not have any agreements with our director who is also an officer that provide for benefits upon termination of employment, except for severance payments mandated by Israeli law for all employees employed in Israel.

Following is a summary of the salary and benefits paid in 2018 (i) to our five most highly compensated executive officers as of the date of this Annual Report (referred to as the “Covered Executives”) and (ii) to our non-executive directors. Mr. Yerushalmi joined the company in May 2018.

Cash Compensation

Mr. Gil Shwed, Chief Executive Officer and Director. Cash compensation expenses recorded in 2018 consisted of \$15.6 thousands in salary expenses, and \$13.2 thousands in benefit costs. Mr. Shwed requested to forego his salary and bonus for 2018, as he has done for the past several years. Following consideration of Mr. Shwed’s request, our compensation committee and board of directors have determined that Mr. Shwed will not receive a bonus for 2018, and will not receive any cash compensation for 2018 except for an amount equal to the minimum wage required under Israeli law.

Dr. Dorit Dor, Vice President, Products. Compensation expenses recorded in 2018 included \$352.2 thousands in salary expenses and \$84.4 thousands in benefit costs.

Ms. Tal Payne, Chief Financial Officer & Chief Operating Officer. Compensation expenses recorded in 2018 included \$400.2 thousands in salary expenses and \$95.5 thousands in benefit costs.

Ms. Miryam Steinitz, Head of Human Resources. Compensation expenses recorded in 2018 included \$240.1 thousands in salary expenses and \$60.7 thousands in benefit costs.

Mr. Dan Yerushalmi, Chief Customer Officer. Compensation expenses recorded in 2018 included \$234.8 thousands in salary expenses and \$57.3 thousands in benefit costs.

The salary expenses summarized above include the gross salary paid to the Covered Executives, and the benefit costs include the social benefits paid by us on behalf of the Covered Executives, including convalescence pay, contributions made by the company to an insurance policy or a pension fund, work disability insurance, severance, educational fund and payments for social security. We do not lease vehicles for our Covered Executives.

In accordance with the company’s executive compensation policy, we also paid cash bonuses upon compliance with predetermined 2018 performance parameters set by the Compensation Committee and the Board of Directors. The 2018 cash bonus expenses for Dr. Dor, Ms. Payne, Ms. Steinitz and Mr. Yerushalmi were \$254.6 thousands, \$276.7 thousands, \$99.6 thousands and \$147.6 thousands, respectively. As noted above, Mr. Shwed did not receive a cash bonus for 2018. The cash compensation amounts paid were denominated in Israeli Shekels and converted into U.S. Dollars at the exchange rate as of year-end.

We currently pay each of our non-executive directors an annual cash retainer of \$40.0 thousands for the services provided to our board of directors and an annual cash retainer of \$7.5 thousands for each committee membership. In addition, we pay the chair of our audit committee an annual cash retainer of \$7.5 thousands and the chair of each of our nominating committee and compensation committee an annual cash retainer of \$2.5 thousands. Only directors who are not officers receive compensation for serving as directors.

Equity-based Compensation

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

Our non-employee directors receive an automatic option grant and are also eligible for discretionary awards under the plans. Each non-employee director who is first elected or appointed to the board of directors is granted an option to purchase 50,000 ordinary shares on the date of the initial election or appointment, vesting in equal annual installments over a four-year period. On the date of each annual general meeting of shareholders, each non-employee director who is to continue to serve as a non-employee director after the annual meeting is granted an option to purchase an additional 25,000 ordinary shares, of which 50% vest six months after the grant date, 25% vest nine months after the grant date, and another 25% vest a year after the grant date, provided that the director has served as a non-employee director for at least six months prior to the date of the annual meeting. The directors in office immediately prior to the date of initial appointment or election, or of the annual meeting, as applicable, may determine to reduce the initial or annual grant to all non-employee directors or specific non-employee directors.

In line with our goal of fully aligning the compensation of Mr. Gil Shwed, our Chief Executive Officer and Director, with the interests of our shareholders, on August 20, 2018, following the approval of our Compensation Committee, Board of Directors and the company's shareholders at the 2018 Annual General Meeting, we granted Mr. Shwed options to purchase 1.3 million ordinary shares at an exercise price equal to 100% of the closing price of the ordinary shares on the NASDAQ Global Select Market on the date of the grant, vesting over a period of 4 years.

During 2018, we granted our executive officers and directors (including a grant to a director that retired during 2018) options to purchase an aggregate of approximately 1.9 million shares and approximately 52,743 RSUs under our equity incentive plans. The exercise price of these options range between \$99.03-\$114.81, and their expiration dates range between February 2025 and December 2025.

All options granted to directors and executive officers in 2018 were granted with an exercise price equal to 100% of the closing price of the ordinary shares on the NASDAQ Global Select Market on the applicable date of grant.

We recorded equity-based compensation expenses in our financial statements for the year ended December 31, 2018 for Mr. Shwed, Dr. Dor, Ms. Payne, Ms. Steinitz and Mr. Yerushalmi of \$35,782 thousands, \$3,467 thousands, \$3,712 thousands, \$1,107 thousands and \$265 thousands, respectively. Assumptions and key variables used in the calculation of such amounts are described in Note 2w to our audited consolidated financial statements included in Item 18 of this Annual Report. All equity-based compensation grants to our Covered Executives were made in accordance with the parameters of our company's executive compensation policy and were approved by the company's Compensation Committee and Board of Directors, and, in the case of the equity-based compensation granted to the Chief Executive Officer, also by the company's shareholders in accordance with the Israeli Companies Law.

As of December 31, 2018, our executive officers and directors held options to purchase an aggregate of approximately 7.78 million shares and held 91,483 restricted share units under our stock option and equity incentive plans. The exercise prices of these options range between \$49.50 and \$114.95, and their expiration dates range between June 2019 and December 2025.

Other than as specified in the share ownership table under the caption "Share ownership" below, none of our directors and executive officers holds more than 1% of our outstanding shares.

Composition of Board of Directors

Our board of directors currently consists of ten members, including two outside directors in accordance with the requirements of the Israeli Companies Law. See "—Outside and Independent Directors." Under our articles of association, the number of directors on our board is to be no less than six and no more than twelve. Each director (other than an outside director as described below) is elected to serve until the next annual general meeting of shareholders and until his or her successor has been elected. Each executive officer is elected by the board of directors and serves at the discretion of the board. All of our executive officers and directors, other than non-employee directors, devote substantially all of their working time to our business. There are no family relationships among any of our directors, officers or key employees.

As permitted under the Israeli Companies Law, our articles of association provide that any director may, by written notice to us, appoint another person to serve as an alternate director or may cancel the appointment of an alternate director. Any person eligible to serve as a director, other than a person who is already a director or an alternate director, may act as an alternate director. The term of appointment of an alternate director may be for one meeting of the board, for a specified period of time, a specified meeting or action of the board or until notice is given of the cancellation of the appointment. No director has appointed, and, to our knowledge, no director currently intends to appoint, any other person as an alternate director. We do not have any service contracts with our directors providing for benefits upon termination of service.

Outside and Independent Directors

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

An outside director serves for a term of three years, which may be extended for additional three-year terms. An outside director can be removed from office only under very limited circumstances. All of the outside directors must serve on the company's audit committee and compensation committee (including one outside director serving as the chair of the audit committee and the compensation committee), and at least one outside director must serve on each committee of the board of directors. As of December 31, 2018, Yoav Chelouche, Irwin Federman, Guy Gecht and Ray Rothrock are our outside directors under the Israeli Companies Law. Yoav Chelouche's and Guy Gecht's term of office will expire in 2021, and Irwin Federman's and Ray Rothrock's term of office will expire in 2020.

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

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

Our board of directors has determined that each of Yoav Chelouche, Irwin Federman, Guy Gecht, Dan Propper, Ray Rothrock, Tal Shavit, Jerry Ungerman and Shai Weiss is an independent director under the applicable NASDAQ regulations and the Israeli Companies Law. Our independent directors have regularly held meetings at which only independent directors are present.

Committees of the Board of Directors

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

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

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

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

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

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

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

Similar to the rules that apply to the audit committee, the compensation committee may not include the chairman of the board, or any director employed by us, by a controlling shareholder or by any entity controlled by a controlling shareholder, or any director providing services to us, to a controlling shareholder or to any entity controlled by a controlling shareholder on a regular basis, or any director whose primary income is dependent on a controlling shareholder, and may not include a controlling shareholder or any of its relatives. Individuals who are not permitted to be compensation committee members may not participate in the committee's meetings other than to present a particular issue; provided, however, that an employee that is not a controlling shareholder or relative may participate in the committee's discussions but not in any vote, and the company's legal counsel and corporate secretary may participate in the committee's discussions and votes if requested by the committee.

In addition, the NASDAQ rules also require us to maintain a compensation committee consisting of at least two independent directors. Each of the members of the compensation committee is required to be independent under NASDAQ rules relating to compensation committee members, which are different from the general test for independence of board and committee members. Each of the members of our compensation committee satisfies those requirements. Ray Rothrock is the chairman of the compensation committee. Yoav Chelouche, Irwin Federman and Guy Gecht serve as the other members of our compensation committee. The compensation committee has adopted a written compensation committee charter.

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

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

Recent Israeli Regulations

In 2016, the Israeli Companies Law Regulations were amended to reduce certain duplicative regulatory burden to which Israeli companies publicly-traded on NASDAQ, such as Check Point, are subject to.

Generally, pursuant to the amended regulations, an Israeli company traded on NASDAQ that does not have a "controlling shareholder" (as defined in the Israeli Companies Law) will be able to elect not to appoint Outside Directors to its Board of Directors and not to comply with the Audit Committee and Compensation Committee composition and chairman requirements of the Israeli Companies Law (as described above under the headings "—Outside and Independent Directors" and "—Committees of our Board of Directors"); *provided*, the company complies with the applicable NASDAQ independent director requirements and the NASDAQ Audit Committee and Compensation Committee composition requirements.

Accordingly, Check Point is eligible to adopt the relief provided by the amended Israeli regulations. To date, Check Point has elected not to adopt such relief.

Employees

As of December 31, 2018, we had 5,070 employees.

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

| Function | As of December 31, | | |
|--|--------------------|--------------|--------------|
| | 2018 | 2017 | 2016 |
| Research, development and quality assurance | 1,528 | 1,396 | 1,324 |
| Marketing, sales and business development | 2,301 | 2,031 | 1,936 |
| Customer support | 755 | 689 | 599 |
| Information systems, administration, finance and operation | 486 | 460 | 422 |
| Total | 5,070 | 4,576 | 4,281 |

From time to time, we also engage a limited number of subcontractors. As of December 31, 2018, we had 51 contractors.

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

| Function | As of December 31, | | |
|-------------------|--------------------|--------------|--------------|
| | 2018 | 2017 | 2016 |
| Israel | 2,231 | 2,047 | 1,898 |
| United States | 1,206 | 1,097 | 1,040 |
| Rest of the World | 1,633 | 1,432 | 1,343 |
| Total | 5,070 | 4,576 | 4,281 |

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

Share Ownership

The following table shows information regarding beneficial ownership by our directors and executive officers as of February 28, 2019. Beneficial ownership is determined in accordance with rules of the Securities and Exchange Commission.

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

The share numbers and percentages listed below are based on shares outstanding as of February 28, 2019.

| Name | Number of shares beneficially owned (1) | % of class of shares (2) | Title of securities covered by the options | Number of options and RSUs (3) | Exercise price of options | Date of expiration of options |
|--|---|--------------------------|--|--------------------------------|---------------------------|-------------------------------|
| Gil Shwed | 27,803,969 | 17.7% | Ordinary shares | 2,840,000 | \$83.59 - \$114.95 | 06/08/2022-08/19/2025 |
| Marius Nacht | 6,252,486 | 4.1% | Ordinary shares | 37,500 | \$ 114.81-114.95 | 06/06/2024-08/19/2025 |
| All directors and officers as a group (13 persons including Messrs. Shwed and Nacht) (4) | 35,720,922 | 22.6% | Ordinary shares | 4,419,282 | \$49.50 - \$114.95 | 06/06/2019-08/19/2025 |

- (1) The number of ordinary shares shown includes shares that each shareholder has the right to acquire pursuant to stock options that are exercisable and restricted share units that vest within 60 days after February 28, 2019.
- (2) If a shareholder has the right to acquire shares by exercising stock options (as determined in accordance with footnote (1)), these shares are deemed outstanding for the purpose of computing the percentage owned by the specific shareholder (that is, they are included in both the numerator and the denominator), but they are disregarded for the purpose of computing the percentage owned by any other shareholder.
- (3) Number of options immediately exercisable or exercisable and restricted share units that vest within 60 days from February 28, 2019.
- (4) Each of Messrs./Mmes. Ungerman, Yerushlmi, Payne, Dor, Chelouche, Federman, Gecht, Propper, Rothrock, Weiss and Dr. Shavit beneficially owns less than one percent of our outstanding ordinary shares.

Equity Incentive Plans

The following table summarizes our equity incentive plans, which have outstanding awards as of December 31, 2018:

| Plan | Outstanding options, RSUs & ESPP Shares | Options outstanding exercise price | Date of expiration | Options exercisable |
|--|---|------------------------------------|-----------------------|---------------------|
| 2005 United States Equity Incentive Plan | 1,206,561 | \$49.5-\$114.95 | 06/06/2019-10/29/2025 | 454,000 |
| 2005 Israel Equity Incentive Plan | 8,686,017 | \$49.5-\$114.95 | 06/06/2019-12/13/2025 | 3,551,134 |
| Dome9 Equity Incentive Plan | 27,547 | \$4.98-\$21.97 | 05/03/2026-06/27/2028 | 1,936 |
| Employee Stock Purchase Plan | 671,559 | | | |

In 2005, we adopted our 2005 United States Equity Incentive Plan and our 2005 Israel Equity Incentive Plan, which were subsequently amended in January 2014 and in July 2018. We refer to the plans, as amended in January 2014 and July 2018, as the U.S. Equity Plan and the Israel Equity Plan, and, together, as the Equity Plans.

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

Following the amendments to the Equity Plans in July 2018, commencing December 31, 2018, on December 31st of each year, the number of Reserved and Authorized Shares (as defined below) under both Equity Plans together shall be automatically reset on such date to equal 10% of the sum of (i) the number of ordinary shares issued and outstanding on such date and (ii) the number of ordinary shares reserved and authorized under the Equity Plans for outstanding awards granted under the Equity Plans as of such date (provided, however, that in no event shall the number of Reserved and Authorized Shares be less than the number of ordinary shares reserved and authorized under the Equity Incentive Plans for outstanding awards granted under the Equity Incentive Plans as of such date). The number of “*Reserved and Authorized Shares*” under the Equity Plans shall equal the sum of (i) the number of ordinary shares reserved and authorized under the Equity Plans for outstanding awards granted under the Equity Plans as of such date, and (ii) the number of ordinary shares reserved, authorized and available for issuance under the Equity Plans on such date.

Accordingly, as of December 31, 2018, the number of Reserved and Authorized Shares under both Equity Plans together was reset to equal 16,530,058.

As of December 31, 2018, we had granted options to purchase an aggregate of 31,769,506 ordinary shares under the Equity Plans combined, of which options to purchase 8,541,431 ordinary shares were outstanding on that date. The option exercise prices of the outstanding options as of December 31, 2018 range between \$49.5 and \$114.95 per share. As of December 31, 2018, we had granted an aggregate of 7,532,191 RSUs and PSUs under the equity plans combined, of which 1,378,646 RSUs and PSUs were outstanding on that date.

Administration

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

2005 United States Equity Incentive Plan, as Amended

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

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

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

2005 Israel Equity Incentive Plan, as Amended

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

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

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

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

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

Dome9 Security Ltd. 2011 Share Option Plan and the 2016 Equity Incentive Subplan.

In connection with our acquisition of Dome9 Security Ltd. in October 2018, we assumed certain outstanding Dome9 share options under the Dome9 Security Ltd. 2011 Share Option Plan and the 2016 Equity Incentive Subplan, or the Dome9 Equity Plan, which were converted into options to purchase 47,816 of our ordinary shares.

As of December 31, 2018, options to purchase 27,547 ordinary shares were outstanding under the Dome9 Equity Plan on that date. The options generally have terms of between seven and ten years. The option exercise prices range from \$4.98-\$21.97 per share. No further options can be granted under the Dome9 Equity Plan.

Employee Stock Purchase Plans

In 1996, we adopted an Employee Stock Purchase Plan, which was subsequently amended and restated in 2015. We refer to the Employee Stock Purchase Plan, as amended and restated, as the US ESPP, and the Employee Stock Purchase Plan (Non-U.S. Employees), as the ROW ESPP, and together with the US ESPP, as the “ESPPs”. The ESPPs permit full time employees and employees employed on a part-time employment basis of 80% or more (as well as employees of some of our subsidiaries) to purchase ordinary shares through payroll deductions.

According to the amendments, commencing the purchase period that begins February 1, 2016, 500,000 ordinary shares are authorized for issuance under the US ESPP (out of which 266,189 ordinary shares had been issued through December 31, 2018) and 1,000,000 ordinary shares are authorized for issuance under the rest of the world (ROW) ESPP (out of which 562,252 ordinary shares had been issued through December 31, 2018).

Each ESPP has six-month offering periods, with purchases occurring in January and July. Each of the ESPPs will terminate on the earliest of (i) the last business day in January 2036, (ii) when no more shares are available for issuance under the applicable ESPP, or (iii) when all purchase rights under the applicable ESPP are granted or exercised in connection with a “Corporate Transaction” as defined in the applicable ESPP.

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

The following table shows information as of December 31, 2018, 2017 and 2016, for each person who, to the best of our knowledge, beneficially owned more than 5% of our outstanding ordinary shares as December 31, 2018:

| <u>Name of Five Percent Shareholders</u> | <u>No. of shares</u> | <u>% of</u> | <u>No. of shares</u> | <u>% of</u> | <u>No. of shares</u> | <u>% of</u> |
|--|------------------------------|----------------------------|------------------------------|----------------------------|------------------------------|----------------------------|
| | <u>beneficially held (1)</u> | <u>class of shares (2)</u> | <u>beneficially held (1)</u> | <u>class of shares (2)</u> | <u>beneficially held (1)</u> | <u>class of shares (2)</u> |
| | <u>December 31, 2018</u> | | <u>December 31, 2017</u> | | <u>December 31, 2016</u> | |
| Gil Shwed | 27,811,458 | 17.6% | 31,183,927 | 18.9% | 30,503,895 | 17.8% |
| Massachusetts Financial Services Company (3) | 12,658,864 | 8.15% | 11,989,070 | 7.54% | 12,716,114 | 7.7% |

- (1) The amount includes ordinary shares owned by each of the individuals, directly or indirectly, and options immediately exercisable or that are exercisable within 60 days from December 31st, of each of the years shown in this table.
- (2) If a shareholder has the right to acquire ordinary shares by exercising stock options exercisable within 60 days from December 31st, of each of the years shown in this table, these Ordinary shares are deemed outstanding for the purpose of computing the percentage owned by the specific shareholder (that is, they are included in both the numerator and the denominator), but they are disregarded for the purpose of computing the percentage owned by any other shareholder.
- (3) As of December 31, 2018, based on information contained in a Schedule 13G/A filed by Massachusetts Financial Services Company with the Securities and Exchange Commission on February 13, 2019, as of December 31, 2017, based on information contained in a Schedule 13G/A filed by Massachusetts Financial Services Company with the Securities and Exchange Commission on February 9, 2018, and as of December 31, 2016, based on information contained in a Schedule 13G filed by Massachusetts Financial Services Company with the Securities and Exchange Commission on February 7, 2017. The address for Massachusetts Financial Services Company is 111 Huntington Avenue, Boston, Massachusetts 02199.

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

According to our transfer agent, as of December 31, 2018, there were 130 holders of record of our ordinary shares in the United States, representing approximately 83.58% of our outstanding shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held by brokers or other nominees.

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

As of December 31, 2018 and 2017, employees and payroll accruals include benefit of certain related parties since 2002 until 2007 in a total amount of \$654 and \$ 1,194 respectively.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

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

Dividend policy

We currently do not intend to distribute any amounts as dividend in the near-term. During 2013, we entered into a settlement agreement with the Israel Tax Authority, resulting in the full release of the profits we generated under the Israeli Law for the Encouragement of Capital Investments (the “Investment Law”) through the year ended December 31, 2011 (known in Israel as “trapped profits”), provided that in accordance with the Investment Law and the regulations thereunder, during the five years commencing 2013, we were obligated to meet certain conditions which included investment in (i) production assets (as defined therein), (ii) research and development activities in Israel and (iii) employment payments for certain new employees (other than office holders) added after 2011. We believe we met those conditions. For amounts distributed as dividends from earnings from 2012 onwards, we are exempt from additional taxes.

Legal Proceedings

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

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

ITEM 9. THE OFFER AND LISTING

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

ITEM 10. ADDITIONAL INFORMATION

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

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

Articles of Association and Israeli Companies Law

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

Description of shares

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

Description of ordinary shares

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

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

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

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

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

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

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

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

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

- (1) A special or extraordinary resolution (such as a resolution amending our memorandum of association or articles of association). A majority of at least 75% of the shares voting on the matter is needed.

- (2) A voluntary liquidation process or a merger. A majority of at least 75% of the shares voting on the matter is needed.
- (3) A compromise or arrangement between us and our creditors or shareholders, reorganization, stock split or reverse split. This has to be approved by a majority in the number of the persons participating in the vote (except for those abstaining) who together hold at least 75% of the value represented at the vote. In addition, court approval is needed.
- (4) The nomination and dismissal of outside directors. Outside directors may be elected or removed by a majority vote at a shareholders' meeting, as long as either:
 - (i) the majority of shares includes a majority of the shares of non-controlling shareholders and shareholders who have no personal interest in the election of the outside directors (excluding a personal interest that is not related to a relationship with the controlling shareholders) voted at the meeting, or
 - (ii) the total number of shares of non-controlling shareholders and disinterested shareholders voted against the proposal does not exceed 2% of our aggregate voting rights.
- (5) Extraordinary transactions with a controlling shareholder (i.e., any shareholder that has the ability to direct our actions, including any shareholder who holds 25% or more of our voting rights if no other shareholder owns more than 50% of our voting rights), with another person in which the controlling shareholder has a personal interest; or a transaction with a controlling shareholder (or a relative of such controlling shareholder) concerning terms of compensation for service as an office holder, or as a service provider to the company, including through a company controlled by a controlling shareholder. Following audit committee (or, alternatively, compensation committee if it relates to terms of compensation for service as an office holder or as a service provider) and board of directors approval, these transactions must be approved by a majority vote at a shareholders' meeting, as long as either:
 - (i) the majority of shares includes at least a majority of the shares of the voting shareholders who have no personal interest in the transaction, or
 - (ii) the total shareholdings of those who have no personal interest in the transaction and who vote against the transaction does not exceed 2% of our aggregate voting rights.

Generally, the approval of such a transaction may not extend for more than three years, except that in the case of an extraordinary transaction with a controlling shareholder or in which a controlling shareholder has a personal interest that does not concern terms of compensation for service as an office holder, or as a service provider to the company, the transaction may be approved for a longer period if the audit committee determines that the approval of the transaction for a period longer than three years is reasonable under the circumstances.
- (6) The adoption of an executive compensation policy. Following compensation committee and board of directors approval, the policy must be approved by a majority vote at a shareholders' meeting, as long as either:
 - (i) the majority of shares includes a majority of the shares of non-controlling shareholders and shareholders who have no personal interest in the adoption of the policy voted at the meeting, or
 - (ii) the total number of shares of non-controlling shareholders and disinterested shareholders voted against the proposal does not exceed 2% of our aggregate voting rights.
- (7) The approval of a compensation arrangement with the chief executive officer or the approval of a compensation arrangement with an executive officer or director that is not in compliance with the company's executive compensation policy. Following compensation committee and board of directors approval specifying the special circumstances requiring the arrangement of such arrangement (in the case of an arrangement that is not in compliance with the executive compensation policy), the compensation arrangement must be approved by a majority vote at a shareholders' meeting, as long as either:
 - (i) the majority of shares includes a majority of the shares of non-controlling shareholders and shareholders who have no personal interest in the adoption of the compensation arrangement voted at the meeting, or
 - (ii) the total number of shares of non-controlling shareholders and disinterested shareholders voted against the proposal does not exceed 2% of our aggregate voting rights.

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

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

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

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

Description of preferred shares

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

Anti-takeover measures

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

- discourage potential acquisition proposals,
- delay or prevent a change in control, and
- limit the price that investors might be willing to pay in the future for our ordinary shares.

Israeli corporate law regulates acquisitions of shares through tender offers and mergers; requires special approvals for transactions involving directors, officers or significant shareholders; and regulates other matters that may be relevant to these types of transactions.

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

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

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

- there is a limitation on acquisition of any level of control of the company, or
- the acquisition of any level of control requires the purchaser to make a tender offer to the public.

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

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

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

- Prior to that date, the board of directors approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder; or
- Upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 75% of our voting shares outstanding at the time the transaction commenced.

A business combination includes:

- any merger or consolidation between the interested shareholder and us;
- any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 10% or more of our assets in a transaction involving the interested shareholder;
- subject to certain exceptions, any transaction that results in our issuance or transfer of any of our shares to the interested shareholder;
- any transaction in which we are involved that has an effect of increasing the proportionate share of our shares, of any class or series, beneficially owned by the interested shareholder; or
- the receipt by the interested shareholder of the benefit of any loans, advances, guarantees, pledges, or other financial benefits provided by or through us.

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

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

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

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

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

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

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

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

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

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

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

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

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

- any amendment to the articles of association,
- an increase of the company's authorized share capital,
- a merger, or
- approval of interested party transactions that require shareholder approval.

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

Compensation of Executive Officers and Directors; Executive Compensation Policy

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

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

- the majority includes at least a majority of the shares voted by shareholders other than our controlling shareholders or shareholders who have a personal interest in the adoption of the compensation policies; or
- the total number of shares held by non-controlling shareholders and disinterested shareholders that voted against the adoption of the compensation policies, does not exceed 2% of the aggregate voting rights of our company.

In accordance with the Israeli Companies Law, our policy was readopted in June 2016 by the compensation committee, the board of directors and our shareholders.

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

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

Indemnification and insurance of directors and officers; limitations on liability

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

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

- Monetary liability imposed on the office holder in favor of a third party in a judgment, including a settlement or an arbitral award confirmed by a court.
- Reasonable legal costs, including attorneys' fees, expended by an office holder as a result of an investigation or proceeding instituted against the office holder by a competent authority, provided that such investigation or proceeding concludes without the filing of an indictment against the office holder, and either:
 - no financial liability was imposed on the office holder in lieu of criminal proceedings, or
 - financial liability was imposed on the office holder in lieu of criminal proceedings, but the alleged criminal offense does not require proof of criminal intent.
- Reasonable legal costs, including attorneys' fees, expended by the office holder or for which the office holder is charged by a court:
 - in an action brought against the office holder by us, on our behalf or on behalf of a third party,
 - in a criminal action in which the office holder is found innocent, or
 - in a criminal action in which the office holder is convicted, but in which proof of criminal intent is not required.

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

A company may obtain insurance for an office holder against liabilities incurred in his or her capacity as an office holder. These liabilities include a breach of duty of care to the company or a third party including a breach arising out of negligent conduct of the office holder, a breach of duty of loyalty and any monetary liability imposed on the office holder in favor of a third party. A company may also exculpate an office holder from a breach of duty of care in advance of that breach. Our articles of association provide for exculpation both in advance or retroactively, to the extent permitted under Israeli law. A company may not exculpate an office holder from a breach of duty of loyalty towards the company or from a breach of duty of care concerning dividend distribution or a purchase of the company's shares by the company or other entities controlled by the company.

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

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

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

Charitable Contributions

Our articles of association authorize the company to contribute reasonable amounts to worthy causes. In accordance with our charitable contribution policy, we contribute from time to time to various worthy causes.

During 2018, the list of entities to which we contributed included the Tel Aviv University, Youth University of Tel Aviv University and the Yeholot Association. Gil Shwed, our founder, Chief Executive Officer and Director, is a Governor of the Board of Governors of Tel Aviv University, the Chairman of the Board of Trustees of the Youth University of Tel Aviv University, the founder of Tel-Aviv University's Check Point Institute for Information Technology and the Chairman of the Board of Directors of Yeholot Association Founded by the Rashi Foundation whose charter is, among other things, to reduce the dropout rates in high schools.

Borrowing power: amendment of rights of ordinary shares

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

Availability of Annual Report on Form 20-F

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

Material Contracts

None.

Israeli Taxation, Foreign Exchange Regulation and Investment Programs

The following is a summary of the principal Israeli tax laws applicable to us, the Israeli Government programs from which we benefit, and Israeli foreign exchange regulations. This section also contains a discussion of material Israeli tax consequences to our shareholders who are not residents or citizens of Israel. This summary does not discuss all aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances, or to some types of investors subject to special treatment under Israeli law. Examples of investors subject to special treatment under Israeli law include residents of Israel, traders in securities, or persons who own, directly or indirectly, 10% or more of our outstanding voting capital, all of whom are subject

to special tax regimes not covered in this discussion. Some parts of this discussion are based on new tax legislation that has not been subject to judicial or administrative interpretation. The discussion should not be construed as legal or professional tax advice and does not cover all possible tax consequences.

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

General corporate tax structure in Israel

Taxable income of Israeli companies was subject to tax at the rate of 25% in 2016, 24% in 2017 and at the rate of 23% in 2018 and thereafter.

However, as discussed below, the rate is effectively reduced for income derived from our Technological preferred enterprise.

Law for the Encouragement of Capital Investments, 1959 (“Investment Law”)

We elected to apply the Preferred Enterprise regime under the Law for the Encouragement of Capital Investment (the “Investment Law”). Under the Preferred Enterprise regime, our entire preferred income is subject to tax rates as follows: 2013—12.5% and 2014 and thereafter—16%. The election is irrevocable.

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

On January 4, 2016 the Israeli Government legislated a reduction in corporate income tax rates from 26.5% to 25.0%, effective in 2016. On December 29, 2016, the Israeli Government legislated a reduction in corporate income tax rates from 25.0% to 24.0% in 2017 and to 23.0% in 2018 and thereafter.

Among other changes, the new Law includes, Amendment 73 to the Investment Law (“Amendment 73”). Amendment 73 prescribes special tax tracks for technological enterprises. One of the tracks is for Technological preferred enterprise—an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological preferred enterprise, as defined in the Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property. The special tax tracks under Amendment 73 are subject to rules issued by the Minister of Finance. On May 1, 2017, the Israeli Finance Minister signed tax regulations implementing the Organisation for Economic Co-operation and Development’s (OECD’s) “nexus approach,” a base erosion and profit shifting (BEPS) requirement for intellectual property (IP) preferential tax regimes. The proposed regulations are subject to approval by the Parliament’s Finance Committee. On May 16, 2017 the Knesset Finance Committee approved the regulations effective as of January 1, 2017.

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

To prepare our consolidated financial statements, we estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual tax exposure together with assessing temporary differences resulting from the differing treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet.

Prior to 2012, most of our income was exempt from tax or subject to reduced tax rates under the Investment Law. Upon distribution of exempt income, the distributing company will be subject to corporate reduced tax rates ordinarily applicable to such income under the Investment Law.

Reduced income under the Investment Law including the Preferred Enterprise/Technological preferred enterprise Regime will be freely distributable as dividends, subject to a 15%/20% withholding tax (or lower, under an applicable tax treaty). However, upon the distribution of a dividend from Preferred/ Technological preferred Income to an Israeli company, no withholding tax will be remitted.

Our tax assessments through 2015 tax year are considered final.

U.S. Tax Cuts and Jobs Act

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the “Act”), which among other provisions, reduced the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018. See Item 3.D. “Key Information – Risk factors – Risks relating to our business and our market – We are the defendants in various lawsuits and have been subject to tax disputes and governmental proceedings, etc.”

At December 31, 2017, we re-measured certain of its U.S. deferred tax assets and liabilities, based on the new rates at which they are expected to reverse in the future.

The Tax Act, among other things (i) lowered the statutory corporate income tax rate (the federal tax rate) from 35% to 21%; (ii) limits the tax deduction for interest expense to 30% of adjusted taxable income; (iii) implemented a “base erosion anti-abuse tax”; (iv) repealed the alternative minimum tax, or AMT, for corporations; (v) changed a taxpayer’s ability to either utilize or refund the AMT credits previously generated; (vi) changed the attribution rules relating to shareholders of certain “controlled foreign corporations”; (vii) limits the deduction for net operating losses carried forward from taxable years beginning after December 31, 2017 to 80% of current year taxable income and eliminates net operating loss carrybacks; (viii) allows immediate deductions for certain investments rather than deductions for depreciation over time; and (ix) limits various business deductions and credits. The overall impact of the Tax Act is uncertain, and our business, results of operations and financial condition could be adversely affected.

Foreign Exchange Regulations

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

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

Equity Based Compensation

The Israeli tax legislation enables a company to grant options/shares through one of three tax tracks:

(a) the income tax track through a trustee pursuant to which the employee pays income tax rate (according to the marginal tax rate of the employee, up to 48% tax in 2016 and 47% in 2017 and 2018, plus payments to the National Insurance Institute and health tax on the profit gained upon the earlier to occur of the transfer of the options/shares or the underlying shares from the trustee to the employee or the sale of the options/shares or the underlying shares by the trustee, and the company may recognize expenses pertaining to the options/shares for tax purposes. The shares/options (or upon their exercise, the underlying shares), must be held by a trustee for a period of 12 months commencing from the date of which the options/shares were issued and deposited with the trustee. As of January 1, 2013, an additional tax was imposed (“the surtax”). Accordingly, the marginal tax rate of an individual was increased by 2% if the employee’s taxable income in 2016 exceeded NIS810,720 and, as of January 1, 2017, the marginal tax rate of an individual is increased by 3% if the employee’s annual taxable income in 2017 exceeds NIS640,000 and by 3% if the employees’ annual taxable income in 2018 exceeds NIS641,880 (as updated from time to time). Hence, the employee’s marginal tax rate can reach 50%.

(b) the capital gains tax track through a trustee pursuant to which the employee pays capital gains tax at a rate of 25% on the capital profit portion and marginal tax rate (including payments to the National Insurance Institute and health tax) on the income portion (in general, the income portion is the profit derived from the difference between the average market value of the share 30 days before the allotment date and the exercise price of the option/share) upon the earlier to occur of the transfer of the options/shares or the underlying shares from the trustee to the employee or the sale of the options/shares or the underlying shares by the trustee. (On the capital profit, the employee is not required to make payments to the National Insurance Institute and health tax). In this track, on the capital profit, we may not recognize expenses pertaining to the options/shares for tax purposes but may do so on the income portion. The shares/options (or upon their exercise, the underlying shares), must be held by a trustee for a period of 24 months commencing from the date of which the options/shares were issued and deposited with the trustee (with respect to options/shares granted before January 1, 2006, a period of 30 months commencing from the date of which the options/shares were granted or a period of 24 months commencing from the date of which the options/shares were issued and deposited with the trustee). As of January 1, 2013, the surtax was imposed. Accordingly, the capital gain tax rate percentage increased by 2% if the employee’s taxable income in 2016 exceeded NIS810,720, and, as of January 1, 2017, the capital gain tax rate percentage is increased by 3% if the employee’s annual taxable income in 2018 exceeds NIS 641,880 (as updated from time to time). Hence, the employee’s marginal tax rate can reach 50%.

(c) the income tax track without a trustee pursuant to which the employee pays income tax rate (according to the marginal tax rate of the employee up to 47% in 2017 and 2018, plus payments to the National Insurance Institute and health tax on the profit at the allotment date, and pays capital gains tax at a rate of 25% or 30% on the capital profit upon the sale of the underlying shares/shares, and we may not recognize expenses pertaining to the capital gain for tax purposes but may recognize expenses pertaining to the profit at the allotment date. As of January 1, 2013, the surtax is imposed. Accordingly, the marginal tax rate of an individual or the capital gain tax rate percentage, as applicable, increased by 2% if the employee's taxable income in 2016 exceeded NIS810,720, and, as of January 1, 2017, the marginal tax rate of an individual is increased by 3% if the employee's annual taxable income in 2018 exceeds NIS 641,880 (as updated from time to time). Hence, the employee's marginal tax rate can reach 50%.

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

We implement the capital gain track on RSUs, PSUs and stock options granted to our employees and directors and the income tax track without a trustee on our ESPP.

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

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

Controlling shareholders will be taxable under section 3(i) to the tax ordinance, according to which, the individual pays income tax rate (according to the marginal tax rate of the individual, up to 48% in 2016 and 47% in 2017 and 2018) on the profit upon the sale of the underlying shares/shares. As of January 1, 2013, the surtax is imposed. Accordingly, the marginal tax rate of an individual increased by 2% if the employee's taxable income in 2016 exceeded NIS810,720, and, as of January 1, 2017, the marginal tax rate of an individual is increased by 3% if the employee's annual taxable income in 2018 exceeds NIS 641,880 (as updated from time to time). Hence, the employee's marginal tax rate can reach 50%.

Taxation of Non-Israeli Subsidiaries

Non-Israeli subsidiaries are generally taxed based upon tax laws applicable in their countries of residence. In accordance with the provisions of Israeli-controlled foreign corporation rules, certain income of a non-Israeli subsidiary, if the subsidiary's primary source of income is passive income (such as interest, dividends, royalties, rental income or income from capital gains), which are subject to tax at a rate which does not exceed 15% in the foreign corporation's jurisdictions may be deemed distributed as a dividend to the Israeli parent company and consequently is subject to Israeli taxation. This tax regime will not apply where the subsidiary's dividend income is derived from taxable profits that were subject to tax exceeding 15%. An Israeli company that is subject to Israeli taxes on such deemed dividend income of its non-Israeli subsidiaries may generally receive a credit for non-Israeli income taxes paid by the subsidiary in its country of residence.

Taxation of Non-Israeli Shareholders on Receipt of Dividends

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

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

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

Capital Gains Taxes Applicable to Non-Israeli Shareholders

According to Israeli domestic tax law, capital gains from the sale of our ordinary shares by non-Israeli shareholders (including United States residents) are exempt from Israeli taxation under the Israeli domestic tax law, provided that the capital gain is not derived from a permanent establishment in Israel.

United States Federal Income Tax Considerations

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

- A citizen or resident (as defined for U.S. federal income tax purposes) of the United States;
- A corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any of its states;
- An estate, if the estates income is subject to U.S. federal income taxation; or
- A trust, if a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons (e.g., a U.S. citizen, resident, or corporation) have the authority to control all of its substantial decisions or the trust has a valid election in effect under U.S. Treasury Regulations to be treated as a “United States person”.

We refer to any of the above as a “U.S. Shareholder”. If a partnership owns the ordinary shares, the U.S. federal income tax consequences relating to an investment in the ordinary shares will depend in part upon the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor regarding the U.S. federal income tax considerations of owning and disposing of the ordinary shares in its particular circumstances.

This discussion is based on the provisions of the Internal Revenue Code of 1986, as amended, referred to as the “Code”, U.S. Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as in effect as of the date of this Annual Report. This discussion generally considers only U.S. Shareholders who will hold the ordinary shares as capital assets.

This summary discussion does not address tax considerations applicable to a U.S. Shareholder that may be subject to special tax rules including, without limitation, the following:

- Aspects of U.S. federal income taxation relevant to U.S. Shareholders by reason of their particular circumstances (including potential application of the alternative minimum tax).
- U.S. Shareholders subject to special treatment under the U.S. federal income tax laws, such as banks, financial institutions, insurance companies, broker-dealers or traders in securities.
- U.S. Shareholders that are tax-exempt organizations and pension funds.
- U.S. Shareholders that are former citizens or long-term residents of the United States.
- U.S. Shareholders that are partnerships or entities treated as partnerships or other pass-through entities and persons who own the ordinary shares through such entities, and non-U.S. individuals or entities.
- U.S. Shareholders that are real estate investment trusts or regulated investment companies.
- U.S. Shareholders who own 10% or more of our outstanding voting shares, either directly or by attribution.
- U.S. Shareholders who hold our ordinary shares as part of a hedging, straddle, integrated, or conversion transaction.
- U.S. Shareholders who acquire their ordinary shares in a “compensatory transaction”.
- U.S. Shareholders whose “functional currency” for U.S. federal income tax purposes is not the U.S. dollar.
- Any aspect of U.S. estate, gift, state, or local tax law, or any non-U.S. tax law.

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

Dividends Paid on the Ordinary Shares

Subject to the discussion below under “Passive Foreign Investment Company Status,” a U.S. Shareholder, as defined above, will generally be required to include in gross income the amount of any distributions paid in respect of the ordinary shares to the extent that the distributions are paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. We do not expect to maintain calculations of our earnings and profits under United States federal income tax principles. Therefore, if you are a U.S. Shareholder you should expect that the entire amount of any distribution generally will be reported as dividend income to you. The amount of the distribution would include any Israeli taxes withheld as part of the distributions.

Non-corporate U.S. Shareholders may qualify for preferential rates of taxation with respect to dividends on our ordinary stock if the dividends are “qualified dividend income”. Qualified dividend income generally includes dividends paid by a U.S. corporation or a “qualified foreign corporation.” A non-U.S. corporation, such as ours, generally will be considered to be a qualified foreign corporation if (i) our shares are readily tradable on an established securities market in the United States, or (ii) we are eligible for the benefits of a comprehensive U.S. income tax treaty determined to be satisfactory to the U.S. Department of the Treasury for purposes of this provision and which includes an exchange of information provision. The U.S. Department of the Treasury and the Internal Revenue Service have determined that the United States-Israel tax treaty is satisfactory for this purpose. In addition, the U.S. Department of the Treasury and the Internal Revenue Service have determined that ordinary shares are considered readily tradable on an established securities market if they are listed on an established securities market in the United States, such as the NASDAQ Global Select Market. The information returns, reporting the dividends paid to U.S. Shareholders, will identify the amount of dividends eligible for the reduced rates.

Limitation of Benefits rule may apply from the income tax treaty.

Any distributions in excess of earnings and profits will be treated first as non-taxable return of capital, reducing a U.S. Shareholder’s tax basis in the ordinary shares to the extent of the distributions, and then as capital gain from a sale or exchange of the ordinary shares. Any capital gain so realized will generally be taxable to the U.S. Shareholder as either long-term or short-term capital gain depending upon whether the U.S. Shareholder has held the ordinary shares for more than one year as of the time such distribution is received. Our dividends will generally not qualify for the dividends received deduction available to corporations. Any cash distribution paid in Israeli Shekels will equal the U.S. dollar value of the distribution, calculated based on the spot exchange rate in effect on the date of the distribution, regardless of whether the foreign currency is converted into U.S. dollars at that time. Any foreign currency gain or loss a U.S. Shareholder realizes on a subsequent conversion of foreign currency into U.S. dollars will be U.S. source ordinary income or loss. A 10% or more U.S. shareholder may have additional concerns not noted here.

Credit for Israeli Taxes

Subject to certain conditions and limitations, a U.S. Shareholder of an Israeli corporation maybe eligible for a foreign tax credit to offset a portion of the U.S. tax liability assessed on Israeli sourced income when repatriated to the U.S. The U.S. Internal Revenue Code provides a foreign tax credit limitation on the amount of foreign tax credits that maybe used during each taxable year. This limitation requires detailed knowledge of the mechanics of the rules proscribed in the code and support regulations. Under no circumstances, can foreign tax credits be used to offset a U.S. tax assessment on U.S. source income, and the credit may not exceed the U.S. tax assessment on foreign income.

A U.S. Shareholder may elect to claim a foreign tax credit on its U.S. federal income tax return for foreign taxes paid or accrued, alternatively, the U.S. Shareholder may elect to claim a deduction for Israeli income tax withheld or paid, but only if the shareholder elects to do so for all foreign income taxes in that year. Special rules for determining a U.S. Shareholder’s foreign tax credit limitation apply in the case of qualified dividend income. Rules similar to those concerning adjustments to the foreign tax credit limitation to reflect any capital gain rate differential also apply to any qualified dividend income. The rules relating to foreign tax credits are complex and each U.S. Shareholder should consult his, her, or its own tax advisor to determine whether and if the specific shareholder would be entitled to this credit.

Sale, Exchange, or Other Disposition of the Ordinary Shares

The sale or exchange of ordinary shares may result in the recognition of capital gain or loss for the U.S. Shareholder. The amount of gain or loss is the difference between the U.S. dollar value of the amount realized on the sale or exchange and the tax basis in the ordinary shares. If a U.S. Shareholder's holding period for the ordinary shares exceeds one year at the time of the disposition, the amount of the shareholder's gain or loss generally will be long-term capital gain or loss. Long-term capital gains of non-corporate U.S. Shareholders realized upon a sale or exchange of ordinary shares generally will be eligible for a preferential rate of taxation. The deductibility of capital losses may be subject to limitation. Gain or loss recognized by a U.S. Shareholder on a sale or exchange of ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes.

Additional Tax on Investment Income

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

Passive Foreign Investment Company Status

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

- 75% or more of our gross income in the taxable year is passive income, or
- 50% or more of the average percentage of our assets held during the taxable year produce or are held for the production of passive income.

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

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

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

Information Reporting and Back up Withholding

Dividend payments and proceeds from the sale or disposal of ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. federal withholding tax. However, withholding taxes may not apply to a holder, in the event they furnish a valid taxpayer identification number or certificate of foreign status and makes any other required certification, or who is otherwise exempt from withholding (for example, a corporation). Amounts withheld as withholding taxes may be credited against a U.S. Shareholder's federal income tax liability.

Other Reporting Requirements

Certain U.S. Shareholders who are individuals are required to report information relating to an interest in our ordinary shares, subject to certain exceptions (including an exception for shares held in accounts maintained by U.S. financial institutions) by filing IRS Form 8938 (Statement of Specified Foreign Financial Assets) with their federal income tax return. U.S. Shareholders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our ordinary shares.

Documents on Display

This report and other information filed or to be filed by us with the Securities and Exchange may be accessed at the Securities and Exchange Commission's Web site, www.sec.gov. We intend to post our Annual Report on our website (www.checkpoint.com) promptly following the filing of our Annual Report with the Securities and Exchange Commission.

Additionally, documents referred to in this Annual Report may be inspected at our principal executive offices located at 5 Shlomo Kaplan Street, Tel Aviv 6789159, Israel.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

As of December 31, 2018, securities representing 4.8% of our investments portfolios are rated as AAA; securities representing 54.7% of the portfolio are rated as AA; securities representing 39.7% of the portfolio are rated as A.

The table below provides information regarding our investments in cash, cash equivalents, short-term bank deposits and marketable securities, as of December 31, 2018:

| | Maturity | | | | | Total Amortized cost | Fair Value at Dec. 31, 2018 |
|---|----------------|-------------|-----------|-----------|----------|----------------------|-----------------------------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | | |
| | (in thousands) | | | | | | |
| Government and corporate debentures—fixed interest rates | \$1,203,258 | \$887,342 | \$580,363 | \$307,717 | \$44,119 | \$3,022,799 | \$ 2,997,250 |
| U.S. Agencies | \$231,699 | \$232,232 | \$105,747 | \$41,212 | \$4,001 | \$614,891 | \$ 609,881 |
| Government and corporate debentures—floating interest rates | \$13,902 | \$34,620 | \$39,292 | \$31,961 | \$4,004 | \$123,779 | \$ 122,856 |
| Short-term deposits, money market instruments & cash | \$309,137 | - | - | - | - | \$309,137 | \$ 309,137 |
| Total | \$1,757,996 | \$1,154,194 | \$725,402 | \$380,890 | \$52,124 | \$4,070,606 | \$4,039,124 |

Foreign Currency Risk

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

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

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

We entered into forward contracts to hedge the exchange impacts on assets and liabilities denominated in several foreign currencies. As of December 31, 2018, we had outstanding forward contracts that did not meet the requirement for hedge accounting, in the amount of \$337 million. These contracts were for a period of up to twelve months. The net losses recognized in "financial income, net" during 2018 were \$33.3 million.

During 2018, we entered into forward contracts to hedge against the risk of overall changes in exchange rates on future cash flow from payments of payroll and related expenses denominated in Israeli Shekel and in Euro. These contracts met the requirement for cash flow hedge accounting and as such gains in the amount of (\$4.6) million were recognized when the related expense were incurred and classified in operating expenses during 2018. As of December 31, 2018, we had outstanding forward contracts in the notional amount of \$112 million and their fair value amounted to (\$0.8) million.

Our operating expenses may be affected by fluctuations in the value of the U.S dollar as it relates to foreign currencies; with Israel and Europe having the greatest potential impact. In managing our foreign exchange risk we periodically enter into foreign exchange hedging contracts. Our goal is to mitigate the potential exposure with these contracts. By way of example, a 10% weakening in the value of the dollar relative to the currencies in which our operating expenses are denominated in 2018 would result in an increase in operating expenses of \$46 million for the year ended December 31, 2018. This calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.

Interest Rate Risk

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

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

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

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

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

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

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2018, we performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2018, to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information related to us and our consolidated subsidiaries is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

Management's report on internal control over financial reporting

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

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

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and
- 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, 2018. In conducting its assessment of internal control over financial reporting, management used the framework and criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (the 2013 Framework) as of the end of the period covered by this report. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

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

Changes in Internal Control over Financial Reporting

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

ITEM 16. Reserved

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

Our board of directors adopted a Code of Ethics that applies to all of our employees, directors and officers, including the Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller and other individuals who perform similar functions. The Code of Ethics is updated from time to time and was last updated in 2014. You can obtain a copy of our Code of Ethics without charge, by sending a written request to our investor relations department at Check Point Software Technologies, Inc., Attn: Investor Relations, 959 Skyway Road, Suite 300, San Carlos, California 94070 U.S.A.; Tel: 650-628-2000; Email: ir@us.checkpoint.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees and Services

The following table sets forth the aggregate fees for the audit and other services provided by Kost, Forer, Gabbay & Kasierer, a member of EY Global and other members of EY Global during the years ended December 31, 2018 and 2017 (in thousands):

| | Year Ended December 31, 2018 | | Year Ended December 31, 2017 | |
|------------------------|------------------------------------|------------|------------------------------|------------|
| | Amount | Percentage | Amount | Percentage |
| | (in thousands, except percentages) | | | |
| Audit fees (1) | \$ 746 | 75% | \$ 742 | 83% |
| Audit related fees (2) | 5 | 1% | 19 | 2% |
| Tax fees (3) | 244 | 24% | 116 | 13% |

| | Year Ended December 31, 2018 | | Year Ended December 31, 2017 | |
|--------------------|------------------------------------|------------|------------------------------|------------|
| | Amount | Percentage | Amount | Percentage |
| | (in thousands, except percentages) | | | |
| All other fees (4) | - | 0% | 18 | 2% |
| Total | \$ 995 | 100% | \$ 895 | 100% |

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

Audit committee's pre-approval policies and procedures

Our audit committee chooses and engages our independent auditors to audit our financial statements, with the approval of our shareholders as required by Israeli law. Our audit committee adopted a policy requiring our management to obtain the audit committee's approval before engaging our independent auditors to provide any audit or permitted non-audit services to us or our subsidiaries. This policy, which is designed to assure that such engagements do not impair the independence of our auditors, requires pre-approval from the audit committee on an annual basis for the various audit and non-audit services that may be performed by our auditors. In addition, the audit committee limited the aggregate amount of fees our auditors may have received during 2018 and 2017, and will receive during 2019 for non-audit services in certain categories.

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

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

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

As of December 31, 2018, we repurchased ordinary shares for an aggregate amount of \$7,910 million. On July 25, 2018, we announced an extension and increase to the share repurchase program. Under the updated plan, we may repurchase ordinary shares for up to an additional \$2 billion, at the rate of up to \$325 million a quarter. Under the repurchase programs, share purchases may be made from time to time depending on market conditions, share price, trading volume and other factors and will be funded from available working capital.

During 2018, we used \$1,104 million to repurchase approximately 10.3 million ordinary shares, which were repurchased under our repurchase program. The table below provides detailed information.

| <u>Period</u> | <u>(a) Total Number of Ordinary Shares Purchased</u> | <u>(b) Average Price per Ordinary Share</u> | <u>(c) Total Number of Ordinary Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>(d) Approximate Dollar Amount Available for Repurchase under the Plans or Programs</u> |
|--------------------------|--|---|--|---|
| January 1 – January 31 | 720,355 | \$104 | 720,355 | \$689,058,366 |
| February 1 – February 28 | 1,124,386 | \$102 | 1,124,386 | \$574,637,891 |
| March 1 – March 31 | 575,900 | \$104 | 575,900 | \$514,638,711 |
| April 1 – April 30 | 1,090,652 | \$101 | 1,090,652 | \$404,966,627 |
| May 1 – May 31 | 820,445 | \$97 | 820,445 | \$325,089,136 |
| June 1 – June 30 | 604,682 | \$99 | 604,682 | \$265,089,230 |

| <u>Period</u> | <u>(a) Total Number of Ordinary Shares Purchased</u> | <u>(b) Average Price per Ordinary Share</u> | <u>(c) Total Number of Ordinary Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>(d) Approximate Dollar Amount Available for Repurchase under the Plans or Programs</u> |
|----------------------------|--|---|--|---|
| July 1 – July 31 | 735,984 | \$108 | 735,984 | \$2,181,044,311 |
| August 1 – August 31 | 1,359,110 | \$114 | 1,359,110 | \$2,025,430,199 |
| September 1 – September 30 | 553,635 | \$118 | 553,635 | \$1,960,430,267 |
| October 1 – October 31 | 1,085,656 | \$112 | 1,085,656 | \$1,838,687,975 |
| November 1 – November 30 | 1,022,288 | \$111 | 1,022,288 | \$1,725,504,105 |
| December 1 – December 31 | 647,907 | \$107 | 647,907 | \$1,655,504,154 |
| Total | 10,341,000 | \$106 | 10,341,000 | |

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

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

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

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

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

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

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Check Point has responded to Item 18.

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 to F-50 below.

ITEM 19. EXHIBITS

- 1 [Articles of Association of Check Point Software Technologies Ltd. \(1\)](#)
- 4.1 [Form of Director Insurance, Indemnification and Exculpation Agreement between Check Point Software Technologies Ltd. and its directors \(2\)](#)
- 4.2 [Check Point Software Technologies Ltd. 2005 Israel Equity Incentive Plan \(3\)](#)
- 4.3 [Check Point Software Technologies Ltd. 2005 United States Equity Incentive Plan \(4\)](#)
- 4.4 [Check Point Software Technologies Ltd. Employee Stock Purchase Plan, as Amended and Restated \(5\)](#)
- 4.5 [Check Point Software Technologies Ltd. Employee Stock Purchase Plan \(Non-U.S. Employees\) \(6\)](#)
- 4.6 [A translation of an agreement between Tzlil Ad Ltd. and Check Point Software Technologies Ltd., for the purchase of the leasing rights of a building in Tel Aviv, Israel, dated as of March 19, 2006 \(7\)](#)
- 4.7 [Amendment to Check Point Software Technologies Ltd. 2005 Israel Equity Incentive Plan, dated January 22, 2014 \(8\)](#)
- 4.8 [Amendment to Check Point Software Technologies Ltd. 2005 United States Equity Incentive Plan, dated January 22, 2014 \(9\)](#)
- 4.9 [Amendment No. 2 to Check Point Software Technologies Ltd. 2005 Israel Equity Incentive Plan, dated July 18, 2018](#)
- 4.10 [Amendment No. 2 to Check Point Software Technologies Ltd. 2005 United States Equity Incentive Plan, dated July 18, 2018](#)
- 4.11 [Dome9 Security Ltd. 2011 Share Option Plan and the 2016 Equity Incentive Subplan \(10\)](#)
- 4.12 [Check Point Software Technologies Ltd. Executive Compensation Plan \(11\)](#)
- 8 [List of subsidiaries \(12\)](#)
- 12.1 [Certification of the Chief Executive Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002](#)
- 12.2 [Certification of the Chief Financial Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002](#)
- 13.1 [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350](#)
- 13.2 [Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350](#)
- 15 [Consent of Kost, Forer, Gabbay & Kasierer, a Member of EY Global](#)
- 101 XBRL (Extensible Business Reporting Language) The following materials from Check Point Software Technologies Ltd.'s Annual Report on Form 20-F for the fiscal year-ended December 31, 2018, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Shareholders' Equity/(Deficit) and Comprehensive Income/(Loss) (iv) Consolidated Statements of Cash Flows, (v) Notes to the Consolidated Financial Statements, and (vi) Schedule II — Valuation and Qualifying Accounts and Reserves.

- (1) Incorporated by reference to Exhibit 1 of Check Point's Annual Report on Form 20-F for the year ended December 31, 2005.
- (2) Incorporated by reference to Exhibit 4.1 of Check Point's Annual Report on Form 20-F for the year ended December 31, 2005.
- (3) Incorporated by reference to Exhibit 4.7 of Check Point's Annual Report on Form 20-F for the year ended December 31, 2005.
- (4) Incorporated by reference to Exhibit 4.8 of Check Point's Annual Report on Form 20-F for the year ended December 31, 2005.
- (5) Incorporated by reference to Exhibit 4.1 of Check Point's Registration Statement on Form S-8 (No. 333-207355) filed with the Securities and Exchange Commission on October 8, 2015.
- (6) Incorporated by reference to Exhibit 4.5 of Check Point's Annual Report on Form 20-F for the year ended December 31, 2017.

- (7) Incorporated by reference to Exhibit 4.11 of Check Point's Annual Report on Form 20-F for the year ended December 31, 2006.
- (8) Incorporated by reference to Exhibit 4.7 of Check Point's Annual Report on Form 20-F for the year ended December 31, 2013.
- (9) Incorporated by reference to Exhibit 4.8 of Check Point's Annual Report on Form 20-F for the year ended December 31, 2013.
- (10) Incorporated by reference to Exhibit 4.2 of Check Point's Registration Statement on Form S-8 (No. 333-228075) filed with the Securities and Exchange Commission on October 31 2018.
- (11) Incorporated by reference to Annex A of Check Point's Report on Form 6-K filed with the Securities and Exchange Commission on May 5, 2016.
- (12) Incorporated by reference to "Item 4 – Information on Check Point – Organizational Structure" in this Annual Report on Form 20-F.

CHECK POINT SOFTWARE TECHNOLOGIES LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Check Point Software Technologies Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Check Point Software Technologies Ltd. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 23, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

KOST FORER GABBAY & KASIERER
A Member of EY Global

We have served as the Company's auditor since 1994.

Tel-Aviv, Israel
April 23, 2019



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Check Point Software Technologies Ltd.

Opinion on Internal Control over Financial Reporting

We have audited Check Point Software Technologies Ltd. and subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Check Point Software Technologies Ltd. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated April 23, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.



Definition and Limitation of Internal Control Over Financial Reporting

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.

KOST FORER GABBAY & KASIERER
A Member of EY Global

Tel-Aviv, Israel
April 23, 2019

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

| | December 31, | |
|---|---------------------|---------------------|
| | 2018 | 2017 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 303,687 | \$ 245,014 |
| Short-term bank deposits | 5,450 | 450 |
| Marketable securities | 1,442,642 | 1,165,266 |
| Trade receivables, net | 495,390 | 472,223 |
| Prepaid expenses and other current assets | 74,738 | 81,478 |
| Total current assets | 2,321,907 | 1,964,431 |
| LONG-TERM ASSETS: | | |
| Marketable securities | 2,287,345 | 2,437,315 |
| Property and equipment, net | 78,514 | 77,767 |
| Deferred tax asset, net | 84,688 | 119,431 |
| Other intangible assets, net | 40,967 | 18,395 |
| Goodwill | 950,572 | 812,012 |
| Other assets | 64,220 | 33,575 |
| Total long-term assets | 3,506,306 | 3,498,495 |
| Total assets | \$ 5,828,213 | \$ 5,462,926 |

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

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS (CONT'D)

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

| | December 31, | |
|---|---------------------|---------------------|
| | 2018 | 2017 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade payables | \$ 20,763 | \$ 12,222 |
| Employees and payroll accruals | 156,958 | 139,848 |
| Deferred revenues | 980,175 | 878,287 |
| Accrued expenses and other current liabilities | 173,974 | 176,568 |
| Total current liabilities | 1,331,870 | 1,206,925 |
| LONG-TERM LIABILITIES: | | |
| Deferred revenues | 357,779 | 308,286 |
| Income tax accrual | 356,750 | 337,453 |
| Accrued severance pay | 9,425 | 10,139 |
| Total long-term liabilities | 723,954 | 655,878 |
| Total liabilities | 2,055,824 | 1,862,803 |
| SHAREHOLDERS' EQUITY: | | |
| Ordinary shares, NIS 0.01 par value, 500,000,000 shares authorized at December 31, 2018 and 2017; 261,223,970 shares issued at December 31, 2018 and 2017; 155,380,498 and 159,034,688 shares outstanding at December 31, 2018 and 2017, respectively | 774 | 774 |
| Additional paid-in capital | 1,597,800 | 1,305,130 |
| Treasury shares at cost 105,843,472 and 102,189,282 ordinary shares at December 31, 2018 and 2017, respectively | (6,844,702) | (5,893,182) |
| Accumulated other comprehensive loss | (24,497) | (15,634) |
| Retained earnings | 9,043,014 | 8,203,035 |
| Total shareholders' equity | 3,772,389 | 3,600,123 |
| Total liabilities and shareholders' equity | \$ 5,828,213 | \$ 5,462,926 |

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

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME

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

| | Year ended December 31, | | |
|---|----------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Revenues: | | | |
| Products and licenses | \$ 525,557 | \$ 559,026 | \$ 572,964 |
| Security subscriptions | 542,323 | 480,352 | 389,885 |
| Software updates and maintenance | 848,595 | 815,280 | 778,452 |
| Total revenues | 1,916,475 | 1,854,658 | 1,741,301 |
| Operating expenses: | | | |
| Cost of products and licenses *) | 91,949 | 104,210 | 105,967 |
| Cost of security subscriptions *) | 17,725 | 18,869 | 10,841 |
| Cost of software updates and maintenance *) | 88,894 | 87,700 | 83,011 |
| Amortization of technology | 2,811 | 2,184 | 2,184 |
| Total cost of revenues | 201,379 | 212,963 | 202,003 |
| Research and development | 211,523 | 192,386 | 178,372 |
| Selling and marketing | 500,854 | 433,427 | 420,526 |
| General and administrative | 88,945 | 91,965 | 88,130 |
| Total operating expenses | 1,002,701 | 930,741 | 889,031 |
| Operating income | 913,774 | 923,917 | 852,270 |
| Financial income, net | 65,066 | 47,029 | 44,402 |
| Income before taxes on income | 978,840 | 970,946 | 896,672 |
| Taxes on income | 157,535 | 168,023 | 171,825 |
| Net income | <u>\$ 821,305</u> | <u>\$ 802,923</u> | <u>\$ 724,847</u> |
| Basic earnings per ordinary share | <u>\$ 5.24</u> | <u>\$ 4.93</u> | <u>\$ 4.26</u> |
| Diluted earnings per ordinary share | <u>\$ 5.15</u> | <u>\$ 4.82</u> | <u>\$ 4.18</u> |

*) 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 SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

| | Year ended December 31, | | |
|---|----------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Net income | \$ 821,305 | \$ 802,923 | \$ 724,847 |
| Other comprehensive loss | | | |
| Change in unrealized losses on marketable securities: | | | |
| Unrealized losses arising during the period, net of tax benefit of \$2,783, \$2,056 and \$1,075, respectively | (9,757) | (6,537) | (2,793) |
| Losses (gains) reclassified into earnings, net of tax expense (benefit) of \$(416), \$(41) and \$728, respectively | 1,387 | 135 | (2,265) |
| | <u>(8,370)</u> | <u>(6,402)</u> | <u>(5,058)</u> |
| Change in unrealized gains (losses) on cash flow hedges: | | | |
| Unrealized gains (losses) arising during the period, net of tax expenses (benefit) of \$(624), \$561 and \$30, respectively | (4,574) | 4,114 | 159 |
| Losses (gains) reclassified into earnings, net of tax expenses (benefit) of \$(556), \$559 and \$19, respectively | 4,081 | (4,096) | (101) |
| | <u>(493)</u> | <u>18</u> | <u>58</u> |
| Other comprehensive loss, net of tax | <u>(8,863)</u> | <u>(6,384)</u> | <u>(5,000)</u> |
| Comprehensive income | <u>\$ 812,442</u> | <u>\$ 796,539</u> | <u>\$ 719,847</u> |

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

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.
AND 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 shareholders' equity |
|--|------------------|----------------------------------|-------------------------------|--|----------------------|----------------------------------|
| Balance as of January 1, 2016 | \$ 774 | \$ 987,331 | \$(4,043,271) | \$ (4,250) | \$ 6,591,282 | \$ 3,531,866 |
| Excess Tax benefit from stock-based compensation | - | 17,380 | - | - | - | 17,380 |
| Issuance of treasury shares under stock purchase plans, upon exercise of options and vesting of restricted stock units (3,372,115 ordinary shares, net of 37,310 shares for taxes) | - | 54,200 | 74,996 | - | - | 129,196 |
| Treasury shares at cost (12,298,434 ordinary shares) | - | - | (987,897) | - | - | (987,897) |
| Stock-based compensation | - | 80,731 | - | - | - | 80,731 |
| Other comprehensive loss, net of tax | - | - | - | (5,000) | - | (5,000) |
| Net income | - | - | - | - | 724,847 | 724,847 |
| Balance as of December 31, 2016 | 774 | 1,139,642 | (4,956,172) | (9,250) | 7,316,129 | 3,491,123 |
| Cumulative-effect adjustment from adoption of ASU 2016-09 | - | 2,767 | - | - | 83,983 | 86,750 |
| Issuance of treasury shares under stock purchase plans, upon exercise of options and vesting of restricted stock units (2,595,563 ordinary shares, net of 50,644 shares for taxes) | - | 69,206 | 58,312 | - | - | 127,518 |
| Treasury shares at cost (9,535,992 ordinary shares) | - | - | (995,322) | - | - | (995,322) |
| Stock-based compensation | - | 93,515 | - | - | - | 93,515 |
| Other comprehensive loss, net of tax | - | - | - | (6,384) | - | (6,384) |
| Net income | - | - | - | - | 802,923 | 802,923 |
| Balance as of December 31, 2017 | 774 | 1,305,130 | (5,893,182) | (15,634) | 8,203,035 | 3,600,123 |
| Cumulative-effect adjustment from adoption of ASC 606 | - | - | - | - | 19,116 | 19,116 |
| Cumulative-effect adjustment from adoption of ASU 2016-16 | - | - | - | - | (442) | (442) |
| Issuance of treasury shares under stock purchase plans, upon exercise of options and vesting of restricted stock units (6,686,810 ordinary shares, net of 45,592 shares for taxes) | - | 201,156 | 152,345 | - | - | 353,501 |
| Treasury shares at cost (10,341,000 ordinary shares) | - | - | (1,103,865) | - | - | (1,103,865) |
| Stock-based compensation | - | 89,327 | - | - | - | 89,327 |
| Other comprehensive loss, net of tax | - | - | - | (8,863) | - | (8,863) |
| Fair value of awards attributable to pre-acquisition services | - | 2,187 | - | - | - | 2,187 |
| Net income | - | - | - | - | 821,305 | 821,305 |
| Balance as of December 31, 2018 | \$ 774 | \$ 1,597,800 | \$(6,844,702) | \$ (24,497) | \$ 9,043,014 | \$ 3,772,389 |

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

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Year ended December 31, | | |
|--|------------------------------------|---------------------|---------------------|
| | 2018 | 2017 | 2016 |
| <u>Cash flows from operating activities:</u> | | | |
| Net income | \$ 821,305 | \$ 802,923 | \$ 724,847 |
| Adjustments required to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation of property and equipment | 16,402 | 12,876 | 10,883 |
| Amortization of premium and accretion of discount on marketable securities, net | 13,560 | 20,012 | 23,388 |
| Realized loss (gain) on sale of marketable securities, net | 1,803 | 176 | (2,993) |
| Amortization of intangible assets | 4,386 | 3,760 | 3,853 |
| Stock-based compensation | 89,327 | 87,459 | 82,732 |
| Deferred income tax expense (benefit) | 16,263 | 64,630 | (32,594) |
| Excess tax benefit from stock-based compensation | - | - | (17,380) |
| Decrease (increase) in accrued severance pay, net | (168) | 711 | 147 |
| Decrease (increase) in trade receivables, net | (21,826) | 6,284 | (67,744) |
| Decrease in prepaid expenses and other current assets and other assets | 1,984 | 5,615 | 11,234 |
| Increase (decrease) in trade payables | 6,636 | (7,795) | 2,184 |
| Increase (decrease) in employees and payroll accruals | 20,083 | (4,546) | 19,345 |
| Increase (decrease) in income tax accrual and accrued expenses and other current liabilities (*) | 28,357 | (3,486) | 31,565 |
| Increase in deferred revenues | 144,969 | 120,989 | 159,801 |
| Net cash provided by operating activities | <u>1,143,081</u> | <u>1,109,608</u> | <u>949,268</u> |
| <u>Cash flows from investing activities:</u> | | | |
| Proceeds from maturity of marketable securities | 1,464,384 | 1,363,698 | 1,525,929 |
| Proceeds from sale of marketable securities | 150,235 | 66,101 | 235,252 |
| Proceeds from short-term bank deposits | - | 106,609 | - |
| Investment in marketable securities | (1,767,549) | (1,686,445) | (1,746,931) |
| Investment in short-term bank deposits | (5,000) | - | (100,000) |
| Cash paid in conjunction with acquisition, net of acquired cash | (154,902) | - | - |
| Purchase of property and equipment | (17,149) | (28,784) | (24,050) |
| Net cash used in investing activities | <u>\$ (329,981)</u> | <u>\$ (178,821)</u> | <u>\$ (109,800)</u> |

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

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

U.S. dollars in thousands

| | Year ended December 31, | | |
|--|----------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| <u>Cash flows from financing activities:</u> | | | |
| Proceeds from issuance of treasury shares upon exercise of options | \$ 353,501 | \$ 127,518 | \$ 129,196 |
| Purchase of treasury shares at cost | (1,103,865) | (995,322) | (987,897) |
| Payments related to shares withheld for taxes (*) | (4,624) | (5,397) | (3,031) |
| Excess tax benefit from stock-based compensation | - | - | 17,380 |
| Net cash used in financing activities | <u>(754,988)</u> | <u>(873,201)</u> | <u>(844,352)</u> |
| Increase (decrease) in cash and cash equivalents | 58,112 | 57,586 | (4,884) |
| Cash and cash equivalents at the beginning of the year | <u>245,014</u> | <u>187,428</u> | <u>192,312</u> |
| Cash and cash equivalents at the end of the year | <u>\$ 303,687</u> | <u>\$ 245,014</u> | <u>\$ 187,428</u> |
| <u>Supplemental disclosure of cash flow information:</u> | | | |
| Cash paid during the year for taxes on income | <u>\$ 67,940</u> | <u>\$ 143,036</u> | <u>\$ 180,071</u> |
| <u>Non-cash investing activity</u> | | | |
| Fair value of awards attributable to pre-acquisition services | <u>\$ 2,187</u> | <u>\$ -</u> | <u>\$ -</u> |

(*) Payments related to shares withheld for taxes during the year ended December 31, 2016 were reclassified from operating activity to financing activity following ASU 2016-09 adoption.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

- a. Check Point Software Technologies Ltd., an Israeli corporation (“Check Point Ltd.”), and subsidiaries (collectively, the “Company” or “Check Point”), develop, market and support wide range of products and services for IT security, by offering a multilevel security architecture that defends enterprises’ cloud, network and mobile device held information.

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

- b. During 2018, 2017 and 2016, approximately 36%, 36% and 37% of the Company’s revenues were derived from two channel partners. Revenues derived from one channel partner in 2018, 2017 and 2016 were 17%, 18% and 19%, respectively, and revenues derived from the other channel partner in 2018, 2017 and 2016 were 18%, 18%, and 18%, respectively, of the Company’s revenues in such years. Trade receivable balances from these two channel partners aggregated to \$ 207,938 and \$ 189,236 as of December 31, 2018 and 2017, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in conformity with United States generally accepted accounting principles (“U.S. GAAP”).

- a. Use of estimates:

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

- b. Financial statements in United States dollars:

Most of the Company’s revenues and costs are denominated in United States dollar (“dollar”). 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Accordingly, non-dollar denominated transactions and balances have been re-measured into the functional currency in accordance with Accounting Standard Code (“ASC”) No. 830, “Foreign Currency Matters”. All transaction gains and losses from 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 subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.

d. Cash equivalents:

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

e. Short-term bank deposits:

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

f. Investments in marketable securities:

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

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

The Company classifies all of its marketable securities as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in accumulated other comprehensive income (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 sold.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company’s securities are reviewed for impairment in accordance with ASC 320-10-35. If such assets are considered to be impaired, the impairment charge is recognized in earnings when a decline in the fair value of its investments below the cost basis 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 with an unrealized loss that the Company intends to sell, or it is more likely than not that the Company will be required to sell before recovery of their amortized cost basis, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet these criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while declines in fair value related to other factors are recognized in other comprehensive income (loss).

g. Property and equipment, net:

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

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

h. Business combination:

The Company applies the provisions of ASC 805, “Business Combination” and allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to future expected cash flows from acquired technology and acquired trademarks and tradenames from a market participant perspective, useful lives and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Goodwill:

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

ASC No. 350, "Intangibles - Goodwill and other" ("ASC No. 350") requires goodwill to be tested for impairment at the reporting unit level at least annually or between annual tests in certain circumstances, and written down when impaired.

ASC No. 350 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required. If it does result in a more likely than not indication of impairment, the two-step impairment test is performed. Alternatively, ASC No. 350 permits an entity to bypass the qualitative assessment for any reporting unit and proceed directly to performing the first step of the goodwill impairment test.

The Company operates in one operating segment, and this segment comprises its only reporting unit. The Company performs the first step of the quantitative goodwill impairment test during the fourth quarter of each fiscal year, or more frequently if impairment indicators are present and compares the fair value of the reporting unit with its carrying value.

During the years 2018, 2017 and 2016, no impairment losses have been identified.

j. Other intangible assets, net:

Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives, which range from 8 to 20 years. These intangible assets consist of core technology, trademarks and trade names which are amortized over their estimated useful lives on a straight-line basis.

k. Impairment of long-lived assets including intangible assets subject to amortization:

The Company's long-lived assets are reviewed for impairment in accordance with ASC No. 360, "Property, Plant and Equipment," whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. During the years 2018, 2017 and 2016, no impairment indicators have been identified.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Manufacturing partner and supplier liabilities:

The Company purchases manufactured products from its original design manufacture (“ODM”). The Company generally does not own the manufactured products. ODM’s provide services of design, manufacture, orders fulfillment and support with a full turn-key solution to meet the Company’s detailed requirements. If the actual demand is significantly lower than forecast, the Company records a liability for its commitment in excess of the actual demand. As of December 31, 2018 and 2017, the Company has not accrued any significant liability in respect with this exposure.

m. Research and development costs:

Research and development costs are charged to the statements of income as incurred. ASC No. 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.

n. Revenue recognition:

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

The Company’s security subscriptions provide customers with access to its suite of security solutions and is sold as a service.

The Company’s software updates and maintenance provide customers with rights to unspecified software product upgrades released during the term of the agreement and include maintenance services to end-user customers, through primarily telephone access to technical support personnel as well as hardware support services.

The Company recognizes revenues in accordance with ASC No. 606, “Revenue from Contracts with Customers”. As such, the Company identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenues when (or as) the Company satisfies a performance obligation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenues from sales of products and licenses are recognized upon shipment when control of the promised goods is transferred to the customer, or upon electronic transfer of the Certificate Key to the Customer. Revenues from security subscriptions and from software updates and maintenance are recognized ratably over the term of the agreement.

The Company's arrangements typically contain various combinations of its products and licenses, security subscriptions and software updates and maintenance, which are distinct and are accounted for as a separate performance obligations. The Company allocates the transaction price to each performance obligation based on its relative standalone selling price using the prices charged for a performance obligation when sold separately.

Deferred revenues represent mainly the unrecognized revenue billed for security subscriptions and for software updates and maintenance. Such revenues are recognized ratably over the term of the related agreement. The amount of revenues recognized in the period that was included in the opening deferred revenues balance was \$ 878,538 for the year ended December 31, 2018.

Revenue expected to be recognized from remaining performance obligations was \$ 1,557,552 as of December 31, 2018, of which the Company expects to recognize approximately \$ 1,069,938 over the next 12 months and the remainder thereafter.

The Company records a provision for estimated sales returns, rebates, stock rotations and other rights provided to customers on product and services based on historical sales returns, analysis of credit memo data, rebate plans, stock rotation arrangements and other known factors. This provision is accounted for as variable consideration that is deducted from revenue in the period in which the revenue is recognized. Such provision amounted to \$ 8,491 as of December 31, 2018 and is included in accrued expenses and other current liabilities in the consolidated balance sheet. Under Topic 605, the provision of \$ 8,978 as of December 31, 2017 was presented as a reduction to trade receivables.

Sales commissions earned by the Company's sales force are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized over a period of benefit which is typically over the term of the customer contracts as initial commission rates are commensurate with the renewal commission rates. Amortization expense is included in sales and marketing expenses in the accompanying consolidated statements of income. If the amortization period of those costs is one year or less, the costs are expensed as incurred. As of December 31, 2018 the amount of deferred commission was \$22,623 and included in other long term assets.

For information regarding disaggregated revenues, please refer to Note 15 below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Cost of revenues:

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

Cost of security subscriptions is comprised of costs paid to third parties, hosting and infrastructure costs and cost of customer support related to these services.

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

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

p. Severance pay:

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

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

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

Severance expenses for the years ended December 31, 2018, 2017 and 2016, were \$ 11,267, \$ 10,180 and \$ 8,165 respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. 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 \$ 18.5 per year (and an additional amount of \$ 6 for employees aged 50 and over), of their annual compensation to the plan through salary deferrals, subject to statutory limits. The Company matches 50% of employee contributions to the plan up to a limit of 6% of their eligible compensation. In 2018, 2017 and 2016, the Company's matching contribution to the plan amounted to \$ 4,163, \$ 3,613 and \$ 2,290 respectively.

r. Income taxes:

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

ASC No. 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes.

The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement. The Company classifies interest related to unrecognized tax benefits in taxes on income.

s. Advertising costs:

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2018, 2017 and 2016, were \$ 3,106, \$ 1,764 and \$ 3,127 respectively.

t. Concentrations of credit risk:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The majority of the Company's cash and cash equivalents and short-term bank deposits are deposited in major banks in the U.S., Israel and Europe. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Generally, these deposits may be withdrawn upon demand and therefore bear low risk. Marketable securities are held mainly by Check Point Ltd., the Company's Singaporean subsidiary, Canadian subsidiary and the U.S. subsidiary, and are invested in securities denominated in U.S. dollar.

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

The Company's trade receivables are geographically dispersed and derived from sales to channel partners mainly in the United States, Europe and Asia. Concentration of credit risk with respect to trade receivables is limited by credit limits, ongoing credit evaluation and account monitoring procedures. The Company performs ongoing credit evaluations of its channel partners and establishes an allowance for doubtful accounts based on factors that may affect a customers' ability to pay, such as known disputes, age of the receivable balance and past experience. Allowance for doubtful accounts amounted to \$ 1,033 and \$ 1,911 as of December 31, 2018 and 2017, 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 (income) amounted to \$ (878), \$ (344) and \$ 154 in 2018, 2017 and 2016, respectively. Total write offs during 2018, 2017 and 2016 amounted to \$ 627, \$ 29 and \$ 0, respectively.

u. Derivatives and hedging:

The Company accounts for derivatives and hedging based on ASC No. 815, "Derivatives and Hedging" ("ASC No. 815"). 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, as well as 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 designated as such, 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 accumulated 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 financial income, net.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company entered into forward contracts to hedge the fair value of assets and liabilities denominated in several foreign currencies. As of December 31, 2018 and 2017, the Company had outstanding forward contracts that did not meet the requirement for hedge accounting, in the notional amount of \$ 337,498 and \$ 338,053, respectively. The Company measured the fair value of the contracts in accordance with ASC No. 820, "Fair Value Measurement" ("ASC No. 820") (classified as level 2 of the fair value hierarchy). The net gains (losses) resulting from these forward contracts recognized in financial income, net during 2018, 2017 and 2016 were \$ (33,330), \$ 25,086, and \$ 1,822, respectively. The fair value of the Company's outstanding forward contracts at December 31, 2018 and 2017 amounted to liabilities of \$ 45 and \$ 107, respectively.

The Company entered into forward contracts to hedge against the risk of overall changes in future cash flow from payments of payroll and related expenses denominated in New Israeli Shekel and in Euro. As of December 31, 2018 and 2017, the Company had outstanding forward contracts in the notional amount of \$ 112,053 and \$ 7,354, respectively. These contracts were for a period of up to twelve months. The Company measured the fair value of the contracts in accordance with ASC No. 820 (classified as level 2 of the fair value hierarchy). These contracts met the requirement for cash flow hedge accounting and, as such, gains (losses) on the contracts are recognized initially as component of Accumulated Other Comprehensive Income in the balance sheet and reclassified to the statement of income in the period the related hedged items affect earnings. Any gains or losses related to the ineffective portion of cash flow hedges are recorded immediately in financial income, net in the consolidated statements of income. During 2018, 2017 and 2016 gains (losses) in the amount of \$ (4,637), \$ 4,655 and \$ 120, respectively, were reclassified when the related expenses were incurred and recognized in operating expenses. The fair value of the Company's outstanding forward contracts at December 31, 2018 and 2017 amounted to \$ (801) and \$ 267, respectively, and are included in accrued expenses and other current liabilities and prepaid expenses and other current assets on the balance sheets.

v. Basic and diluted earnings per share:

Basic earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted earnings per share are 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 3,235,080, 1,640,329 and 4,232,063 for 2018, 2017 and 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC No. 718, “Compensation-Stock Compensation” (“ASC No. 718”). ASC No. 718 requires companies to estimate the fair value of equity-based payment awards on the grant date using an option-pricing model.

The Company recognizes compensation expenses for the value of awards granted, based on the straight line method for service based awards and based on the accelerated method for performance-based awards. Compensation expense is recognized over the requisite service period of the awards. The Company recognizes forfeitures of awards as they occur.

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

The fair value of options granted and Employee Stock Purchase Plan in 2018, 2017 and 2016 is estimated at the date of grant using the following weighted average assumptions:

| Employee Stock Options | Year ended December 31, | | |
|-------------------------------------|--------------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Expected volatility | 21.98% | 22.20% | 22.23% |
| Risk-free interest rate | 2.67% | 1.71% | 1.07% |
| Dividend yield | 0.0% | 0.0% | 0.0% |
| Expected term (years) | 5.13 | 4.76 | 4.65 |
| Employee Stock Purchase Plan | | | |
| Expected volatility | 22.88% | 18.21% | 23.24% |
| Risk-free interest rate | 1.07% | 0.50% | 0.16% |
| Dividend yield | 0.0% | 0.0% | 0.0% |
| Expected term (years) | 0.5 | 0.5 | 0.5 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

On January 1, 2017, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-09 (Topic 718) Compensation—Stock Compensation: Improvements to Employee Stock-Based Payment Accounting, which simplifies several aspects of the accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeiture, statutory tax withholding requirements, and classification on the statement of cash flows.

The impact of the adoption on the Company’s Consolidated Financial Statements was as follows:

Forfeitures: The Company elected to change its accounting policy and account for forfeitures as they occur using a modified retrospective transition method, rather than estimating forfeitures, resulting in a cumulative-effect net of tax adjustment of \$2,149, which decreased the January 1, 2017 opening retained earnings balance on the Consolidated Balance Sheets.

Income tax accounting: ASU 2016-09 also eliminates the requirement that excess tax benefits be realized as a reduction in current taxes payable before the associated tax benefit can be recognized as an increase in paid in capital. Following ASU 2016-09 adoption, the Company recorded excess tax benefits and tax deficiencies related to stock-based compensation as income tax benefit or expense in the statement of income prospectively when share-based awards vest or are settled. Upon adoption, the Company recognized the previously unrecognized excess tax benefits using the modified retrospective transition method, which resulted in a cumulative-effect of \$86,132, which increased the January 1, 2017 opening retained earnings.

Cash flow presentation of excess tax benefits: The Company is required to classify excess tax benefits along with other income tax cash flows as an operating activity either prospectively or retrospectively. The Company elected to apply the change in presentation to the statements of cash flows prospectively from January 1, 2017. Prior periods have not been adjusted and are classified as financing activity.

Cash flow presentation of employee taxes paid: The Company is required to classify as a financing activity in its statement of cash flows the cash paid to a tax authority when shares are withheld to satisfy the employer’s statutory income tax withholding obligation. The Company was required to apply the change in presentation to the statements of cash flows retrospectively and no longer classify the payments related to shares withheld for taxes as an operating activity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Fair value of financial instruments:

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

Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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

y. Comprehensive income:

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following table shows the components of accumulated other comprehensive income (loss), net of taxes, for the year ended December 31, 2018:

| | Year ended December 31, 2018 | | |
|--|---|--|--------------|
| | Unrealized gains (losses) on marketable securities | Unrealized gains (losses) on cash flow hedges | Total |
| Beginning balance | \$ (15,719) | \$ 85 | \$ (15,634) |
| Other comprehensive loss before reclassifications | (9,757) | (4,574) | (14,331) |
| Amounts reclassified from accumulated other comprehensive income | *) 1,387 | **) 4,081 | 5,468 |
| Net current-period other comprehensive loss | (8,370) | (493) | (8,863) |
| Ending balance | \$ (24,089) | \$ (408) | \$ (24,497) |

*) The reclassification out of accumulated other comprehensive income during the year ended December 31, 2018 for realized losses on marketable securities are included within financial income, net.

**) The reclassification out of accumulated other comprehensive income during the year ended December 31, 2018 for realized gains on cash flow hedges are included mostly within research and development expenses as well as other operating expenses.

z. Treasury shares:

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

The Company reissues treasury shares under the stock purchase plan, upon exercise of options and upon vesting of restricted stock units. Reissuance of treasury shares is accounted for in accordance with ASC No. 505-30 whereby gains are credited to additional paid-in capital and losses are charged to additional paid-in capital to the extent that previous net gains are included therein; otherwise to retained earnings.

aa. Legal contingencies:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

ab. Impact of recently issued accounting standards:

The Company adopted Accounting Standards Codification 606, Revenue from Contracts with Customers (ASC 606), effective as of January 1, 2018, using the modified retrospective transition method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The main change related to incremental costs to obtain customer contracts, which primarily consist of sales commissions, due to the longer period of amortization. Under the previous accounting guidance, these costs were expensed as incurred. Under the new standard these costs are deferred and then amortized over a period of benefit which is typically over the term of the customer contracts as initial commission rates and renewal rates are the same.

The cumulative effects of the changes made to the Company's consolidated balance sheet as of January 1, 2018 for the adoption of Topic 606 were as follows:

| | Balance at December 31, 2017 | Adjustments due to Topic 606 | Balance at January 1, 2018 |
|-------------------------|---|---|---------------------------------------|
| Other Assets | 33,575 | 25,488 | 59,063 |
| Deferred tax asset, net | 119,431 | (6,372) | 113,059 |
| Retained earnings | 8,203,035 | 19,116 | 8,222,151 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company adopted Accounting Standards Update No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers Other than Inventory (ASU 2016-16), which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The adoption resulted in a cumulative-effect of \$ 442, which decreased the Company's retained earnings.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (Topic 842) "Leases." Topic 842 supersedes the lease requirements in Accounting Standards Codification (ASC) Topic 840, "Leases." Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. This ASU is effective for annual periods beginning after December 15, 2018. The provisions of ASU 2016-02 are to be applied using a modified retrospective approach. In July 2018, the FASB issued Accounting Standards Update 2018-11, Leases (Topic 842). This update provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, the prior comparative period's financials will remain the same as those previously presented.

The Company has elected to apply the guidance at the beginning of the period of adoption and not restate comparative periods. In addition, the Company elected the available practical expedients on adoption.

The Company expects to record right-of-use leased assets and corresponding liabilities of approximately \$27,000 on January 1, 2019.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (ASU 2016-13) "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019. The Company does not expect that this new guidance will have a material impact on the Company's Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In January 2017, the FASB issued Accounting Standards Update No. 2017-04 (ASU 2017-04) “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates step two of the goodwill impairment test and specifies that goodwill impairment should be measured by comparing the fair value of a reporting unit with its carrying amount. Additionally, the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets should be disclosed. ASU 2017-04 is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019; early adoption is permitted. The Company does not expect that this new guidance will have a material impact on the Company’s consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12 (Topic 815) Derivatives and Hedging — Targeted Improvements to Accounting for Hedging Activities, which expands an entity’s ability to hedge financial and nonfinancial risk components and amends how companies assess effectiveness as well as changes the presentation and disclosure requirements. The new standard is to be applied on a modified retrospective basis and is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of adoption on the consolidated financial statements.

In June 2018, FASB issued ASU 2018-07 to expand the scope of ASC Topic 718, Compensation - Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company does not expect that this new guidance will have a material impact on the Company’s Consolidated Financial Statements.

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract (“ASU 2018-15”). The amendments in ASU 2018-15 provide guidance to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The new guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is still evaluating the effect that this guidance will have on the Company’s consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 3:- ACQUISITION

On October 23, 2018, the Company completed the acquisition of all outstanding shares of Dome9 Security Ltd, a privately-held Israeli-based company and its wholly-owned subsidiary in the United States. Under the acquisition method of accounting, the purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their respective fair values. In addition, the transaction included additional consideration related to compensation for post combination services which was recorded as prepaid expenses and other long term assets and will be recognized over the requisite service period.

The Company accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on their estimated fair values, as presented in the following table:

| | Amount |
|-------------------------|-------------------|
| Goodwill | \$ 138,560 |
| Core technology | 26,958 |
| Net liabilities assumed | <u>(4,498)</u> |
| Total | <u>\$ 161,020</u> |

NOTE 4:- MARKETABLE SECURITIES

Marketable securities with contractual maturities of up to one year are as follows:

| | December 31, | | | | | | | |
|--|--------------------|------------------------------|-------------------------------|--------------------|---------------------|------------------------------|-------------------------------|---------------------|
| | 2018 | | | | 2017 | | | |
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Government and corporate debentures - fixed interest rate | \$1,203,258 | \$ 9 | \$(5,017) | \$1,198,249 | \$ 1,026,555 | \$ 48 | \$ (1,698) | \$ 1,024,905 |
| Government-sponsored enterprises debentures | 231,699 | 6 | (1,200) | 230,505 | 112,951 | 1 | (275) | 112,677 |
| Government and corporate debentures - floating interest rate | 13,902 | - | (15) | 13,887 | 27,681 | 14 | (11) | 27,684 |
| | <u>\$1,448,859</u> | <u>\$ 15</u> | <u>\$(6,232)</u> | <u>\$1,442,642</u> | <u>\$ 1,167,187</u> | <u>\$ 63</u> | <u>\$ (1,984)</u> | <u>\$ 1,165,266</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4:- MARKETABLE SECURITIES (Cont.)

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

| | December 31, | | | | | | | |
|---|---------------------|------------------------------|-------------------------------|---------------------|--------------------|------------------------------|-------------------------------|---------------------|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Government and corporate debentures - fixed interest rate | \$1,819,541 | \$1,089 | \$(21,630) | \$1,799,001 | \$1,985,849 | \$ 384 | \$ (15,204) | \$ 1,971,029 |
| Government-sponsored enterprises debentures | 383,190 | 278 | (4,092) | 379,376 | 424,619 | - | (4,687) | 419,932 |
| Government and corporate debentures - floating interest rate | 109,878 | 1 | (910) | 108,969 | 46,247 | 134 | (27) | 46,354 |
| | <u>\$ 2,312,609</u> | <u>\$ 1,368</u> | <u>\$ (26,632)</u> | <u>\$ 2,287,345</u> | <u>\$2,456,715</u> | <u>\$ 518</u> | <u>\$ (19,918)</u> | <u>\$ 2,437,315</u> |

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

| | December 31, 2018 | | | | | |
|---|---------------------|----------------------|----------------------|----------------------|--------------------|----------------------|
| | Less than 12 months | | 12 months or greater | | Total | |
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Government and corporate debentures - fixed interest rate | \$ 807,274 | \$ (4,369) | \$ 1,852,625 | \$ (22,278) | \$ 2,659,899 | \$(26,647) |
| Government-sponsored enterprises debentures | 40,213 | (79) | 429,101 | (5,213) | 469,315 | (5,292) |
| Government and corporate debentures - floating interest rate | 115,511 | (917) | 5,380 | (7) | 120,892 | (925) |
| | <u>\$ 962,999</u> | <u>\$ (5,366)</u> | <u>\$ 2,287,106</u> | <u>\$ (27,498)</u> | <u>\$ 3,250,06</u> | <u>\$(32,864)</u> |

| | December 31, 2017 | | | | | |
|---|---------------------|----------------------|----------------------|----------------------|---------------------|----------------------|
| | Less than 12 months | | 12 months or greater | | Total | |
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Government and corporate debentures - fixed interest rate | \$ 1,647,125 | \$ (7,318) | \$1,063,690 | \$ (9,585) | \$ 2,710,815 | \$(16,903) |
| Government-sponsored enterprises debentures | 236,403 | (1,281) | 294,986 | (3,681) | 531,389 | (4,962) |
| Government and corporate debentures - floating interest rate | 27,810 | (37) | - | - | 27,810 | (37) |
| | <u>\$ 1,911,338</u> | <u>\$ (8,636)</u> | <u>\$1,358,676</u> | <u>\$(13,266)</u> | <u>\$ 3,270,014</u> | <u>\$(21,902)</u> |

As of December 31, 2018 and 2017, interest receivable amounted to \$ 22,940 and \$ 19,871, respectively, and is included within prepaid expenses and other current assets in the balance sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5:- FAIR VALUE MEASUREMENTS

In accordance with ASC No. 820, the Company measures its money market funds, marketable securities and foreign currency derivative contracts at fair value. Money market funds and marketable securities are classified within Level 1 or Level 2. This is because these assets are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

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

| | December 31, 2018 | | |
|--|---|---------------------|---------------------|
| | Fair value measurements using input type | | |
| | Level 1 | Level 2 | Total |
| Cash equivalents: | | | |
| Money market funds | \$ 50,230 | - | \$ 50,230 |
| Marketable securities: | | | |
| Government and corporate debentures - fixed interest rate | - | 2,997,250 | 2,997,250 |
| Government-sponsored enterprises debentures | - | 609,881 | 609,881 |
| Government and corporate debentures - floating interest rate | - | 122,856 | 122,856 |
| Foreign currency derivative contracts | - | 846 | 846 |
| Total financial assets | <u>\$ 50,230</u> | <u>\$ 3,730,833</u> | <u>\$ 3,781,063</u> |
| | December 31, 2017 | | |
| | Fair value measurements using input type | | |
| | Level 1 | Level 2 | Total |
| Cash equivalents: | | | |
| Money market funds | \$ 58,344 | - | \$ 58,344 |
| Marketable securities: | | | |
| Government and corporate debentures - fixed interest rate | - | 2,995,934 | 2,995,934 |
| Government-sponsored enterprises debentures | - | 532,609 | 532,609 |
| Government and corporate debentures - floating interest rate | - | 74,038 | 74,038 |
| Foreign currency derivative contracts | - | 160 | 160 |
| Total financial assets | <u>\$ 58,344</u> | <u>\$ 3,602,741</u> | <u>\$ 3,661,085</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6:- PROPERTY AND EQUIPMENT, NET

| | December 31, | |
|------------------------------------|---------------------|------------------|
| | 2018 | 2017 |
| Cost: | | |
| Computers and peripheral equipment | \$ 51,389 | \$ 61,343 |
| Office furniture and equipment | 6,838 | 7,934 |
| Building | 78,121 | 74,209 |
| Leasehold improvements | 11,081 | 10,511 |
| | <u>147,429</u> | <u>153,997</u> |
| Accumulated depreciation | 68,915 | 76,230 |
| Property and equipment, net | <u>\$ 78,514</u> | <u>\$ 77,767</u> |

NOTE 7:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET

a. Goodwill:

| | Amount |
|---------------------------------|-------------------|
| Balance as of December 31, 2017 | \$ 812,012 |
| Acquisition | 138,560 |
| Balance as of December 31, 2018 | <u>\$ 950,572</u> |

b. Other intangible assets, net:

Net other intangible assets consisted of the following:

| | Useful Life | December 31, | |
|--------------------------------------|------------------------|---------------------|------------------|
| | | 2018 | 2017 |
| Original amount: | | | |
| Core technology | 8 | \$ 44,422 | \$ 17,464 |
| Trademarks and trade names | 15 – 20 | 25,520 | 25,520 |
| | | <u>69,942</u> | <u>42,984</u> |
| Accumulated amortization: | | | |
| Core technology | | 9,737 | 6,927 |
| Trademarks and trade names | | 19,238 | 17,662 |
| | | <u>28,975</u> | <u>24,589</u> |
| Other intangible assets, net: | | | |
| Core technology | | 34,685 | 10,537 |
| Trademarks and trade names | | 6,282 | 7,858 |
| | | <u>\$ 40,967</u> | <u>\$ 18,395</u> |

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

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

The estimated future amortization expense of other intangible assets as of December 31, 2018 is as follows:

| | |
|------------|------------------|
| 2019 | \$ 7,104 |
| 2020 | 6,888 |
| 2021 | 6,888 |
| 2022 | 5,738 |
| 2023 | 4,122 |
| Thereafter | 10,227 |
| | <u>\$ 40,967</u> |

NOTE 8:- EMPLOYEES AND PAYROLL ACCRUALS

As of December 31, 2018 and 2017, employees and payroll accruals include a benefit of certain related parties since 2002 until 2007 in a total amount of \$ 654 and \$ 1,194 respectively.

NOTE 9:- DEFERRED REVENUES

Deferred revenues consisted of the following:

| | December 31, | |
|----------------------------------|---------------------|---------------------|
| | 2018 | 2017 |
| Security subscriptions | \$ 554,215 | \$ 476,261 |
| Software updates and maintenance | 765,899 | 702,786 |
| Other | 17,840 | 7,526 |
| | <u>\$ 1,337,954</u> | <u>\$ 1,186,573</u> |

The majority of the deferred revenues are recognized within one year or less and presented as current deferred revenues in the balance sheet. The remaining deferred revenues which are recognized for a period above one year and up to eight years are shown as long term deferred revenues.

NOTE 10:- ACCRUED EXPENSES AND OTHER LIABILITIES

| | December 31, | |
|-------------------------------------|---------------------|-------------------|
| | 2018 | 2017 |
| Accrued products and licenses costs | 74,487 | 70,252 |
| Marketing expenses payable | 10,083 | 16,373 |
| Legal accrual | 46,529 | 53,607 |
| Other accrued expenses | 42,875 | 36,336 |
| | <u>\$ 173,974</u> | <u>\$ 176,568</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

Certain facilities of the Company are rented under operating lease agreements, which expire on various dates, the latest of which is in 2027. The Company recognizes rent expense under such arrangements on a straight-line basis.

Aggregate minimum lease commitments under non-cancelable operating leases as of December 31, 2018, were as follows:

| | | |
|------------|-----------|---------------|
| 2019 | \$ | 7,844 |
| 2020 | | 6,857 |
| 2021 | | 5,200 |
| 2022 | | 4,215 |
| 2023 | | 3,669 |
| Thereafter | | <u>2,656</u> |
| | <u>\$</u> | <u>30,441</u> |

Rent expenses for the years ended December 31, 2018, 2017 and 2016, were \$ 8,174, \$ 11,098 and \$ 10,097 respectively.

b. Litigations:

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

Further, the Company is the defendant in various lawsuits, including employment-related litigation claims, construction claims and other legal proceedings in the normal course of its business. Litigation and governmental proceedings can be expensive, lengthy and disruptive to normal business operations, and can require extensive management attention and resources, regardless of their merit. While the Company intends to defend the aforementioned matters vigorously, it believes that a loss in excess of its accrued liability with respect to these claims is not probable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME

a. Israeli taxation:

1. Corporate tax:

The Company elected to apply the Preferred Enterprise regime under the Law for the Encouragement of Capital Investment (the "Investment Law") as of 2012 tax year. The election is irrevocable. Under the Preferred Enterprise regime, a preferred income of an Enterprise located in the center of Israel is subject to tax rate of 16%.

Pursuant to Amendment 73 to the Investment Law adopted in 2017, a Company located in the Center of Israel that meets the conditions for "Preferred Technological Enterprises", is subject to tax rate of 12% tax rate. The Company believes it meets those conditions.

Income not eligible for Preferred Enterprise benefits is taxed at a regular rate, as follows: 2018 – 23%, 2017 – 24% and for 2016 – 25%.

Prior to 2012, most of the Company's income was exempt from tax or subject to reduced tax rates under the Investment Law. Upon distribution of exempt income, the distributing company will be subject to corporate reduced tax rates ordinarily applicable to such income under the Investment Law.

Reduced income under the Investment Law including the Preferred Enterprise Regime will be freely distributable as dividends, subject to a 15%/20% withholding tax (or lower, under an applicable tax treaty). However, upon the distribution of a dividend from Preferred Income and Technological Preferred Enterprise to an Israeli company, no withholding tax will be remitted.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

The Company's tax assessments through 2015 tax year are considered final.

2. Foreign Exchange Regulations:

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

b. Tax Reform in U.S.:

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Act"), which among other provisions, reduced the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018.

At December 31, 2017, the Company re-measured certain of its U.S. deferred tax assets and liabilities, based on the new rates at which they are expected to reverse in the future. The tax expense recorded in 2017 related to the re-measurement of the deferred tax balance was \$41,084.

c. Income taxes of non-Israeli subsidiaries:

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

The Company does not provide deferred tax liabilities when it intends to reinvest earnings of foreign subsidiaries indefinitely or if distributed, no tax liability will be imposed. Undistributed earnings of foreign subsidiaries that are not distributed amounted to \$ 357,298 and unrecognized deferred tax liability related to such earning amounted to \$ 60,811 as of December 31, 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

- d. Deferred tax assets and liabilities:

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2018 and 2017, the Company's deferred taxes were in respect of the following:

| | December 31, | |
|--|---------------------|-------------|
| | 2018 | 2017 |
| Carry forward tax losses | \$ 90,099 | \$ 106,481 |
| Employee stock based compensation | 19,275 | 25,117 |
| Deferred revenues | 22,153 | 19,200 |
| Other | 53,243 | 53,848 |
| Deferred tax assets before valuation allowance | 184,770 | 204,646 |
| Valuation allowance – mainly in respect to carryforward losses | (55,745) | (60,703) |
| Deferred tax asset | 129,025 | 143,943 |
| Intangible assets | (11,335) | (8,862) |
| Undistributed earnings of subsidiary | (9,925) | (9,925) |
| Other | (4,663) | (274) |
| Deferred tax liability | (25,923) | (19,061) |
| Deferred tax asset, net | \$ 103,102 | \$ 124,882 |

Through December 31, 2018, the U.S. subsidiaries had a U.S. federal loss carry-forward of approximately \$395,236 expiring beginning 2020, mainly resulting from tax benefits related to employees' stock option exercises that can be carried forward and offset against taxable income. Through December 31, 2018, the U.S. subsidiaries had a U.S. state net loss carry forward of approximately \$96,380, which expire between fiscal 2020 and fiscal 2034, and are subject to limitations on their utilization. Through December 31, 2018, the U.S. subsidiaries had research and development tax credits of approximately \$20,270, which expire between fiscal 2019 and fiscal 2038 and are subject to limitations on their utilization.

- e. Income before taxes on income is comprised as follows:

| | Year ended December 31, | | |
|----------|------------------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Domestic | \$ 902,235 | \$ 923,744 | \$ 862,554 |
| Foreign | 76,605 | 47,202 | 34,118 |
| | \$ 978,840 | \$ 970,946 | \$ 896,672 |

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

NOTE 12:- TAXES ON INCOME (Cont.)

f. Taxes on income are comprised of the following:

| | Year ended December 31, | | |
|-----------------|------------------------------------|------------------------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Current | \$ 140,800 | \$ 101,902 | \$ 194,149 |
| Deferred | 16,735 | 66,121 | (22,324) |
| | <u>\$ 157,535</u> | <u>\$ 168,023</u> | <u>\$ 171,825</u> |
| Domestic | \$ 132,027 | \$ 112,615 | \$ 166,152 |
| Foreign | 25,508 | 55,408 | 5,673 |
| | <u>\$ 157,535</u> | <u>\$ 168,023</u> | <u>\$ 171,825</u> |
| | | Year ended December 31, | |
| | 2018 | 2017 | 2016 |
| Domestic taxes: | | | |
| Current | \$ 120,876 | \$ 94,340 | \$ 175,522 |
| Deferred | 11,151 | 18,275 | (9,370) |
| | <u>132,027</u> | <u>112,615</u> | <u>166,152</u> |
| Foreign taxes: | | | |
| Current | 19,925 | 7,562 | 18,627 |
| Deferred | 5,583 | 47,846 | (12,954) |
| | <u>25,508</u> | <u>55,408</u> | <u>5,673</u> |
| Taxes on income | <u>\$ 157,535</u> | <u>\$ 168,023</u> | <u>\$ 171,825</u> |

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

| | December 31, | |
|--|---------------------|---------------------|
| | 2018 | 2017 |
| Beginning balance | \$ 342,904 | \$ 306,677 |
| Increases related to tax positions taken during prior years | 745 | 46,520 |
| Decreases related to expiration of statute of limitations | - | (41,022) |
| Increases related to tax positions taken during the current year | 31,514 | 30,729 |
| Ending balance | <u>\$ 375,163*)</u> | <u>\$ 342,904*)</u> |

*) As of December 31, 2018 and 2017 unrecognized tax benefit in the amounts of \$18,413 and \$5,451 were presented net from deferred tax asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

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

We adjust our unrecognized tax benefit liability and income tax expense in the period in which the uncertain tax position is effectively settled, the statute of limitations expires or when new information is available. There is a reasonable possibility that \$ 56,702 out of our unrecognized tax benefit liability will be adjusted within 12 months due to the expiration of a statute of limitations.

During the years ended December 31, 2018, 2017 and 2016, the Company recorded \$ 5,547, \$ 4,168 and \$ 6,025, respectively for interest expense related to uncertain tax positions. As of December 31, 2018 and 2017, the Company had accrued interest liability related to uncertain tax positions in the amounts of \$ 30,766 and \$ 25,219, respectively, which is included within income tax accrual on the balance sheets. The Company did not accrue penalties during the years ended December 31, 2018 and 2017.

The Company's U.S. subsidiaries file federal and state income tax returns in the U.S. All of the U.S subsidiaries' tax years are subject to examination by the U.S. federal and most U.S. state tax authorities due to their carry-forward tax losses and overall credit carry-forward position, except for Check Point Software Technologies Inc. that the assessment statute period for tax years 2005 through 2014 have expired.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

- h. Reconciliation of the theoretical tax expenses:

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

| | Year ended December 31, | | |
|--|--------------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Income before taxes as reported in the statements of income | \$ 978,839 | \$ 970,946 | \$ 896,672 |
| Statutory tax rate in Israel | 23% | 24% | 25% |
| Decrease in taxes resulting from: | | | |
| Effect of "Preferred Enterprise" status *) | (9%) | (11%) | (5%) |
| Decrease in US deferred tax due to US tax rate change | - | 4% | - |
| Others, net | 2% | - | (1%) |
| Effective tax rate | 16% | 17% | 19% |
| *) Basic earnings per share amounts of the benefit resulting from the "Technological preferred or Preferred Enterprise" status | \$ 0.57 | \$ 0.68 | \$ 0.26 |
| Diluted earnings per share amounts of the benefit resulting from the "Technological preferred or Preferred Enterprise" status | \$ 0.56 | \$ 0.66 | \$ 0.26 |

NOTE 13:- SHAREHOLDERS' EQUITY

- a. General:

Ordinary shares confer upon their holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends if declared.

Dividends declared on ordinary shares will be paid in New Israeli Shekels. Dividends paid to shareholders outside Israel will be converted into U.S. dollars, on the basis of the exchange rate prevailing at the date of payment.

- b. Share repurchase:

On July 25, 2018, the Company announced an extension and increase to its share repurchase plan. Under the updated plan, the Company may repurchase up to an additional \$ 2,000,000 with purchases of up to \$ 325,000 a quarter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)

As of December 31, 2018, the Company repurchased ordinary shares for an aggregate amount of \$ 7,909,889. During 2018, 2017 and 2016 the Company repurchased 10,341,000, 9,535,992, and 12,298,434 shares for an aggregate amount of \$ 1,103,865, \$ 995,322 and \$ 987,897, respectively.

c. Stock Options, RSU's and PSU's:

In 2005, the Company adopted two new equity incentive plans, which were subsequently amended in January 2014 and in July 2018: the 2005 United States Equity Incentive Plan and the 2005 Israel Equity Incentive Plan together are referred to as the Equity Incentive Plans.

Under the Equity Incentive Plans, the Company may grant options to employees, officers and directors at an exercise price equal to at least the fair market value of the ordinary shares at the date of grant and are granted for periods not to exceed seven years. The Company grants under the Equity Incentive Plans options, Restricted Stock Units ("RSUs") and Performance RSUs ("PSUs") and can also grant a variety of other equity incentives. Options granted under the Equity Incentive Plans generally vest over a period of four years of employment. Options, RSUs and PSUs that are cancelled or forfeited before expiration become available for future grants. The number of PSUs granted to sales employees is equal to the amount of compensation earned (based on the employee's level) divided by the fair value of the ordinary share at the grant date. RSUs and PSUs vest over a four year period of employment from the grant date. PSUs are subject to certain performance criteria; accordingly, compensation expense is recognized for such awards when it becomes probable that the related performance condition will be satisfied.

Under the Equity Incentive Plans, the Company's non-employee directors receive an automatic annual option grant. Following the amendments to the Equity Incentive Plans in July 2018, commencing December 31, 2018, on December 31st of each year, the number of Reserved and Authorized Shares (as defined below) under both Equity Incentive Plans together shall be automatically reset on such date to equal 10% of the sum of (i) the number of ordinary shares issued and outstanding on such date and (ii) the number of ordinary shares reserved and authorized under the Equity Incentive Plans for outstanding awards granted under the Equity Incentive Plans as of such date (provided, however, that in no event shall the number of Reserved and Authorized Shares be less than the number of ordinary shares reserved and authorized under the Equity Incentive Plans for outstanding awards granted under the Equity Incentive Plans as of such date).

The number of "Reserved and Authorized Shares" under the Equity Plans shall equal the sum of (i) the number of ordinary shares reserved and authorized under the Equity Incentive Plans for outstanding options, RSUs, PSUs and other awards granted under the Equity Incentive Plans as of such date, and (ii) the number of ordinary shares reserved, authorized and available for issuance under the Equity Incentive Plans on such date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)

As of December 31, 2018, the number of Reserved and Authorized Shares under the Equity Incentive Plans is as detailed below:

| | 2018 |
|---|----------------------------|
| | Number in thousands |
| Stock Options outstanding | 8,542 |
| RSU outstanding | 1,293 |
| PSU outstanding | 85 |
| Ordinary shares available for issuance under the Equity Incentive Plans | 6,610 |
| Total Reserved and Authorized Shares as of December 31, 2018 | 16,530 |

A summary of the Company's stock option activity and related information is as follows:

| | Options in thousands | Weighted average exercise price 2018 | Aggregate intrinsic value |
|---|-----------------------------|---|----------------------------------|
| Outstanding at beginning of year | 13,142 | \$75.97 | \$381,022 |
| Granted | 2,048 | \$109.26 | |
| Exercised | (6,041) | \$59.16 | |
| Forfeited | (607) | \$84.15 | |
| Outstanding at December 31, 2018 | 8,542 | \$95.26 | 101,203 |
| Exercisable at December 31, 2018 | 4,007 | \$87.37 | 70,507 |

The weighted average fair values at grant date of options granted for the years ended December 31, 2018, 2017 and 2016; with an exercise price equal to the market value at the date of grant were \$ 30.14, \$ 25.00 and \$ 17.14, respectively.

The total intrinsic value of options exercised during the years 2018, 2017 and 2016 was \$297,477, \$ 95,707 and \$ 112,989, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)

A summary of the Company's RSUs activity is as follows:

| | Year ended December 31, 2018 |
|-------------------------------|---|
| | Number in thousands |
| Unvested at beginning of year | 893 |
| Granted | 932 |
| Vested | (318) |
| Forfeited | (214) |
| Unvested the end of the year | 1,293 |

The weighted average fair values at grant date of RSUs granted for the years ended December 31, 2018, 2017 and 2016 were \$101.2, \$ 103.5 and \$ 80.73, respectively.

The total fair value of shares vested during the years 2018, 2017 and 2016 was \$32,279, \$35,824 and \$ 22,772, respectively.

A summary of the Company's PSUs activity is as follows:

| | Year ended December 31, 2018 |
|-------------------------------|---|
| | Number in thousands |
| Unvested at beginning of year | 175 |
| Vested | (65) |
| Forfeited | (25) |
| Unvested the end of the year | 85 |

The weighted average fair values at grant date of PSUs granted for the year ended December 31, 2018, 2017 and 2016 were \$ 0, \$ 104.38 and \$ 82.01, respectively.

The total fair value of shares vested during 2018 was \$ 6,354, during 2017 was \$ 6,241, and during 2016 was \$ 3,056.

As of December 31, 2018, the Company had approximately \$ 189,964 of unrecognized compensation expense related to non-vested stock options and non-vested RSU's and PSU's, expected to be recognized over a weighted average period of 1.96 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)

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

In 1996, the Company adopted an ESPP, which was subsequently amended in 2015. According to the amendments, commencing the purchase period that begins February 1, 2017, 500,000 ordinary shares are authorized for issuance under the US ESPP and 1,000,000 ordinary shares are authorized for issuance under the rest of the world (ROW) ESPP. As of December 31, 2018, 828,441 ordinary shares had been issued under the amended ESPP plan.

Eligible employees may use up to 15% of their salaries to purchase ordinary shares but no more than 1,250 shares per participant on any purchase date. The ESPP is implemented through an offering every six months. The price of an ordinary share purchased under the ESPP is equal to 85% of the lower of the fair market value of the ordinary share on the subscription date of each offering period or on the purchase date.

During 2018, 2017 and 2016, employees purchased 308,920, 346,241 and 311,257 ordinary shares at average prices of \$ 87.584, \$ 73.47 and \$ 66.08 per share, respectively.

In accordance with ASC No. 718, the ESPP is compensatory and as such results in recognition of compensation cost. For the years ended December 31, 2018, 2017 and 2016, the Company recognized \$ 6,654, \$ 6,656 and \$ 5,432, respectively, of compensation expense in connection with the ESPP.

e. Stock-Based Compensation

Stock-based compensation expense related to stock options, RSUs and PSUs is included in the consolidated statements of operations as follows (in thousands):

| | Year ended December 31, | | |
|----------------------------|------------------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| Cost of revenues | \$ 3,545 | \$ 2,741 | \$ 2,153 |
| Research and development | 17,644 | 16,233 | 12,718 |
| Selling and marketing | 20,800 | 18,278 | 19,168 |
| General and administrative | 47,337 | 50,207 | 48,693 |
| | <u>\$ 89,326</u> | <u>\$ 87,459</u> | <u>\$ 82,732</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 14:- EARNINGS PER SHARE

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

| | Year ended December 31, | | |
|---|--------------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| Net income | <u>\$821,305</u> | <u>\$802,923</u> | <u>\$724,847</u> |
| Weighted average ordinary shares outstanding (in thousands) | <u>156,632</u> | <u>162,720</u> | <u>170,155</u> |
| Dilutive effect: | | | |
| Employee stock options, RSUs and PSUs (in thousands) | <u>2,815</u> | <u>3,942</u> | <u>3,141</u> |
| Diluted weighted average ordinary shares outstanding (in thousands) | <u>159,447</u> | <u>166,662</u> | <u>173,296</u> |
| Basic earnings per ordinary share | <u>\$ 5.24</u> | <u>\$ 4.93</u> | <u>\$ 4.26</u> |
| Diluted earnings per ordinary share | <u>\$ 5.15</u> | <u>\$ 4.82</u> | <u>\$ 4.18</u> |

NOTE 15:- GEOGRAPHIC INFORMATION AND SELECTED STATEMENTS OF INCOME DATA

- a. Summary information about geographical areas:

The Company operates in one reportable segment (see Note 1 for a brief description of the Company's business). The total revenues are attributed to geographic areas based on the location of the Company's channel partners which are considered as end customers, as well as direct customers of the Company.

The following table presents total revenues for the years ended December 31, 2018, 2017 and 2016, and property and equipment, net as of December 31, 2018 and 2017, by geographic area:

1. Revenues based on the channel partners' location:

| | Year ended December 31, | | |
|--------------------------------------|------------------------------------|---------------------|---------------------|
| | 2018 | 2017 | 2016 |
| Americas, principally U.S. | \$ 892,426 | \$ 871,297 | \$ 847,458 |
| Europe | 717,205 | 674,987 | 627,524 |
| Asia-Pacific, Middle-East and Africa | 306,844 | 308,374 | 266,319 |
| | <u>\$ 1,916,475</u> | <u>\$ 1,854,658</u> | <u>\$ 1,741,301</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- GEOGRAPHIC INFORMATION AND SELECTED STATEMENTS OF INCOME DATA (Cont.)

2. Property and equipment, net:

| | December 31, | |
|-------------------|---------------------|-------------|
| | 2018 | 2017 |
| Israel | \$ 71,641 | \$ 71,655 |
| U.S. | 3,463 | 2,782 |
| Rest of the world | 3,410 | 3,330 |
| | \$ 78,514 | \$ 77,767 |

- b. Summary information about product lines:

The Company's products can be classified by three main product lines. The following table presents total revenues for the years ended December 31, 2018, 2017 and 2016 by product lines:

| | Year ended December 31, | | |
|----------------------------------|------------------------------------|--------------------|--------------------|
| | 2018 | 2017 | 2016 |
| Product and licenses: | | | |
| Network security Gateways | \$ 468,509 | \$ 506,057 | \$ 516,254 |
| Other *) | 57,048 | 52,969 | 56,710 |
| | 525,557 | 559,026 | 572,964 |
| Security subscriptions | 542,323 | 480,352 | 389,885 |
| Software updates and maintenance | 848,595 | 815,280 | 778,452 |
| Total revenues | \$1,916,475 | \$1,854,658 | \$1,741,301 |

- *) Comprised of Endpoint security, Mobile security and Security management products, each comprising of less than 10% of products and licenses revenues.

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- GEOGRAPHIC INFORMATION AND SELECTED STATEMENTS OF INCOME DATA (Cont.)

c. Financial income, net:

| | Year ended December 31, | | |
|---|----------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Financial income: | | | |
| Interest income | \$ 88,475 | \$ 74,900 | \$ 69,425 |
| Realized gain on sale of marketable securities, net | - | - | 2,993 |
| | 88,475 | 74,900 | 72,418 |
| Financial expense: | | | |
| Amortization of marketable securities premium and accretion of discount, net | 13,560 | 20,012 | 23,388 |
| Realized loss on sale of marketable securities, net | 1,803 | 176 | - |
| Foreign currency re-measurement loss | 5,719 | 5,555 | 2,658 |
| Others | 2,327 | 2,128 | 1,970 |
| | 23,409 | 27,871 | 28,016 |
| | \$ 65,066 | \$ 47,029 | \$ 44,402 |

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHECK POINT SOFTWARE TECHNOLOGIES LTD.

By: /s/ Gil Shwed
Gil Shwed
Chief Executive Officer

By: /s/ Tal Payne
Tal Payne
Chief Financial Officer

Date: April 23, 2019

**Amendment No. 2 to Check Point Software Technologies Ltd.
2005 Israel Equity Incentive Plan, dated July 18, 2018**

Effective as of July 18, 2018, the Check Point Software Technologies Ltd. 2005 Israel Equity Incentive Plan, as amended (the “**Plan**”), is hereby amended as follows (the “**Amendment**”):

1. Section 3(a) of the Plan shall be deleted in its entirety and replaced with the following:

“Subject to the provisions of Section 21 of the Plan, the maximum aggregate number of Shares which may be issued under the Plan and the Company’s 2005 U.S. Equity Incentive Plan, as amended (the “U.S. Plan”, and collectively with the Plan, the “Equity Plans”)), is 19,000,000 Shares; provided, however, that on December 31st of each year, commencing December 31, 2018, the number of Reserved and Authorized Shares (as defined below) under the Equity Plans shall be automatically reset on such date to equal 10% of the sum of (A) the number of Shares issued and outstanding on such date and (B) the number of Shares reserved and authorized under the Equity Plans for outstanding Awards granted under the Equity Plans as of such date; provided, however, that in no event shall the number of Reserved and Authorized Shares be less than the number of Shares reserved and authorized under the Equity Plans for Awards granted under the Plans that are outstanding as of such date. The number of “Reserved and Authorized Shares” under the Equity Plans shall equal the sum of (i) the number of Shares reserved and authorized under the Equity Plans for outstanding Awards granted under the Equity Plans as of such date, and (ii) the number of Shares reserved, authorized and available for issuance under the Equity Plans on such date.”

2. Except as explicitly amended by this Amendment, all other terms of the Plan shall remain in full force and effect.

**Amendment No. 2 to Check Point Software Technologies Ltd.
2005 U.S. Equity Incentive Plan, dated July 18, 2018**

Effective as of July 18, 2018, the Check Point Software Technologies Ltd. 2005 U.S. Equity Incentive Plan, as amended (the “**Plan**”), is hereby amended as follows (the “**Amendment**”):

1. The first paragraph of Section 3 of the Plan shall be deleted in its entirety and replaced with the following:

“Subject to the provisions of Section 19 of the Plan, the maximum aggregate number of Shares which may be issued under the Plan and the Company’s 2005 Israel Equity Incentive Plan, as amended (the “Israel Plan”, and collectively with the Plan, the “Equity Plans”)), is 19,000,000 Shares; provided, however, that on December 31st of each year, commencing December 31, 2018, the number of Reserved and Authorized Shares (as defined below) under the Equity Plans shall be automatically reset on such date to equal 10% the sum of (A) of the number of Shares issued and outstanding on such date and (B) the number of Shares reserved and authorized under the Equity Plans for outstanding Awards granted under the Equity Plans as of such date; provided, however, that in no event shall the number of Reserved and Authorized Shares be less than the number of Shares reserved and authorized under the Equity Plans for Awards granted under the Plans that are outstanding as of such date. The number of “Reserved and Authorized Shares” under the Equity Plans shall equal the sum of (i) the number of Shares reserved and authorized under the Equity Plans for outstanding Awards granted under the Equity Plans as of such date, and (ii) the number of Shares reserved, authorized and available for issuance under the Equity Plans on such date.”

2. Except as explicitly amended by this Amendment, all other terms of the Plan shall remain in full force and effect.

CERTIFICATION

I, Gil Shwed, certify that:

1. I have reviewed this Annual Report on Form 20-F of Check Point Software Technologies Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 23, 2019

By: /s/ Gil Shwed
Gil Shwed
Chief Executive Officer

CERTIFICATION

I, Tal Payne, certify that:

1. I have reviewed this Annual Report on Form 20-F of Check Point Software Technologies Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 23, 2019

By: /s/ Tal Payne
Tal Payne
Chief Financial Officer

CERTIFICATION

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63 OF
TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned Chief Executive Officer of Check Point Software Technologies Ltd., a company organized under the laws of the State of Israel (the "Company"), does hereby certify that the Annual Report on Form 20-F for the year ended December 31, 2018 (the "Form 20-F") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Annual Report on Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 23, 2019

By: /s/ Gil Shwed

Gil Shwed
Chief Executive Officer

CERTIFICATION

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63 OF
TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned Chief Financial Officer of Check Point Software Technologies Ltd., a company organized under the laws of the State of Israel (the "Company"), does hereby certify that the Annual Report on Form 20-F for the year ended December 31, 2018 (the "Form 20-F") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Annual Report on Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 23, 2019

By: /s/ Tal Payne

Tal Payne
Chief Finance Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference, in the Registration Statements (Form S-8 Nos.333-132954, 333-207335, 333-211113 and 333-228075) of our reports dated April 23, 2019, with respect to the consolidated financial statements of Check Point Software Technologies Ltd. and the effectiveness of internal control over financial reporting of Check Point Software Technologies Ltd. included in this Annual Report (Form 20-F) for the year ended December 31, 2018.

Tel-Aviv, Israel
April 23, 2019

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of EY Global