

CHECK POINT SOFTWARE TECHNOLOGIES LTD  
Form 20-F  
March 05, 2009

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**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, 2008

**OR**

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

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

**OR**

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

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

Commission file number 000-28584

**CHECK POINT SOFTWARE TECHNOLOGIES LTD.**

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(Exact name of Registrant as specified in its charter)

ISRAEL

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(Jurisdiction of incorporation or organization)

5 Ha'Solelim Street, Tel Aviv 67897, Israel

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(Address of principal executive offices)

OR

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

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

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 210,042,282 ordinary shares, NIS 0.01 nominal value

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark the 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

OR

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

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes  No

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**Currency of Presentation and Certain Defined Terms**

In this Annual Report on Form 20-F, references to "U.S." or "United States" are to the United States of America, its territories and possessions. 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 "SEK" or "Swedish Krona" are to the legal currency of Sweden.

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

**Forward-Looking Statements**

Some of the statements contained in this Annual Report on Form 20-F are forward-looking statements that involve risks and uncertainties. The statements contained in this Annual Report on Form 20-F that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding trends related to our business and our expectations, beliefs, intentions or strategies regarding the future. These statements are subject to known and unknown risks, uncertainties and other factors, which may cause our actual results to differ materially from those implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "intends," "estimates," "predicts," "potential," or "continue" or the negative comparable terminology. Forward-looking statements also include, but are not limited to, statements in (i) Item 4 "Information on Check Point" regarding our belief as to increased acceptance of Internet technologies, expansion of connectivity services, acceleration of the use of networks, the need and demand for network, gateway and virtual security, the need and demand for flexible and extensible security, the demand for our new blade architecture and adoption of new licensing offerings, increasing demands on enterprise security systems, the impact of our relationship with our technology partners on our sales goals, the contribution of our products to our future revenue, our development of future products, and our ability to integrate, market and sell acquired products and technologies; and (ii) Item 5 "Operating and Financial Review and Prospects" regarding, among other things, our expectations regarding our business and the markets in which we operate and into which we sell products, future amounts and sources of our revenue, our ongoing relationships with our current and future customers and channel partners, our future costs and expenses, the adequacy of our capital resources, and our expectations regarding the acquisition of Nokia's security appliance business.

Forward-looking statements involve risks, uncertainties and assumptions, and our actual results may differ materially from those predicted. Many of these risks, uncertainties and assumptions are described in the risk factors set forth in Item 3 "Key Information" "Risk Factors" and elsewhere in this Annual Report on Form 20-F. All forward-looking statements included in this Annual Report on Form 20-F are based on information available to us on the date of the filing and reasonable assumptions. We undertake no obligation to update any of the forward-looking statements after the date of the filing, except as required by applicable law.

**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 accounting principles generally accepted in the United States (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 2004 to 2008. The selected consolidated statement of income data for the years 2006, 2007, and 2008, and the selected consolidated balance sheet data at December 31, 2007 and 2008, have been derived from our audited consolidated financial statements set forth in Item 18 Financial Statements. The selected consolidated statement of income data for the years 2004 and 2005, and the selected consolidated balance sheet data at December 31, 2004, 2005 and 2006, has been derived from our previously published audited consolidated financial statements, which are not included in this Annual Report on Form 20-F. This selected financial data should be read in conjunction with our consolidated financial statements, and are qualified entirely by reference to such consolidated financial statements.

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	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(in thousands, except per share data)				
<b>Consolidated Statement of Income Data:</b>					
Revenues	\$ 515,360	\$ 579,350	\$ 575,141	\$ 730,877	\$ 808,490
Operating expenses (*):					
Cost of revenues	27,750	30,540	36,431	82,301	92,609
Research and development	44,483	50,542	62,210	80,982	91,629
Selling and marketing	135,712	142,336	157,114	217,491	214,439
General and administrative	24,098	24,244	43,503	53,527	53,313
Acquired in-process R&D	23,098	-	1,060	17,000	-
Total operating expenses	255,141	247,662	300,318	451,301	451,990
Operating income	260,219	331,688	274,823	279,576	356,500
Financial income, net	44,777	54,177	63,647	49,725	40,876
Other-than-temporary impairment of marketable securities (**)	-	-	-	-	(11,221)
Income before taxes on income	304,996	385,865	338,470	329,301	386,155
Taxes on income	56,603	66,181	60,443	48,237	62,189
Net income	\$ 248,393	\$ 319,684	\$ 278,027	\$ 281,064	\$ 323,966
Basic earnings per share	\$ 0.99	\$ 1.30	\$ 1.18	\$ 1.26	\$ 1.51
Shares used in computing basic earnings per share	251,244	245,520	235,519	222,548	214,361
Diluted earnings per share	\$ 0.95	\$ 1.27	\$ 1.17	\$ 1.25	\$ 1.50
Shares used in computing diluted earnings per share	260,608	251,747	236,769	225,442	216,668

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

Amortization of intangible assets and acquisition related expenses					
Cost of revenues	\$ 4,061	\$ 5,414	\$ 5,414	\$ 27,724	\$ 24,554
Selling and marketing	171	228	604	12,260	12,428
General and administrative	-	-	927	-	-
<b>Total</b>	<b>\$ 4,232</b>	<b>\$ 5,642</b>	<b>\$ 6,945</b>	<b>\$ 39,984</b>	<b>\$ 36,982</b>
Stock-based compensation					
Cost of products and licenses	\$ -	\$ -	\$ 39	\$ 65	\$ 48
Cost of software updates, maintenance and services	137	408	470	668	684
Research and development	1,297	1,252	9,371	4,309	5,037
Selling and marketing	2,745	1,825	7,997	8,780	6,855
General and administrative	441	260	18,515	20,230	19,703
<b>Total</b>	<b>\$ 4,620</b>	<b>\$ 3,745</b>	<b>\$ 36,392</b>	<b>\$ 34,052</b>	<b>\$ 32,327</b>

\*\* Year ended December 31, 2008, includes non-cash write down of \$11.2 million (pre-tax) of marketable securities in accordance with SFAS 115.

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	December 31,				
	2004	2005	2006	2007	2008
	(in thousands)				
Consolidated Balance Sheet Data:					
Working capital	\$ 791,455	\$ 1,186,119	\$ 967,805	\$ 692,316	\$ 791,976
Total assets	1,919,819	2,092,495	2,080,793	2,368,575	2,593,616
Shareholders' equity	1,630,824	1,775,721	1,711,533	1,856,955	2,015,865
Capital stock	370,017	387,303	423,155	465,104	504,182

### Risk Factors

*If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. 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 our products has continued to expand but the market for information and network security solutions may not continue to grow. Continued growth of this market will depend, in large part, upon:

- <sup>n</sup> The continued expansion of Internet usage and the number of organizations adopting or expanding intranets.
- <sup>n</sup> The ability of their respective infrastructures to support an increasing number of users and services.

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- <sup>n</sup> The continued development of new and improved services for implementation across the Internet and between the Internet and intranets.
- <sup>n</sup> The adoption of data security measures as it pertains to data encryption technologies.
- <sup>n</sup> Government regulation of the Internet and governmental and non-governmental requirements and standards with respect to data security and privacy.
- <sup>n</sup> General economic conditions in the markets in which we, our customers and our suppliers operate.

During the current global economic slowdown, many companies have reduced expenditures, and adverse economic conditions 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.

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

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### *We may not be able to successfully compete*

The market for information and network security solutions is intensely competitive and we expect that competition will continue to increase in the future. Our principal competitors include Cisco Systems, Inc., Fortinet Inc. and Juniper Networks, Inc. We also compete with several other companies, including McAfee, Inc., Microsoft Corporation, SonicWall Inc. and Symantec Corporation with respect to specific products that we offer, including data security products.

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 may be better able to withstand a reduction in spending on information and network security solutions. 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, 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. We may not be able to continue competing successfully against our current and future competitors. Increased competition may result in price reductions, reduced gross margins, and loss of market share, any of which will materially adversely affect our business, operating results, and financial condition.

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

Further, vendors of operating system software or networking hardware 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 or networking hardware, could significantly reduce the marketability of 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 or 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.

If any of the events described above occur, our business, operating results and financial condition could be materially adversely affected. Additional details are provided in 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. Further, we must continuously improve our products to protect our customers data and networks from evolving security threats.

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

*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. In addition, we may in the future incur costs associated with warranty claims.

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.

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*We are subject to risks relating to acquisitions*

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

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



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we are able to identify and consummate any future acquisitions, we could:

- " Issue equity securities which would dilute current shareholders' percentage ownership;
- " Incur substantial debt;
- " Assume contingent liabilities; or
- " Expend significant cash.

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

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

- " Unanticipated costs or liabilities associated with the acquisition.
- " Incurrence of acquisition-related costs.
- " Diversion of management's attention from other business concerns.
- " Harm to our existing business relationships with manufacturers, distributors and customers as a result of the acquisition.
- " The potential loss of key employees.
- " Use of resources that are needed in other parts of our business.
- " Use of substantial portions of our available cash to consummate the acquisition.
- " 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.

In December 2006, we completed the acquisition of NFR Security, Inc., a U.S. privately held company. In January 2007, we completed the acquisition of Protect Data AB ( "Protect Data" ), which was a public company listed on the Stockholm Stock Exchange, and completed the integration of Protect Data into Check Point's business. Protect Data is the owner of 100% of Pointsec Mobile Technologies AB ( "Pointsec" ), a leading provider of data security products, and other subsidiaries, as listed below in Item 4 "Information on Check Point" under the caption "Organizational structure." Pointsec provides products that are different in nature than our core technologies, including encryption software that helps companies secure data that may be stored on employee laptops, personal computers, smartphones, and personal digital assistants (PDAs).

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On December 22, 2008, we entered into an Asset Purchase Agreement with Nokia, Inc. ( "Nokia" ) to acquire Nokia's security appliance business. The pending acquisition is expected to close in the first or second quarter of 2009 and is subject to regulatory approvals and customary closing conditions. If and when we close this pending acquisition, we expect to expand our security appliance line of business. However, we cannot assure you that we will complete the acquisition or successfully integrate the acquired personnel, operations and technologies or that we will be able to effectively manage the combined business following the completion of the acquisition.

If we are unable to successfully address any of the risks related to acquisitions, our business, financial condition or operating results could be harmed.

*Our operating margins may decline*

We may experience future fluctuations or declines in operating margins from historical levels due to many factors, including:

- ⁿ Increased competition that results in pressure on us to reduce prices.
- ⁿ Additional investments in the continuing development and expansion of our sales and marketing organization, including the expansion and further reinforcement of our worldwide field organization.
- ⁿ Integration of an acquired business that at the time of acquisition has operating margins lower than ours.
- ⁿ Additional expansion of our research and development organization.
- ⁿ Expected growth in the percentage of revenues that we derive from products incorporating hardware, which have lower operating margins than software products.
- ⁿ Global economic conditions that results in changes in customer capital spending budget.

Our operating margins are likely to fluctuate based on the amount and timing of these and other developments. In addition, if our revenue levels are below expectations, this will likely have an adverse effect on our operating margins, since most of our expenses are not variable in the short term.

*Our quarterly operating results are likely to fluctuate which could cause us to miss expectations about these results and cause the trading price of our ordinary shares to decline*

Our revenues from our sales are not consistent from quarter to quarter and we experience some degree of seasonality in our sales. In addition, a majority of our sales typically occur in the last month of each quarter. Factors that could cause our revenues and operating results to fluctuate from period to period include:

- ⁿ Changes in customer capital spending budgets and allocations throughout the year.
- ⁿ General economic conditions in the markets in which our customers operate.
- ⁿ Seasonal trends in customer purchasing.
- ⁿ Competitive market conditions, including the pricing actions of our competitors.
- ⁿ The occurrence of an infrastructure failure resulting in delay of quarter-end purchases of products.