NICE SYSTEMS LTD
Form 20-F
March 23, 2016

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

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2015

OR

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

OR

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

Commission file number 0-27466

NICE-SYSTEMS LTD.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

13 Zarchin Street, P.O. Box 690, Ra'anana 4310602, Israel

(Address of principal executive offices)

Yechiam Cohen, +972-9-7753151, yechiam.cohen@nice.com,
13 Zarchin Street, P.O. Box 690, Ra'anana 4310602, Israel

(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 Each Exchange On Which Registered
American Depositary Shares, each representing one Ordinary Share, par value one New Israeli Shekel per share	NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

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: 59,526,506 Ordinary Shares, par value NIS 1.00 per share (which excludes 11,633,783 treasury shares)

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

x Yes o 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.

o Yes x 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:

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such reports).

x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

x U.S. GAAP

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

o Other

If “Other” has been checked in response to the previous question indicate by check mark which financial statements the registrant has elected to follow:

o Item 17   o 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).

o Yes   x No

PRELIMINARY NOTE

This annual report contains historical information and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to NICE's business, financial condition and results of operations. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project," "should," "strategy," " and "target" and similar expressions, as they relate to NICE or its management, are intended to identify forward-looking statements. Such statements reflect the current beliefs, expectations and assumptions of NICE with respect to future events and are subject to risks and uncertainties. The forward-looking statements relate to, among other things: operating results; anticipated cash flows; gross margins; adequacy of resources to fund operations; our ability to maintain our average selling prices despite the aggressive marketing and pricing strategies of our competitors; our ability to maintain and develop profitable relationships with our key distribution channels; the financial strength of our key distribution channels; and the market's acceptance of our technologies, products and solutions.

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. Many factors could cause the actual results, performance or achievements of NICE to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, competition with existing or new competitors, changes in executive management, changes in general economic and business conditions, disruption in credit markets, rapidly changing technology, changes in currency exchange rates and interest rates, difficulties or delays in absorbing and integrating acquired operations, products, technologies and personnel, changes in business strategy and various other factors, both referenced and not referenced in this annual report. These risks are more fully described under Item 3, "Key Information – Risk Factors" of this annual report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. NICE does not intend or assume any obligation to update these forward-looking statements. Investors should bear this in mind as they consider forward-looking statements and whether to invest or remain invested in NICE's securities.

In this annual report, all references to "NICE," "we," "us," "our" or the "Company" are to NICE-Systems Ltd., a compa organized under the laws of the State of Israel, and its wholly owned subsidiaries. For a list of our significant subsidiaries, please refer to page 51 of this annual report.

In this annual report, unless otherwise specified or unless the context otherwise requires, all references to "$" or "dollars" are to U.S. Dollars, all references to "EUR" are to Euros, all references to "GBP" are to British Pounds, all references to "CHF" are to Swiss Francs and all references to "NIS" are to New Israeli Shekels. Except as otherwise indicated, the financial statements of and information regarding NICE are presented in U.S. dollars.

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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

The following selected consolidated balance sheet data as of December 31, 2014 and 2015 and the selected consolidated statements of income data for the years ended December 31, 2013, 2014 and 2015 have been derived from our audited Consolidated Financial Statements. These financial statements have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP, and audited by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global. The selected consolidated statements of income data as of December 31, 2011 and 2012 and the selected consolidated balance sheet data for the years ended December 31, 2011, 2012 and 2013 have been derived from other Consolidated Financial Statements not included in this annual report and have also been prepared in accordance with U.S. GAAP and audited by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5, “Operating and Financial Review and Prospects” and the Consolidated Financial Statements and notes thereto and other financial information included elsewhere in this annual report.

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	(U.S. dollars in thousands, except per share data)				
OPERATING DATA:					
Revenues					
Products	$ 258,165	$ 276,319	$ 280,140	$ 289,560	$ 317,900
Services	412,789	482,552	541,375	582,435	608,967
Total revenues	670,954	758,871	821,515	871,995	926,867
Cost of revenues					
Products	68,894	78,878	69,335	63,919	66,363
Services	180,771	215,519	230,279	239,592	237,219
Total cost of revenues	249,665	294,397	299,614	303,511	303,582
Gross profit	421,289	464,474	521,901	568,484	623,285
Operating expenses:					
Research and development, net	87,270	103,818	115,431	123,141	128,485
Selling and marketing	160,669	194,346	214,579	231,097	225,817
General and administrative	94,414	94,654	86,467	83,360	90,349
Amortization of acquired intangible assets	22,528	31,455	29,438	19,157	12,528
Restructuring expenses	-	1,870	527	5,435	-
Total operating expenses	364,881	426,143	446,442	462,190	457,179
Operating income	56,408	38,331	75,459	106,294	166,106
Financial income and other net	10,625	8,268	3,927	3,765	5,304
Income before taxes on income	67,033	46,599	79,386	110,059	171,410
Taxes on income (tax benefits)	11,260	(14,799)	26,915	9,909	30,832
Net income from continuing operations	55,773	61,398	52,471	100,150	140,578
Discontinued operations:					
Gain on disposal and (loss) income from operations	2,616	7,301	4,294	4,965	152,459
Taxes on income	1,126	805	1,490	2,040	34,206
Net income on discontinued operations	1,490	6,496	2,804	2,925	118,253
Net income	57,263	67,894	55,275	103,075	$ 258,831
Basic earnings per share from continuing operations	$ 0.89	$ 1.01	$ 0.87	$ 1.69	$ 2.36
Basic earnings per share from discontinued operations	$ 0.02	$ 0.10	$ 0.05	$ 0.05	$ 1.99
Basic earnings per share	$ 0.91	$ 1.11	$ 0.92	$ 1.74	$ 4.35
Weighted average number of shares used in computing basic earnings per share (in thousands)	62,924	60,905	60,388	59,362	59,552
Diluted earnings per share from continuing operations	$ 0.87	$ 0.99	$ 0.85	$ 1.64	$ 2.29

Diluted earnings per share from discontinued operations	$	0.02	$	0.10	$	0.04	$	0.05	$	1.93
Diluted earnings per share	$	0.89	$	1.09	$	0.89	$	1.69	$	4.22
Weighted average number of shares used in computing diluted earnings per share (in thousands)		64,241		62,261		61,830		60,895		61,281

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	At December 31, 2011	2012	2013	2014	2015
BALANCE SHEET DATA*:					
Working capital	$ 163,398	$ 122,108	$ 61,023	$ 107,090	$ 256,089
Total assets	1,575,344	1,649,676	1,646,030	1,632,952	1,849,613
Shareholders' equity	1,158,644	1,191,088	1,204,796	1,213,456	1,415,149

*Including assets and liabilities that were accounted as discontinued operations

Risk Factors

Risks Relating to Global Economy, Competition and Markets

Conditions and changes in the local and global economic environments may adversely affect our business and financial results.

Adverse economic conditions in markets in which we operate can harm our business, and our results of operations can be affected by adverse changes in local and global economic conditions, slowdowns, recessions, economic instability, political unrest, armed conflicts or natural disasters around the world. To the extent that our business suffers as a result of such unfavorable economic and market conditions, our operating results may be materially adversely affected. In particular, enterprises may reduce spending in connection with their contact centers, financial institutions may reduce spending in relation to trading floors and operational risk management (as IT-related capital expenditures are typically lower priority in times of economic slowdowns), and our customers may prioritize other expenditures over our solutions. In addition, enterprises' ordering and payment patterns are influenced by market conditions and could cause fluctuations in our quarterly results. If any of the above occurs, and our customers or partners significantly reduce their spending or significantly delay or fail to make payments to us, our business, results of operations, and financial condition would be materially adversely affected.

In addition, over half of our sales are generated from North America. If there is deterioration or a crisis in the economic and financial stability in the United States, particularly in the financial services sector (which is our main industry vertical), our top tier customers could reduce spending, delay or postpone orders. This could have a material adverse effect on our sales in this region and our results of operations. Any such deterioration in the economic condition in the United States could also negatively impact the accuracy of our forecast of future trends and make plans for our future business development.

Disruption to the global economy could also result in a number of follow-on effects on our business, including a possible (i) slow-down in our business, resulting from lower customer expenditure, inability of customers to pay for products and services, insolvency of customers or insolvency of key partners and vendors, (ii) negative impact on our liquidity, financial condition and share price, which may impact our ability to raise capital in the market, obtain financing and secure other sources of funding in the future on terms favorable to us, and (iii) decreases in the value of our assets that are deemed to be other than temporary, which may result in impairment losses.

We face risks relating to our global operations.

We sell our products and solutions throughout the world and intend to continue to increase our penetration of international markets. In each of 2013, 2014 and 2015, approximately 99% of our total sales were derived from sales to customers outside of Israel. Our future results could be materially adversely affected by a variety of factors relating to international transactions, including:

- governmental controls and regulations, including import or export license requirements, trade protection measures and changes in tariffs;

- changes in applicable international and local laws, regulations and practices, including those related to trade compliance, anticorruption, data privacy and protection, tax, labor, employee benefits, customs, currency restrictions and other requirements;

- changes in foreign currency exchange rates;

- longer payment cycles in certain countries in our geographic areas of operations; and

- general difficulties in managing our global operations.

Changes in the political or economic environments in the countries in which we operate, particularly in emerging markets, as well as the impact of economic conditions on underlying demand for our products and services, could have a material adverse effect on our financial condition, results of operations and cash flows.

As we continue to explore the expansion of our global reach, including in emerging markets, we may be faced with risks that are more significant than if we were to do business in developed countries, which risks include less developed legal systems, unstable governments and economies, and governmental actions that may affect the flow of goods and currency. We cannot assure you that one or more of these factors will not have a material adverse effect on our international operations, business, financial condition and results of operations.

As a result of our global presence, especially in emerging markets, we face increasing challenges that could adversely impact our results of operations, reputation and business.

In light of our global presence, especially in emerging markets such as those in Asia, Eastern Europe and Latin America, we face a number of challenges in certain jurisdictions related to poor protection of intellectual property, inadequate protection against crime (including bribery, corruption and fraud), breaches of local laws or regulations, competition from companies that are already present in the market and difficulties in recruiting sufficient personnel with appropriate skills and experience. In addition, local business practices in jurisdictions in which we operate, and particularly in emerging markets, may be inconsistent with international regulatory requirements, such as anti-corruption and anti-bribery laws and regulations (including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act) to which we are subject. Although we implement policies and procedures designed to ensure compliance with these laws, we cannot guarantee that none of our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies or applicable law. Any such violation could have an adverse effect on our business and reputation, and may expose us to criminal or civil enforcement actions, including penalties and fines.

The markets in which we operate are highly competitive and we may be unable to compete successfully.

The markets for our products, solutions and related services are, in general, highly competitive. Our competitors include a number of large, established developers and distributors. Some of our principal competitors or potential competitors may have advantages over us, including greater resources, a broader portfolio of products, applications and services, larger patent and intellectual property portfolios and access to larger customer bases, all of which would enable them to adapt better to new or emerging technologies or customer requirements or devote more resources to the marketing and sale of their products and services. Additionally, continued price reductions by some of our competitors, particularly at times of economic difficulty, may result in our loss of sales or require that we reduce our prices in order to compete, which would adversely affect our revenues, gross margins and results of operations.

Additional competition from new potential entrants to our markets may lead to the widespread availability and standardization of some of the products and services, which could result in the commoditization of our products and services, reduce the demand for our products and services and drive us to lower our prices.

In recent years, some of our competitors, including some of our partners, have increased their presence through internal development, partnerships and acquisitions. Infrastructure vendors, including suppliers of telecommunication infrastructure equipment, have decided or may decide in the future to enter our market space and compete with us by offering comprehensive solutions. Moreover, major enterprise software vendors, such as those from the traditional enterprise business intelligence and business analytics sector, Customer Relationship Management (or "CRM"), or infrastructure players (mostly telephony or switch vendors), have entered or may decide to enter our market space and compete with us, either by internal development of comprehensive solutions or through acquisition of any of our existing competitors. If we are not able to compete effectively with these market entrants or other competitors, we may lose market share and our business, financial condition or results of operations could be adversely affected.

While the market for our software applications is constantly growing, successful positioning and sales execution of our products is a critical factor in our ability to successfully compete and maintain growth. As a result, we expect to continue making significant expenditures on research and development and marketing. In addition, our software solutions may compete with software developed internally by potential clients, as well as software and other solutions offered by competitors. We cannot ensure that the market awareness or demand for our new products or applications will grow as rapidly as we expect, or that the introduction of new products or technological developments by others will not adversely impact the demand for our products.

Successful marketing of our products and services to our customers and partners will be critical to our ability to maintain growth. We cannot assure you that our products or existing partnerships will permit us to compete successfully. The market for some of our solutions is highly fragmented and includes products offering a broad range of features and capabilities. Consolidation through mergers and acquisitions, or alliances formed, among our competitors in this market, who may have greater resources than we have, could substantially influence our competitive position.

As we expand into new markets, we are faced with new competition, which may be able to more quickly develop or adapt to new or emerging technologies, better respond to changes in customer requirements or preferences, or devote greater resources to the development, promotion, and sale of their products.

Prices of most of our solutions have decreased throughout the market in recent years, primarily due to competitive pressures, and may continue to decrease. This could have a negative effect on our gross profit and results of operations.

If we are unable to develop or maintain our relationships with existing and new distributors and strategic partners, our business and financial results could be materially adversely affected.

We have agreements in place with many distributors, dealers and resellers to market and sell our products and services in addition to our direct sales force. In certain regions, such as Asia and Eastern Europe, we predominantly work through such partners. Our financial results could be materially adversely affected if our contracts with distribution channel partners or our other partners were terminated, if our relationship with our distribution channel partners or our other partners were to deteriorate, or if the financial condition of our distribution channel partners or our other partners were to weaken.

We believe that developing partnerships and strategic alliances is an important factor in our success in marketing our products. In some markets we have only recently started to develop a number of partnerships and strategic alliances. We may not be able to develop such partnerships or strategic alliances on terms that are favorable to us, if at all. Failure to develop such arrangements that are satisfactory to us may limit our ability to successfully market and sell products and may have a material adverse effect on our business and results of operations.

As our market opportunities change, our reliance on particular distribution channels and strategic partners may increase or we may need to create new strategic partnerships and alliances to address changing market needs, all of which may negatively impact our growth and gross margins. We may not be successful in maintaining, creating or expanding these channels and partnerships.

In addition, the execution of our growth strategy also depends on our ability to create new alliances and enter into strategic partnerships with certain market players. Even if we are able to enter into such alliances, it may be under terms that are not favorable to us, or we may not be able to realize the benefits that are anticipated through such alliances. If we are not successful at these efforts, we may lose sales opportunities, customers and market share, which may have a material adverse effect on our business and results of operations.

The markets in which we operate are characterized by rapid technological changes and frequent new products and service introductions.

We operate in several markets, each characterized by rapidly changing technology, new product introductions and evolving industry standards. The introduction of products embodying new technology and the emergence of new industry standards might exert price pressures on our existing products or render them obsolete. Our markets are also characterized by consistent demand for state of the art technology and products. Existing and potential competitors might introduce new and enhanced products that could adversely affect the competitive position of our products. One of our most significant markets is the market for Customer Interaction applications. Customer Interaction applications are utilized by entities in various sectors to capture, store, retrieve and analyze recorded data. The market for our Customer Interaction applications is, in particular, dominated by a group of highly competitive vendors that are introducing dynamic competitive offerings around evolving industry standards.

We believe that our ability to anticipate changes in technology and industry standards and to successfully develop and introduce new, enhanced and differentiated products, on a timely basis, in each of the markets in which we operate, is a critical factor in our ability to grow our business. As a result, we expect to continue to make significant expenditures on research and development, particularly with respect to new software applications, which are continuously required in all our business areas. Moreover, in the event that we do not anticipate changes in technology or industry practices or fail to timely address market needs or not be able to provide the products that are in demand, we may lose market share and our results of operations may be materially adversely affected.

The growth of new communication channels could require substantial modification and customization of our current cross-channel products, as well as the introduction of new multi-channel products. Further, customer adoption of these new technologies may be slower than we anticipate. We cannot assure you that the market or demand for our products and solutions will be sustained or grow as rapidly as we expect (if at all), that we will successfully develop new products or introduce new applications for existing products, that such new products and applications will achieve market acceptance, or that the introduction of new products or technological developments by others will not render our products obsolete. In addition, our products must readily integrate with major third party security, telephone, front-office and back-office systems. Any changes to these third party systems could require us to redesign our products, and any such redesign might not be possible on a timely basis or achieve market acceptance. Our inability to develop products that are competitive in technology and price and responsive to customer needs could have a material adverse effect on our business, financial condition and results of operations.

Therefore, some of the factors that could have a material adverse effect on our business, financial condition and results of operations include industry-specific factors; our ability to continuously develop, introduce, deliver and support commercially viable products, solutions and technologies; the market's rate of acceptance of the product solutions and technologies we offer; our ability to keep pace with market and technology changes; and our ability to compete successfully.

We depend on certain infrastructure vendors' installation base for a significant portion of our recurring sales.

We sell our products, either directly or through our other distribution channels, to customers who use infrastructure of our distributors or of other vendors, or operate in their environment. To the extent that certain infrastructure vendors do not allow or support the integration of our products with their infrastructure or products, or use other means to prevent us from selling our products to such customers, we may experience a reduction in sales to these customers, which is broader than such infrastructure vendors' direct business with us. This could, of course, influence our ability to continue rendering maintenance services and other services and generate recurring sales to these customers. As a result, we could lose customers and market share, which could have a material adverse effect on our business, financial condition, or results of operation.

General Risks Relating to Our Business, Offerings and Operations

We depend on the stability of the financial services sector.

The financial services sector is our main industry vertical. If there is deterioration or a crisis in the economic and financial stability of financial institutions, customers in this sector, including our top tier customers, could reduce spending or delay or postpone orders. This could have a material adverse effect on our sales to this sector and our results of operations.

We depend on the success of our recording solutions.

Our recording solutions are based on a computer telephony integrated multi-channel voice recording and retrieval system. We are dependent on the success of our recording solutions to maintain profitability and sustain growth. Our recording solutions currently generate, and in recent years have generated, a significant portion of our revenues, and we will continue to be dependent on the sales of our recording solutions and recurring revenues, such as maintenance services, in the next several years. However, there can be no assurance that the recording market will continue to grow. Also, certain switch manufacturers offer various types of recording solutions, which could result in a significant decline in sales of our recording solutions and in sales of related applications, or a significant decrease in the profit margin on such solutions, any of which could have a material adverse effect on our business, financial condition or results of operations.

The trend of enterprise customers moving from voice to other means of communication with the enterprise (such as self-serve, e-mail, instant messaging, social media and chat), may result in a reduction in the demand for our voice recording platform and applications. If such trend continues, our customers may cease to record voice and switch to recording other means of communication. In addition, changes in regulations could reduce the need for recording, which would reduce the demand for our recording and platform. Any of the above may have a material adverse effect on our business, financial condition or results of operations.

Our failure to successfully adapt and transform our products to offer cloud-based solutions and compete successfully in such market could negatively affect our future financial results.

In recent years, customers have embraced cloud computing, changing the way they source business solutions by moving from on-premise to cloud-based solutions, increasing the demand for hosted and cloud-based Software-as-a-Service (or "SaaS"). Although we are adapting and transforming our delivery options to include on-premise, hosted, cloud-based SaaS, or blended-hybrid deployment offerings, we may not be successful in our ability to adapt and transform our offerings to the cloud and we may not be able to timely and adequately meet customer needs. As a result, we may be unsuccessful at competing with vendors in the market that offer cloud-based solutions to cater for such customer needs, all of which could have an adverse effect on our business, financial condition and results of operations.

In addition, cloud computing may make it easier for new competitors to enter our markets due to the lower up-front technology costs and easier implementation and for existing market participants to compete with us on a greater scale. Such increased competition is likely to heighten the pressure to decrease pricing, which could have a negative effect on our revenues and results of operations.

Infrastructure players and others are introducing a "contact center as a service" cloud-based solution that includes features and functionality currently supplied by us. With the strengthening of this trend, we may be faced with a new type of competition. If we are not able to create an integrated experience for our customers in the form of an integrated suite we may lose sales, which could have a material adverse effect on our business, financial condition or results of operations.

The business model of SaaS differs from the business model for the sale of products and services, particularly in that the period for recognizing the revenue from such orders is often spread over a number of fiscal quarters rather than being tied to a single date. Therefore, a significant shift to SaaS based sales could result in a delay in revenue recognition and materially adversely affect our results of operations and our rate of growth and profitability.

The increasing prevalence of a cloud delivery model offered by us and our competitors may unfavorably affect pricing in each of 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.

The sale of advanced software applications and a multi-product offering requires significant resources and may also delay our recognition of revenues.

Providing advanced software applications and a multi-product offering requires, among other things, the continuous evolution of our sales force, maintenance and support offerings, manpower, research and development, and customer installation methods, as well as our route to market. The sale of advanced software applications is also subject to prolonged processes of customization, implementation and testing. Therefore, the sale of advanced software applications may lead to a longer period between the time we "book" an order and the time we recognize the revenue from such orders. These factors could result in a delay in revenue recognition and materially adversely affect our results of operations.

A significant portion of our business relies on software applications. We cannot guarantee that our customers' adoption of advance software applications will meet our expectation and planning. As a result, certain applications may not reach the critical mass in sales and revenues necessary to offset the high cost of developing and maintaining such advanced applications, which could negatively affect our results of operation.

We depend on a small number of significant customers.

While no single customer of ours accounted for more than five percent of our aggregate revenues in 2015, we do have a small number of significant customers in each sector of our business, each of which could be material to a particular area of our business.

We expect that sales of our products and services to relatively few significant customers could continue to account for a substantial percentage of our sales in the foreseeable future. There can be no assurance that we will be able to retain these key customers or that such customers will not cancel purchase orders, reschedule, or decrease their level of purchases. Loss, cancellation or deferral of business to such customers could have a material adverse effect on our business and operating results.

We may not be able to successfully execute our growth strategy.

Our strategy is to continue investing in, enhancing and securing our business and operations and growing our business, both organically and through acquisitions. Investments in, among other things, new markets, products, solutions, and technologies, research and development, infrastructure and systems, geographic expansion, and additional qualified and experienced personnel, are critical to achieving our growth strategy. However, such investments and efforts may not be successful, and, even if successful, may negatively impact our short-term profitability. Furthermore, in the event of an acquisition we may decide to reduce profits over the short-term in order to achieve long-term expansion or growth, which may involve risks.

Our success depends on our ability to execute our growth strategy effectively and efficiently. If we are unable to execute our growth strategy successfully and properly manage our investments and expenditures, our results of operations and stock price may be materially adversely affected. In addition, as a result of the execution of our growth strategy, our short term profitability may be negatively impacted, including as a result of an acquisition.

We cannot assure you that we will be able to sustain our growth in future years. The increasing proportion of advanced software applications in our overall sales mix might not compensate for the slowing growth rates of our recording solutions and other more mature products. In addition, our new solutions might not achieve wide market acceptance, and therefore might fail to support revenue growth. The failure to implement our growth strategy successfully could affect our ability to sustain growth and could materially adversely affect our results of operations.

Our business could be materially adversely affected as a result of the risks associated with acquisitions and investments. In particular, we may not succeed in making additional acquisitions or be effective in integrating such acquisitions.

As part of our growth strategy, we have made a significant number of acquisitions (see Item 5, "Operating and Financial Review and Prospects—Recent Acquisitions" in this annual report for a description of certain of these acquisitions). We expect to continue to make acquisitions and investments in the future as part of our growth strategy. We frequently evaluate the tactical or strategic opportunity available related to complementary businesses, products or technologies. There can be no assurance that we will be successful in making additional acquisitions. Even if we are successful in making additional acquisitions, integrating an acquired company's business into our operations or investing in new technologies may (1) result in unforeseen operating difficulties and large expenditures and (2) absorb significant management attention that would otherwise be available for the ongoing development of our business, both of which may result in the loss of key customers or personnel and expose us to unanticipated liabilities.

In recent years, several of our competitors have also completed acquisitions of companies in our markets or in complementary markets. As a result, it may be more difficult for us to identify suitable acquisitions or investment targets or to consummate acquisitions or investments once identified on acceptable terms or at all. If we are not able to execute on our acquisition strategy, we may not be able to achieve our growth strategy, may lose market share, or may lose our leadership position in one or more of our markets.

We often compete with others to acquire companies, and such competition may result in decreased availability of, or an increase in price for, suitable acquisition candidates. We also may not be able to consummate acquisitions or investments that we have identified as crucial to the implementation of our strategy for other commercial or economic reasons. Further, we may not be able to obtain the necessary regulatory approvals, including those of competition authorities and foreign investment authorities, in countries where we seek to consummate acquisitions or make investments. For those and other reasons, we may ultimately fail to consummate an acquisition, even if we announce the intended acquisition.

In the future we may require significant financing to complete an acquisition or investment, whether through bank loans, raising of debt or otherwise. We cannot assure you that such financing options will be available to us on reasonable terms, or at all. If we are not able to obtain the necessary financing, we may not be able to consummate a substantial acquisition or investment and execute our growth strategy. In addition, if we consummate one or more significant acquisitions in which the consideration consists, in whole or in part, of our ordinary shares or American Depositary Shares ("ADSs") representing our ordinary shares, our shareholders may suffer immediate dilution of their interests in us or the value of their interests in us.

Other risks commonly encountered with acquisitions include the effect of the acquisition on our financial and strategic position, the inability to integrate successfully or commercialize acquired technologies and achieve expected synergies or economies of scale on a timely basis and the potential impairment of acquired assets. Further, we may not be able to retain the key employees that may be necessary to operate the business we acquire and we may not be able to attract, in a timely manner, new skilled employees and management to replace them.

There can be no assurance that the anticipated benefits of any acquisition or investment will be realized. Future acquisitions or investments could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, amortization expenses related to intangible assets and impairment of goodwill, any of which could have a material adverse effect on our operating results and financial condition. In addition, we may knowingly enter into an acquisition that will have a dilutive impact on our earnings per share.

Due to changes in the industry and market conditions, we could also be required to realign our resources and consider restructuring or other action, which could result in an impairment of goodwill.

Our seasonal sales patterns could significantly impact our revenues and earnings.

The sales cycle for our products and services is ranging between a few weeks to several months from initial contact with the potential client to the signing of a contract. Frequently, sales orders accumulate towards the latter part of a given quarter. In addition, our revenues are typically highest in the fourth quarter and lowest in the first quarter. We believe this seasonality is typical for many software companies and that it may become more pronounced as the proportion of advanced software applications in our overall sales mix continues to increase. Additionally, as a high percentage of our expenses, particularly employee compensation and other overhead costs, are relatively fixed, a variation in the level of sales, especially at or near the end of any quarter, may have a material adverse impact on our quarterly operating results.

In addition, our quarterly operating results may be subject to significant fluctuations due to other factors, including the timing and size of orders and shipments to customers (including delays in execution of customer orders), variations in distribution channels, mix of products and services, new product introductions, competitive pressures and general economic conditions. It is difficult to predict the exact mix of products for any period between hardware, software and services as well as within the product category between interaction-related platforms and related applications and transactional related platforms and applications. Further, the period of time from order to delivery of our platforms and applications is short, and therefore our backlog for such products is currently, and is expected to continue to be, small and substantially unrelated to the level of sales in subsequent periods. As a result, our results of operations for any quarter may not necessarily be indicative of results for any future period, and may be below our forecasts.

Our quarterly results may be volatile at times, which could cause us to miss our forecasts.

Historically, our revenues have reflected seasonal fluctuations related to slower spending activities in the first quarter, and the increased activity related to the year-end purchasing cycles of many users of our products. We believe that we will continue to encounter quarter-to-quarter seasonality, especially given the increasing proportion of advanced software applications in our overall sales mix. Moreover, we typically enter into a significant number of transactions in the last week of a given quarter. As a result, transactions that do not meet all the recognition criteria of that quarter may only be recognized in the following quarter, which may have an adverse impact on the booking and revenues in the quarter in which such transactions were entered into. In addition, the timing in which transactions are entered into may shift from one quarter to another. Customers often shift their buying decision towards the end of their budgetary year, which could result in the shifting of booking and revenues from one quarter to another and in many cases to the last quarter of a calendar year, which may also have an adverse impact on the booking and revenues in the quarter during which such transactions were to be entered into.

We operate with a backlog and face factors such as timing and volume of orders within a given period that affect our ability to fulfill these orders and to determine the amount of our revenues within the period.

We derive a substantial portion of our sales through indirect channels, making it more difficult for us to predict revenues because we depend partially on estimates of future sales provided by third parties. In addition, changes in our arrangements with our network of channel partners or in the products they offer, such as the introduction of new support programs for our customers, which combines support from our channel partners with back-end support from us, could affect the timing and volume of orders. Furthermore, our expense levels are based, in part, on our expectations as to future revenues. If our revenue levels are below expectations, our operating results are likely to be adversely affected, since most of our expenses are not variable in the short term.

Our ability to forecast our operating results is also affected by the fact that pricing, margins, and other deal terms may vary substantially from transaction to transaction, especially across business lines.

We generally provide our expectations as to future revenues in the coming quarters and year. These expectations are based on management estimation and expectation, the existing backlog and an analysis of assumptions and assessments that may not materialize or end up being inaccurate. We might not meet our expectations or those of industry analysts in a particular future quarter, including as a result of the factors described above as well as other factors mentioned in Item 3, "Key Information" in this annual report.

We depend on our ability to recruit and retain key personnel.

In order to compete, we must recruit and retain executives and other key employees. Hiring and retaining qualified executives and other key employees is critical to our business, and competition for highly qualified and experienced managers in our industry is intense. There is no guarantee that additional key management members will not leave the Company, or if they do, that we will be able to identify and hire qualified replacements, or that the transition of new personnel will not cause disruption in our business.

In addition, due to our growth, or as a result of regular recruitment, we will be required to hire and integrate new employees. Recruiting and retaining qualified engineers and computer programmers to perform research and development and to commercialize our products, as well as qualified personnel to market and sell those products, are critical to our success. As of December 31, 2015, approximately 25% of our employees were devoted to research and product development and approximately 21% were devoted to marketing and sales. There can be no assurance that we will be able to successfully recruit and integrate new employees.

There is intense competition to recruit highly skilled employees in the technology industry. We have suffered from attrition in our workforce in previous years and we believe that such attrition will continue in the future. We may not be able to offer current and potential employees a compensation package that is satisfactory in order to keep them within our employment.

In certain locations in which we have development centers, the rate of attrition is high and could have a negative impact on our ability to retain our employees in such centers, timely develop our products and service our customers. In addition, the migration of development and other activities and functions to low-cost countries may result in disruption to our business due to differing levels of employee knowledge, expertise and organizational and leadership skills, greater employee attrition and increased cost of retaining our most highly-skilled employees.

An inability to attract and retain highly qualified employees may have an adverse effect on our ability to develop new products and enhancements for existing products and to successfully market such products, all of which would likely have a material adverse effect on our results of operations and financial position. Our success also depends, to a significant extent, upon the continued service of a number of key management, sales, marketing and development employees, the loss of any of whom could materially adversely affect our business, financial condition and results of operations.

If we lose our key suppliers, our business may suffer.

Certain components and subassemblies that are used in the manufacture of our existing products are purchased from a single or a limited number of suppliers. In the event that any of these suppliers are unable to meet our requirements in a timely manner or that our relationship with any such supplier is terminated, we may experience an interruption in production until an alternative source of supply can be obtained. Any disruption, or any other interruption of a supplier's ability to provide components to us, could result in delays in making product shipments, which could have a material adverse effect on our business, financial condition and results of operations.

Further, as suppliers discontinue their products, or modify them in manners incompatible with our current use, or use manufacturing processes and tools that could not be easily migrated to other vendors, we could have significant delays in product availability, which would have a significant adverse impact on our results of operations and financial condition. Although we generally maintain an inventory for some of our components and subassemblies to limit the potential for an interruption and we believe that we can obtain alternative sources of supply in the event our suppliers are unable to meet our requirements in a timely manner, we cannot assure you that our inventory and alternative sources of supply would be sufficient to avoid a material interruption or delay in production and in availability of spare parts.

We rely on software from third parties. If we lose the right to use that software, we would have to spend additional capital to redesign our existing software to adhere to new third party providers or develop new software.

We integrate and utilize various third party software products as components of our products and solutions to enhance their functionality. Our business could be disrupted if functional versions of these software products were either no longer available to us or no longer made available to us on commercially reasonable terms. In addition, some of our third party vendors use proprietary technology and software code that could require significant redesign of our products in the case of a change in vendor. If we lost the right to use such third party software, we would be required to spend additional capital to either redesign our software to function with alternate third party software or develop these components ourselves. As a result, we might be forced to limit the features available in our current or future products and solutions offerings and the commercial release of our products and solutions could be delayed.

Incorrect or improper use of our products and solutions or failure to properly provide professional services and maintenance services could result in negative publicity and legal liability.

Our products and solutions are complex and are deployed in a wide variety of network environments. The proper use of our software requires training and, if our software products are not used correctly or as intended, there may be inaccurate results. Our products may also be intentionally misused or abused by clients who use our products. The incorrect or improper use of our products and solutions or our failure to properly provide professional services and maintenance services, including installation, training, project management, product customizations and consulting to our clients may result in losses suffered by our clients, which could result in negative publicity and product liability or other legal claims against us.

Undetected errors or malfunctions in our products or solutions could directly impair our financial results and we could face potential product liability claims.

Our software products are highly complex. Despite extensive testing by us and by our clients, our products may include errors, failures, bugs or other weaknesses. Such errors, failures, bugs or other weaknesses in our products could result in product returns, loss of or delay in market acceptance of our products, loss of competitive position, or claims by clients or others, which would seriously harm our revenues, financial condition and results of operations. Correcting and repairing such errors, failures or bugs could also require significant expenditures of our capital and other resources and could cause interruptions, delays or cessation of our product licensing.

In addition, the identification of errors in our software applications or the detection of bugs by our clients may damage our reputation in the market as well as our relationships with existing clients, which may result in our inability to attract or retain clients.

Further, since our products are used for, among other things, compliance recording and operational risk management functions that are often critical to our clients and must adhere to certain rules and regulations, we are potentially subject to product liability claims. In particular, some of our customers, including financial institutions, may suffer significant damages as a result of a failure of our solutions to perform their functions. Although we attempt to limit any potential exposure through quality assurance programs, insurance and contractual terms, we cannot assure you that we will be able to eliminate or successfully limit our liability for any failure of our solutions. Any product liability insurance we carry may not be sufficient to cover our losses resulting from any such product liability claims. The successful assertion of one or more large product liability claims against us could have a material adverse effect on our results of operations and financial condition.

Risks Relating to Our Financial Condition

We face foreign exchange currency risks.

Exchange rate fluctuations affect our operations. We experience risks from fluctuations in the value of the NIS, EUR, GBP and other currencies compared to the dollar, the functional currency in our financial statements. A significant portion of the expenses associated with our Israeli operations, including personnel and facilities related expenses, are incurred in NIS, whereas most of our business and revenues are generated in dollars, and to a certain extent, in GBP, EUR and other currencies. If the value of the dollar decreases against the NIS, our earnings may be negatively affected. In addition, a significant portion of the expenses associated with our European operations are incurred in GBP and EUR. As a result, we may experience an increase in the costs of our operations, as expressed in dollars, which could adversely affect our earnings.

We monitor foreign currency exposure and may use various instruments to preserve the value of sales transactions, expenses and commitments; however, this cannot assure our full protection against risks of currency fluctuations that could affect our financial results. As part of our efforts to mitigate these risks, we use foreign currency hedging mechanisms, which may be ineffective in protecting us against adverse currency fluctuations and can also limit opportunities to profit from exchange rate fluctuations that would otherwise be favorable. For information on the market risks relating to foreign exchange, please see Item 11, “Quantitative and Qualitative Disclosures about Market Risk” in this annual report.

Additional tax liabilities could materially adversely affect our results of operations and financial condition.

As a global corporation, we are subject to income and other taxes both in Israel and various foreign jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid or accrued is subject to our interpretation of applicable laws in the jurisdictions in which we do business. From time to time, we are subject to income and other tax audits in various jurisdictions, the timing of which is unpredictable. While we believe we comply with applicable tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes. If we are assessed additional taxes, it could have a material adverse effect on our results of operations and financial condition.

In recent years we have seen changes in tax laws resulting in an increase in applicable tax rates, especially increased liabilities of corporations and limitations on the ability to benefit from strategic tax planning, with these laws particularly focused on international corporations. Such legislative changes in one or more jurisdictions in which we operate may have implications on our tax liability and have a material adverse effect on our results of operations and financial condition.

The Organization for Economic Cooperation and Development has recently introduced the base erosion and profit shifting ("BEPS") project. The BEPS project contemplates changes to numerous international tax principles, as well as national tax incentives, and these changes, if adopted by individual countries, could adversely affect our provision for income taxes.

We might recognize a loss with respect to our financial investments.

We invest most of our cash through a variety of financial investments. If the obligor of any of our financial investments defaults or undergoes reorganization in bankruptcy, we may lose a portion of such investment and our assets and income may decrease. In addition, a downturn in the credit markets or the downgrading of the credit rating of our investments could result in a reduction in the market value of our holdings and reduce the liquidity of our investments, which could require us to recognize a loss and would adversely affect our assets and income. For information on the types of our investments, see Item 11, "Quantitative and Qualitative Disclosures About Market Risk" in this annual report.

Risks Relating to Intellectual Property and Data Protection

We may face risks relating to inadequate intellectual property protection and liability resulting from infringement by our products or solutions of third party proprietary rights.

Our success is dependent, to a significant extent, upon our proprietary technology. We currently hold 135 U.S. patents and 50 patents issued in additional countries covering substantially the same technology as the U.S. patents. We have over 72 patent applications pending in the United States and other countries. We rely on a combination of patent, trade secret, copyright and trademark law, together with non-disclosure and non-competition agreements, as well as third party licenses to establish and protect the technology used in our systems. However, we cannot assure you that such measures will be adequate to protect our proprietary technology, that competitors will not develop products with features based upon, or otherwise similar to our systems, that third party licenses will be available to us or that we will prevail in any proceeding instituted by us in order to enjoin competitors from selling similar products. In most of the areas in which we operate, third parties also have patents which could be found applicable to our technology and products. Such third parties may include competitors, as well as large companies, which invest millions of dollars in their patent portfolios, regardless of their actual field of business. Although we believe that our products and solutions do not infringe upon the proprietary rights of third parties, we cannot assure you that one or more third parties will not make a contrary claim or that we will be successful in defending such claim.

We generally distribute our software products under software license agreements that restrict the use of our products by terms and conditions prohibiting unauthorized reproduction or transfer of the software products. However, effective copyrights and other intellectual property rights protection may be inadequate or unavailable to us in every country in which our software products are available, and the laws of some foreign countries may not be as protective of intellectual property rights as those in Israel and the United States.

In the past we received, from time to time, “cease and desist” letters alleging patent infringements. Although there are currently no formal infringement claims or other actions pending against us, in the event that we are required to defend ourselves against any such claims or actions we could be subject to substantial costs and diversion of management resources.

In addition, to the extent we are not successful in defending such claims, we may be subject to injunctions with respect to the use or sale of certain of our products or to liabilities for damages and may be required to obtain licenses which may not be available on reasonable terms. Any of these may have a material adverse impact on our business or financial condition.

We face risks relating to our use of certain “open source” software tools.

Certain of our software products contain a limited amount of open source code and we may use more open source code in the future. In addition, certain third party software that we embed in our products contains open source code. Open source code is code that is covered by a license agreement that permits the user to liberally use, copy, modify and distribute the software without cost, provided that users and modifiers abide by certain licensing requirements. The original developers of the open source code provide no warranties on such code.

As a result of our use of open source software, we could be subject to suits by parties claiming ownership of what we believe to be open source code and we may incur expenses in defending claims that we did not abide by the open source code license. In addition, third party licensors do not provide intellectual property protection with respect to the open source components of their products, and therefore we may not be indemnified by such third party licensors in the event that we or our customers are held liable in respect of the open source software contained in such third party software. If we are not successful in defending against any such claims that may arise, we may be subject to injunctions and/or monetary damages or be required to remove the open source code from our products. Such events could disrupt our operations and the sales of our products, which would negatively impact our revenues and cash flow.

Moreover, under certain conditions, the use of open source code to create derivative code may obligate us to make the resulting derivative code available to others at no cost. The circumstances under which our use of open source code would compel us to offer derivative code at no cost are subject to varying interpretations. If we are required to publicly disclose the source code for such derivative products or to license our derivative products that use an open source license, our previously proprietary software products may be available to others without charge. If this happens, our customers and our competitors may have access to our products without cost to them, which could harm our business.

We monitor our use of such open source code to avoid subjecting our products to conditions we do not intend. The use of such open source code, however, may ultimately subject some of our products to unintended conditions so that we are required to take remedial action that may divert resources away from our development efforts.

If we fail to prevent information security breaches, our operations, financial condition and reputation may be harmed.

The occurrence of information security breaches (or the belief that any such breach has occurred) in the operation of our business or by third parties using our products and solutions could harm our business, financial condition and operating results. Some of our customers use our products to compile and analyze highly sensitive or confidential information. We may come into contact with such information or data when we perform service or maintenance functions for our customers. While we have internal policies and procedures for employees in connection with performing these functions, the perception or fact that any of our employees has improperly handled sensitive information of a customer or a customer’s end user could negatively affect our business.

Cyber security attacks are becoming increasingly sophisticated and in many cases may not be identified until a security breach actually occurs. If we fail to recognize and deal with such security attacks and threats and if we fail to update our products and solutions and prevent such threatened attacks in real time to protect our customers’ or other parties’ sensitive information, whether retained in our systems or by our customers using our products, our business and reputation will be harmed.

Third parties may attempt to breach our security measures or inappropriately take advantage of our solutions, including our SaaS and hosting services, through computer viruses, electronic break-ins and other disruptions. We may be subject to lawsuits and other liability if confidential information, including passwords, financial information, or other personal information, including information of our customers, partners and vendors, may be improperly obtained by others and we may be subject to lawsuits and other liability. Any internal or external security breaches could harm our reputation and even the perception of security risks, whether or not valid, could inhibit market acceptance of our products and services.

As we increase the scale of our cloud-based offerings, we store and process more information of our customers, including personal information of end users of those customers, in the cloud. Despite our efforts to constantly improve our security controls, it is possible we may not be able to prevent the improper disclosure of such information that we or our vendors store and manage. Misuse or improper disclosure of this information could harm our reputation, lead to legal exposure to our customers, and subject us to liability, including under data protection laws. Perceptions that our products or services do not adequately protect the privacy of personal information could inhibit sales of our products or services and limit customer adoption of our cloud-based solutions.

Risks Relating to Regulatory Environment

Changes in the legal and regulatory environment could materially and adversely affect our business, results of operations and financial condition.

Our business, results of operations and financial condition could be materially and adversely affected if laws, regulations or standards relating to our business and products, us or our employees (including labor laws and regulations) are newly implemented or changed. Newly implemented laws and regulations include requirements in the United States, Europe and other territories in relation to, data privacy and protection, anti-bribery and anti-corruption, import and export, labor, tax and environmental and social issues (such as in relation to use of hazardous substances, disposal of waste and use of conflict minerals). From time to time, we may also operate pursuant to specific authorizations of, and commitments towards, U.S., Israeli or other governmental authorities and agencies. While we make every effort to comply with such requirements, we cannot assure you that we will be fully successful in our efforts, and that our business will not be harmed. Failure to comply with such laws, regulations, authorizations and commitments could results in fines, damages, civil liability and criminal sanctions against us, our officers and our employees, prohibitions on the conduct of our business and damage to our reputation.

We believe there is a global trend toward adoption and enforcement of data privacy, information security and cyber related legislation and procedures. Regulations or interpretive positions may be enforced specifically with respect to the use of SaaS and hosting services and other outsourced services. Adoption of such legislation and regulations may require that we invest in the modification of our solutions to comply with such legislation and regulations, cause a reduction in the use of our solutions and services or subject ourselves or our customers to liability resulting from a breach of such regulations. If we are unable to comply with these specific requirements or guidelines, or privacy and information security legislation in general, it could materially adversely affect our business and results of operations.

Failure to comply with privacy legislation or procedures may cause us to incur civil liability to government agencies, customers, shareholders and individuals whose privacy may have been compromised.

In addition, our revenues would be adversely affected if we fail to adapt our products and services to changes in rules and regulations applicable to the business of certain clients, such as rules and regulations regarding securities trading, broker sales compliance and anti-money laundering, which could have an impact on their need for our products and services. There are growing compliance and regulatory initiatives and changes for corporations and public organizations around the world that are driven by events and concerns such as accounting scandals, security threats and economic conditions.

While we attempt to prepare in advance for these new initiatives and standards, we cannot assure you that we will be successful in our efforts, that such changes will not negatively affect the demand for our products and services, or that our competitors will not be more successful or prepared than us. Alternatively, a reduction in the implementation of compliance and regulatory requirements in the industries in which we operate could result in a decrease in demand, which could materially and adversely affect our business and results of operations.

In certain industries in which we operate, there may be regulations or guidelines for use of SaaS and hosting services that mandate specific controls or require enterprises to obtain certain approvals prior to outsourcing certain functions. In addition, we may be limited in our ability to transfer or outsource business to certain jurisdictions, and may be limited in our ability to undertake development activity in certain jurisdictions, which may impede on our efficiency and adversely affect our business results of operations.

If we fail to maintain effective internal controls over financial reporting, it could have a material adverse effect on our business, operating results, and the price of our ordinary shares and ADSs.

Effective internal controls are necessary for us to provide reliable financial reports and prepare consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles and U.S. securities laws, as well as to effectively prevent material fraud. Because of inherent limitations, even effective internal control over financial reporting may not prevent or detect every misstatement. In addition, if we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. Furthermore, as we grow our business or acquire businesses, our internal controls may become more complex and we may require significantly more resources to ensure they remain effective. In addition, we may identify material weaknesses or significant deficiencies in our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities, and could have a material adverse effect on our business and operating results, investor confidence in our reported financial information, and the market price of our ordinary shares and ADSs.

Risks Relating to our Presence in Israel

We are subject to the political, economic and security conditions in Israel.

Our headquarters, primary research and development facilities, and a substantial percentage of our manufacturing capabilities, are located in Israel. Political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel, a number of armed conflicts have taken place, varying in degree and intensity. There have been ongoing hostilities between Israel and the Palestinians, including continuous rocket and missile attacks on certain areas of the country over the last couple of years. There can be no assurance that such attacks will not have an impact our premises or major infrastructure and transport facilities in the country, which may have a material adverse effect on our ability to conduct business.

Israel also faces threats from Hezbollah militants in Lebanon, from ISIS and rebel forces in Syria, and from Iran. Moreover, some of Israel's neighboring countries have recently undergone or are undergoing significant political changes. Any of these situations could escalate in the future and turn violent, which could affect the Israeli economy generally and us in particular, and have a negative impact on our ability to operate. In addition, acts of terrorism, armed conflicts or political instability in the region could negatively affect global and local economic conditions and harm our results of operations. Furthermore, several countries restrict doing business with Israel and Israeli companies, and additional companies may restrict doing business with Israel and Israeli companies or boycott Israel as a result of an increase in hostilities or due to disagreement with Israel's policies and agenda. This may also seriously harm our operating results, financial condition and the ability to expand our business. Our products are heavily dependent upon components imported from, and most of our sales are made to, countries outside of Israel. Accordingly, our business, financial condition and results of operations could be materially adversely affected if trade between Israel and its present trading partners were interrupted or curtailed. Our results of operations may be negatively affected by the obligation of our personnel to perform military service.

Some of our officers and employees are obligated to perform up to 36 days of annual military reserve duty, and in the event of a military conflict, including the ongoing conflict with the Palestinians, these persons could be called to active duty at any time, for extended periods of time and on very short notice. The absence of a number of our officers and employees for significant periods could disrupt our operations and harm our business. We cannot assess the full impact of these obligations on our workforce or business if conditions should change.

It may be difficult to enforce a U.S. judgment against us and our officers and directors in Israel or the United States, or to serve process on our officers and directors.

Service of process upon us, our Israeli subsidiaries, our directors and officers, and the Israeli experts, if any, named in this annual report, substantially all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because the majority of our assets and substantially all of our directors, officers, and such Israeli experts are located outside the United States, any judgment obtained in the United States against us or these individuals or entities may be difficult to collect within the United States. Additionally, it may be difficult to enforce civil liabilities under U.S. federal securities law in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters.

Subject to specific time limitations and legal procedures, Israeli courts may enforce a U.S. judgment in a civil matter, including a judgment based upon the civil liability provisions of the U.S. securities laws, as well as a monetary or compensatory judgment in a non-civil matter, provided that the following conditions are met:

- subject to limited exceptions, the judgment is final and non-appealable;
- the judgment was given by a court competent under the laws of the state in which the court is located and is otherwise enforceable in such state;
- the judgment was rendered by a court competent under the rules of private international law applicable in Israel;
- the laws of the state in which the judgment was given provides for the enforcement of judgments of Israeli courts;
- adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;
- the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties; and
- an action between the same parties in the same matter was not pending in any Israeli court at the time the lawsuit was instituted in the U.S. court.

We currently benefit from local government programs as well as international programs and local tax benefits that may be discontinued or reduced.

We derive and expect to continue to derive significant benefits from various programs including Israeli tax benefits relating to our “Preferred Enterprise” programs and certain grants from the Office of the Chief Scientist of the Ministry of Economy (or “OCS”), for research and development.

To be eligible for tax benefits as a Preferred Enterprise, we must continue to meet certain conditions. While we believe that we meet the conditions to entitle us to previously obtained Israeli tax benefits, there can be no assurance that the tax authorities in Israel will concur.

To be eligible for OCS-related grants and benefits, we must continue to meet certain conditions, including conducting the research, development, manufacturing of products developed with such OCS grants in Israel and providing the OCS with an undertaking that the know-how to be funded and any derivatives thereof is wholly owned by us, upon its creation. In addition, we are prohibited from transferring to third parties the know-how developed with these grants without the prior approval of a governmental committee and, possibly, paying a fee. See Item 4, “Information on the Company—Research and Development” in this annual report, for additional information about OCS programs.

Moreover, we participate in the European Community Framework Program for Research, Technological Development and Demonstration, which funds and promotes research. Under these programs we need to comply with certain conditions. If we fail to comply with these conditions, the benefits received could be canceled and we could be required to refund any payments previously received under these programs or pay additional amounts with respect to the grants received under these programs.

If grants, programs and benefits available to us or the laws, rules and regulations under which they were granted are eliminated or their scope is further reduced, or if we fail to meet the conditions of existing grants, programs or benefits and are required to refund grants or tax benefits already received (together with interest and certain inflation adjustments) or fail to meet the criteria for future Preferred Enterprises, our business, financial condition and results of operations could be materially adversely affected.

Provisions of Israeli law may delay, prevent or otherwise impede a merger with, or an acquisition of, our company, which could prevent a change of control, even when the terms of such a transaction are favorable to us and our shareholders.

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, 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 transactions unappealing to us or to our shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax. These and other similar provisions could delay, prevent or impede an acquisition of us or our merger with another company, even if such an acquisition or merger would be beneficial to us or to our shareholders.

See Item 10, “Additional Information—Mergers and Acquisitions” in this annual report, for additional discussion regarding anti-takeover effects of Israeli law.

Risks Relating to our ADSs and Ordinary Shares

The market price of each of our ADSs and our ordinary shares is volatile and may decline.

Numerous factors, some of which are beyond our control, may cause the market price of our ADSs and ordinary shares to fluctuate significantly. These factors include, among other things:

- Quarterly variations in our operating results;
- Changes in expectations as to our future financial performance, including financial estimates by securities
- Perceptions of our company held by analysts and investors;

- Additions or departures of key personnel;
- Announcements related to dividends;
- Development of or disputes concerning our intellectual property rights;
- Announcements of technological innovations;
- Customer orders or new products by us or our competitors;
- Acquisitions or investments by us or by our competitors and partners;
- Currency exchange rate fluctuations;
- Earnings releases by us, our partners or our competitors;
- General financial, economic and market conditions;
- Political changes and unrest in regions, natural catastrophes;
- Market conditions in the industry and the general state of the securities markets, with particular emphasis on the technology and Israeli sectors of the securities markets; and
- General stock market volatility.

Our ADSs and ordinary shares are traded on different markets and this may result in price variations.

Our ADSs have been listed on The NASDAQ Stock Market since 1996 and our ordinary shares have been traded on the Tel Aviv Stock Exchange, or the "TASE", since 1991. Trading in our securities on these markets takes place in different currencies (our ADSs are traded in U.S. dollars and our ordinary shares are traded in New Israeli Shekels), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). As a result the trading prices of our securities on these two markets may differ due to these factors. In addition, any decrease in the price of our securities on one of these markets could cause a decrease in the trading price of our securities on the other market.

Substantial future sales or the perception of sales of our ADSs or ordinary shares could cause the price of our ADSs or ordinary shares to decline.

Sales of substantial amounts of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could adversely affect the price of our ADSs and ordinary shares and could impair our ability to raise capital through the sale of additional shares. Such sales may also make it more difficult for us to sell equity or equity-related securities in the future at a time and at a desirable price.

Holders of our ADSs are not treated as shareholders of our company.

Holders of our ADSs are not treated as shareholders of our company unless they withdraw the ordinary shares underlying the ADSs from the depositary, which holds the ordinary shares underlying the ADSs. Holders of ADSs therefore do not have any rights as shareholders of our company, other than the rights that they have pursuant to the deposit agreement with the depositary.

Item 4. Information on the Company.

Company Background

NICE was founded on September 28, 1986, as NICE Neptun Intelligent Computer Engineering Ltd., and on October 14, 1991 was renamed NICE-Systems Ltd, which is our legal and commercial name. NICE is a company limited by shares organized under the laws of the State of Israel. Our headquarters are located at 13 Zarchin Street, P.O. Box 690, Ra'anana 4310602, Israel (Tel. +972-9-775-3151). In the United States, our subsidiary, NICE Systems Inc., is located at 461 From Road, Paramus, New Jersey 07652.

In the last three fiscal years, our principal capital expenditures were the acquisition of other businesses, repurchases of our ADRs and distributions of dividends. For information regarding our acquisitions and ordinary share repurchases, please see Item 5, "Operating and Financial Review and Prospects—Recent Acquisitions," and "Liquidity and Capital Resources," in this annual report. For additional information regarding our ordinary share repurchases, please also see Item 16E, "Purchases of Equity Securities by the Issuer and Affiliated Purchasers," in this annual report.

For a breakdown of total revenues by products and services and by geographic markets for each of the last three years, please see Item 5, "Operating and Financial Review and Prospects – Results of Operation," in this annual report.

About NICE

NICE is a leading global enterprise software provider that enables organizations to improve customer experience, drive business performance, ensure compliance and fight financial crime.

Our mission is to provide organizations with the confidence in making the right business decisions based on accurate, relevant and insightful information.

We help companies understand their customers and predict their needs, optimize their workforce to drive greater efficiency, and identify suspicious behaviour to prevent financial crime.

We do this by capturing customer interactions and transactions across multiple channels and sources. We then apply best-in-class analytics to this data to provide real-time insight and uncover intent. Our solutions allow organizations to operationalize this insight and embed it within their workflows and daily business processes.

Our advanced technologies and core competencies around data capture and the application of advanced analytics in real-time were developed organically and through multiple acquisitions.

We rely on several key assets to drive our growth:

- Our loyal customer base. Today, more than 20,000 organizations in over 150 countries, including 80 of the Fortune 100 companies, are using NICE solutions.

- Our market leadership makes us a well-recognized brand, and creates top-of-mind awareness for our solutions in our areas of operation.

- Our products and market leading data capture and analytics technologies, which are protected by a broad array of patents.

- Our ability to quickly drive mainstream adoption for innovative solutions and new technologies, which we introduce to the market through our direct sales force and distribution network.

- Our skilled employees and domain expertise in our core markets allows us to bring our customers the right solutions to address key business challenges and build strong customer partnerships.

- Our services and customer support, which enable our customers to quickly enjoy the benefits of our solutions, with multiple deployment models and support for full value realization.

We have established a leadership position in many of our areas of operation through offering comprehensive and innovative enterprise-grade solutions and technologies. Our customers, across all verticals, including banking, telecommunications, healthcare, insurance, retail, travel, public safety and more, are benefiting from the tangible and practical business value that our solutions provide.

Business Overview

NICE operates and is an industry leader in two domains: Customer Interactions and Financial Crime and Compliance. NICE's long term strategy is to strengthen its leadership position in these two market segments and further develop its position in adjacent markets.

During 2015, NICE achieved significant milestones in executing its long term strategy, including the divestiture of its Physical Security and Cyber and Intelligence businesses. This allows NICE to place greater focus on, and increase its leadership position in, its core markets.

Customer Interactions

Organizations that serve a large number of consumers are challenged to provide high quality service that is responsive to their customers' ever changing needs and to differentiate themselves through efficient and effective customer service. In addition they have to find ways to leverage customer interactions and generate up-sell opportunities. These organizations need to accomplish these objectives while containing their operational costs and adhering to regulations. NICE Customer Interactions solutions help organizations address these challenges.

NICE is a global leader in the Customer Interactions domain. Our portfolio of solutions serves thousands of organizations worldwide, providing cross-channel data-driven insights that empower businesses to deliver consistent and personalized experience across the customer journey. Additionally, our solutions optimize business performance and ensure compliance.

Our solutions serve contact centers, back office operations and retail branches, spanning multiple industries, including: communications, banking, insurance, healthcare, Business Processes Outsourcing (or BPO), government, utilities, travel, and entertainment.

Our customers use our solutions to know their customers better, understand their needs in real time and drive the right "best next action." In addition, they can ensure that their employees are engaged, properly trained and in a position to provide the highest quality of service.

With an engaged workforce and understanding of the intent and journey of its consumers, NICE allows its customers to provide consistent and personalized experience that customers expect, as well as improve operational efficiency, ensure regulatory compliance and increase revenues.

Financial Crime and Compliance

Financial institutions are regularly challenged with fraud prevention, anti-money laundering, and compliance adherence. They have a common need for risk management solutions that will help them keep pace with the changing threat landscape and adapt to evolving business and regulatory requirements.

NICE provides those organizations with proven capabilities for real-time and cross-channel fraud prevention, anti-money laundering, brokerage compliance and enterprise-wide case management. With this complete set of best-in-class solutions, financial institutions can tighten risk controls, lower operational and IT costs, enhance investigation efficiency, and improve customer experience.

NICE serves hundreds of organizations, including some of the world's top financial institutions and regulatory authorities. Our solutions monitor millions of financial transactions daily, enabling organizations to mitigate the risk of financial crime, improve compliance and reduce operational costs.

Industry Trends

Following are the key trends that are driving demand for our solutions:

Increased Focus on Improving Customer Experience

- Consumers demand better experiences across channels. Consumer behavior is significantly changing in terms of expectations and the way they interact with service providers. Consumers demand immediate, consistent and personalized experiences across all communication channels, including mobile apps, web, chat and over the phone. They easily and often traverse these channels depending on their task, location, time-of-day or even progress within a certain process. They view all of these channels as one, and organizations are expected to quickly adapt to the large verity of channels as well to view them in the same way their consumers do, offering a consistent experience across all channels.

- Proliferation of analytics as a main driver for successful customer engagement. Organizations are increasingly implementing a customer-centric strategy to get better visibility to their customers' multi-channel journey with them. Organizations are now moving from simple Business Intelligence tools to focused decisioning and real-time action solutions – being proactive instead of reactive and predictive/prescriptive instead of descriptive. Front, as well as back, office functions seek to employ analytics to better optimize their operations. Organizations today are exploring cognitive engagement solutions, like interactive computing, predictive analytics and machine learning.

- Regulatory compliance is becoming an increasing consideration for customer service organizations. In many industries, including financial services, healthcare and utilities regulators are focusing attention on service and sales practices as well as handling customer complaints. Regulatory bodies such as the CFPB in the U.S. are directly imposing standards of care. Organizations are responding by deploying analytics software to monitor compliance adherence and alert to regulation violations in order to proactively avoid potential fines and penalties.

- Organizations look at Big Data technologies to analyze a wealth of consumer information, derive new business insight and act in real time. Structured and unstructured data, from millions of multi-channel interactions, open up an opportunity to gain deep insight regarding customer and employee intentions and behavioral patterns. Organizations keep looking for ways to elevate their usage of Big Data and advance from glimpses of interactions and transactions to a meaningful understanding of behaviors and to identify a customer's underlying concerns. Furthermore, they strive to ensure compliance in real time, which is then translated into action and providing the best solution and accurate response.

- Preventing Financial Crime and Ensuring Compliance Stringent and evolving regulatory environment. Financial services regulators are calling for a fundamental change in the underlying culture of the entities that they regulate in order to send a strong message from the executive suite on down that protecting an institution, its customers, and its assets is of primary importance. Failings in corporate attitudes towards compliance are likely to continue to be a topic of great concern to financial services organizations. The need to ensure compliance with requirements for advanced technological solutions can be seen across customer interactions and financial services markets. Financial services organizations are increasingly being asked to document and prove to their regulators that the controls that are in place are working and effective. This is evidenced by substantial fines that have recently been levied against such institutions. Furthermore, the regulatory requirements are constantly evolving, requiring financial institutions to respond with solutions that are up to date with the latest modifications.

- An Unpredictable Threat Landscape Environment. The growing number of data breaches and cyber security incidents puts increasing amounts of personally identifiable information and sensitive data at risk of exposure. This information can be used to open accounts that can be used for laundering money, terrorist financing, account fraud, market manipulation, social engineering, and more. Such potential risks threaten an organization's reputation, as well as create large financial exposures due to both losses as well as fines. In addition, the large volumes of data having to do with both internal and external threats place an enormous operational burden on organizations dealing with threats. Having the ability to aggregate, analyze, compare, and decision those incidents and cases increasingly points to the need for a robust and comprehensive way in which cases are handled by large financial services organizations.

- An Integrated Risk Management Platform. The growing complexity of risks and increasing magnitude of exposure, as well as the sophistication of financial criminals creates a growing need for single view of all risk, which allows organizations to aggregate the different detection signals and analyze them in light of the magnitude of exposure as well as the risk level. Financial institutions are seeking a single dashboard that can aggregate all such information from across the organization and present it to both operational people as well as to executives.

Technology Trends

The following technology trends define the roadmap for our solutions and are essential to meet the future needs and requirements of our customers:

- Big Data technologies to capture and manage structured and unstructured data - Organizations generate and manage an ever-increasing amount of structured and unstructured data through a myriad of daily interactions and transactions. Consequently they are faced with a growing, unmet need to more accurately analyze and extract meaningful information from this data, in real time across multiple channels and sources and for a wide variety of business needs. As a result, organizations look for solutions to capture and manage structured and unstructured data in an integrated manner, derive meaningful insights and act proactively and preemptively.

- Real-time analytics capabilities – Deriving real-time insights over growing amounts of data is becoming essential for multiple business cases. Real-time analytics capabilities are adopted to operationalize Big Data and realize business value. These capabilities include:

  - Customer interaction analytics for mining insights from multiple channels (such as phone, email, chat, social media, etc.), transactional data (usage, action taken in the account, etc.), and personal information (demographics, segmentations, etc.).
  - Transactional analytics for preventing internal and external fraud, and for mitigating other forms of financial risk.

- Cloud technologies and SaaS business models – Cloud delivery is becoming increasingly popular in providing flexible and cost-effective deployment models for enterprise systems. These include SaaS, Infrastructure as a Service, Platform as a Service, Contact Center as a Service, and other cloud-based solutions. There are several market needs driving this trend, such as the pressure to continually improve operational efficiency and innovate, a reduced total cost of ownership (“TCO”), and the ease of implementation.

- Automation and Machine Learning - Smart and self-learning machines allow for the automated enhancement of real-time guidance and analytics-based insights (including speech and text analytics), behavior analytics and technique focused on profiling, trending and pattern detection.

Strategy

Market leadership and expansion

We intend to increase our market-leading position by continuing to offer and expand our comprehensive portfolio of solutions, differentiated by the ability to use analytics to drive decisions and actions addressing multiple business needs. Our brand, global reach, financial resources, extensive domain expertise and ability to deliver solutions for large organizations will also contribute to increasing our market-leading position.

The expansion of our delivery model to Cloud and SaaS increases the flexibility we provide to existing customers as well as our attractiveness to new customers. We intend to continue to evolve our delivery model. We also intend to use the Cloud and SaaS models to facilitate adoption of our more sophisticated solutions to the mid-market.

We intend to drive additional growth by continuing to develop our direct relationship with customers, nurturing our partner ecosystem, and creating growth in each of our business areas. Additionally, we intend to lead in new product categories, as we introduce novel solutions and enter additional market segments.

Our products and technologies can provide value in markets that are adjacent to our existing markets, such as back-office operations, alternative payment service providers, and others. We plan to expand our market reach into such adjacencies, by adapting our products and leveraging technology as well as our customer relationships and brand to expand our addressable market.

Customer Interactions Business Strategy

Our strategy is to extend our market leading position in the customer service and experience space, while continuing to expand beyond the contact center to the different customer experience channels and touch points. We will do that by providing solutions that focus on:

- Covering all customer touch points by providing solutions implemented in the contact center, as well as solutions that benefit back office operations, retail branches, and self-service channels
- Understanding the voice of the customer, across all touch points, and taking action to address the needs of Customer Experience Officers and stakeholders in the marketing department.
- Driving customer experience in each channel, and across channels.
- Analyzing individual customer journeys and operationalizing the insights extracted to create business value in real-time for customer experience and marketing stakeholders.
- Optimizing employee engagement and performance, coupled with a better understanding of customer needs and how to address them.

Financial Crime and Compliance Business Strategy

We plan to continue extending our market leading position by focusing on:

- Delivering integrated financial crime and compliance solutions that help financial services organizations to identify issues faster and earlier.
- Providing solutions to many branches of the global financial services industry while constantly attempting to engage new customers, both in tier 1 financial services organizations and in smaller financial services organizations.
- Continuing to cross-sell and up-sell into our existing customer base around the world. Many of our customers, for instance, buy our solutions as part of their Financial Intelligence Unit strategy.
- Continuing to focus on tier-1 clients, providing them with solutions to meet their needs via both cloud and on-premise models.

- Leverage cloud and SaaS to expand the reach of our high-end solutions to tier-2 customers, which provide us an opportunity to significantly enhance our addressable market.
- Increasingly selling holistic solutions, combining Financial Crime and Compliance offerings with Customer Interactions offerings.
  - Offering our solutions to verticals outside of the traditional financial services, such as energy, insurance, healthcare, industry regulators, government agencies, and alternative payments providers.

Continuing to deliver more comprehensive solutions to our existing customers

One of our main assets is our customer base. We believe there are opportunities to up-sell and cross-sell within our existing customer base. This includes increasing our customers' exposure to the full breadth of our solutions, migrating them to our next-generation portfolio, and providing them the benefits of our new and expanded offerings.

Continuing organic innovation and development, while also pursuing acquisitions

We intend to continue investing in innovation and development and plan to continue augmenting our organic growth with additional acquisitions that broaden our product and technology portfolio, expand our presence in selected vertical markets and geographic areas, broaden our customer base, and increase our distribution channels.

Maximizing the synergetic potential across some of our businesses

While we bring deep domain expertise to a diverse set of industries, most of our solutions are based on the same methodology of capturing and analyzing massive amounts of structured and unstructured data, and driving automatic decisioning and guidance in real time. Thus, an important pillar of our corporate strategy is to maximize the synergies and cooperation between our business areas, where possible.

Introducing joint offerings and combining go-to-market efforts, as well as leveraging extensive complementary domain expertise, technological know-how, capabilities and development, are expected to enable us to grow our business through additional cross-sell and up-sell opportunities. Moreover, this synergetic approach reflects a core NICE value of nurturing a corporate culture focused on delivering encompassing and high-quality customer service.

Providing innovative, real-time analytics and cross-channel solutions with significant impact for our customers' businesses

Our solutions address the growing, unmet need to more accurately analyze and extract meaningful information from structured and unstructured data in real time; and to do so across multiple channels, in a wide variety of businesses and operational environments. We enable our customers to embed both real-time and offline analytics into their business processes, positively impacting these processes as they occur, which in turn has a positive impact on their businesses.

We plan to continue to enhance our capabilities in operationalizing Big Data with analytics, behavior prediction, decisioning and guidance. We also plan to continue enabling companies to address the full lifecycle of interactions, transactions and events (i.e., before, during, and after they occur).

Offering an enterprise software business model

Our strategy is to offer our solutions in alignment with both on-premise and cloud-based enterprise software business models. Currently, the largest portion of our license sales is based on the perpetual license model, under which customers purchase a license to use our software indefinitely, while also purchasing related professional services and annual software maintenance. We also offer some of our solutions under a term license, according to which customers purchase a license to use our software for a fixed period of time.

Growth in maintenance revenues (which is primarily a result of high maintenance contract renewal rates and the growth of our on-premises client base) is driving an increase in our recurring revenue. An increase in the proportion of recurring revenue, out of our overall revenue mix, is expected to provide increasingly predictable revenue streams.

As an alternative to on-premise deployments, our strategy is to offer many of our solutions in cloud-based models - either as a hosted license or as SaaS, providing our customers a lower TCO. Some customers prefer these models, as they lower the costs of deployment and allow them to scale the solutions faster, while reducing capital investments. We see a growing demand for these models and they could enhance our penetration into the smaller business market segment, as well as enable our existing customers to broaden their use of our products. We intend to continue offering our solutions in a variety of models, which enables us to be flexible in effectively addressing our customers' needs. This, in turn, will enable us to focus on growth and improving profitability.

Our Solutions

I. Customer Interactions

Our Solutions' Core Capabilities

Multi-Channel Recording and Interaction Management enables organizations to capture structured and unstructured customer interaction and transaction data from multiple channels, including: phone calls, chats, emails, videos, customer feedback, web sessions, social media postings, and walk-in centers.

Cross-Channel, Real-time Interaction Analytics enables companies to uncover the valuable data and insights hidden in customer interactions. It uses advanced technology for analyzing speech, text, call flow, customer sentiment and employee desktop activity, in order to understand the root cause of service issues and to drive business results.

Employee Engagement enables organizations to improve agent productivity, identify performance gaps, deliver targeted coaching, and effectively forecast workloads and schedule staff. It fosters performance-driven operations and culture, leverages the power of advanced analytics, and embeds the voice of the customer into daily operations to engage employees.

Customer Journey Solutions enables organizations to analyze the entire customer journey across various transactions and events. These solutions allow our customers to have a comprehensive view of customer intents and actions throughout their journey with the organization. These solutions leverage Big Data infrastructure and predictive analytics models to identify and sequence individual customer interactions across time and touch points. With this analysis, organizations can understand the context of each contact, uncover patterns, predict needs and personalize interactions in real time.

Real-time Decisioning and Guidance is a real-time decisioning engine, which draws on business rules and predictive models to process insights derived from analytics that are applied as an interaction is taking place. This combination enables organizations to make the right decision during individual interactions and across a mass number of interactions, which in turn drives future next-best-action guidance through process automation.

The combination of the above capabilities enables organizations to operationalize customer insights across service, sales and marketing processes.

Addressing Business and Operational Needs

1. Compliance and Risk

Solution	Description
Compliance Recording	Proactively captures and retains all customer interactions across multiple touch points to help ensure compliance with government regulations, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), Security Exchange Commission Rule 17a-4, the Health Insurance Portability and Accountability Act, the Sarbanes–Oxley Act, the Payment Card Industry Data Security Standard, the Financial Services Authority and Medicare Improvements for Patients and Providers Act, as well as with internal policies. Compliance Recording is also an invaluable tool to resolve disputes, perform investigations and verify sales, as well as provide redundancy and disaster recovery capabilities to meet business continuity requirements.
Contact Center Fraud Prevention	Identifies fraudsters by their voice patterns, uncovers social engineering tactics and assesses call risk, as well as guides agents to appropriately handle high-risk interactions, and effectively open and manage an investigation ticket.
Trading Floor Compliance Solutions	Enables organizations to capture, monitor and analyze interactions and transactions in real time, in order to proactively minimize risks, detect potential regulatory breaches, counter fraudulent activities, and improve investigative capabilities. These solutions deliver comprehensive, integrated capabilities to effectively manage the complex, ongoing, high-risk exchange of interactions and transactions between traders, firms and their counterparties.
Essential Compliance	Enables trading floors to record and store transactions and interactions in any media, as well as securely manage and access archived material on demand and in a flexible manner. Essential Compliance helps financial and energy trading firms ensure compliance with the strict recordkeeping requirements of today's regulatory environment.
Communication Surveillance	Monitors trading activity across trading turrets, fixed and mobile phones, email, text and instant messaging, chat and social media. It automatically detects potential risks and enables compliance officers to see emerging trends, so that compliance breaches and fraud can be averted. It also enables firms to meet the requirements of the regulatory environment established with the introduction of the Dodd-Frank Act, and related rules and regulations.
Complaint Management	Enables organizations to use analytics to identify interactions at risk, and manage the process of handling the complaint.
Compliance and Script Adherence	Operationalizes historical data analytics to quantify and measure current agent adherence. Monitors agent interactions, searches for any phrase, at any time, and utilizes the phrases in issue resolution

and training exercises. Incorporates real-time monitoring and alerting to guide towards required behaviors. Knows which calls are contained in the audio and helps ensure reading for an audit.

2. Operational Efficiency

Solution	Description
Contact Center Recording	Provides comprehensive call recording technology that adapts easily to the unique operational requirements of any contact center. It supports virtually any telephony environment and hybrid networks. This enables a seamless transition during technology migrations as the contact center grows and evolves. It supports thousands of concurrent IP streams in a single platform: capturing, forwarding streams in real time, recording and archiving. It also captures non-voice interactions such as video, chat and email, and stores them in a single recording platform, ensuring regulatory adherence and standardized cross-channel workforce optimization.
Performance Management	Maps enterprise business objectives to group and individual goals, and tracks and reports performance. It also automates critical managerial activities, including employee coaching, recognition, and performance improvement, allowing front-line managers to become more effective and efficient in developing their teams. Performance Management also includes unique capabilities, such as gamification, to engage and motivate and align employees around common business goals.
Workforce Management	Forecasts an organization's interactions load, schedules agent shifts across multiple sites with appropriate skills to manage and optimize the level of customer service resources in multi-skilled environments. It measures agent and team performance, and provides real-time change management to proactively respond to changing conditions.
Quality Management	Automates quality assurance processes and selection of calls for evaluation based on performance data. The solution facilitates root-cause evaluation, with easy drill down to interactions missing their Key Performance Indicator targets. Quality improvement is thus managed across voice, email, chat, and social media channels.
Interaction Analytics	Analyzes large quantities of customer interactions across multiple channels to identify hot topics and root causes quickly, and to produce actionable insights. These insights are then leveraged to improve processes, increase sales, optimize marketing campaigns and reduce operational costs.
Back Office Workforce Optimization	Automates manual processes, integrates data from employees' desktops, improves forecast accuracy, enables managers to view and manage resource capacity, and empowers employees to improve their own performance. It also provides tools to ensure regulatory compliance and accuracy, elevating the level of service customers receive across the entire enterprise.
Real-time Authentication	Leverages voice biometrics for authenticating customers in real time. The technology helps organizations to seamlessly enroll customers, expedites agent service, and significantly reduces the risk of fraud for all customers.

Call Volume Optimization	Leverages Big Data infrastructure and advanced predictive analytics to help organizations resolve customer needs in one contact, to predict and preempt follow-up calls, and to enable customers to effectively use self-service tools.
Real-time Service Optimization-	Automatically monitors agent activity in real time, enabling organizations to identify process bottlenecks and implement best practices. With this information, the solution navigates agents through complex processes using on-screen guidance, and automates routine tasks to shorten handle time and eliminate manual processing errors.
Interactive Voice Response (“IVR”) Optimization	The IVR Optimization solution enables customers to reduce customer effort by increasing IVR containment rate, reducing IVR repeat calls, agent transfers, drop-offs and deflections and dramatically improving call center efficiency.
Robotic Automation	Robotic solution for the automation of routine back office and contact center processes. Installed on virtual servers, these robots handle end-to-end processes, essentially performing any routine task which the human user would otherwise do manually.

3. Customer Experience

Solution	Description
Voice of the Customer (“VoC”)	Collects and analyzes comprehensive data from multiple interaction touch points and channels; analyzes interactions in real time and provides guidance on the next-best-action; proactively engages customers for feedback immediately following an interaction; and leverages social media analytics to monitor social networks and address customer issues. This enables companies to drive operations and deliver insights across departments by incorporating the customer’s perspective.
Real-time Customer Feedback	Uses a unique, automated engagement mechanism to create a conversation with customers through their feedback channel of choice. Immediately following a retail, call center, or online experience, the solution reaches out for customer feedback from any touch point, including text message, email, IVR, mobile app, and online forms. It uses Natural Language Processing to accurately categorize verbatim comments and quickly locate the key drivers of customer satisfaction.
Customer Journey Optimization	Helps organizations optimize their overall customer interactions process across multiple touch points. The solution automatically constructs a cross-channel map of the customer journey, providing insights into trends and focus areas. It automatically assigns contact reasons to every interaction and reveals customer behavior patterns, helping to predict the customer’s next action and to respond accordingly. The solution highlights opportunities for self-service channel containment and offers real-time guidance for an improved customer experience.
Customer Satisfaction	Understands the business practices and behaviors that drive customer satisfaction. Simplifies the customer experience, through methods such as quicker caller identification. Attracts new customers by offering an easier path to service than the competition. Statistically determines which business processes and agent behaviors have the greatest impact on customer behavior.
Cost Management	Identifies the root cause of issues that cause long talk times or repeat calls. Understands technical calls and ensures agents follow the correct troubleshooting steps before issuing a service call. Determines gaps in workflow to eliminate redundant processes. Monitors problems resulting in high volumes and identify areas for more effective call routing.
Customer Churn	Analyzes historic defection data to create models for predicting future churn. Understands causes and effects of customer churn and how to design procedures to reduce the defection rate. Prioritizes at-risk customers based on search results combined with customer data. Collects information to refine retention marketing offers that are better tailored to customer types and demographics.

4. Sales Optimization

Solution	Description
Incentive Compensation Management	Provides the end-to-end ability to create, manage and distribute all aspects of a commissions program. It automates the process of commission, bonus and incentive administration, in support of any type of variable pay system that rewards employees for achieving targets aligned with the business strategy.
Real-time Web Engagement	Uses customer intelligence, predictive models and machine learning to make insightful, real-time decisions during customer interactions over the Web. The solution helps organizations improve customer retention, increase online conversion rates, and deliver better service by taking the next-best-action.
Sales Effectiveness	Helps organizations optimize their campaigns. Locates and quantifies specific events by building the right metrics to align with corporate objectives such as offers made versus up-sell opportunities. Correlates data points such as customer spend and purchase history to build predictive models, prioritizing customers with a propensity to buy and create the next-best offer. Identifies high-performing agents and base best practices off their behavior. Establishes thresholds and works with agents, measuring performance against sales driven metrics.

5. Public Safety

Incident Debriefing and Investigation

Solution	Description
NICE Inform	Assists public safety agencies and organizations across various industries to consolidate and chronologically manage multimedia incident information efficiently and effectively. It captures and processes event information from a variety of media: audio, video, text, Computer-Aided Dispatch systems, Geographic Information Systems, and others.

Public Safety Emergency Response Optimization

Solution	Description
NICE Audio Recording	Addresses the needs of command-and-control centers and air traffic control operations. The wide range of recording platforms automatically record, analyze, store, quickly retrieve and instantly replay Telephony, radio and IP voice calls. TDM and VoIP recordings can be used to ensure compliance with regulations, provide audio evidence, and manage and improve departmental quality and productivity.
NICE Inform	Helps emergency centers manage multimedia incident information efficiently and effectively. It captures available data, providing the facts as they unfold and increasing the likelihood that all vital evidence is available for review.

II. Financial Crime and Compliance

Our Solutions' Core Capabilities

Core platform: Financial Crime and Compliance solutions (also known as NICE Actimize solutions) share a single, flexible and scalable core platform that enables financial institutions to expand the use of the company's solutions over time. This eases implementation and lowers total cost of ownership.

Flexible analytics and tools: The core platform provides dozens of out-of-the-box analytical models with each specific solution, as well as flexible tools that can be used to develop and customize analytical models, data sources, and business processes at both the business and IT levels.

Mult